

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,

**FIRST ANNUAL
REPORT OF SPECIAL MASTER
FOR CALENDAR YEAR 2003**

Deceased.

BACKGROUND

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, its attorneys (Briggs and Morgan), the Attorney General of the State of Minnesota (Mike Hatch), and attorneys for Citizens for Blandin (Objectors)¹ (Fredrikson & Byron, P.A.). See Exhibit 2. I have 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.

The Objectors, by and through their attorneys, had contended that the trustee, Wells Fargo Bank Minnesota's, 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 income) is to distribute its funds to meet the reasonable

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.

needs of the Grand Rapids, MN area. The Objectors had contended that up to \$5 million of grant monies were improperly contributed to areas in Minnesota other than the Grand Rapids 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 by the Blandin Foundation be made 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.

In my capacity as Special Master, I am not a party to the proceedings. I have been able to monitor compliance with the Stipulation in a non-adversarial fashion 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.

This report incorporates by reference the 2003 audited financial statements of the Blandin Foundation and the 2003 Return of Private Foundation (Form 990PF) tax return for Blandin. The financial statements and the 2003 Blandin Form 990PF are available and can be reviewed on the Blandin Foundation website at www.blandinfoundation.org.

SCOPE OF REVIEW

There have been discussions over the scope of my review. While my report should not be considered an overview of Foundation operations, I am required by the January 19, 2004 Court

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.

Order (Exhibit 1) to identify any significant changes to the Foundation's grant-making and charitable distribution practices. Of necessity, I must become aware of how the Foundation operates. This mandate, since it is prospective, permits me to give 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 am to the Foundation somewhat like the "visit from the mother-in-law which never ends."³ I appreciate the patient cooperation given me as issues are being considered as part of my review. I thank all involved with this effort for their cooperation.

Since the parties agreed that the Wells Fargo Bank Trust accounts for the three year period ending December 31, 2002 would be approved, there is no direct authority to further review the activities of these periods, even if there were objections to the expenditures for these years. 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.

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.

My involvement must not attempt to micro-manage the Foundation. The Court does not control the Foundation's Board of Trustees. (See attached Exhibit 3 for an approximate schematic of the supervision of Blandin entities.) Review must be done in a fashion which does not result in

³ The enumeration of issues in this report does not foreclose review of other issues in future reports should review be deemed necessary to comply with Court Orders.

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 the community does 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.

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 June of 2004, after reviewing historical information concerning the Foundation and meetings with interim president and trustee, Gene Radecki, I visited with Foundation personnel at the Foundation offices in Grand Rapids, MN. During meetings with Foundation personnel, grant procedures and the accounting system were explained. I discussed my initial thoughts on how I saw the Foundation's obligation to communicate with its community and the public at large.

The concept of self-administered grants or grants to Blandin itself was explained. I understand these items to 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. 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. I have requested an annual schedule summarizing any such conversions to review their impact on the ratio of grants to programs. I encourage consistency to the greatest extent possible.

Recent historical summaries of grants, programs and administrative expenses result in a rough approximation of 65% grants and 35% programs and administrative expenses. It is anticipated by the Foundation that this rough ratio will hold true for the foreseeable future. Of great concern to the Foundation, both from a grant-making commitment standpoint, program operational standpoint, and cash flow budgeting standpoint, is the fluctuating value of the residuary trust corpus investments, of which 5% must be distributed to Blandin annually from the trust. See Exhibit 4. 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. 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.

Foundation personnel are very concerned that the Foundation's stated intent to change its focus, 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 recent 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

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 "charitable plan" (my term) of the Foundation to the use of greater operating programs. For an explanation of the Foundation's "charitable plan," 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 grants. I am advised that 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.

3. Presentation of financial information to accommodate the Special Master's suggestions could be made by the Foundation. The year 2003 could serve as the first transition year with respect to approaches involving public disclosure, accountability, and transparency. Improvements in disclosure can be anticipated for future periods as changes are implemented and feedback is received both by the Special Master and the Blandin Foundation itself. This feedback is encouraged.

4. The financial information for the year 2003 has been disclosed to the community in a manner not previously utilized, the Federal Income Tax Return, Form 990PF.

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 grant, it will have a significant impact on the 2004 rolling average for grants to the Grand Rapids area and assure compliance with the Court Order.

2003 DISCLOSURES

I specifically requested an explanation of certain of the grants which had been listed both in the 2002 tax return and in schedules of current year 2003 grants. The current year 2003 grants were 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 990PF tax returns as the vehicle to provide information to the public. The result of this approach has been the 2003 Blandin Foundation 990PF. The tax return must be prepared anyway 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 990PF forms have 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. Because the year 2003 was a transitional year for the Foundation and a year which was history by the time that the stipulation was reached and I was appointed, the significance of the year 2003 should not be overemphasized.

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 grants for the year 2003 were made via the Foundation's audited financial report, and more significantly the 2003 federal income tax return, the 990PF. The 2003 return, which has been and will continue to be prepared and filed on an extended basis by August 15 of each year, has been published on the

Blandin website (www.blandinfoundation.org). I have prepared an index to the 2003 Foundation 990PF which is attached as Exhibit 6 and will be included in subsequent years' tax returns.

Considering 2003 and 2004 to be transitional years, I am most impressed with the Foundation's willingness to accept my suggested presentations and its willingness to continue to work to provide even greater transparency, clarity and ease of use for the reviewer of the Foundation's financial information. In contrast to the tax returns for the year 2002 and prior, which returns were done solely to satisfy tax filing requirements and not as a vehicle to provide more detailed information to the community, I recognize that this has been no small undertaking by the Foundation. With the able assistance of its personnel and its public accountants, the Blandin Foundation has become much more transparent. The tax return itself is prepared based in part on the financial information summarized in the audited annual financial statements prepared by the Blandin Foundation's public accountants, Larson, Allen, Weishair & Co., LLP. It is my intent that the tax return will evolve to provide more detailed information. The 2003 tax return provides a descriptive listing of all grants made during the calendar year 2003. These grants are described and summarized by the primary area and charity benefitted. Thus, there is a detailed listing of both local grants (subject to the 55% rolling average) and a listing of outstate grants. See 2003 Blandin Form 990PF statements 20 through 21-26.

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.⁴ 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

⁴ 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.

further review and make an independent judgment as to whether these grants are appropriately described. I am pleased to report that I have received no adverse feedback regarding classifications which I view as a further 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 have requested that Blandin attempt to identify and quantify program and administrative expenditures which are exclusive to the Grand Rapids, MN vicinity, or of a nature which benefited the Grand Rapids, MN vicinity. 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 C .K. Blandin Will. I acknowledge 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. It is my understanding that the accounting system can provide this information or be adapted to do so.

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 could be coded in a fashion that can be segregated and summarized to 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 philosophy 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 "cut its losses," if an approach appears not to be working. C. 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. Examples include venture capital type investments and some real estate investments.

Blandin disclosed no cash PRI investments in 2003, but did write off a \$1,000,000 PRI balance in Northeast Ventures Corporation stock. This 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.

If PRI is in reality a grant, the recipient should qualify for a grant to avoid the risk that 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 Foundation annual revenue.

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 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 income. See Exhibit 4 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

Administrative expenses for 2003 are higher than in prior years, while cash grants are approximately one million less than 2002. As was mentioned, 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 4.

Tax Return Statement 26 presents a reconciliation of 2003 expenses. These items will be reviewed annually. Again, it must be acknowledged that 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

A major part of the increase in administrative expenses was attributable to compensation paid to the former president of the Foundation under agreements entered into in 2003 and prior years. This compensation was paid or accrued prior to the 2003 stipulated Order. As a general matter, executive compensation for non-profits is under the jurisdiction of the Attorney General's office. However, after this compensation was paid, it was subsequently disclosed to representatives of the Attorney General's office and the Ramsey County District Court, to which no objection was made. It is not within the scope of my authority to review the Foundation's Board of Trustees' executive compensation policies.

The Attorney General's office is also responsible for reviewing conflict of interest claims and enforcement of charitable intent questions. I suggest the Attorney General consider the Blandin Cemetery Trust as a contingent income and remainder interest of either the Blandin Residuary-Charitable Trust or the Blandin Foundation, and that the Blandin Foundation account for the Blandin Cemetery Trust accordingly to avoid any future disputes surrounding this Trust which is currently valued at approximately \$400,000.

5. Commingled Revenues

The C. 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 had 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 3.

When C. K. Blandin died in 1958, his estate assets, which included his stock in The Blandin Paper Company, funded the C. 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." In 1977, the Trust sold its stock in the Blandin Paper Company for \$79 million, and bought diversified financial investments which produce income and capital gains. The income is now similarly 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 now equal approximately \$350 million. See Exhibit 5 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 now consist of approximately \$50 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 revenues, approximately \$2,000,000, 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:

- 1) the Will with testamentary trust provisions, and
- 2) the 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 revenue provided by 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 its own investment income by amending its articles and by-laws. Any future segregation of Foundation revenue and residuary trust revenue, 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.

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 2003 U.S. Return of Private Foundation (Form 990PF) (subject to a statutory standard), the fact of a \$20 million 2004 grant payment to the Grand

Itasca Clinic Hospital, and since no objections were raised over the classification of 2003 grants, and since I have noted no misclassifications:

I find that a total of \$4,812,576 cash grants were made for the benefit of the Grand Rapids, MN vicinity in the year 2003.

I find that a total of \$4,117,097 cash grants were made for the benefit of outstate rural Minnesota in the year 2003.

I find that 53.9% of cash grants were made for the benefit of the Grand Rapids, MN area in the year 2003. See Exhibit 7 for the schedule intended to be updated by me in disclosing annual percentages and future rolling average percentages.

I find, especially in light of the subsequent 2004 \$20 million cash grant to the Grand Itasca Clinic Hospital, which grant has a material impact, that the Blandin Foundation is in compliance with the six (6) year 55% rolling average requirement of the December 17, 2003 Ramsey County District Court Order.

Respectfully submitted,

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

Dated: _____

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: _____, 2004

Honorable Margaret Marrinan

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,

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).

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 111 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: _____

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

ATTORNEYS FOR STATE OF
MINNESOTA

Dated: _____

WELLS FARGO BANK, N.A.

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

Dated: _____

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

Dated: _____

CHARLES K. BLANDIN FOUNDATION

A. Eugene Radecki, President

Dated: _____

BRIGGS & MORGAN

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

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

Dated: _____

FREDERICKSON & BYRON

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:

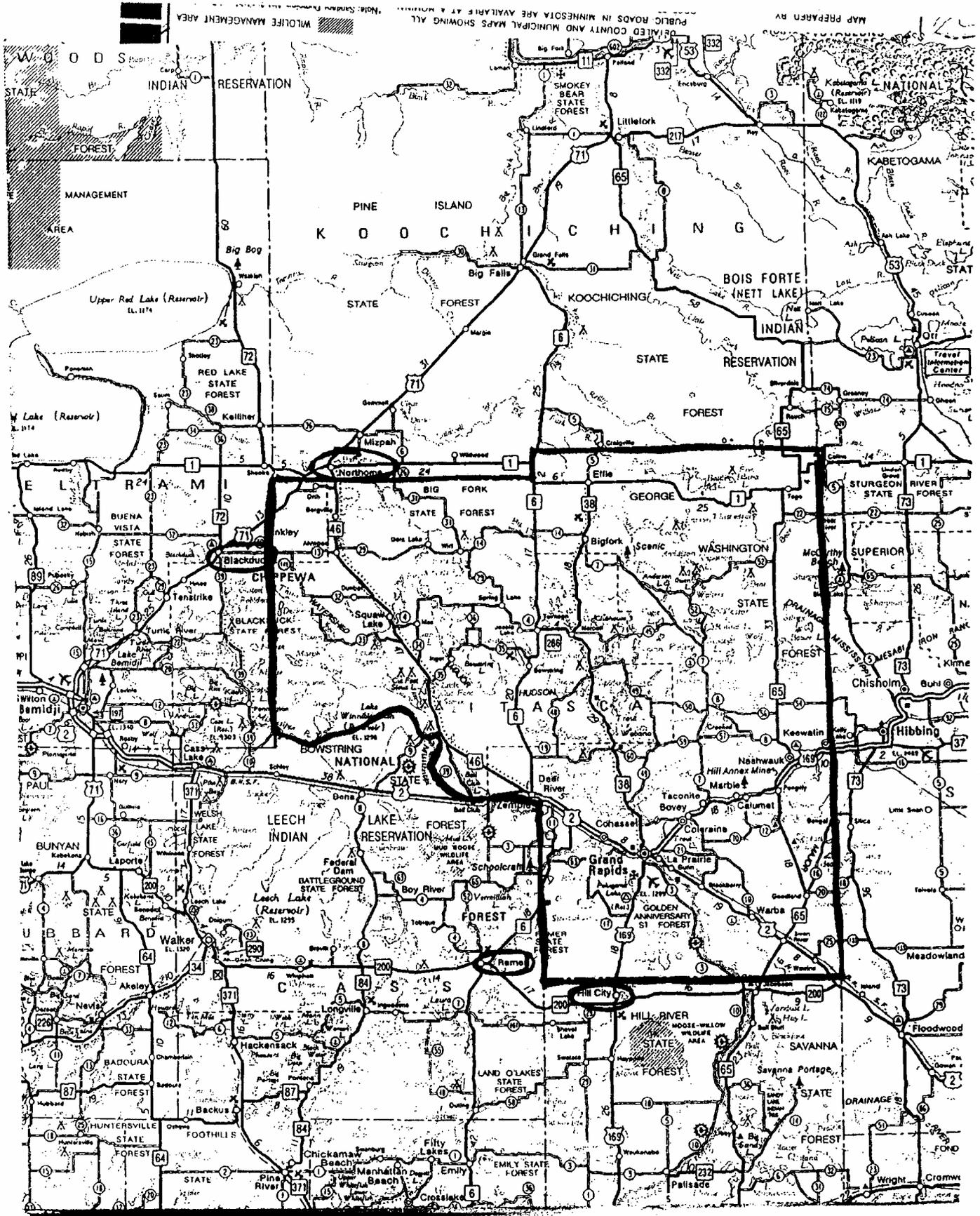
Dated: _____

BY THE COURT

Honorable Margaret M. Marrinan
Judge of District Court

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

By _____
Deputy



WILDLIFE MANAGEMENT AREA

WOODS
STATE
INDIAN RESERVATION
FOREST
MANAGEMENT
AREA

PINE ISLAND
K O O C H I C H I N G
BOIS FORTÉ (NETT LAKE)
INDIAN STATE RESERVATION
STATE FOREST
RED LAKE STATE FOREST
BUENA VISTA STATE FOREST
CHIPPÉWA
BLACK ROCK STATE FOREST
BOWSTRING NATIONAL STATE FOREST
LEECH INDIAN STATE RESERVATION
WELSH LAKE STATE FOREST
BATTLEGROUND STATE FOREST
HACKENSACK
LAND O'LAKE'S STATE FOREST
EMILY STATE FOREST
SMOKEY BEAR STATE FOREST
LITTLELORK
GEORGE
WASHINGTON STATE FOREST
SUPERIOR
PRAIRIE FOREST
MESABI
HIBBING
TACONITE BOVEY
CALUMET
GRAND RAPIDS
HILL RIVER
MOOSE-WILLOW WILDLIFE AREA
SAVANNA
FLOODWOOD
WRIGHT
CROW

Upper Red Lake (Reservoir)
EL. 1174
Red Lake (Reservoir)
EL. 1174

WILTON
BEMIDJII
PAUL
BUNYAN
UBBARD
FOREST
WALKER
Akeley
NEVILL
BADOURA
STATE FOREST
HUNTERSVILLE
STATE FOREST
FOOTHILLS
PINE RIVER
CHICKAMAUGA
STATE FOREST
MANHATTAN
STATE FOREST
CROSSLAKE

Northome
MILSAPE
BIG FORK STATE FOREST
CHIPPÉWA
SQUAW LAKE
LEACH LAKE (Reservoir)
EL. 1295
WELSH LAKE
BATTLEGROUND
BOY RIVER
SCHOOLCRAFT
Vermillion
FOREST
Remond
HILL CITY

Littlefork
Big Falls
MILSAPE
WILSON
Ellié
Bigfork
Scenic
WASHINGTON
McCarthy
SUPERIOR
PRAIRIE
MESABI
Chisholm
Hibbing
Nearwaun
Hill Annex Mines
Marble
Taconite
Bovey
Calumet
Grand Rapids
Golden Anniversary
ST. FOREST
Warba
Meadowland

STURGEON RIVER STATE FOREST
WILSON
Ellié
Bigfork
Scenic
WASHINGTON
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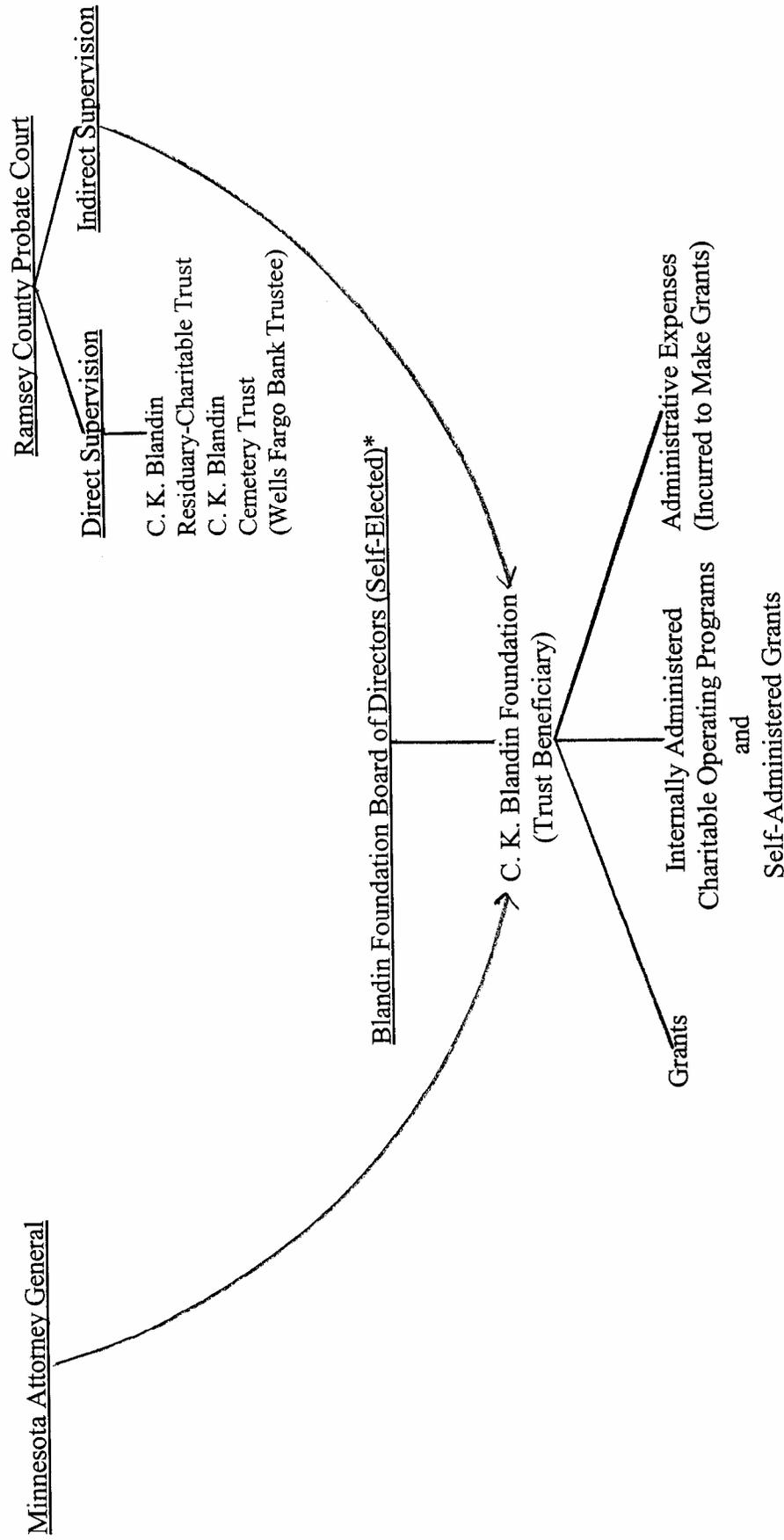
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Bovey
Calumet
Grand Rapids
Golden Anniversary
ST. FOREST
Warba
Meadowland

MAP PREPARED BY
LIMITED COUNTY AND MUNICIPAL MAPS SHOWING ALL PUBLIC ROADS IN MINNESOTA ARE AVAILABLE AT A MINOR...
WILDLIFE MANAGEMENT AREA

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.

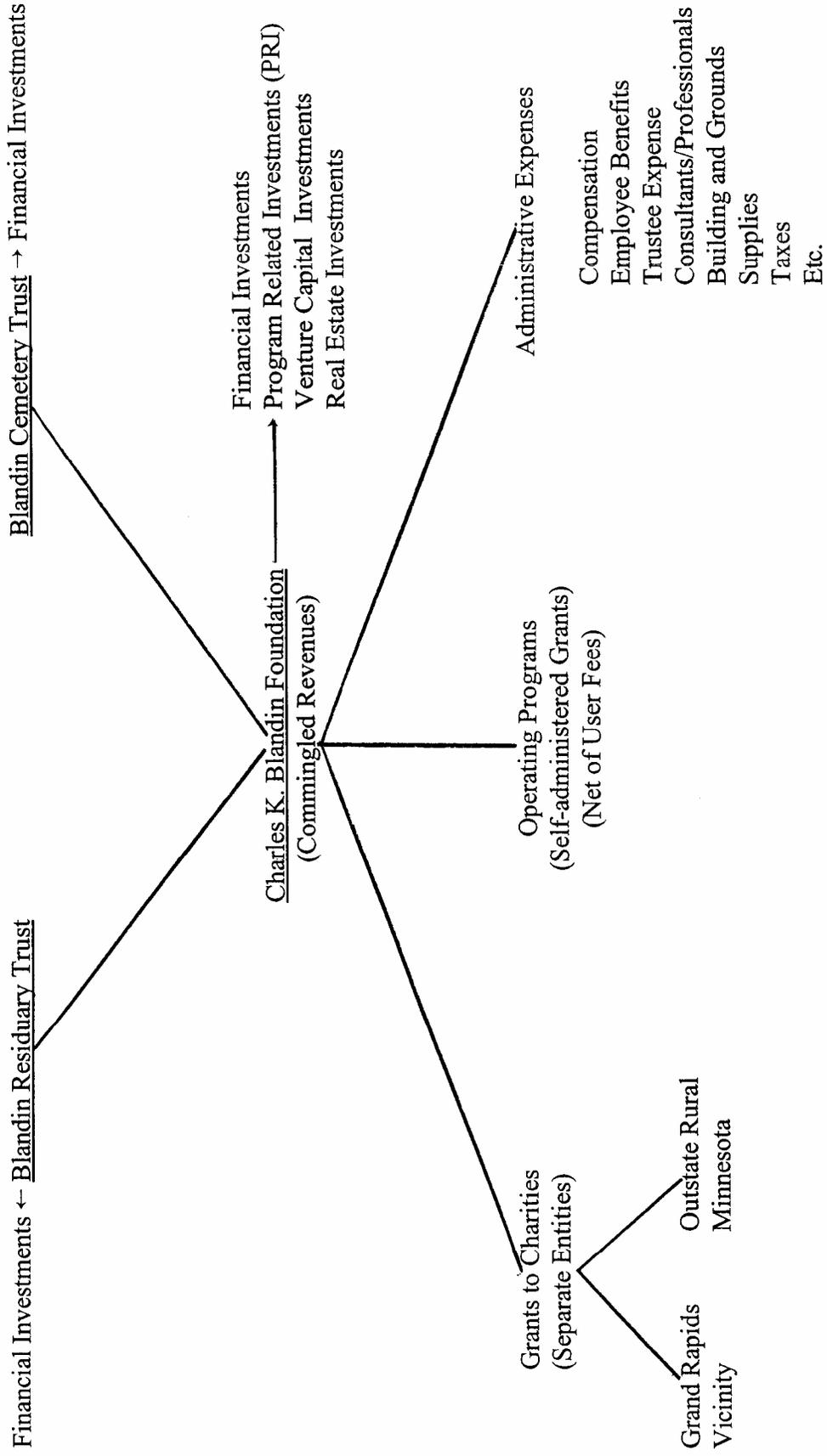
C. K. BLANDIN FOUNDATION

Historical Comparisons

Year	Combined Assets (Fair Market Value)	Revenue	Total Cash Grants	Programs	Administrative Expenses
1998	N/A	\$20,555,106	\$13,627,691	N/A	\$3,446,491
1999	\$407,930,875	23,875,762	11,853,548	\$2,123,598 (Partial)	2,004,272
2000	457,940,059	21,771,591	13,601,341	2,569,602	4,034,438
2001	389,600,831	21,160,961	15,418,132	2,719,566	4,608,556
2002	333,701,300	15,328,613	9,949,739	3,361,858	4,809,037
2003	386,458,834	17,144,166	8,929,673	3,893,635	6,274,680
2004					
2005					
2006					
2007					
2008					

C. K. BLANDIN FOUNDATION

Entities Cash Flow



BLANDIN FOUNDATION
 2003 Form 990-PF
 List of Statements
 (Special Master Index)

Form 990-PF Reference

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C. K. BLANDIN FOUNDATION

**Grants by Location
Rolling Averages
Percentages**

	2003	Percentage	2004	Rolling Average Percentage	2005	Rolling Average Percentage
Grand Rapids Vicinity	\$4,812,576	53.9%				
Outstate Rural Minnesota	4,117,097	46.1%				
Total Grants:	\$8,929,673	100 %				

	2006	Rolling Average Percentage	2007	Rolling Average Percentage	2008	Rolling Average Percentage
Grand Rapids Vicinity						
Outstate Rural Minnesota						
Total Grants:						

Blandin Foundation
Special Master Report - 2003

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