

**CHARLES K. BLANDIN FOUNDATION**

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

**DECEMBER 31, 2001 AND 2000**

**CHARLES K. BLANDIN FOUNDATION  
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## **INDEPENDENT AUDITOR'S REPORT**

The Board of Trustees of the Charles K. Blandin Foundation  
Grand Rapids, Minnesota

We have audited the accompanying statements of financial position of the Charles K. Blandin Foundation (a nonprofit organization) as of December 31, 2001 and 2000 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation'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 U.S. 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 Charles K. Blandin Foundation as of December 31, 2001 and 2000, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

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

Brainerd, Minnesota  
January 31, 2002

**CHARLES K. BLANDIN FOUNDATION**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2001 AND 2000**

	<u>NOTE</u>	<u>2001</u>	<u>2000</u>
<b>ASSETS</b>			
Cash and Cash Equivalents		\$ 411,498	\$ 2,000,794
Investments at Fair Value	2	48,584,110	54,351,202
Investment Income Receivable		781,197	823,282
Property and Equipment	3	3,978,895	4,155,226
Present Value of Estimated Future Cash Flows from Blandin Residuary Trust	1	335,644,337	396,421,000
Other Assets		<u>200,794</u>	<u>188,555</u>
<b>TOTAL ASSETS</b>		<u><u>\$ 389,600,831</u></u>	<u><u>\$ 457,940,059</u></u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>LIABILITIES</b>			
Accounts Payable and Accrued Expenses		\$ 1,038,969	\$ 1,055,810
Grants Payable	7	<u>11,300,732</u>	<u>12,748,740</u>
<b>TOTAL LIABILITIES</b>		<u><u>\$ 12,339,701</u></u>	<u><u>\$ 13,804,550</u></u>
<b>NET ASSETS</b>			
Unrestricted	1	\$ 35,278,941	\$ 43,823,836
Temporarily Restricted	1	6,337,852	3,890,673
Permanently Restricted	1	<u>335,644,337</u>	<u>396,421,000</u>
<b>TOTAL NET ASSETS</b>		<u><u>\$ 377,261,130</u></u>	<u><u>\$ 444,135,509</u></u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>		<u><u>\$ 389,600,831</u></u>	<u><u>\$ 457,940,059</u></u>

*See accompanying Notes to Financial Statements.*

**CHARLES K. BLANDIN FOUNDATION**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

		2001			
	NOTE	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
<b>REVENUES, GAINS AND CONTRIBUTIONS</b>					
Contribution from Blandin Residuary Trust		\$ -	\$ 18,097,047	\$ -	\$ 18,097,047
Investment Income		1,541,696	-	-	1,541,696
Net Realized and Unrealized Investment Losses	2	(6,788,522)	-	-	(6,788,522)
Decrease in Present Value of Estimated Cash Flows from Blandin Residuary Trust	1	-	-	(60,776,663)	(60,776,663)
Other Income		7,782	-	-	7,782
Net Assets Released from Restrictions		15,649,868	(15,649,868)	-	-
<b>Total Revenues, Gains and Contributions</b>		<b>\$ 10,410,824</b>	<b>\$ 2,447,179</b>	<b>\$ (60,776,663)</b>	<b>\$ (47,918,660)</b>
<b>EXPENSES</b>					
<b>Charitable Activities:</b>					
Grants		\$ 13,115,072	\$ -	\$ -	\$ 13,115,072
Scholarships		677,531	-	-	677,531
Programs	8	2,719,566	-	-	2,719,566
<b>Total Charitable Activities</b>		<b>\$ 16,512,169</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 16,512,169</b>
Administrative		2,443,550	-	-	2,443,550
<b>Total Expenses</b>		<b>\$ 18,955,719</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 18,955,719</b>
<b>CHANGE IN NET ASSETS</b>		<b>\$ (8,544,895)</b>	<b>\$ 2,447,179</b>	<b>\$ (60,776,663)</b>	<b>\$ (66,874,379)</b>
<b>Net Assets - Beginning of Year</b>		<b>43,823,836</b>	<b>3,890,673</b>	<b>396,421,000</b>	<b>444,135,509</b>
<b>NET ASSETS - END OF YEAR</b>		<b>\$ 35,278,941</b>	<b>\$ 6,337,852</b>	<b>\$ 335,644,337</b>	<b>\$ 377,261,130</b>

See accompanying Notes to Financial Statements.

**CHARLES K. BLANDIN FOUNDATION**  
**STATEMENTS OF ACTIVITIES (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

	2000				
	NOTE	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
REVENUES, GAINS AND CONTRIBUTIONS					
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		<u>24,747,600</u>	<u>(24,747,600)</u>	<u>-</u>	<u>-</u>
Total Revenues, Gains and Contributions		<u>\$ 32,180,241</u>	<u>\$ (8,355,228)</u>	<u>\$ 44,466,479</u>	<u>\$ 68,291,492</u>
EXPENSES					
Charitable Activities:					
Grants		\$ 20,535,028	\$ -	\$ -	\$ 20,535,028
Scholarships		642,736	-	-	642,736
Programs	8	<u>2,569,602</u>	<u>-</u>	<u>-</u>	<u>2,569,602</u>
Total Charitable Activities		<u>\$ 23,747,366</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,747,366</u>
Administrative		<u>2,344,117</u>	<u>-</u>	<u>-</u>	<u>2,344,117</u>
Total Expenses		<u>\$ 26,091,483</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,091,483</u>
CHANGE IN NET ASSETS		\$ 6,088,758	\$ (8,355,228)	\$ 44,466,479	\$ 42,200,009
Net Assets - Beginning of Year		<u>37,735,078</u>	<u>12,245,901</u>	<u>351,954,521</u>	<u>401,935,500</u>
NET ASSETS - END OF YEAR		<u>\$ 43,823,836</u>	<u>\$ 3,890,673</u>	<u>\$ 396,421,000</u>	<u>\$ 444,135,509</u>

See accompanying Notes to Financial Statements.

**CHARLES K. BLANDIN FOUNDATION**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

	2001	2000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Blandin Residuary Trust	\$ 18,097,047	\$ 19,392,372
Interest and Dividends Received	1,583,781	1,487,992
Cash Paid for Administrative Expenses	(2,214,390)	(1,921,911)
Cash Paid for Charitable Activities	(17,931,242)	(16,078,625)
Net Cash Provided (Used) by Operating Activities	<u>\$ (464,804)</u>	<u>\$ 2,879,828</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net Purchase of Equipment and Building	\$ (103,062)	\$ (263,489)
Proceeds from Sale of Investments	48,027,061	49,484,164
Purchase of Investments	(49,048,491)	(54,294,891)
Net Cash Used by Investing Activities	<u>\$ (1,124,492)</u>	<u>\$ (5,074,216)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<u>\$ (1,589,296)</u>	<u>\$ (2,194,388)</u>
Cash and Cash Equivalents - Beginning	<u>2,000,794</u>	<u>4,195,182</u>
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<u><u>\$ 411,498</u></u>	<u><u>\$ 2,000,794</u></u>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ (66,874,379)	\$ 42,200,009
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	279,393	268,679
Loss on Disposal of Assets	-	2,002
(Increase) Decrease in Present Value of Estimated Future Cash Flows from Blandin Residuary Trust	60,776,663	(44,466,479)
Net Realized and Unrealized Investment (Gains) Losses	6,788,522	(5,489,246)
(Increase) Decrease In Current Assets		
Interest and Dividends Receivable	42,085	(441,085)
Prepaid Expenses and Other Receivables	(12,239)	(3,227)
Receivable from Blandin Residuary Trust	-	3,000,000
Increase (Decrease) in Current Liabilities		
Accounts Payable and Accrued Expenses	(45,776)	140,434
Grants and Scholarships Payable	(1,419,073)	7,668,741
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (464,804)</u></u>	<u><u>\$ 2,879,828</u></u>

See accompanying Notes to Financial Statements.

**CHARLES K. BLANDIN FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001 AND 2000**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organizational Purpose

The Charles K. Blandin Foundation, incorporated under the laws of Minnesota, distributes funds and operates programs 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 Charles K. 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.



**CHARLES K. BLANDIN FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001 AND 2000**

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

Net Assets

Net assets 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	88,972,811
Net Assets Released from Restrictions	<u>(88,266,905)</u>
Ending Temporarily Restricted Net Assets	<u><u>\$ 6,337,852</u></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 previous years net assets or, according to the Trust documents, distribute 100% of Trust income, whichever is greater. 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 charitable activities (grants, scholarships, and operating programs).

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.

**CHARLES K. BLANDIN FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001 AND 2000**

**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:

	2001			2000		
	Cost	Fair Value	Unrealized (Depreciation) Appreciation	Cost	Fair Value	Unrealized (Depreciation) Appreciation
Domestic-Value Equities	\$ 4,918,712	\$ 4,513,645	\$ (405,067)	\$ 4,315,644	\$ 4,644,648	\$ 329,004
Domestic- Small Equities	5,961,764	5,862,467	(99,297)	2,137,170	2,945,188	808,018
Domestic- Growth Equities	7,120,536	9,493,026	2,372,490	6,261,877	9,469,000	3,207,123
International Equities	5,557,577	5,272,810	(284,767)	4,922,025	5,678,711	756,686
Bonds	10,763,871	11,063,281	299,410	11,579,645	11,909,250	329,605
Venture Capital	3,190,958	2,352,409	(838,549)	4,193,475	7,494,609	3,301,134
Real Estate	2,198,093	1,892,520	(305,573)	1,877,965	2,188,000	310,035
Cash	4,535,809	4,535,809	-	5,629,196	5,629,196	-
Program-Related and Directed	3,598,143	3,598,143	-	4,392,600	4,392,600	-
Totals	<u>\$ 47,845,463</u>	<u>\$ 48,584,110</u>	<u>\$ 738,647</u>	<u>\$ 45,309,597</u>	<u>\$ 54,351,202</u>	<u>\$ 9,041,605</u>
Net Realized Gain on Investment Transactions		<u>\$ 1,514,436</u>			<u>\$ 3,435,824</u>	
Increase(Decrease) in Unrealized Market Appreciation		<u>\$ (8,302,958)</u>			<u>\$ 2,053,422</u>	

**NOTE 3 PROPERTY AND EQUIPMENT**

Property and equipment consists of the following:

	2001	2000
Land, Building and Improvements	\$ 5,197,672	\$ 5,197,672
Furniture, Equipment and Vehicles	<u>1,270,063</u>	<u>1,231,526</u>
Total	\$ 6,467,735	\$ 6,429,198
Less: Accumulated Depreciation	<u>(2,488,840)</u>	<u>(2,273,972)</u>
Net Property and Equipment	<u>\$ 3,978,895</u>	<u>\$ 4,155,226</u>

**CHARLES K. BLANDIN FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001 AND 2000**

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

The Charles K. Blandin 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 2001 and 1% in 2000, of taxable investment income, was approximately \$91,000 and \$169,000 in 2001 and 2000, respectively.

The Foundation is subject to distribution requirements of the Internal Revenue Code. Accordingly, it must distribute, in the year immediately following receipt, 100% of the contribution received from the Trust and 5% of the previous years 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, 2001.

**NOTE 5    EMPLOYEE BENEFIT PLANS**

Defined Contribution Plans

All employees of the Charles K. Blandin Foundation working a minimum of 1,000 hours in a plan year, are covered by a defined contribution money purchase plan. The Foundation 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 from zero to 100% vesting at six years.

The Foundation also contributes to a plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers all 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, employee deferral contributions and investment earnings thereon. Employee deferrals are subject to annual limits as defined by the Internal Revenue Code.

Foundation contributions related to these defined contribution plans was approximately \$105,000 and \$97,000 for the years ended December 31, 2001 and 2000, respectively.

**CHARLES K. BLANDIN FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001 AND 2000**

**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 \$336,968 and \$281,821 at December 31, 2001 and 2000, 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 Charles K. Blandin 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.

During 2001, the Foundation Board of Trustees approved a \$20 million commitment to provide capital to the Itasca Medical Center (IMC), for the purpose of construction of a local, innovative health care facility. The intent of the original agreement is for the Foundation to fund the \$20 million in 2002. However, due to delays in IMC obtaining additional financing to this point, it is possible that the distribution of funds would not occur until 2003. The commitment is conditional and due to the uncertainty of IMC's ability to meet the conditions, no liability has been recorded for this commitment.

**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:

	2001	2000
2001	\$ -	\$ 8,159,811
2002	9,063,302	2,226,200
2003	1,704,150	1,959,250
2004	867,500	1,600,000
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Total Grant Commitments	\$ 11,634,952	\$ 13,945,261
Discount to Present Value	(334,220)	(1,196,521)
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Total Present Value of Grant Commitments	<u>\$ 11,300,732</u>	<u>\$ 12,748,740</u>

**CHARLES K. BLANDIN FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001 AND 2000**  
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**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	2001	2000
Blandin Associates	\$ 108,441	\$ -
Children 1st	151,339	95,186
Community Investment Partnership	458,498	463,485
Community Leadership Program	1,368,783	1,243,089
Convening	304,603	396,490
Other Self Administered Grant Programs	327,902	371,352
Total Charitable Activities - Programs	<u>\$ 2,719,566</u>	<u>\$ 2,569,602</u>