

**BLANDIN FOUNDATION**

**FINANCIAL STATEMENTS,  
INDEPENDENT AUDITOR'S REPORT,  
AND SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 1999 AND 1998**

**BLANDIN FOUNDATION  
TABLE OF CONTENTS  
DECEMBER 31, 1999 AND 1998**

<b>INDEPENDENT AUDITOR'S REPORT</b>	<b>1</b>
<b>STATEMENTS OF FINANCIAL POSITION</b>	<b>2</b>
<b>STATEMENTS OF ACTIVITIES</b>	<b>3</b>
<b>STATEMENTS OF CASH FLOWS</b>	<b>5</b>
<b>NOTES TO FINANCIAL STATEMENTS</b>	<b>6</b>

## **INDEPENDENT AUDITOR'S REPORT**

To 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, 1999 and 1998 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, 1999 and 1998, 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 2, 2000

**BLANDIN FOUNDATION**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 1999 AND 1998**

	NOTE	1999	1998
<b>ASSETS</b>			
Cash and Cash Equivalents		\$ 4,195,182	\$ 2,749,739
Investments at Market	2	44,039,059	37,700,784
Investment Income Receivable		382,197	553,229
Contribution Receivable - Trust		3,000,000	750,000
Grants Receivable	3	-	1,117,300
Property and Equipment	4	4,174,588	2,307,625
Present Value of Estimated Future Cash Flows from Blandin Residuary Trust	1	351,954,521	304,099,844
Other Assets		185,328	264,223
		<u>\$ 407,930,875</u>	<u>\$ 349,542,744</u>
<b>TOTAL ASSETS</b>			
<b>LIABILITIES AND NET ASSETS</b>			
<b>LIABILITIES</b>			
Accounts Payable and Accrued Expenses		\$ 913,775	\$ 545,301
Grants Payable	8	5,081,600	4,628,711
<b>TOTAL LIABILITIES</b>		<u>\$ 5,995,375</u>	<u>\$ 5,174,012</u>
<b>NET ASSETS</b>			
Unrestricted	1	\$ 37,735,078	\$ 32,738,912
Temporarily Restricted	1	12,245,901	7,529,976
Permanently Restricted	1	351,954,521	304,099,844
<b>TOTAL NET ASSETS</b>		<u>\$ 401,935,500</u>	<u>\$ 344,368,732</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>		<u>\$ 407,930,875</u>	<u>\$ 349,542,744</u>

See accompanying Notes to Financial Statements.

**BLANDIN FOUNDATION  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998**

	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
Net Assets Released from Restrictions		<u>13,781,525</u>	<u>(13,781,525)</u>	<u>-</u>	<u>-</u>
 Total Revenues, Gains and Other Support		<u>\$ 21,174,323</u>	<u>\$ 4,715,925</u>	<u>\$ 47,854,677</u>	<u>\$ 73,744,925</u>
EXPENSES					
Program:					
Scholarships		\$ 624,039	\$ -	\$ -	\$ 624,039
Grants		13,101,868	-	-	13,101,868
Administrative		<u>2,452,250</u>	<u>-</u>	<u>-</u>	<u>2,452,250</u>
 Total Expenses		<u>\$ 16,178,157</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,178,157</u>
 CHANGE IN NET ASSETS		\$ 4,996,166	\$ 4,715,925	\$ 47,854,677	\$ 57,566,768
 Net Assets - Beginning of Year		<u>32,738,912</u>	<u>7,529,976</u>	<u>304,099,844</u>	<u>344,368,732</u>
 NET ASSETS - END OF YEAR		<u>\$ 37,735,078</u>	<u>\$ 12,245,901</u>	<u>\$ 351,954,521</u>	<u>\$ 401,935,500</u>

See accompanying Notes to Financial Statements.

**BLANDIN FOUNDATION**  
**STATEMENTS OF ACTIVITIES (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998**

	1998				
	NOTE	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
REVENUES, GAINS AND OTHER SUPPORT					
Contribution from Blandin Residuary Trust		\$ -	\$ 14,479,349	\$ -	\$ 14,479,349
Investment Income		1,354,210	-	-	1,354,210
Net Realized and Unrealized Investment Gains	2	3,331,974	-	-	3,331,974
Increase in Present Value of Estimated Cash Flows from Blandin Residuary Trust	1	-	-	23,702,396	23,702,396
Net Assets Released from Restrictions		9,429,924	(9,429,924)	-	-
Total Revenues, Gains and Other Support		\$ 14,116,108	\$ 5,049,425	\$ 23,702,396	\$ 42,867,929
EXPENSES					
Program:					
Scholarships		\$ 615,091	\$ -	\$ -	\$ 615,091
Grants		8,722,473	-	-	8,722,473
Administrative		2,473,819	-	-	2,473,819
Total Expenses		\$ 11,811,383	\$ -	\$ -	\$ 11,811,383
CHANGE IN NET ASSETS		\$ 2,304,725	\$ 5,049,425	\$ 23,702,396	\$ 31,056,546
Net Assets - Beginning of Year		30,434,187	2,480,551	280,397,448	313,312,186
NET ASSETS - END OF YEAR		\$ 32,738,912	\$ 7,529,976	\$ 304,099,844	\$ 344,368,732

See accompanying Notes to Financial Statements.

**BLANDIN FOUNDATION**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998**

	1999	1998
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Blandin Residuary Trust	\$ 16,247,450	\$ 14,237,884
Interest and Dividends Received	927,775	1,529,152
Cash Paid to Employees and Suppliers	(2,080,630)	(3,684,414)
Grant and Program Expenditures Paid	(11,902,467)	(12,316,795)
Net Cash Provided (Used) by Operating Activities	<u>\$ 3,192,128</u>	<u>\$ (234,173)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Equipment and Building	\$ (2,045,173)	\$ (105,529)
Proceeds from Sale of Investments	39,865,866	21,518,857
Purchase of Investments	(39,567,378)	(20,848,542)
Net Cash Provided (Used) by Investing Activities	<u>\$ (1,746,685)</u>	<u>\$ 564,786</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>\$ 1,445,443</u>	<u>\$ 330,613</u>
Cash and Cash Equivalents - Beginning	<u>2,749,739</u>	<u>2,419,126</u>
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<u><u>\$ 4,195,182</u></u>	<u><u>\$ 2,749,739</u></u>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 57,566,768	\$ 31,056,546
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	175,711	353,930
Loss on Disposal of Assets	2,499	-
Increase in Present Value of Estimated Future Cash Flows from Blandin Residuary Trust	(47,854,677)	(23,702,396)
Net Realized and Unrealized Investment Gains	(6,636,055)	(3,331,974)
Decrease in Interest and Dividends Receivable	171,032	174,942
(Increase) Decrease in Prepaid Expenses	78,187	(74,077)
Increase in Receivable from Blandin Residuary Trust	(2,250,000)	(241,465)
Increase in Accounts Payable and Accrued Expenses	115,223	40,828
Increase (Decrease) in Grants and Scholarships Payable	<u>1,823,440</u>	<u>(4,510,507)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 3,192,128</u></u>	<u><u>\$ 62,347,265</u></u>

See accompanying Notes to Financial Statements.

**BLANDIN FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 1999 AND 1998**

**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.

Investments

Investments in debt and equity securities with readily determinable fair values are carried at quoted market value. Certain program related investments, consisting of promissory notes receivable from various organizations, are carried at cost or estimated market value, if lower than cost. Cash equivalents consist of short-term, highly liquid money market investments.

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

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.

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.



**BLANDIN FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 1999 AND 1998**

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

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.

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.

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:

	1999			1998		
	Cost	FMV	Unrealized Appreciation (Depreciation)	Cost	FMV	Unrealized Appreciation (Depreciation)
U.S. Government and Corporate Debt						
Securities	\$ 11,122,323	\$ 10,738,559	\$ (383,764)	\$ 9,503,610	\$ 9,987,833	\$ 484,223
Domestic Equities	12,382,856	19,353,342	6,970,486	12,750,877	17,120,777	4,369,900
International Equities	3,580,121	4,194,138	614,017	3,235,950	3,235,950	-
Venture and Real Estate	5,373,576	5,161,020	(212,556)	3,946,465	3,824,216	(122,249)
Program-Related	4,592,000	4,592,000	-	3,532,008	3,532,008	-
Totals	<u>\$ 37,050,876</u>	<u>\$ 44,039,059</u>	<u>\$ 6,988,183</u>	<u>\$ 32,968,910</u>	<u>\$ 37,700,784</u>	<u>\$ 4,731,874</u>
Net Realized Gain on Investment Transactions		<u>\$ 4,379,746</u>			<u>\$ 4,891,662</u>	
Increase (Decrease) in Unrealized Market Appreciation		<u>\$ 2,256,309</u>			<u>\$ (1,559,688)</u>	

**BLANDIN FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 1999 AND 1998**

**NOTE 3 ANNENBERG GRANT AGREEMENT**

During 1995, the Blandin Foundation and the Annenberg Foundation entered into a challenge grant agreement. As part of this agreement, the Annenberg Foundation will contribute \$3.25 million, the Blandin Foundation will contribute \$2.5 million and the University of Minnesota will contribute \$750,000 over a period of five years to better integrate rural schools and communities, and identify ways to shape learning opportunities to help strengthen rural communities and schools.

The Blandin Foundation served as fiscal agent for the Annenberg Foundation funds. As such, the financial statements reflected a receivable from the Annenberg Foundation and a corresponding payable to the grantee in 1998. The unpaid grant commitment made by the Blandin Foundation was included in grants payable on the Statements of Financial Position. The Blandin Foundation fulfilled their obligation under this agreement in 1999.

**NOTE 4 PROPERTY AND EQUIPMENT**

Property and equipment consists of the following:

	1999	1998
Land, Building and Improvements	\$ 5,032,659	\$ 3,444,882
Furniture, Equipment and Vehicles	1,331,548	890,251
Total	\$ 6,364,207	\$ 4,335,133
Less: Accumulated Depreciation	(2,189,619)	(2,027,508)
Net Property and Equipment	<u>\$ 4,174,588</u>	<u>\$ 2,307,625</u>

**NOTE 5 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 1% of taxable investment income, was \$26,522 and \$48,294 in 1999 and 1998, 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, 1999.

**BLANDIN FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 1999 AND 1998**

**NOTE 6   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 immediately vested in contributions from the Foundation.

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 \$40,000 and \$30,000 for the years ended December 31, 1999 and 1998, respectively.

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 \$242,528 and \$206,912 at December 31, 1999 and 1998, 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 7   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.

**BLANDIN FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 1999 AND 1998**

**NOTE 8 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:

	1999	1998
1999	\$ -	\$ 2,595,240
2000	3,965,383	868,651
2001	994,504	188,189
2002	208,000	-
2003	110,000	-
Total Grant Commitments	\$ 5,277,887	\$ 3,652,080
Discount to Present Value	(196,287)	(140,669)
Present Value of Grant Commitments	\$ 5,081,600	\$ 3,511,411
Annenberg Foundation Challenge Grant Payable	-	1,117,300
Total Present Value of Grant Commitments	<u>\$ 5,081,600</u>	<u>\$ 4,628,711</u>

