

STATE OF MINNESOTA

DISTRICT COURT

COUNTY OF RAMSEY

SECOND JUDICIAL DISTRICT

File No. C5-58-302795

In the Matter of the Trust Created by
Article VII of the Last Will and Testament of
CHARLES K. BLANDIN,

Deceased.

**COMBINED ANNUAL REPORT
OF SPECIAL MASTER FOR
CALENDAR YEARS 2004 AND 2005**

BACKGROUND

This report represents two (2) annual reports in a series of six (6) annual reports to be issued by a Special Master. I have included certain information which was in my prior 2003 report for ease of reference.

By Order dated January 19, 2004, attorney Peter W. Ulmen has been appointed a Special Master pursuant to Rule 53 of the Minnesota Rules of Civil Procedure by the Honorable Margaret M. Marrinan, Probate Court Judge of Ramsey County, Minnesota. See Exhibit 1. My appointment was the result of a December 18, 2003 stipulated Order between the corporate and individual co-trustees of the Charles K. Blandin Residuary Trust, the Charles K. Blandin Foundation, their attorneys (Briggs and Morgan), the Attorney General of the State of Minnesota, and attorneys for Citizens for Blandin (Objectors)¹ (Fredrikson & Byron, P.A.). See Exhibit 2. The scope of my responsibility was clarified by an Order dated May 8, 2007, signed by Judge Marrinan, who retains the Probate Court assignment of this matter. See Exhibit 3. I have

¹ The Court did not grant legal standing to the Objectors. Citizens for Blandin has not been considered a party to the proceedings. Under Minnesota law, the Attorney General represents charitable beneficiaries' interests in charitable trusts.

training and experience as an accountant, and hold an inactive Minnesota Certified Public Accountant's license. I am independent of all parties and am accountable to the District Court under Rule 53 of the Minnesota Rules of Civil Procedure.

The Objectors, by and through their attorneys, had contended that the corporate trustee, Wells Fargo Bank Minnesota, accounts for the period January 1, 2000 through December 31, 2002 failed to reflect a December 21, 2000 Order of the prior Probate Court judge that the Blandin Foundation's perpetual and primary responsibility under Charles K. Blandin's Will and Residuary-Charitable Trust (as the recipient of the trust's annual distribution) is to distribute its funds to meet the reasonable needs of the Grand Rapids, MN area.

The Stipulation enabled the Court to approve the Blandin Residuary-Charitable Trust accounts of Wells Fargo Bank for the three years ending December 31, 2002,² and further defined, by compromise, the meaning of the December 21, 2000 Court Order to specifically require a minimum of 55% of all future grants (including scholarships) by the Blandin Foundation be distributed to the Grand Rapids area. This minimum 55% measure is to be determined on a rolling six-year average basis beginning with the year 2003 and continuing through December of 2008. Special Master review was agreed to pursuant to the Stipulation to monitor compliance and report to the Court and interested parties.

I am pleased to report that I have determined that the Foundation continues to be in compliance with this requirement. The grants and scholarships actually paid during the period

² By Order of the Ramsey County Minnesota District Court dated October 25, 1990, the individual co-trustee of the Blandin Residuary-Charitable Trust and an officer of Wells Fargo Bank were no longer required to be trustees of the Blandin Foundation as was originally specified in Charles K. Blandin's Will. Wells Fargo Bank has no control over Foundation grants.

from 2003, 2004 and 2005 exceed the 55% measure. During the 2004 and 2005 period of this report, the grants and scholarships made to the Grand Rapids area were 67% of total grants.

In my capacity as Special Master, I am not a party to the proceedings. I monitor compliance with the Stipulation and obtain factual information in a manner which I believe most efficient. There is nothing in the stipulated Order preventing the Probate Court from authorizing my review of issues. As an officer of the Court, I must advise the Court and respond to direction from the Court. Over the past three years, I have addressed issues with the parties to the Stipulation, which issues have been considered by the Court.

This report incorporates by reference the 2004 and 2005 audited financial statements of the Blandin Foundation and the 2004 and 2005 Return of Private Foundation (Form 990-PF) tax returns for Blandin.³ The financial statements and the Blandin Form 990-PFs are available from the Foundation and can also be reviewed on the Blandin Foundation website at www.blandinfoundation.org.

SCOPE OF REVIEW

While my efforts should not be considered an overview of Foundation operations, I am required by the January 19, 2004 Court Order (Exhibit 1) to identify any significant changes to the Foundation's grant-making and charitable distribution practices.⁴ Of necessity, I must be aware of how the Foundation operates. This mandate, since it is prospective, permits me to give

³ This report also utilizes audited "supplemental information" disclosed in the published financial statements. This information is voluntarily made available by Blandin to assist in analyzing the financial statements.

⁴ The enumeration of issues in this report or the prior report does not foreclose review of other issues in future reports should review be deemed necessary to comply with Court Orders.

notice of issues which I may review in determining whether there are significant changes in grant-making and charitable distribution practices detrimental to the interests of Grand Rapids, MN and vicinity over the six-year period contemplated by the Stipulation. I appreciate the patient cooperation given me as issues are being considered as part of my review. I again thank all involved with this effort for their cooperation.

The mediated settlement, which resulted in the compromise reached, was expressly agreed to be prospective. The Special Master is to review on a rolling average basis the composition of grants over the succeeding six-year periods after December 31, 2002.

A significant factor in viewing the current activities and future activities of the Foundation is whether expenditures are classified on a consistent basis. Consistency of classifications is a fundamental accounting concept. If items are treated differently, it is possible that the universe of grants could be diminished, and additional programs, administrative functions, or investments undertaken which would possibly violate the stipulated settlement.

However, my involvement must not attempt to micro-manage the Foundation. I do not do detailed reviews of Foundation accounts or report on discretionary activities of management even though an amount spent on an administrative or overhead item could arguably reduce the dollars available to fund programs and grants. (Often there is a direct or indirect correlation between the amount spent in administration and related programs and grants.) Similarly, I do not function as a de facto compliance officer with regard to legal and accounting issues. Blandin is ably represented by legal counsel, and its financial statements are audited by certified public accountants, who also prepare its tax returns. The Court does not control the Foundation's Board of Trustees. (See attached Exhibit 4 for an approximate schematic of the supervision of Blandin

entities.) Review must be done in a fashion which does not result in the Objectors being given legal standing which the Court did not grant. Review should be done in a fashion which allows the Foundation to exercise flexibility with respect to innovation and creativity as it undertakes its charitable activities. This process must be balanced so that the community trusts the Foundation, its personnel, and what they are doing. This is true even if there are persons who do not always agree with the Foundation's approach. Balancing the need for autonomy of the Foundation, the interests of the community, the Court's jurisdiction, and my review process involves situations where all must continue to compromise.

My 2004 and 2005 reports were delayed due to my request to the parties and the Court for clarification of the scope of my review with respect to the investments of both the Foundation and Residuary Trust. Investment considerations arise because the total annual dollars available to the Blandin Foundation are directly related to the value of the assets benefitting the Foundation. A minimum of 5% of the average investment assets must be made available annually for the purposes of the Foundation. The valuation of the assets bears a relationship to the amounts available for grants. Investments involve the revenue side of the equation but only indirectly involve the expenditure side. Investments are disclosed in the respective Blandin tax returns. Issues were extensively reviewed by the Court and parties.

In the May 8, 2007 Order (Exhibit 3), the Court concluded that the Special Master is not responsible for revenue determination or verification. In effect, the Special Master is not to worry about asset values or composition since this subject is within the direct scope of responsibility of the Foundation Board of Trustees and the Residuary Trust Trustees who retain professional money managers to worry about such matters. There is no change in fiduciary

responsibility due to the May 8, 2007 Order which addresses the clarification of Special Master focus. See Exhibit 3. Should the Special Master encounter an issue of concern, the Special Master has express permission to contact the Attorney General's office. The Attorney General's office can pursue the issue if it has a similar concern.

FOUNDATION OPERATIONS

An overview of the Foundation, the Trust which substantially supports it, and basic concepts are critical to analyzing what the Foundation does.

In 2004 meetings with personnel at the Foundation, I discussed my initial thoughts on how I saw the Foundation's obligation to communicate with its community and the public at large. Subsequent to these discussions, the Panel on the Nonprofit Sector issued a final report to Congress and the Nonprofit Sector on June 22, 2005 entitled "Strengthening Transparency Governance Accountability of Charitable Organizations." Many of the "best practices" recommended by this 112-page report are being followed by the Blandin Foundation currently. Efforts should be continued to further conform practices to those recommended by the Panel on the Nonprofit Sector. The full report is available to the public on the Panel's website, www.nonprofitpanel.org. I encourage interested persons to review this report.

Similarly, the Office of the Legislative Auditor of the State of Minnesota issued an evaluation report in January of 2007 entitled "State Grants to Nonprofit Organizations" discussing best practices for state agency and legislative grants to nonprofits. Where relevant, I believe the Blandin Foundation operates its grant-making endeavors in a fashion which meets or exceeds state agency recommended practices. This 46-page report is available on the State Auditor's website, www.auditor.leg.state.mn.us.

Finally, the Internal Revenue Service has been working for the last four years on a revision of the tax returns (Form 990 Series) which nonprofits file. A draft of the new Form 990 has been recently released to invite public comments. The proposed changes include eliciting more detailed information from charitable organizations in an attempt to provide greater transparency and public trust and understanding. While Blandin files Form 990-PF, I believe the proposed 990 changes to be instructive of best practices and may provide future guidance.

SELF-ADMINISTERED GRANTS (SA) AND PROGRAMS

Classified in the supplemental information to the audited financial statements at page 19, but not in the 990-PF tax return, are “Other” Program Expenses. These are self-administered grants or grants to Blandin itself. These may be situations where either a 501(c)(3) organization is not in existence for whatever reason, or there is not the capability on the part of the grantee to effectively or efficiently handle an outright grant, therefore Blandin administers the grant in a fashion subject to expenditure responsibility. This approach is required by federal law and affords the Foundation the flexibility to attempt and test certain charitable endeavors to determine which are effective at promoting the intended purpose and should be expanded, or which endeavors are more appropriately run as programs. These may become outright grants as the beneficiary develops its focus. These self-administered grants are as follows:

2003	\$ 79,735
2004	367,126
2005	496,733

Included within the “Other” Operating Program Expenses are amounts classified as follows:

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Blandin Associates - program		\$ 3,816	\$ 0	
Good To Great/Evaluation - program		69,362	415,773	
Opportunity Fund - program		41,470	46,190	
Baby Steps B2001-0002 - SA		75,303	0	
Broadband Dev B2003-0005 SA		34,935	24,728	
Community Guide to BB SA		10,153	42	
Kindergarten Assmt B2000-0008 SA		4,269	0	
MN Wood Camp B2003-0003 SA		67,500	10,000	
Rural Economic Dev 6 Regions B2003-0007 SA		60,000	0	
Plug - to total column	_____	<u>318</u>	_____	
TOTAL:	\$79,735	\$367,126	\$496,733	

The Good to Great/Evaluation Program represents fees to consultants employed to assist Blandin employees at all levels improve their skills and to evaluate programs. (I am advised that this program is over in 2006 and the 2006 amount is substantially less.) While these amounts could be treated as an administrative expense (staff and management development), I believe Blandin is authorized to incur these expenses. They represent a tangible cost of efforts to improve the organization (a work in process), which should benefit the community in the future, consistent with the Blandin mission. While it could be argued that any expense incurred by Blandin may reduce the universe of possible grants, these payments can be viewed as developing human capital for program and grant administration. I am advised that Blandin attempts to use Minnesota based consultants whenever possible.

I have encouraged and Blandin has provided an explanation and example of the development of its programs and grant functions and their interrelationship in supporting the Grand Rapids area. Please see Attachment - Blandin Comments on This Report, which was prepared by Blandin and is included with this report.

On a limited basis, it is possible for an expenditure which was treated in the past as a grant to evolve into a separate program or, vice versa, a program may be dropped in favor of an outright grant. Administrative expenses may also be subject to discretionary characterizations. I encourage consistency and disclosure to the greatest extent possible. The Foundation has advised me that:

- 1.) In 2003, what was initiated as a 1999 self-administered grant for College Counts\$ (fully expended by December 31, 2002) was continued in 2003 as an internal program included with the 2003 Educational Awards Program.

College Counts\$	GB1999-0009	\$ 90,000.00
Grant was self-administered to implement a college planning and financial aid estimator program in Itasca County.		

- 2.) From 2003 to 2004 there were no conversions of grants to programs or programs to grants.

- 3.) From 2004 to 2005 there were two internal operating programs which were converted to grants.

Baby Steps Boutique	G2004-0113	\$136,200.00
Grant issued to the Community Foundation. For continued operating support of the Baby Steps Boutique and Step Ahead parent resource/education center in Itasca County.		

Goods from the Woods	G2004-0115	\$ 76,000.00
	G2005-0256	\$ 65,000.00
Grant issued to Minnesota Wood Education Project. Project support for the 2005 and 2006 Goods from the Woods initiative and education services, marketplace and harvest coordination protocol development efforts in Itasca County.		

Recent historical summaries of grants, programs and administrative expenses result in a rough approximation of two-thirds grants and one-third programs and administrative expenses. It is anticipated by the Foundation that this rough ratio will hold true for the foreseeable future, as I am advised that this ratio is an internal Blandin management target allocation. Of great concern

to the Foundation, from a grant-making commitment standpoint, program operational standpoint, and cash flow budgeting standpoint, is the fluctuating annual cash distribution and value of the Residuary Trust corpus investments, of which a minimum of 5% (consisting of either income or trust principal or a mixture of both) must be distributed to Blandin annually from the trust. See Exhibit 5. Should this amount materially decrease, there is a concern that grants could drop more precipitously than programs since programs have longer lead times both in their formation and in their termination. Programs rely on Blandin employees and approaches which take longer to implement or phase out, depending on long-term cash flow trends. As old commitments are satisfied, new commitments are being undertaken. Cash flow must be budgeted. My description is that the Foundation's grants and programs cannot "turn on a dime." Blandin personnel prepare a five-year spending projection on a quarterly basis for the Board of Trustees to use in budgeting cash needs. Financial obligations are accrued and matched with projected cash receipts as part of the budgeting process. As mentioned previously, the Special Master has no responsibilities relating to Foundation revenues.

Foundation personnel are very concerned that the Foundation's stated intent to change its strategy as publicly announced in January of 2003, not be construed as any effort on the part of Blandin to reduce charitable giving in the local area. Blandin's emphasis on encouraging economic activity is intended to benefit the area and rural Minnesota in a manner which provides greater leverage than outright grants.

THE SIGNIFICANCE OF 2003, 2004 AND 2005

Since the Stipulation was signed in late December of 2003, and the Order appointing a Special Master was signed in January of 2004, the grant-making activities for 2003 were an

accomplished fact by the time a Special Master was appointed. The Blandin Foundation became subject to the terms of the stipulated settlement for the year 2003 retroactively and after the 2003 charitable activities occurred. Thus, 2003, in fairness to the Foundation, should not be considered a transition year for purposes of grant-making or compliance with the Order.

However, 2003 was a significant year for other reasons. These include:

1. The Foundation Trustees had, prior to the objection to the 2000 through 2002 trust accounts, elected to change the strategy of the Foundation to the use of greater operating programs. For an explanation of the Foundation's mission, see the Blandin Foundation website at www.blandinfoundation.org.

The Foundation undertakes some charitable or educational activities itself rather than making grants exclusively to other independent charitable entities. Depending on the extent and scope of these programs, total grants could be reduced as dollars are dedicated to the various programs undertaken by the Foundation. The Foundation has been running its own charitable programs for many years. The Blandin Foundation operating programs are nothing new, only the greater emphasis on them is an issue because of the Stipulation. The Stipulation focuses on cash grants. As of the date of this report, the Foundation is planning no new programs of any financial significance.

2. Senior management of the Foundation changed in September of 2003 with a new interim president appointed prior to the stipulated settlement. Certain historical patterns of giving outside the community were also changed prior to the Stipulation. For example, grants to the SOTA Tec Fund were discontinued in 2003. These had aggregated to over \$15,000,000 since 1993 and were made outside the Grand Rapids, MN vicinity.

2004 and 2005 are significant for additional reasons:

3. Additional financial information regarding grants and programs included in this report has been provided by the Foundation. The years 2004 and 2005 serve as transition years with respect to approaches involving public disclosure, accountability, and transparency. Additional disclosures may be provided by me for future periods as information is requested and feedback is received both by the Special Master and the Blandin Foundation itself. This feedback is encouraged.

4. The financial information for the years 2003, 2004, and 2005 has been disclosed to the community in a Federal Income Tax Return, Form 990-PF, and has been published on the Blandin Foundation website and is also available to the public on the GuideStar website (www.guidestar.org). All annual grant information is detailed in the Form 990-PFs. I am advised that the tax returns for the years subject to the stipulation (2003-2008) will remain available on the Blandin Foundation website. The Panel on the Nonprofit Sector report concludes that tax return disclosure is a “best practice.” As discussed previously, tax forms may be revised to be more “user friendly” to foster greater disclosure.

5. The Foundation in 2003 approved and accrued a \$20 million grant to the Grand Itasca Clinic Hospital. This grant was paid in 2004. Because of the large size of this cash grant, it had significant impact on the 2004 rolling average for cash grants to the Grand Rapids area and assured compliance with the Court Order. In addition to this large 2004 grant, the Foundation has continued to make over 67% of its 2005 grants to the Grand Rapids area. To further put the large \$20 million Grand Itasca Clinic Hospital grant into perspective, had this grant not been made, and all other factors remained unchanged, Blandin would have made 84.2% of its total

2004 grants and 69.1% of its total rolling average grants as of the end of 2005 to the Grand Rapids, MN vicinity! Blandin has not relied upon the 2004 \$20 million Grand Itasca Clinic Hospital grant to lower its commitment to making future additional grants to the Grand Rapids, MN vicinity.

DISCLOSURES

The 2003, 2004 and 2005 grants are disclosed as local or statewide. Since I was unfamiliar with some of the terminology and charitable intent or direction behind certain grants, I suggested that grants be described with greater elaboration to clearly indicate what the funds were being provided for. I emphasized the importance of communicating the extent of the charitable grants made in the area, and encouraged charitable grants which were made to the Grand Rapids, MN vicinity not be combined with outstate grants. There are a number of grants made to statewide organizations which are restricted to the Grand Rapids, MN vicinity.

This concept of restricted grants should be clearly explained, and these grants should be identified so as to improve transparency. Greater elaboration and better classification is not a change in an accounting method. It is intended to provide factual information not previously disclosed or adequately explained.

I requested and the Foundation agreed to utilize its 990-PF tax returns as the vehicle to provide information to the public. The result of this approach has been the 2003, 2004, and 2005 Blandin Foundation 990-PFs. Tax returns must be prepared and made public. There are efficiencies and cost savings over preparing an additional report directed solely to disclosing "grants." As a few years go by, the intent is that the return will become easier to review and understand.

The Foundation's tax return, along with the tax return for the Charles K. Blandin Residuary Trust, have always been public documents available from the Internal Revenue Service, the Attorney General's office, or from Blandin itself. However, as with most private foundations, the tax return has not been user friendly or intended to provide information of interest to the community. For a number of years, the Foundation and Trust's 990-PF forms have also been available without charge on the Internet through the GuideStar website (www.guidestar.org), but this fact was little known outside of the world of private foundations.

Similarly, since my initial contact with the Foundation personnel began in 2004, Foundation activities and transparency can also be viewed as transitional, a "work in process" as the Foundation president Jim Hoolihan intends. Presentation of the financial information and total grants for the years 2003, 2004 and 2005 were made via the Foundation's audited financial report, and are listed individually in the 2003, 2004 and 2005 federal income tax returns, Form 990-PF. The tax returns, which have been and will continue to be prepared and filed on an extended basis by August 15 of each year, have been published on the Blandin website (www.blandinfoundation.org). Blandin has prepared an index to the 2004 and 2005 Foundation 990-PFs which will assist the public in reviewing the returns.

The tax return and the audited annual financial statements are prepared by the Blandin Foundation's public accountants, Larson, Allen, Weishair & Co., LLP. The 2003, 2004 and 2005 tax returns provide a descriptive listing of all grants made during the calendar years 2003, 2004 and 2005. These grants are described and summarized by the primary area and charity benefitted. Thus, there is a detailed listing of both local cash grants (subject to the 55% rolling average) and

a listing of outstate grants. See 2003, 2004 and 2005 Blandin Form 990-PF statements 20 through 26.

COMMUNITY INPUT

The most efficient manner of addressing concerns of the local community is to facilitate and foster direct dialog and communication with the Foundation.⁵ I encourage this approach, which is welcomed by Blandin President, Jim Hoolihan. If there are unresolved questions as to the propriety of the classification or whether the funds were spent in the area specified, I have the ability to further review and make an independent judgment as to whether these grants are appropriately described. I am again pleased to report that I have received no adverse feedback regarding classifications which I view as a continuing compliment to the Blandin management and accounting personnel for their integrity and good faith efforts to communicate accurately all grant activities.

INTENDED FUTURE DISCLOSURES

I requested that Blandin identify and quantify program and administrative expenditures which are exclusive to the Grand Rapids, MN vicinity, or of a nature which benefitted the Grand Rapids, MN vicinity. These expenditures are in addition to grants made in the Grand Rapids area. I do not intend for this analysis to include indirect benefits, like grants to Minnesota Public Radio or programs that clearly have a general statewide application, but rather to programs and expenses which result in the direct expenditure of funds in the Grand Rapids, MN vicinity, the area intended originally to be benefitted pursuant to the Charles K. Blandin Will. I acknowledge

⁵ Bylaws of the Foundation, as authorized by prior Court Order, require one-third (1/3) of the Board of Trustees to be residents of the Grand Rapids, MN vicinity. As of the date of this report, the majority of the Board of Trustees of the Blandin Foundation are residents of Itasca County.

that this request goes beyond the scope of the Order, but I believe that this information should be disclosed to provide greater transparency and understanding of the operations of the Foundation. Blandin has provided this information as follows:

Program and Administrative Expenditures to the Grand Rapids area

<u>Year</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Payroll	\$1,745,688	\$1,580,000	\$1,500,187			
Local Vendors	<u>1,000,000</u>	<u>1,550,000</u>	<u>1,083,381</u>			
Total:	\$2,745,688	\$3,130,000	\$2,583,568			

Dollars spent in the Grand Rapids area have a multiplier impact and are potentially recirculated many times as these dollars change hands within the local community. Expenditures made in the requisite area give the full impact of dollars spent in the Grand Rapids area, whether spent for grants, operating programs, administration, or Program Related Investments (PRI - see below). Such information could further serve to emphasize the significance of the Foundation in Grand Rapids, and support compliance with the Charles K. Blandin Will and Trust's "reasonable needs" bequest.

The Foundation's stated mission is to make expenditures which address not just current needs, but which promote local and rural activities which will benefit the future. Addressing conditions unique to the area seems appropriate for a foundation located in that area. The Foundation wishes to maintain its flexibility and ability to innovate and experiment with different charitable and educational approaches to see which work best locally and in Minnesota. I am advised the Foundation will "continue to evaluate a program's effectiveness," if an approach appears not to be working. Charles K. Blandin expressed no preferences in his Will for grants or programs.

ACCOUNTING ISSUES

1. Program Related Investments (PRI)

In reviewing any foundation's grant-making activities, an interested person should consider whether the Foundation has made any Program Related Investments (PRI). PRI differ from financial investments in that their primary purpose is to accomplish one or more of the foundation's exempt purposes; the production of income or capital appreciation is not a significant purpose. PRI can be real estate, stock, private or governmental bonds, or mortgage loans. A PRI is usually not considered a grant even if it is subsequently written down in value or written off as worthless. Similarly, investments of a more speculative nature could be considered PRI if related to the Foundation's mission. Examples include venture capital type investments and some real estate investments.

Blandin disclosed no cash PRI investments in 2004. Blandin did not write off any PRI balance in 2004. However, in 2005, Blandin made \$75,000 in PRI (Bridge loans) to Northeast Ventures Corporation in Duluth, MN. It is my belief that this amount will likely be written off. I view this particular final PRI commitment as part of the unwinding of a pre-2003 effort. Other PRI predates 2003 and therefore is not subject to further analysis by me. However, future PRI investments may need to be considered in determining the 55% rolling average percentage. Future PRI investments may be considered as an outright grant for purposes of my report if the prospect of repayment is not likely. There should be an expectation of repayment for PRI. There need not be an expectation of income or gain for PRI.

If PRI is in reality a grant, the recipient should qualify for a grant to avoid the risk that Foundation Trustees be accused of not protecting Foundation assets through imprudent

investment policies. PRI are balance sheet items and do not directly reduce grants or programs, either in the year made or the year written off as worthless. PRI are made from Foundation capital assets, not the Foundation's annual 5% of corpus distribution. PRI determinations are made by grant managers, Foundation personnel, and Trustees. They are not made by the Foundation's investment advisors or financial consultants.

Since the Foundation must contribute 5% of its net assets annually, it is only when its income exceeds this amount, or its assets appreciate, are sold, or exchanged with the proceeds reinvested, that additional investments of any type can be made. PRI may not be considered part of contributions made from the annual 5% of corpus distribution for tax purposes.

2. Non-Income Producing Assets

As with any investor, if investments perform poorly, or the financial markets show poor overall performance, the Foundation's capital base may erode, lowering future investment values and returns. See Exhibit 5 for the historical impact of the capital markets on the Blandin Foundation. Such variations in the capital markets are an inherent risk and cannot be controlled or predicted with certainty. Diversification of investments reduces risk and uncertainty.

The above-described investments are not to be confused with non-income producing assets (generally land, buildings, and equipment) owned by the Blandin Foundation and listed on Statement 16 in the tax return. The level or amount of non-income producing assets often correlates with an amount of administrative expenses necessary to maintain the non-income producing assets. In other words, the greater the amount of non-income producing assets, the higher the administrative expenses, which reduces the total amount available for grants. These items will be reviewed, but it must be acknowledged that the management and Trustees of the

Foundation have wide discretion over Foundation assets and the expenditure of Foundation income.

3. Administrative Expenses

Overall administrative expenses for 2004 and 2005 are relatively consistent while total cash grants for 2004 are approximately twenty-one million greater than 2003. As was mentioned, recent earlier years are not comparable because revenue was higher because the value of financial investments held by the Residuary-Charitable Trust with Wells Fargo were higher. See Exhibit 5.

Tax Return Statement 26 presents a reconciliation of expenses. These items will be reviewed annually. Again, the management and Trustees of the Foundation have wide discretion over Foundation assets and the expenditures of Foundation income.

4. Attorney General's Office Jurisdiction

The Minnesota Attorney General's office has monitored Blandin's activities, my involvement, and issues of significance to the public. Under Minnesota law, the Attorney General represents the interests of the public as relates to nonprofit organizations.

5. Commingled Required Distributions

The Charles K. Blandin Foundation was incorporated in 1941. It is a separate and distinct entity from the Blandin Residuary-Charitable Trust, which was created by the Will of Charles K. Blandin. The Foundation originally received its revenue from contributions from The Blandin Company (the paper and wood products manufacturer now owned by a Finnish company). The level of giving varied, depending upon the financial condition of the business. The Foundation has its own set of trustees and its own operating documents, and is able to modify these in

accordance with general legal principles involving charitable foundations. See Exhibit 4.

When Charles K. Blandin died in 1958, his estate assets, which included his stock in The Blandin Paper Company, funded the Charles K. Blandin Residuary-Charitable Trust (and several other family trusts, and the Blandin Cemetery Trust which also provides a small annual income to the Blandin Foundation). It appears from a review of the documents that Mr. Blandin intended his Residuary-Charitable Trust to hold the paper company stock in perpetuity. The company's income was distributed to the Blandin Residuary-Charitable Trust which in turn would distribute this income to the Foundation to be used as specified in Mr. Blandin's Will, i.e., "for the purposes of said corporation (the Foundation) and shall be of a character beneficial to the residents of the Village of Grand Rapids, MN and vicinity."

The Tax Reform Act of 1969 required a minimum distribution by private foundations of 5% of average investment assets. Both the Blandin Foundation and the Blandin Residuary Trust are private foundations subject to this 5% distribution requirement.

In 1977, the Trust sold its stock in the Blandin Paper Company for \$79 million, and has since that time bought diversified financial investments which produce income and capital gains. The income, or 5% of investment assets, is annually distributed to the Blandin Foundation for the purpose specified by Mr. Blandin in his Last Will and as the Will has been judicially construed to further permit distributions to rural Minnesota. The Trust assets have grown and as of December 31, 2006, equal approximately \$390 million. See Exhibit 6 for a cash flow schematic.

The Foundation, however, also has its own assets which trace their origin to the years when it operated as a foundation separate and distinct from the paper company and Mr. Blandin individually. These assets have similarly grown and as of December 31, 2006, consist of

approximately \$68 million. The income from these assets must also be distributed for charitable purposes. However, the charitable purposes are those determined by the Trustees of the Blandin Foundation independent of the Last Will and Testament of Charles K. Blandin. The amount that the Foundation must spend annually from its own assets, approximately \$3 million, is substantially less than the amount which must be distributed by the Foundation from the Residuary-Charitable Trust under the Last Will of Charles K. Blandin.

In point of fact, all of the revenues of the Foundation have been commingled historically and are distributed by the Foundation in a fashion which ignores the fact there are separate governing instruments for each entity:

Blandin Residuary Trust	Will with testamentary trust provisions
Blandin Foundation	Articles and Bylaws of the Foundation.

Thus, the 55% test is applied to grants made from revenue provided by the Foundation's assets and to grants made from the 5% distribution of the Residuary Trust assets. This treatment should be viewed as favorable to the Grand Rapids, MN vicinity. It is a testament of good faith on the part of the Foundation to have never segregated the income with the Trustees using it for charitable purposes exclusively outside of the Grand Rapids, MN vicinity, which I believe the Foundation could have done with 5% of its own assets by amending its articles and by-laws. Any future segregation of Foundation required distributions, and Residuary Trust required distributions, for purposes of charitable activities would now constitute a change in accounting method, be inconsistent with prior treatment and could be considered in evaluating compliance with the stipulated Order.

6. Accounting Methods

It is relevant that I discuss the methods of accounting employed by the Foundation in presenting its financial information to interested parties, including the community. The Blandin Foundation is required to record its financial accounting information in its “books” on an accrual basis. This means that revenues and expenses must be estimated by Blandin personnel and matched against each other during each accounting period, the calendar year. Accrual accounting is required by Generally Accepted Accounting Principles (GAAP). The Foundation books are audited based on accrual accounting concepts. Thus, when the Foundation has a legal right to revenue, even though it has not received any cash, the Foundation records the amount as income on its books. Similarly, when the Foundation incurs an obligation to make an expenditure, it records the obligation as an expense on its books, even though there is no cash spent at that time. Theoretically, over a period of time, both results will give the same result. It is only because of the “snapshot” taken at December 31 of each year, when the books are closed, that there are differences between accrual accounting and cash accounting. If the organization were not dynamic, continuously acquiring rights to revenues and incurring obligations to spend money, no management judgment or estimates would be necessary, and the books could be prepared on a cash basis.

The cash basis is used for preparing Part I, Column (d) of the Foundation tax return (Form 990-PF). The total actual annual cash disbursements are summarized. Annual grants and scholarships paid are listed individually in Statements 20 and 21 of each tax return. The obligation to pay the grant or scholarship may have been incurred several years earlier and “accrued” (recorded) as an expenditure on the books at that time, treated as an expenditure in the

audited financial statements and further recorded as a “grant payable.” The obligation is only listed as an expenditure in the tax return and reduces the “grants payable” of the Foundation when the obligation is actually paid. Unpaid grants are listed individually and total scholarship amounts to be paid which were recorded as expenditures in the financial statements are listed on tax return Schedule 22. Many grants cannot be paid immediately for several reasons, including the fact that although approved, the grantee may not be in a position to be able to use the grant for its intended purpose immediately because the grantee has not fulfilled the terms of its written grant agreement.

As an example of this process, an explanation of the \$20 million Grand Rapids Clinic grant may be appropriate. In 2002, the Blandin Foundation Board of Trustees approved payment of a \$20 million grant to build a new clinic. This grant had been processed and approved by Foundation grant managers and support was provided to the Trustees. When the Trustees approved the grant, it became an obligation of the Foundation to pay and was accrued by the Foundation accounting department and reported as both an expense and grant payable and reflected in the Blandin books as a liability. Since the Board meeting in 2002 approving the \$20 million grant, all through 2003, and until paid in 2004, this \$20 million obligation remained on the Blandin Foundation books as a grant payable. A review of Blandin Foundation’s tax return for 2002 and 2003 (Schedule 22) shows this amount waiting to be paid. Only the 2002 financial statement and tax return include it as an accrual expense (grant). When in 2004 the \$20 million grant was paid, it was removed from the account for grants payable and cash was disbursed. Schedule 20 of the 2004 Blandin Foundation tax return lists this \$20 million grant along with all the other individual grants paid in 2004. Tax return Schedule 20 lists only current year grant

payments. Tax return Schedule 22 lists the grants still left to be paid, no matter what year the Trustees approved the grants. Thus, tax return Schedule 22 is an historical listing of all grants and grant balances left to be paid. The IRS allows a carryforward of excess cash expenditures made in one year to later years so that the excess prior cash expenditures can be added to lower current cash expenditures to satisfy the IRS 5% of net investment assets cash distribution requirement for a subsequent year or years.

7. Blandin Foundation Debt

Because the community desired a new clinic as soon as possible, the Foundation for the first time borrowed money in 2004 to pay a large grant, \$20 million. For this reason, Blandin now pays interest. This amounted to the following new category of expense, “interest on long-term debt,” and resulted in the following expense amounts:

<u>Year</u>	<u>Interest Expense</u>
2004	\$284,289
2005	\$758,529

This expense is part of the “cost” of a grant so large that it cannot be paid from current cash receipts. Whether the grant is paid from proceeds from the sale of bonds, from a loan from a commercial lender, or a loan from the Blandin Residuary Trust, interest would have to be paid. By issuing bonds, the Foundation was able to obtain the money at a fixed rate, and the Blandin entities were able to keep their assets invested. Hopefully, the investments will earn a higher rate of return sufficient to cover both the interest paid and the 2004 up-front cost of issuing the bonds, which were approximately \$700,000. As with any Foundation expense, the amounts of dollars available for grants are reduced. However, the expectation is that the Trust principal will grow to provide a larger stream of revenue in the future. The Foundation could have sold \$20 million of

its investments and given the proceeds to the clinic. This would have eliminated the expense items, but also reduced the Foundation's investment assets by \$20 million and its future expenditures by \$1 million per year!

8. Re-grant Amounts

In 2005, Blandin received a \$250,000 grant from the State of Minnesota to promote broadband in outstate Minnesota. This grant should be viewed as favorable to Blandin, the community, and the state. The grant by the state and the re-grant of the funds by Blandin to outstate communities should be viewed as "smart outsourcing" by the State of Minnesota. This method saves on the creation of infrastructure and minimizes the learning curve for a state agency inherent in giving away money for broadband promotion in an efficient manner by capitalizing on Blandin's broadband initiative. This additional money from the state will not be part of the grants used in determining the 55% of grants to the local Grand Rapids area as it does not constitute dollars from the Blandin Trust or Foundation assets. In effect, it allows Blandin to promote its broadband initiative statewide while preserving Blandin grant money for the community. The idea of Blandin receiving grants and re-granting funds should be encouraged. None of these funds were expended in 2005.

GRANTS BY LOCATION AND PERCENTAGE

In reliance on the accuracy of both the independently audited financial statements (subject to a materiality standard) and the Foundation's 2004 and 2005 U.S. Return of Private Foundation (Form 990-PF) (subject to a statutory standard, which amounts are utilized by me if different from the financial statements for purposes of this report), and since no objections were raised over the classification of 2004 and 2005 grants, and since I have noted no misclassifications:

FINDINGS

I find that total cash grants of \$28,422,350 were made for the benefit of the Grand Rapids, MN vicinity in the year 2004.

I find that total cash grants of \$1,584,245 were made for the benefit of outstate rural Minnesota in the year 2004.

I find that 94.7% of cash grants were made for the benefit of the Grand Rapids, MN area in the year 2004.

I find that the rolling average percentage of cash grants made through December 31, 2004 for the benefit of the Grand Rapids, MN vicinity equals 85.4% of total cash grants. See Exhibit 7 for the schedule disclosing annual percentages and rolling average percentages.

I find that total cash grants of \$6,062,078 were made for the benefit of the Grand Rapids, MN vicinity in the year 2005.

I find that a total of \$2,914,341 cash grants were made for the benefit of outstate rural Minnesota in the year 2005.

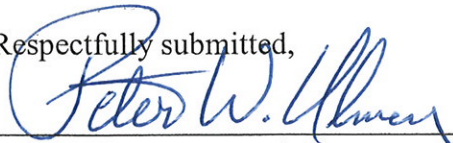
I find that 67.5% of cash grants were made for the benefit of the Grand Rapids, MN area in the year 2005.

I find that the rolling average percentage of cash grants made through December 31, 2005 for the benefit of the Grand Rapids, MN vicinity equals 82% of total cash grants. See Exhibit 7 for the schedule disclosing annual percentages and rolling average percentages.

I find that the Blandin Foundation continues to be in compliance with the six (6) year

55% rolling average grant requirement of the December 17, 2003 Ramsey County District Court
Order.

Respectfully submitted,

A handwritten signature in blue ink that reads "Peter W. Ulmen". The signature is written in a cursive style and is positioned above a horizontal line.

Peter W. Ulmen, Special Master
Attorney ID #111648
801 Park Avenue
Minneapolis, MN 55404
612-359-1225
pulmen@mahoney-law.com

Dated: April 25, 2008

Blandin Foundation
Special Master Report - 2004 and 2005

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STATE OF MINNESOTA
COUNTY OF RAMSEY

DISTRICT COURT
SECOND JUDICIAL DISTRICT
FILE NO. C5-58-302795

In the Matter of the Trust Created by
Article VII of the Last Will and Testament of
CHARLES K. BLANDIN,

ORDER APPOINTING
SPECIAL MASTER

Deceased.

Pursuant to Rule 53.01 *et seq.* of the Minnesota Rules of Civil Procedure:

IT IS HEREBY ORDERED that:

1. Peter Ulmen is appointed as Special Master herein to monitor compliance by the above-captioned Trust (Trust) and the Charles K. Blandin Foundation (Foundation) with Paragraph III of the Stipulation and Order entered in this matter by this Court on December 17, 2003. A copy of this Stipulation and Order is attached and incorporated herein by reference.
2. The Special Master is charged with inquiring into the Foundation's grant distributions and allocation of those distributions to the Grand Rapids Area, as said area is defined in the Stipulation and Order attached hereto, taking into consideration the requirement that the Grand Rapids Area receive an average of at least fifty-five (55%) percent of all grants made over a six year rolling period, said six year period to begin January 1, 2003.
3. The Foundation shall annually provide to the Special Master reports that identify the following:

- (a) The grant amounts paid in the prior year on a cash basis of accounting to the Grand Rapids area;
- (b) The grant amounts paid in the prior year on a cash basis of accounting outside of the Grand Rapids area;
- (c) The program expenses paid in the prior year on an accrual basis of accounting;
- (d) The administrative expenses paid in the prior year on an accrual basis of accounting; and
- (e) The total expenditures on a cash basis of accounting for the prior year.

The Foundation's report shall be in such form and contain such other information as the Special Master shall determine from time to time. In addition, as provided in Minn. R. Civ. P. 53.03 and 53.04, the Special Master shall have full power to access the books and records of the Trust and the Foundation and access to employees and officers thereof for purposes of carrying out the duties to monitor compliance and to report to the Court.

4. Pursuant to Minn. Civ. R. 53.05, the Special Master shall prepare and provide an annual report to the Minnesota Attorney General, the Trustees of the Trust Created by Article VII of the Will of Charles K. Blandin (Residuary Trust), and this Court. The report shall include findings about the Trust and the Foundation's compliance with Paragraph III of the Stipulation and Order. The report shall identify any significant changes to the Foundation's grantmaking and charitable distribution practices. In connection with the conduct of this review and any resulting inquiry, the Special Master shall discuss any questions or concerns with the Foundation representatives and/or the Minnesota Attorney General or his/her representative prior to filing of

his report. The copy of the report that is provided to the Minnesota Attorney General's Office shall be included in the public files.

5. The Special Master shall be paid reasonable fees plus expenses as provided for and approved by this Court, which fees shall be paid from the Trust.

Dated: 1-19, 2004


Honorable Margaret Marrinan

156/
STATE OF MINNESOTA
COUNTY OF RAMSEY

FILED

DEC 18 2003

COURT ADMINISTRATOR
By Deputy

DISTRICT COURT
SECOND JUDICIAL DISTRICT
FILE NO. C5-58-302795

In the Matter of the Trust Created by
Article VII of the Last Will and Testament of
CHARLES K. BLANDIN,

STIPULATION & ORDER

Deceased.

This Stipulation is made and entered into by and among the following parties and
Objectors:

1. Julie L. Krieger, on behalf of Wells Fargo Bank Minnesota, N.A., and Bruce W. Stender, Co-Trustees of the Residuary Trust created under Article VII of the Last Will and Testament of Charles K. Blandin (Residuary Trust), and A. Eugene Radecki, President of the Charles K. Blandin Foundation (Foundation), on behalf of the Foundation Board of Trustees; represented by Terence N. Doyle, Neal T. Buethe and Darlene M. Cobian, Briggs and Morgan, P.A.;
2. Solicitor General Lori Swanson, Assistant Attorney General Ann Bloodhart, and Assistant Attorney General Tricia Matzek, on behalf of the State of Minnesota; and
3. Kent Harbison and Keith Libbey, representing Citizens for Blandin, and various other persons and organizations residing and located in the Grand Rapids, Minnesota vicinity (Objectors).

EXHIBIT 2

RECITALS

1. Wells Fargo Bank Minnesota, N.A., formerly known as Norwest Bank Minnesota, N.A. and Bruce W. Stender filed with this Court their Petition for Allowance of Accounts and Other Relief for the period January 1, 2000 through December 31, 2002, said Petition dated June 3, 2003 (Petition).

2. Hearing on that Petition, scheduled on September 3, 2003, was continued upon the filing of Objections to Petition by Kent Harbison and Keith Libbey on behalf of various citizens of Grand Rapids.

3. On October 29, 2003, the Court heard arguments relating to the Objectors' participation in this Trust proceeding and offered to conduct mediation with the parties and the Objectors.

4. As a result of mediation conducted by Judge Margaret Marrinan on December 5, 2003, the parties and Objectors agree to the following Stipulation and Order.

NOW, THEREFORE, in consideration of these representations, agreements and mutual promises and covenants herein, it is agreed as follows:

I. Objectors agree to withdraw all Objections and Motions filed with this Court and further agree that the Court may grant the relief requested in the Petition for Allowance of Trustees' Accounts for the period January 1, 2000 through December 31, 2002.

II. The Attorney General has received a copy of the Petition for Allowance of Trustees' Accounts for the period of January 1, 2000 through December 31, 2002. The Attorney General's Office does not oppose the relief requested in that petition, with the exception of the request for attorneys' fees for which the Attorney General's Office has not received any documentation and therefore has not formed an opinion as to their reasonableness.

III. In keeping with the intent of Charles K. Blandin and the Court's December 21, 2000 Order, the Blandin Foundation's perpetual and primary responsibility is to distribute its funds to meet the reasonable needs of the Grand Rapids area. The parties and Objectors agree that the Foundation shall satisfy its "perpetual and primary responsibility ... to distribute its funds to meet the reasonable needs of the Grand Rapids area" by meeting the following criteria:

- (a) The Grand Rapids area shall mean the area contained on the attached map and so labeled. The area on the map is Itasca County, Minnesota, and Hill City, Remer, Blackduck, and Northome, Minnesota.
- (b) The Foundation shall distribute an average of at least fifty-five (55) percent of all grants to benefit the Grand Rapids area during rolling six year periods. The first rolling six year period begins January 1, 2003 and continues until December 31, 2008, the second begins January 1, 2004 and continues until December 31, 2009, and so on.
- (c) For purposes of this Stipulation and Order, the grants shall be accounted for on a cash basis.
- (d) Grants mean all distributions to persons and entities for the benefit of the Grand Rapids area, including scholarships to students who have graduated from schools within the Grand Rapids area.
- (e) Nothing herein shall prohibit the Foundation from making additional distributions or spending additional funds within the Grand Rapids area.

The Court reserves the right to review whether the Foundation is still fulfilling its perpetual and primary responsibility to meet the reasonable needs of the Grand Rapids area under this Paragraph if there are significant changes to the Foundation's grantmaking and charitable distribution practices in the future.

IV. The parties agree that representatives of the Foundation shall meet annually with members of the Attorney General's Office to discuss the Foundation's compliance with Paragraph III of this Stipulation and Order.

V. The Foundation does not object to, and the Attorney General's Office recommends, that the Court appoint a special master, pursuant to Minn. R. Civ. P. 53.01, whose reasonable fees will be paid by the Residuary Trust, to monitor compliance with Paragraph III of this Stipulation and Order and any other resulting Orders. The role and responsibility of any special master, who shall have access to the Foundation's books, records and employees for the purpose of carrying out his or her duties, shall be defined by the Court in a supplemental order.

VI. The Court did not rule on the standing of the Objectors to participate in this proceeding and nothing that has occurred in these proceedings has established Objectors' standing as parties herein.

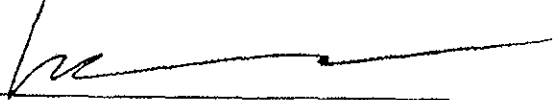
VII. The parties agree to present this Stipulation to the Court at a time set by the Court and request that the Court enter an Order approving and incorporating the terms of the foregoing Stipulation, and the parties and Objectors agree this shall be effected without further notice of hearing.

This Stipulation and Order may be executed in one or more counterparts, all of which taken together shall constitute one and the same instrument.

Dated:

12/17/03

MIKE HATCH
Attorney General
State of Minnesota



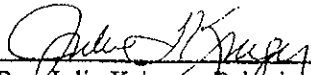
LORI R. SWANSON
Solicitor General
Atty. Reg. No. 0254812
ANN K. BLOODHART
Assistant Attorney General
Atty. Reg. No. 248393
TRICIA L. MATZEK
Assistant Attorney General
Atty. Reg. No. 0292837

Suite 1400, NCL Tower
445 Minnesota Street
St. Paul, Minnesota 55101-2131
(651) 205-4786 (Voice)
(651) 297-7206 (TTY)

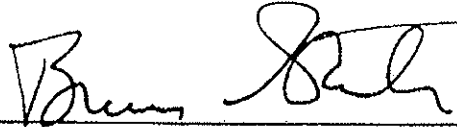
ATTORNEYS FOR STATE OF MINNESOTA

Dated: 12/17/03

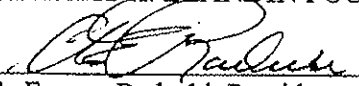
WELLS FARGO BANK, N.A.


By Julie Krieger, Principal, Lowry Hill
Co-Trustee of the Residuary Trust of
Charles K. Blandin

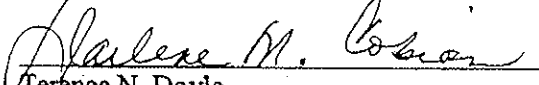
Dated: 12/17/03


Bruce W. Stender
Co-Trustee of the Residuary Trust of
Charles K. Blandin

Dated: 12/17/03

CHARLES K. BLANDIN FOUNDATION

A. Eugene Radecki, President

Dated: 12/17/03

BRIGGS & MORGAN

Terence N. Doyle
Neal T. Bueth
Darlene M. Cobian

ATTORNEYS FOR CO-TRUSTEES OF THE
RESIDUARY TRUST OF CHARLES K.
BLANDIN AND CHARLES K. BLANDIN
FOUNDATION

Dated: 12.17.03

FREDERICKSON & BYRON

Keith Libbey
Kent Harbison
Keith Libbey

ATTORNEYS FOR CITIZENS FOR
BLANDIN AND OTHER VARIOUS
PERSONS AND INDIVIDUALS RESIDING
IN GRAND RAPIDS, MN, VICINITY

Based on the foregoing Stipulation, IT IS SO ORDERED:

Dated: 17 December 2003

BY THE COURT

M. Marrinan
Honorable Margaret M. Marrinan
Judge of District Court

AG: #959520-v1

STATE OF MINNESOTA RAMSEY COUNTY
Certified to be a true and correct copy of the
original document(s) consisting of 8 pages
on file and of record in my office.

Dated 12-18-03

COURT ADMINISTRATOR

By Patricia M. O'Connell
Deputy

STATE OF MINNESOTA
COUNTY OF RAMSEY

DISTRICT COURT
PROBATE COURT
SECOND JUDICIAL DISTRICT
Court File No. C5-58-302795

In the Matter of the Trust Created by
Article VII of the Last Will and
Testament of CHARLES K. BLANDIN,

Deceased

**NOTICE OF ENTRY OF AMENDED
ORDER APPOINTING SPECIAL MASTER**

ALL PARTIES IN INTEREST IN THE ABOVE-REFERENCED TRUST NAMED ON
EXHIBIT A ATTACHED HERETO:

YOU ARE HEREBY GIVEN NOTICE that an **Amended Order Appointing Special Master Dated May 8, 2007** was signed and filed in the Ramsey County District Court Probate Division by the Honorable Margaret Marrinan of District Court. A copy of said Amended Order Appointing Special Master is attached hereto.

IF YOU WISH TO OBJECT TO THE ORDER, you must file an appeal within sixty (60) days after service of this Notice upon you.

Dated: May 17, 2007.

BRIGGS AND MORGAN, P.A.

By: Darlene M. Cobian
Darlene M. Cobian
Atty. Reg. #234795
332 Minnesota Street, Suite #W2200
St. Paul, MN 55101
Phone: (651) 808-6597
Fax: (651) 808-6450

EXHIBIT 3

SCHEDULE A
TO
NOTICE AND ENTRY OF ORDER

Mr. Peter W. Ulmen
801 Park Avenue
Minneapolis, MN 55404-1136

James Hoolihan
Blandin Foundation
100 Pokegama Avenue North
Grand Rapids, MN 55744

Julie L. Krieger
Lowry Hill
5300 Norwest Center
90 South 7th Street
Minneapolis, MN 55479-2049

Ann K. Bloodhart
Office of the Minnesota Attorney
General
1400 NCL Tower
445 Minnesota Street
St. Paul, MN 55101-2131

Bruce W. Stender
c/o Labovitz Enterprises
227 West First Street, #880
Duluth, MN 55802-1913

STATE OF MINNESOTA
COUNTY OF RAMSEY

DISTRICT COURT
SECOND JUDICIAL DISTRICT

FILE NO. C5-58-302795

In the Matter of the Trust Created by
Article VII of the Last Will and Testament of
CHARLES K. BLANDIN,

AMENDED
ORDER APPOINTING
SPECIAL MASTER

Deceased.

Pursuant to Rule 53.01 *et seq.* of the Minnesota Rules of Civil Procedure:

IT IS HEREBY ORDERED that:

1. Peter Ulmen is appointed as Special Master herein to monitor compliance by the above-captioned Trust (Trust) and the Charles K. Blandin Foundation (Foundation) with Paragraph III of the Stipulation and Order entered in this matter by this Court on December 17, 2003. A copy of this Stipulation and Order is attached and incorporated herein by reference.

2. The Special Master is charged with inquiring into the Foundation's grant distributions and allocation of those distributions to the Grand Rapids Area, as said area is defined in the Stipulation and Order attached hereto, taking into consideration the requirement that the Grand Rapids Area receive an average of at least fifty-five (55%) percent of all grants made over a six-year rolling period, said six-year period to begin January 1, 2003.

3. The Foundation shall annually provide to the Special Master reports that identify the following:

- (a) The grant amounts paid in the prior year on a cash basis of accounting to the Grand Rapids area;

- (b) The grant amounts paid in the prior year on a cash basis of accounting outside of the Grand Rapids area;
- (c) The program expenses paid in the prior year on an accrual basis of accounting;
- (d) The administrative expenses paid in the prior year on an accrual basis of accounting; and
- (e) The total expenditures on a cash basis of accounting for the prior year.

The Foundation's report shall be in such form and contain such other information as the Special Master shall determine from time to time. In addition, as provided in Minn. R. Civ. P. 53.03 and 53.04, the Special Master shall have full power to access the books and records of the Trust and the Foundation and access to employees and officers thereof for purposes of carrying out the duties to monitor compliance with the Court's December 17, 2003 Order's requirement for grant distribution and allocation to the Grand Rapids area and to report to the Court.

4. Pursuant to Minn. Civ. R. 53.05, the Special Master shall prepare and provide an annual report to the Minnesota Attorney General, the Trustees of the Trust Created by Article VII of the Will of Charles K. Blandin (Residuary Trust), and this Court. The report shall address the Special Master findings about the Trust and the Foundation's compliance with Paragraph III of the Stipulation and Order, including any significant changes to the Foundation's grantmaking and charitable distribution practices. In connection with the conduct of this review and any resulting inquiry, the Special Master shall discuss any questions or concerns with the Foundation representatives and/or the Minnesota Attorney General or his/her representative prior to filing of his report. The copy of the report that is provided to the Minnesota Attorney General's Office shall be included in the public files.

5. The Special Master may, from time to time, have questions indirectly related to Paragraph III of the December 11, 2003 Stipulation and Order. Such considerations should be directed to the Court by way of an informational meeting to be attended by representatives of the Trustees and the Foundation and Attorney General's office, if they elect to attend, for discussions regarding any Court-directed follow-up as part of the tri-annual petition for approval of accounts.

6. The Special Master has no responsibility for monitoring issues of the Foundation corporate governance, internal management matters, grant-making or program-related decisions, investment decisions or any other aspects of the normal and ordinary operation of the Blandin Foundation. The Special Master does not have the responsibilities of a compliance officer nor is the Special Master responsible for monitoring the Trust's or Foundation's investments or investment strategies as part of his regular reporting obligation under this Order.

7. The continued appointment of a Special Master shall be evaluated at the close of the first six (6) year rolling period which began January 1, 2003.

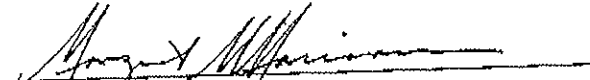
8. The Trustees will make an informal presentation to the Court at the request of the Court to update the Court on the Trust and Foundation's activities, including the Trust's and Foundation's investments and investment strategies and respond to any questions from the Court or Special Master or the Attorney General's Office. The Special Master and Attorney General's Office shall be provided a copy of all presentation materials at least seven (7) days prior to the presentation and the Special Master shall direct any comments or questions to the Court. The presentation shall be closed at the request of a party and at the discretion of the Court in order to protect any proprietary information of the Trust's and Foundation's investment consultant or for other reasons deemed sufficient by the Court.

9. The Special Master shall be paid reasonable fees plus expenses as provided for and approved by this Court, which fees shall be paid from the Trust.

10. Nothing in this Order precludes the Special Master from contacting the manager of the Charities Division, or other designee of the Attorney General's Office, concerning the Blandin Foundation or Trust.

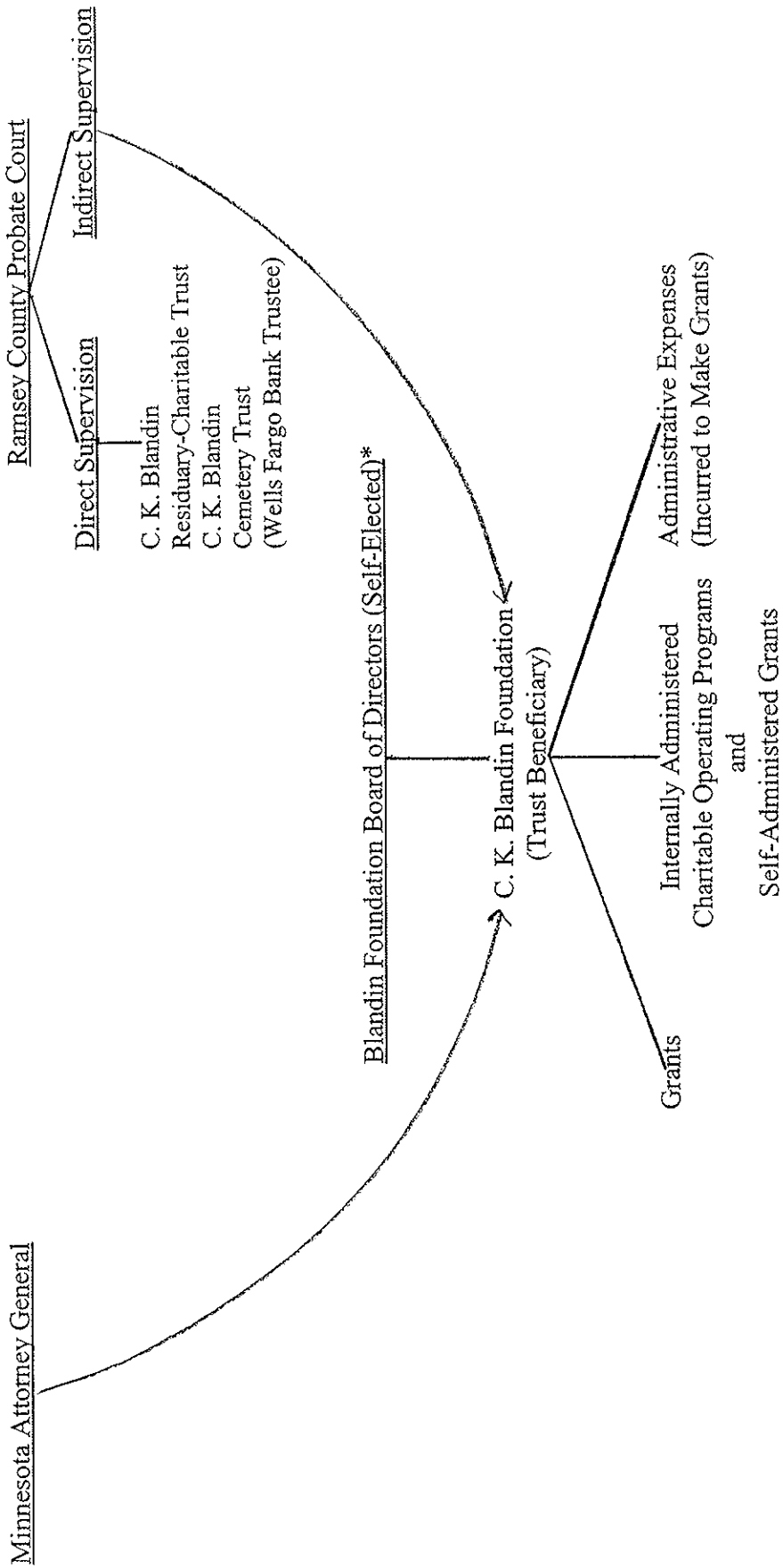
11. Either the Foundation, Residuary Trust, or Special Master may request that the Court order issues or findings addressed in draft reports be kept confidential for valid reasons asserted by them, or the Court on its own motion may order issues or findings to be kept confidential.

Dated: May 8th, 2007


Honorable Margaret Marrinan

C. K. BLANDIN LEGAL ENTITIES

Supervision



*Because the C.K. Blandin Foundation acts by and through its Board of Trustees, the Blandin Foundation Board of Trustees is also subject to supervision by the Minnesota Attorney General's office to secure compliance with Minnesota law.

C. K. BLANDIN FOUNDATION

Historical Comparisons

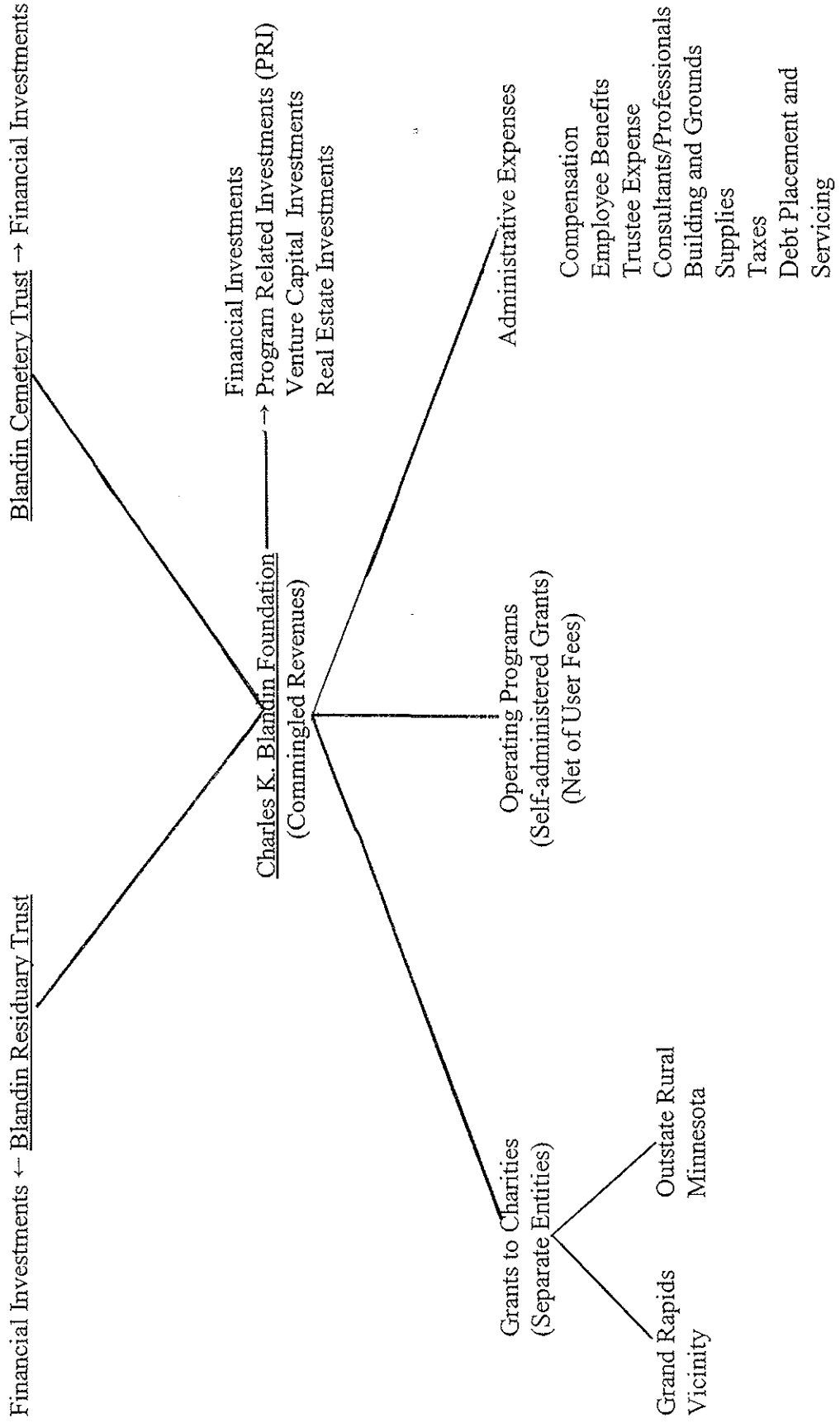
Year	Combined Assets (Fair Market Value) Source: 990-PF	Receipts (Accrual Basis) 990-PF	Grants (Cash Basis) 990-PF	Program Expenses (Accrual Basis) Audit	Administrative Expenses (Accrual Basis) Audit	Total Program and Administrative Expenses (Accrual Basis) 990-PF	Total Program and Administrative Expenses (Cash Basis)
1998	N/A	\$20,555,106	\$13,627,691	N/A	\$ 2,473,819		\$3,446,491
1999	\$407,930,875	23,875,762	11,853,548	\$2,123,598 (Partial)	2,452,250		2,004,272
2000	457,940,059	21,771,591	13,601,341	2,569,602	2,344,117		4,034,438
2001	389,600,831	21,160,961	15,418,132	2,719,566	2,443,550		4,608,556
2002	333,701,300	15,328,613	9,949,739	3,361,858	* 1,730,594		4,809,037
2003	386,458,834	17,144,166	8,929,673	3,893,635	* 2,618,285		6,274,680
2004	413,253,276	19,286,568	30,006,595	3,883,413	* 2,490,725		5,872,713
2005	423,323,009	22,526,467	8,976,419	3,656,672	* 2,765,678		6,269,020
2006							
2007							
2008							

* The administrative expenses in the audit column do not include investment expenses which are netted against investment income for audit presentation.

** The 990-PF reports investment expense as part of administrative expenses.

C. K. BLANDIN FOUNDATION

Entities Cash Flow



C. K. BLANDIN FOUNDATION

**Grants by Location
Annual Percentages and
Rolling Average Percentages
(See Annual Form 990-PF Statement 20 for Detail)**

	2003 Amounts	2003 %	2004 Amounts	2004 %	2004 Rolling Average %	2005 Amounts	2005 %	2005 Rolling Average %
Grand Rapids Vicinity	\$4,812,576	53.9%	\$28,422,350	94.7%	85.4%	\$6,062,078	67.5%	82%
Outstate Rural Minnesota	4,117,097	46.1%	1,584,245	5.3%	14.6%	2,914,341	32.5%	18%
Total Grants:	\$8,929,673	100 %	\$30,006,595	100 %	100 %	\$8,976,419	100%	100%

	2006 Amounts	2006 %	2006 Rolling Average %	2007 Amounts	2007 %	2007 Rolling Average %	2008 Amounts	2008 %	2008 Rolling Average %

Note: Grant amounts are determined from publicly reported grant detail listed in the Foundation's tax returns, Form 990-PF. These amounts are higher than the grant totals reported in the unaudited supplementary information provided by management.

**BLANDIN'S COMMENTS ON
THE 2004-05 SPECIAL MASTER REPORT**

PURPOSE

The Blandin Foundation and the Trustees of the C.K. Blandin Trust are pleased that the Special Master's 2004-05 Annual Report provides a positive and comprehensive overview of the Trust and Foundation's compliance with the 2004 Stipulated Order. As the Special Master found, we are in full compliance with the 2003 Stipulated Order's requirements regarding distribution to the Grand Rapids area. We are proud of this record.

There are certain aspects of the 2004-05 Annual Report that we believe merit some additional background information that while not formally part of the Special Master's neutral report and evaluation, do explain and elaborate upon certain topics he refers to in the Report. The Special Master has invited us to provide these comments as an attachment to the 2004-05 Annual Report.

SPECIFIC COMMENTS

I. Self-Administered Grants

On Page 7 of the Report, the Special Master provides a substantive discussion regarding the Foundation's "Self-Administered Grants" and the "Good to Great/Evaluation Program." The names "Self-Administered Grants" and "Good-to-Great program" can be misunderstood as some types of expenditures solely for the benefit of the Foundation, its Trustees or staff. That is not the case. While the Special Master acknowledges that monies spent on "Self-Administered Grants and the Good to Great Program" do not necessarily "reduce the universe of possible grants," we would like to emphasize that these expenditures are in themselves a benefit to the Grand Rapids area. They are not part of the 55% grant ratio calculation, but they are certainly related to the Foundation's work in the Grand Rapids area.

Self-Administered Grants: First, as to self-administered grants – below is a detailed table of the expenditures for information in the "Other" category in the Report:

	<u>2004</u>	<u>2005</u>
Blandin Associates – program	\$3,816	0
Good To Great/Evaluation – program	\$69,362	\$415,773
Opportunity Fund – program	\$41,470	\$46,190
Baby Steps B2001-0002 – SA	\$75,303	0
Broadband Dev B2003-0005 SA	\$34,935	\$24,728
Community Guide to BB SA	\$10,153	\$42
Kindergarten Assmt B2000-0008 SA	\$4,269	0
MN Wood Camp B2003-0003 SA	\$67,500	\$10,000
Rural Economic Dev 6 regions B2003-0007 SA	\$60,000	0
(Plug to Total Column)	\$318	
TOTAL	\$367,126	\$496,733

There is, in short, a lot of smaller activity recorded in the "OTHER" program category of the audited financial statements.

Then, breaking down further the Good to Great expenditures in 2005, the amount of \$415,773 includes:

Consultant Service	\$ 99,629.55	(Mease, Allen, Joanne Berkenkamp, Center for Effective Philanthropy, Wilder) Program and Grant Evaluation and Strategic Planning
Consultant Service	\$ 36,000.00	Baseline survey for Broadband
Consultant Service	\$ 4,104.41	Vital Forest evaluation
Consultant Service	\$142,155.14	Leadership evaluation (See Change)

These are all expenditures focused upon increasing the efficiency and effectiveness of the Foundation's work. This is particularly clear in the Good to Great Evaluation Program.

The Good to Great Program: Over 55% of the Good to Great expenditures tie directly to the Foundation's evaluation of its internal programs and specific grants, especially to the Leadership Program and Broadband grants. As a prime example, the Center for Effective Philanthropy conducted surveys with Blandin grantees to focus on Blandin's effectiveness, responsiveness and accountability. Many of these grantees were from the Grand Rapids area. The results of this work were analyzed and summarized in a report to the Foundation which we would be happy to provide any interested party. The results of this Report were also shared with the grantees interviewed. The purpose of the effort was to improve Foundation grant-making accountability, transparency and effectiveness (all points important to the Board, the public and the Court). Similarly, the work done by Wilder was to survey and evaluate the Broadband grant. In other words, the bulk of the Good to Great expenditures were *about grant-making*.

Thus, there is a beneficial relationship between these Self-Administered Grants, the Evaluation Programs and the grants made to the Grand Rapids area. As the Special Master states, these expenditures are appropriate expenditures "which should benefit the community in the future," and "is consistent with the Blandin Mission."

The Special Master also notes that the Self-Evaluation Program "can be viewed as developing human capital." This is very true. Blandin's self-evaluation program has been a model nationwide as discussed in an article in the *Chronicle of Philanthropy*. <http://philanthropy.com/jobs/2004/07/28/20040805-690712.htm>. This information is for operations and gives the Foundation the ability to make better program and grant making decisions.

If any members of the public would want more information, please let us know.

II. The Foundation's Programs are Relevant to its Grants

Programs are expenditures for the benefit of *others* – the program participants and those who benefit from the participants' work include people in the Grand Rapids area. Time and again, Blandin programs relate to Blandin grants; programs inform grant-making and cause to surface grant-making opportunities. While it is outside the scope of the 2004/05 report period, a prime example of this interrelation is the Foundation's recent Forest Legacy grant: http://www.blandinfoundation.org/news/documents/Grants_Ctr_06_30_05.pdf which was a result of the Foundation's earlier public policy initiatives. This \$7 million grant (along with matching state money and other foundation money) developed from a Blandin Public Policy and

Initiatives Program. This grant has a direct benefit impact in Itasca County and the Grand Rapids area.

Blandin's "Public Policy and Engagement" Program has two initiatives; one of which is our Vital Forests/Vital Communities. Through the past several years that Program has been working in the area of forestry-related issues. As a direct result of our program initiatives and expenditures, we initiated a program called Forest Legacy. In this program, the Foundation initiated a cooperative effort with the Nature Conservancy, State of Minnesota DNR, independent landowners and other foundations to purchase conservation easements from landowners that enabled thousands of forest acres to remain open and available to hunters, hikers and foresters and timber producers.

To date, easements have been secured on a total of 52,763 Minnesota forest acres have been secured at a total cost of \$13.7 million. Some details are:

Sugar Hills – Itasca County – 1,600 acres
Koochiching-Washington–51,163 acres, Itasca Cty–11,824 acres, Koochiching
Cty–39,339 acres
Total Itasca County acres is 13,424 acres

Funds:

Blandin Foundation grants	\$ 4,250,000
Which Leveraged	
MN DNR	7,328,000
Federal	750,000
Other Foundations	1,400,000
The Conservation Fund	500,000
Private landowners	72,000

The total Blandin Foundation Grants have been \$6,250,000 to the Nature Conservancy for this initiative. It is anticipated, there will be additional acres to be put into the Forest Legacy Program.

During the "program" phase, Blandin's financial statements would show only program-related expenses for our own public policy and engagement program. A person looking only at the statements could have the impression that those program dollars are at the expense of grant dollars. But at the end of the day, the whole story is that much of those program-related expenses were incurred in order that the Foundation could develop the concept, find and secure the State, Federal, Foundation and Nature Conservancy partnerships that brought additional dollars to the program and made this possible by a unique and special grant. A point not to be missed is the leverage factor; Blandin's funds brought in the other funds, state, federal and others, which were significantly greater than the total funds expended on our own program of PP&E. In fact, the PP&E program funds over that period of time were a small portion of the leveraged and additional funds brought to the program. Thus, because of our program expenditures, Blandin was able to bring in more dollars for grants than we could have provided on our own.

The administrative area supports grant making and programs by way of the strategic plan and there is a direct correlation between the amount spent in administration and supporting grant making and programs.

In short, programs can lead to grants, including grants that directly benefit the people of the Grand Rapids area.

CONCLUSION

The Blandin Foundation and the Trustees of the C.K. Blandin Trust would like to thank the Special Master for his diligence in producing the 2004-05 Annual Report. Its conclusions reinforce the Foundation's success in fulfilling the 2003 Stipulated Order regarding grant distributions in the Grand Rapids area as reflected in the recent 2006 Petition for Approval which was approved by the Ramsey County District Court. It is our privilege to be of service to the Foundation and the persons and organizations it serves.

The Blandin Foundation
Trustees of the C.K. Blandin Trust

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