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1997 Annual Report

Audited Financial Report

May 1, 1996 to April 30, 1997

Prepared December 1997



**GROTTO
FOUNDATION^{INC.}**

Community, Family and Understanding

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Grotto Foundation, Inc.

Officers

President
William B. Randall

Vice President
Louis F. Hill

2nd Vice President
John E. Diehl

Treasurer
Malcolm W. McDonald

Secretary
Margaret R. Thomas

Directors

Peter M. Baillon
John E. Diehl
Louis F. Hill
Michael W. Johnson

William B. Randall
Mary K. Manuel
Malcolm W. McDonald
Elizabeth Pegues Smart

Members

Louis F. Hill
Scott M. Wisdom
Malcolm W. McDonald

Emeritus Member

Austin J. Baillon †

Founding Members

A.A. Heckman*
Louis W. Hill, Jr. **
Irving Clark ***

Executive Director

Margaret R. Thomas

Director of Finance and Operations

Shannon L. Springston
and then
Kim S. Meissner

Director of Legacy

Elizabeth Burns, Ph.D.
Assistant Editor
Gayla Ellis
Assistant
Michael Blake

Data Manager

Nee-gah-nee Benais-eke (Goni) Blake

Summer Intern

Yang Me (Jamie) Thao

Program Officer

Stacey Millett

Grotto Foundation, Inc.

West 1050 First National Bank Building
332 Minnesota Street
Saint Paul, Minnesota 55101-1312

(651) 225-0777 fax: (651) 225-0752

e-mail: bburns@grottofoundation.org gblake@grottofoundation.org kmeissner@grottofoundation.org
pthomas@grottofoundation.org smillett@grottofoundation.org

† Retired September 1996 *Deceased February 21, 1994 **Deceased April 6, 1995 ***Deceased January 14, 1997

Louis W. Hill, Jr.

The Grotto Foundation has been shaped by Founder Louis W. Hill Jr.'s interests, passions and accomplishments. He knew that money was not a solution to the problems of society, but a tool to be used with equal parts conviction and tenacity. He believed in the capability of people to improve



Louis W. Hill, Jr. (1902-1995)

their own lives in their own ways. As a reflection of this knowledge and belief, he established a foundation, with his long-time friend Al Heckman as the Executive Director, to assist communities in developing their self-reliance. Foundation resources have been, and will be, directed not on the basis of organizational stability nor the merits of lavish proposals, but on glimmers of hope. The philanthropic philosophy that Louis Hill established in Grotto Foundation emphasized the delivery of financial assistance and organization empowerment.

Community involvement and cultural understanding were also the hallmarks of Louis Hill's philanthropic legacy. He was a founding director and trustee of the Northwest Area Foundation, established by his father in 1934. In 1964, he was instrumental in establishing the Grotto Foundation, Inc., community service programs, and helped his brother establish the Jerome Foundation to support the arts. For over thirty years, until his passing on April 6, 1995, Louis Hill served as a trustee of the Grotto Foundation, helping to direct resources to more than 3,000 organizations.

St. Paul and the World:

Louis W. Hill, Jr.

Throughout his life, Louis W. Hill, Jr. combined civic pride with a global vision. As a business leader, legislator, philanthropist, and diplomat, he used his skills and resources to promote cultural understanding, empower underprivileged people, and strengthen his community.

A grandson of railroad baron James J. Hill, Louis was born in St. Paul, Minnesota in 1902. From 1937 to 1951, he represented his community as a Representative in the State Legislature, taking a particular interest in making health care

systems more effective. In 1949, he established the North Oaks Company to develop a private residential community. He also served on the founding boards of the American Cancer Society and the Minnesota Society for the Prevention of Blindness; he held offices in the Junior Chamber of Commerce, the Hallie Q. Brown Community Center, the Selby District Commercial Club and the Scandinavian American Foundation; and he was a patron of the Minneapolis Institute of Arts and the Minnesota Museum of American Art.

In 1949, Louis Hill, Jr. established the North Oaks Company to develop one of the country's first private residential communities. From its inception, Louis stressed the importance of environmental ideals and the conservation of the North Oaks' environment. He was constantly engaged in efforts to maintain the natural health and beauty of Minnesota's wildlife: He was instrumental in reintroducing the Canada goose, and worked to educate the community about the dangers of the noxious weed, purple loosestrife. The design of North Oaks stands today as a testament to Mr. Hill's commitment to maintaining the natural integrity of the landscape through careful planning.

Two of Louis Hill's proudest accomplishments were achieved through his friendship to people of cultures widely divergent from his own. Interested in Native American cultures from Minnesota to Alaska, he was deeply honored to have been adopted, as a young boy, by the Blackfeet Nation. In 1914 in Glacier Park, *Little Yellow Pinto Pony Rider* (Ot Que Kaitsip Imo) Louis W. Hill, Jr. was named by Blackfeet member *Three Bears* (Neok Ska Kio). In the 1950's, he met with President Dwight D. Eisenhower about the need for person-to-person diplomacy with Japan following World War II; as a result, Hill helped to establish a Sister City relationship between St. Paul and Nagasaki, Japan – the first relationship of its kind in the U.S. In recognition of this work and the international relationships that grew from it, Louis Hill was awarded the Order of the Rising Sun medal by the Japanese government in 1987.

The Grotto Foundation is one part of the extensive legacy of Louis Hill, a legacy that includes a lifetime of support to Asian artists, particularly Japanese printmakers and painters, a long-standing relationship with Native American communities, and active involvement in organizations that give people dignity and strength by using their own inner resources. With his guidance, the Grotto Foundation pursued a distinctive approach to meeting large social problems on a human scale. This approach continues in commemoration of Louis W. Hill, Jr. who died on April 6, 1995.

Mission and Statement of Policy

The mission of the Grotto Foundation is to benefit society by improving the education and the economic, physical, and social well being of citizens, with a special focus on families and culturally diverse groups. The Foundation is further interested in increasing public understanding of the American cultural heritage, the cultures of nations, and the individual's responsibility to fellow human beings.

The Grotto Foundation, Inc., was founded in 1964 by Louis W. Hill, Jr. and incorporated under the provisions of the Minnesota Nonprofit Corporation Act, Minnesota Statutes Chapter 317. A resolution adopting Chapter 317A by restating the Articles of Incorporation and Bylaws was accepted by the Members and Directors on August 2, 1990.

The Directors have chosen to focus the Foundation's grant-making program primarily to Minnesota. (In the past, grants were made in the four adjoining states of Wisconsin, Iowa, South Dakota, and North Dakota, as well as in Alaska.)

The Mission is accomplished through:

- Funding small organizations that work within their own communities
- Providing small grants which appear to leverage significant change
- Valuing organizations which have charismatic people with great vision
- Encouraging excellence from these organizations in their presentations, their finances and their operations
- Honoring our relationships with individuals in all communities
- Learning about the people that we serve, and being well understood by them

Grotto Foundation does not typically make:

- Grants to individuals
- Grants for capital fund programs and projects
- Grants to subsidize the writing and publishing of books, monographs, or articles for professional journals, with the possible exception of publications which report on the outcome of research and experimentation supported by the Foundation
- Travel grants
- Grants for undergraduate and graduate student research projects

- Grants to non-operating foundations and to non-profit organizations serving as conduits for re-granting of funds
- Grants for general operations of organizations
- Grants to subsidize programs primarily supported by government agencies

Grants are made for limited periods of time to assist programs which demonstrate new approaches to problems and needs. The Foundation gives careful consideration to the potential of an organization to continue supporting proposed programs after the grant period. The Grotto Foundation does not operate any institutions or organizations; nor does it conduct research other than that essential for careful consideration of the applications received.

In reviewing proposals, the Foundation takes into account such factors as the critical need for funding and the extent to which additional funds for proposed programs are available from government and voluntary sources. Careful consideration is also given to the quality of the management of applicant organizations, including the participation of the Boards of Directors in developing and maintaining financial policies and overseeing program operations.

All applications to the Grotto Foundation must be in writing and must include evidence that the applicant organization has secured from the Federal Internal Revenue Service its tax-exempt status, and has filed annual financial statements with the appropriate state governmental agency. Grant guidelines are described at the end of this report.

Organizations sponsoring specific projects supported by the Foundation are expected to assume proper fiscal responsibilities for the grants made. They are also expected to make assurances to the Foundation through program and financial reports that the purposes of the grant are being fulfilled and the funds properly administered. Any unexpected or unencumbered balances of grants not used for the specific purposes set forth in grant resolutions are to be returned to the Foundation.

The Grotto Foundation does not participate financially or otherwise in propaganda or lobbying activities to influence legislation. It is the policy of Grotto Foundation to adhere to the letter and the spirit of the federal and state laws and the regulations of the Internal Revenue Service and the appropriate state departments as they relate to private foundations and their roles in American philanthropy.

Note: A statement of management and programmatic objectives through which these policies have been implemented for FY 96-97 can be found on page 5 in this report.

Principles for Minnesota Grantmakers

The Grotto Foundation, Inc.
has adopted Principles for
Minnesota Grantmakers
as follows:

As a member of the Minnesota Council on Foundations, we recognize that we play an important role in our community, that our role is sustained by the public trust, and that certain obligations follow from that trust. We are committed to basing our work on principles that reflect those obligations. As a member of the Minnesota Council on Foundations:

- We deal respectfully with applications, grantees and donors, as well as with those simply seeking information about our programs
- We are accessible and respond clearly, promptly, and as fairly as possible to requests for information and meetings
- We readily make available basic information about our programs, funding priorities, and application requirements
- We respect the confidentiality of applicants, grantees, and donors and use discretion in communicating with others about specific organizations and individuals
- We are thoughtful and purposeful in our grantmaking and periodically receive and evaluate our mission, priorities, policies, and practices
- We recognize the increasing cultural diversity of the communities we serve, and within the limits of our charter seek to reflect this diversity in our grantmaking and in the membership of our boards and/or among our staff or advisors
- We adhere to the highest standards of ethical behavior and maintain an appropriate conflict of interest policy for staff and board members
- We are aware of and fulfill our fiduciary and legal responsibilities

Approved by the Board of Directors of the Minnesota Council on Foundations, June 11, 1996

Adopted by the Board of Directors of the Grotto Foundation, Inc., October 24, 1996

A Report on Management Objectives Achieved During the Fiscal Year 1996-97

In April 1996, the Grotto Board of Directors approved a strategic plan to achieve an asset base increase from \$8 million to \$22 million dollars, to increase grants awarded, to increase staff, to enhance technological support and to become a stand-alone foundation by FY2006. This was all achieved by April of 1997; it was a very busy year.

However, the accomplishments were made even sweeter when, in October 1997, the Grotto Foundation, Inc. was selected as the recipient of the 1997 Minnesota Council of Nonprofits *Nonprofit Mission Award for Responsive Philanthropy*. The Responsive Philanthropy Award was created to recognize the importance of funders who respond to citizen initiatives, who are aware of public policy issues and long term strategies to confront problems and who target substantial resources to disadvantaged people in a system of equality and partnership. The award provided both external recognition and internal validation.

Grotto was nominated by Advocating Change Together (ACT). ACT is a St. Paul-based disability rights organization which was initiating a new mission-based business venture, *Tools for Change*. The program is a curriculum and video series designed to empower disabled people and to inform employers who hire disabled workers. Trying to assist ACT with their cash flow challenged Grotto Board members to rethink conventional grantmaking methods. As a result, a three way partnership was formed with ACT, Western Bank, and Grotto. ACT now has established credit and cash flow reserves for their new business venture. Western Bank has two new customers and provides the monthly banking support that makes this project related investment (PRI) possible by a small foundation for a small organization.

The board and staff have also been developing *THE LEGACY PROJECT: Remembering Louis W. Hill, Jr. Through Oral Histories*. Over 35 colleagues, friends and relatives of L.W. Hill, Jr. were interviewed by Elizabeth Burns, Ph.D. This compilation of interviews, scheduled for publication next year, offers valuable information about Louis Hill's interests, passions and accomplishments. They describe his personal interest in Native American cultures, inspired by his 1914 adoption as a member of the Blackfeet Nation. They also chronicle his love of Japanese art fostered by his regard for Asian cultures, as well as his long-standing concerns with conservation. In addition, this documentation supplies vital

information about business traditions at Grotto.

A very sizable grant was provided to Model Cities of St. Paul, Inc. and their subsidiaries (to be made in fiscal years 1997-2001) to support an ambitious capacity-building project which will strengthen their administrative capabilities and will improve their services to clients and patients. It will help them achieve certain goals within their strategic planning, and will respond to immediate challenges which threaten their viability. Organizations such as Model Cities provide health care to those who have no other health care options (many of whom do not speak English), and attempt to integrate health care into other community building initiatives. In order to survive, this unique community-based health care organization must build its

internal capacity to deliver client services efficiently; yet it must also interact with community based organizations and initiatives outside of the health care field. The challenges are enormous.

The Grotto Board was mindful that they had just received a large bequest from the estate of Louis W. Hill, Jr. who died in April of 1995. Louis W. Hill, Jr. was active for 14 years as a state representative and as a board member for many organizations in the Rondo and Summit areas—parts of his legislative district. He spent most of his life building bridges between people of diverse cultural backgrounds.

The Grotto Board felt strongly that this substantial gift to Model Cities' holistic approach to community economic, physical, and spiritual health would honor Louis' memory. He is remembered not with bricks and mortar, but with the enhancement of services which celebrate the dignity of each person in the communities which he loved dearly and for which he served for so long.

To become more easily accessible to small nonprofit organizations, the Grotto Foundation adopted the Minnesota Common Grant Application. Grotto also requests additional financial reports with grant proposals, and these standard reports are clearly outlined in the grant guidelines.

In addition, the Board adopted the Minnesota Council's Principles and Practices. Grotto was one of the first 20 foundations in Minnesota to do so. Adopting these was easy for the Grotto Board; we have held ourselves to similar or higher standards since inception.

The Grotto Board felt strongly that this substantial gift to Model Cities' holistic approach to community economic, physical, and spiritual health would honor Louis' memory. He is remembered not with bricks and mortar, but with the enhancement of services which celebrate the dignity of each person in the communities which he loved dearly, and for which he served for so long.

Report on Management Objectives Achieved During the Fiscal Year 1996-967 (continued)

Grotto has been instrumental in underwriting the collaboration between the St. Paul-Nagasaki Sister City Project and the Bresnahan Pottery Studio. Richard Breshnahan, the master potter in residence at St. John's University, has created a Peace Platter as a symbol of the ongoing commitment to peace between two nations. The platter was presented at an international ceremony to the Peace Museum in Nagasaki, Japan. In April, a presentation of a second platter will be made to Nagasaki officials at the James J. Hill Library in St. Paul. The third platter will be presented to the Ambassador of Japan in Washington D.C. The fourth platter remains at Grotto.

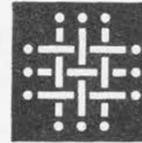
Richard LaFortune, a Yupik Alaska Native, was hired as an independent analyst to oversee the Grotto cluster grant evaluation initiative. More than 47% of grants made since 1964 funded Native American and Alaska Native populations. For this reason, grants provided by Grotto to serve Native American and Alaska Native people between 1985 and 1995 were identified. The evaluation included site visits to all programs, including the Alaska programs, and a summary of the findings. The purpose was to determine if the grants had an impact beyond their original intent. In addition, the Grotto Board wanted objective feedback through an impartial consultant about how representatives of these programs felt about working with the Grotto staff. Richard LaFortune stated that "The results show a uniform and high degree of satisfaction expressed by respondents." He further stated, "It became clear during the course of these interviews that institutional memories of a relationship with Grotto Foundation are strong, even when involvement was brief or several years removed." According to one program director, "We weren't a safe investment. Not a lot of foundations would have really liked us at that moment, but Grotto took the risk." Because of the residents' passion to see this dream realized for their children, they were prepared to go on with the plans anyway. She explains, "Grotto Foundation money brought it to the level of a sustainable education/community-building vehicle. From the initial grant, we were able to attract additional support from a large corporation, which probably wouldn't have happened otherwise."

Grotto aims to serve fundamental needs of communities by strengthening families while celebrating the importance of cultural diversity in America. From these understandings, the evaluation of grants to Native American and Alaska Native people, and the stories from the Legacy Project, the Board is

currently formulating a new strategic plan which will emphasize grantmaking characterized by:

- Giving which seeks to create a wider impact in the community.
- Giving which demands a deeper dialogue with grant seekers
- Giving to grass roots initiatives which are rooted in community organizations
- Giving which seizes opportunities towards meeting basic human needs and which leads to greater self-sufficiency on the part of the grant seeker
- Maintaining a grantmaking process which demands much from the Grotto staff in the areas of pre-grant and post-grant dialogue with grant seekers
- Giving of financial resources and/or requisite technical assistance
- Requesting evaluations and reports which emphasize informal, personal interactions rather than static, formal written reports
- Receiving honest information which is used for greater personal and corporate understandings

The work at the Grotto Foundation, Inc. is far from completed. We are challenged by the desire to keep a level of intimacy with those whom we serve, to provide hospitality to all with whom we interact, and to foster hope.



Wilkerson, Guthmann + Johnson, Ltd.
Accountants Providing Solutions

Independent Auditor's Report

Board of Directors
Grotto Foundation, Inc.
West 1050 First National Bank Building
St. Paul, Minnesota 55101

We have audited the accompanying statements of financial position of the Grotto Foundation, Inc. as of April 30, 1997 and 1996, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Grotto Foundation, Inc., as of April 30, 1997 and 1996, and the changes in its net assets and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

Wilkerson, Guthmann + Johnson, Ltd.

St. Paul, Minnesota
June 16, 1997

1300 Norwest Center
55 East Fifth Street
St. Paul, MN 55101-1790
612 • 222 • 1801 Tel
612 • 297 • 6929 Fax

610 Pillsbury Center
200 South Sixth Street
Minneapolis, MN 55402-1409
612 • 222 • 1801 Tel
612 • 349 • 2958 Fax

Member of the American
Institute of Certified
Public Accountants

Statements of Financial Position

As of April 30, 1996 and 1997

	<u>1997</u>	<u>1996</u>
Assets		
Cash	\$ 29,536	\$ 4,136
Investment Income Receivable	31,790	17,615
Other Receivables	8,628	51,022
Refundable Federal Excise Tax	10,097	
Timber Rights	3,193,440	9,646,182
Investments, at fair value	17,738,834	7,794,661
Property and Equipment	<u>130,224</u>	<u>4,062</u>
Total Assets	\$ 21,142,549	\$ 17,517,678
Liabilities		
Accrued Expenses	\$ 1,200	\$
Grant Commitments Payable	35,875	2,500
Federal Excise Tax Payable	—	<u>12,000</u>
Total Liabilities	\$ 37,075	\$ 14,500
Net Assets	<u>\$ 21,105,474</u>	<u>\$ 17,503,178</u>
Total Liabilities and Net Assets	\$ 21,142,549	\$ 17,517,678

The accompanying notes are an integral part of the financial statements.

Statements of Activities

Years Ended April 30, 1996 and 1997

	<u>1997</u>	<u>1996</u>
Revenue		
Contribution - Bequest	\$	\$9,662,000
Contribution - Other		1,352
Investment Revenue		
Interest	149,970	220,662
Dividends	133,367	69,389
Net Realized Gains and Appreciation of Investments	723,367	1,462,910
Less: Investment and Agent Fees	<u>(65,123)</u>	<u>(49,015)</u>
Total Investment Revenue	941,581	1,703,946
Gain on Sales of Timber	3,581,652	8,224
Less: Related Expenses	<u>(403,604)</u>	<u>(13,816)</u>
Net Gain (Loss) on Sales of Timber	<u>3,178,048</u>	<u>(5,592)</u>
Total Revenue	\$ 4,119,629	\$ 11,361,706
Expenses		
Program Services:		
Grants to Charities	\$ 227,714	\$ 151,612
Consultative Support to Charities and Grants Management	<u>204,658</u>	<u>126,024</u>
Total Program Services	432,372	277,636
Management and General	81,461	40,459
Provision for Federal Excise Taxes	<u>3,500</u>	<u>18,587</u>
Total Expenses	<u>\$ 517,333</u>	<u>\$ 336,682</u>
Increase in Net Assets	\$ 3,602,296	\$ 11,025,024
Net Assets, Beginning of Year	<u>\$ 17,503,178</u>	<u>\$ 6,478,154</u>
Net Assets, End of Year	\$ 21,105,474	\$ 17,503,178

The accompanying notes are an integral part of the financial statements.

Statements of Cash Flows

Years Ended April 30, 1996 and 1997

	<u>1997</u>	<u>1996</u>
Cash Flows from Operating Activities		
Increase in Net Assets	\$ 3,602,296	\$ 11,025,024
Adjustments to Reconcile Increase in Net Assets to Net Cash(Used in) Operating Activities:		
Contribution of Timber Rights		(9,662,000)
Depreciation	14,227	3,497
Net Gain on Investments	(672,132)	(1,429,593)
Gain on Sale of Timber	(3,581,652)	(8,224)
Changes in Assets and Liabilities:		
Decrease (Increase) in Other Receivables	42,394	(48,022)
(Increase) Decrease in Investment Income Receivable	(14,175)	78
(Increase) in Refundable Federal Excise Tax	(10,097)	
Increase (Decrease) in Accrued Expenses	1,200	(3,279)
Increase (Decrease) in Grant Commitments Payable	33,375	(5,125)
(Decrease) Increase in Federal Excise Tax Payable	<u>(12,000)</u>	<u>10,600</u>
Net Cash (Used in) Operating Activities	\$ (596,564)	\$ (117,044)
 Cash Flows from Investing Activities		
Proceeds from Sales of Investments	\$ 3,798,373	\$ 3,836,099
Purchase of Investments	(13,070,414)	(3,801,283)
Proceeds from Sales of Timber	10,034,394	24,042
Purchase of Equipment	<u>(140,389)</u>	<u> </u>
Net Cash Provided by Investing Activities	<u>\$ 621,964</u>	<u>\$ 58,858</u>
 Net Increase (Decrease) in Cash	\$ 25,400	\$ (58,186)
Cash, Beginning of Year	<u>\$ 4,136</u>	<u>\$ 62,322</u>
Cash, End of Year	\$ 29,536	\$ 4,136
 Supplemental Disclosure of Cash Flow Information		
Federal Excise Taxes Paid During the Year	\$ 25,597	\$ 7,987

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

Years ended April 30, 1996 and 1997

1. Organization

The Grotto Foundation, Inc. was established in 1964 to provide support for projects which improve the education, economic, physical and social well-being of all citizens, with special focus on certain ethnic groups, children and youth. Such support consists of direct financial support in the form of grants and of consultative services provided to charitable organizations in areas of program planning, administration and reporting.

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Foundation considers all highly liquid investment instruments purchased with an original maturity of three months or less, other than those held for investment purposes under custodial and management agreements, to be cash equivalents.

Receivables

No allowances for uncollectible amounts has been provided since all amounts are deemed collectible.

Investments

Investments are reported at fair values using quoted market prices at year end. Purchases and sales are recorded on the trade-date basis.

Interest and dividend income is recorded on the accrual basis, and dividends are recognized as income on the ex-dividend date.

Timber Rights

In 1996, the Foundation was the beneficiary of timber rights from the Louis W. Hill, Jr. estate. Timber rights are recorded at their July 1, 1995 appraised value, net of depletion allowance applicable to timber sold. Approximately sixty-seven percent of the timber was sold during the year ended April 30, 1997. The related gain on sale is recognized and reflected as such on the Statement of Activities.

The timber harvest plan is subject to the harvest constraints of the Oregon Forest Practice Act, which limits the number of acres which can be harvested at a time. The harvest plan calls for a six-year harvest plan. The appraised value reflects a discount for the time related financial risks associated with the harvest limitations under the Act.

Grants

Grants are recorded as expenses in the period in which they are authorized by the Board of Directors. Significant grants payable one year or more from April 30 are discounted to their present value and shown as liabilities on the Statements of Financial Position.

Income Taxes

The Foundation is organized and operated as a private foundation and is exempt from income taxes under Internal Revenue Code Section 501(c)(3). The Foundation is subject to federal excise taxes on net investment income.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. The Foundation depreciates property and equipment over their estimated useful lives of three to ten years, using the straight-line method.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, ultimate results could differ from those estimates.

Notes to Financial Statements (continued)

3. Investments

Investments as of April 30, 1997 and 1996, are summarized as follows:

1997	Original Cost	Net Appreciation	Fair Value
Certificate of Deposit	\$ 50,000	\$	\$ 50,000
Money Market Funds	893,870		893,870
Mutual Funds - International Growth Fund	1,000,000	19,077	1,019,077
Mutual Fund - Government Securities Fund	1,000,000	6,796	1,006,796
Common Stocks	<u>11,568,017</u>	<u>3,201,074</u>	<u>14,769,091</u>
Totals	\$ 14,511,887	\$ 3,226,947	\$ 17,738,834

1996	Original Cost	Net Appreciation (Depreciation)	Fair Value
Money Market Funds	\$ 587,663	\$	\$ 587,663
Mutual Funds - Institutional Government Income	1,780,164	(520,280)	1,259,884
Common Stocks	<u>3,444,633</u>	<u>2,502,481</u>	<u>5,947,114</u>
Totals	\$ 5,812,460	\$ 1,982,201	\$ 7,794,661

Net realized gains or losses on sales of investments are determined using the specific identification method. When a portion of an investment holding is selected to be sold, securities with the highest tax basis are deemed sold first to minimize realized gain for tax reporting purposes. Net realized gains/(losses) for the years ended April 30, 1997 and 1996 were \$(377,539) and \$683,034, respectively.

Net appreciation or depreciation in the fair value of investment securities, measured by the difference between the fair value at year end and cost, if purchased in the current fiscal year, or fair value at the end of the prior fiscal year, if held on that date, are recognized in the Statements of Activities. Net appreciation for the years ended April 30, 1997 and 1996 was \$1,100,906 and \$779,876, respectively.

The certificate of deposit is pledged as collateral for a line of credit to allow an independent charitable organization, Advocating Change Together, an opportunity to access the cash needed to develop "Tools for Change." The certificate will mature in July 1999, upon which date the principal amount will be returned to the Foundation. The Foundation will receive the interest earned on the certificate.

Notes to Financial Statements (continued)

4. Property and Equipment

Property and equipment as of April 30, 1997 and 1996, are summarized as follows:

	1997	1996
Leasehold Improvements	\$ 35,618	\$ 6,736
Furniture, Fixtures and Equipment	<u>109,844</u>	<u>16,124</u>
Accumulated Depreciation	<u>(15,238)</u>	<u>(22,860)</u>
Totals	\$ 130,224	\$ 4,062

Depreciation expense for the years ended April 30, 1997 and 1996 was \$14,227 and \$3,497, respectively.

5. Grants

Grant activity for the years ended April 30, 1997 and 1996, was as follows:

	1997	1996
Beginning of Year Payable	\$ 2,500	\$ 7,625
Grants Committed (Net of Returned Grant of \$2,500 in 1997)	227,714	151,612
Grants Paid	<u>(194,339)</u>	<u>(156,737)</u>
End of Year Payable	\$ 35,875	\$ 2,500

All grants payable at April 30, 1997 are scheduled to be paid during the fiscal year ending April 30, 1998.

6. Operating Lease

The Foundation subleased office space from the Jerome Foundation until August 31, 1996, at which time it entered into a new operating lease for office space with Minnesota Street Associates. The new agreement, which expires on August 31, 2006, requires monthly rentals of \$1,556 through September 1, 1997 and \$2,247 thereafter. In addition to the scheduled rent payments, the Foundation is required to pay its proportional share of increases in real estate taxes and building operating costs from those incurred in the initial lease year. Rent expense was \$16,216 and \$11,576 for the years ended April 30, 1997 and 1996, respectively.

Annual future minimum rental payments prior to any adjustment related to real estate taxes and operating costs are:

Years Ending April 30,	
1998	\$ 24,200
1999	26,961
2000	26,961
2001	26,961
2002	26,961
Thereafter	<u>89,870</u>
Total	\$ 221,914

Notes to Financial Statements (continued)

7. Expense Allocation

Expenses with direct relationships to functions have been directly assigned to the respective function. Certain expenses incurred by the Foundation are shared costs of program service and management functions. These expenses have been allocated between program services and management and general based on estimates of personnel time spent in the respective activities.

8. Pension Plan

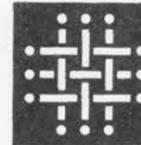
The Foundation has a defined contribution plan which covers its full-time employees. Contributions to the plan are 14% of employee compensation, with a 1% required employee match as defined by the plan. Pension expense, which has been affected by the increased number of employees in 1996-1997, was approximately \$13,600 and \$7,200 for the years ended April 30, 1997 and 1996, respectively.

9. Investment Management

The Foundation pays for custodial and investment management arrangements with Norwest Bank Minnesota, National Association, Mairs & Power, Inc., Wilke/Thompson Capital Management, Inc., and Alliance Capital Management, L.P. The corporate articles of the Foundation provide for the members of the Foundation to elect annually the directors of the Foundation who select the investment managers.

10. Reclassification

Certain reclassifications have been made to the 1996 financial statements to conform with the 1997 financial statements. Such reclassifications have had no effect on the increase in net assets as previously reported.



Wilkerson, Guthmann + Johnson, Ltd.
Accountants Providing Solutions

Independent Auditor's Report on Supplementary Information

Board of Directors
Grotto Foundation, Inc.
West 1050 First National Bank Building
St. Paul, Minnesota 55101

Our audits were made for the purpose of forming an opinion on the basic financial statements, taken as a whole. The accompanying Schedules of Functional Expenses, Investments and Grant Commitments and Payments are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements, taken as a whole.

Wilkerson, Guthmann + Johnson, Ltd.

St. Paul, Minnesota
June 16, 1997

John L. Phillippi
Roger A. Katzenmaier
James G. Platz
Ronald H. Zuercher
Randall J. Kroll
Kirk D. Kleckner

Of Counsel
Howard M. Guthmann
Austin J. Stibbe

1300 Norwest Center
55 East Fifth Street
St. Paul, MN 55101-1790
612 • 222 • 1801 Tel
612 • 297 • 6929 Fax

610 Pillsbury Center
200 South Sixth Street
Minneapolis, MN 55402-1409
612 • 222 • 1801 Tel
612 • 349 • 2958 Fax

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Public Accountants

Schedules of Functional Expenses

Year Ended April 30, 1997

1997

	Grants to Charities	Consultative Support and Grants Management	Management and General	Provision for Federal Excise Tax	Total 1997
Salaries and Benefits					
Salaries and Contracts	\$	\$ 113,934	\$ 25,010	\$	\$ 138,944
Payroll Taxes and Other Benefits		<u>31,459</u>	<u>6,907</u>		<u>38,366</u>
Total Salaries and Benefits	-	\$ 145,393	\$ 31,917	-	\$ 177,310
Office and Other Expenses					
Rent and Utilities		\$ 14,096	\$ 3,094		\$ 17,190
Insurance		1,456	3,049		4,505
Professional Services - Other			7,830		7,830
Travel and Parking		3,835	842		4,677
Office Expense		11,550	2,535		14,085
Telephone		3,364	738		4,102
Annual Report			5,462		5,462
Office Supplies		2,950	647		3,597
Education and Training		2,142	470		2,612
Meeting Expense		3,382	742		4,124
Postage		1,212	266		1,478
Printing		1,345	295		1,640
Publications and Subscriptions		1,457	320		1,777
Depreciation		11,666	2,561		14,227
Renovation and Moving Expense			12,142		12,142
Projects			8,374		8,374
Miscellaneous		<u>810</u>	<u>177</u>		<u>987</u>
Total Office and Other Expenses	-	\$ 59,265	\$ 49,544	-	\$ 108,809
Grants to Charities	227,714				227,714
Provision for Federal Excise Tax				<u>3,500</u>	<u>3,500</u>
Totals	\$ 227,714	\$ 204,658	\$ 81,461	\$ 3,500	\$ 517,333

Schedules of Functional Expenses (continued)

Year Ended April 30, 1996

1996

	Grants to Charities	Consultative Support and Grants Management	Management and General	Provision for Federal Excise Tax	Total 1997
Salaries and Benefits					
Salaries and Contracts	\$	\$ 71,899	\$ 16,646	\$	\$ 88,545
Payroll Taxes and Other Benefits		<u>22,701</u>	<u>5,256</u>		<u>27,957</u>
Total Salaries and Benefits	-	\$ 94,600	\$ 21,902	-	\$ 116,502
Office and Other Expenses					
Rent and Utilities		9,987	2,312		12,299
Insurance		492	1,615		2,107
Professional Services			6,100		6,100
Travel and Parking		3,005	2,048		5,053
Office Expense		3,792	877		4,669
Telephone		1,411	327		1,738
Annual Report			2,304		2,304
Office Supplies		1,365	315		1,680
Education and Training		1,327	308		1,635
Meeting Expense		2,651	1,258		3,909
Postage		2,913	55		2,968
Printing		740	171		911
Publications and Subscriptions		841	195		1,036
Depreciation		2,840	657		3,497
Renovation and Moving Expense					
Projects					
Miscellaneous		<u>60</u>	<u>15</u>		<u>75</u>
Total Office and Other Expenses	-	\$ 31,424	\$ 18,557	-	\$ 49,981
Grants to Charities	151,612				151,612
Provision for Federal Excise Tax				<u>18,587</u>	<u>18,587</u>
Totals	\$ 151,612	\$ 126,024	\$ 40,459	\$ 18,587	\$ 336,682

Schedule of Investments

As of April 30, 1997

	Number of Shares	Original Cost	Fair Value
Certificate of Deposit			
Certificate of Deposit	\$	\$ 50,000	\$ 50,000
Mutual Funds			
Money Market Funds		\$ 893,870	\$ 893,870
International Growth Fund		1,000,000	1,019,077
Government Securities Fund		<u>1,000,000</u>	<u>1,006,769</u>
Total Mutual Funds		\$ 2,893,870	\$ 2,919,743
Stocks			
ADC Telecommunications, Inc.	14,000	\$ 45,938	\$ 365,750
Allied Signal, Inc.	800	56,540	57,800
Allstate Corporation	500	31,900	32,688
Amgen Company	850	49,512	50,044
Applied Materials, Inc.	2,050	100,431	112,493
Automatic Data Processing	3,300	137,448	149,325
Best Buy Company	4,600	72,104	62,100
Boeing Company	300	29,977	29,587
Bristol Myers Squibb Company	4,000	107,908	262,000
Broderbund Software	2,000	43,875	37,500
Campbell Soup Company	1,000	47,300	51,125
Catalina Marketing CRP	1,750	62,765	55,125
CDW Computer Centers	1,850	40,538	88,800
Chase Manhattan Corporation	1,250	110,087	115,156
Cintas Corporation	1,800	105,286	98,550
Cisco Systems, Inc.	3,000	146,462	155,250
Citicorp	550	57,383	61,943
Coca-Cola Company	2,000	107,425	127,250
Colgate Palmolive Company	650	69,420	72,150
Columbia/HCA Healthcare Corporation	3,600	128,880	126,000
Compaq Computer Corporation	2,150	158,288	183,556
Corporate Express	5,850	126,794	58,500
Darden Restaurants, Inc.	2,000	22,536	15,500
Dayton Hudson Corporation	5,300	131,728	238,500
Dell Computer Corporation	1,500	114,825	125,532
Deluxe Corporation	4,000	136,001	122,000
Dreyers Grand Ice Cream	1,700	40,463	53,311
Elan Corporation PLC	5,100	138,806	173,400
Electronic Arts, Inc.	2,700	75,078	65,138
Emerson Electric Company	4,000	120,840	203,000
Fannie Mae	4,600	181,592	189,750
Fastenal Company	3,800	112,283	148,200
First Bank Systems, Inc.	4,000	38,375	307,000
First Data Corporation	5,000	190,965	172,500
First Union Corporation	700	56,097	58,800
Fiserv, Inc.	4,600	120,668	173,650

Schedule of Investments (continued)

	Number of Shares	Original Cost	Fair Value
Fuller, H.B. Company	2,000	\$ 77,500	\$ 107,250
Gartner Group Class A	4,000	130,050	105,000
General Electric Company	300	31,252	33,300
General Mills, Inc.	3,000	166,254	186,000
Gillette Company	1,789	133,364	152,065
Graco, Inc.	6,000	125,280	141,750
Green Tree Financial Corporation	3,200	101,685	94,800
Healthsouth Corporation	8,200	156,624	159,900
Henry Schein, Inc.	1,800	68,523	49,950
Home Depot, Inc.	4,850	270,485	281,300
Honeywell, Inc.	3,000	105,990	211,875
Hormel Foods Corporation	5,000	108,560	122,500
Household International, Inc.	1,400	116,795	123,200
Index Labs Corporation	4,300	90,219	55,900
Imation Corporation	300	1,387	7,088
Ingram Micro, Inc. Class A	4,000	89,928	91,000
Intel Corporation	2,400	332,350	367,500
International Business Machines Corporation	1,300	82,459	208,650
Intuit	1,700	48,025	37,613
Johnson & Johnson	7,450	128,136	455,381
Jostens, Inc.	5,000	116,000	119,375
Kohl's Corporation	1,200	57,422	58,650
Linear Technology	4,500	160,928	226,125
Marriott International, Inc.	800	42,540	44,200
MBNA Corporation	5,700	170,735	188,100
McDonald's Corporation	2,900	133,919	155,150
Medtronic, Inc.	7,500	245,878	519,375
Merck & Company, Inc.	5,300	213,450	478,988
Merrill Corporation	10,000	117,250	232,500
Merrill Lynch & Company	1,200	109,710	114,000
Microsoft Corporation	2,950	263,304	358,425
Minnesota Mining & Manufacturing Company	3,000	33,800	261,000
Molex, Inc.	4,250	125,188	131,750
Morgan Stanley Group, Inc.	800	48,140	50,500
Motorola, Inc.	1,050	48,913	59,981
MSC Industrial	1,950	65,264	59,963
MTS Systems Corporation	5,000	106,651	109,375
National Computer Systems, Inc.	7,000	118,875	175,875
Nike, Inc. Class B	500	26,687	28,125
Nokia Corporation ADR	3,300	193,315	213,262
Northwest Airlines Class A	3,200	130,800	124,800
Norwest Corporation	6,100	161,190	304,238
Novellus Systems, Inc.	500	28,062	28,875
Oakley, Inc.	4,900	76,013	50,225
Paycheck, Inc.	1,600	90,650	74,900
Petsmart, Inc.	2,700	66,768	45,394
Pfizer, Inc.	2,300	196,689	220,800
Philip Morris Companies, Inc.	7,250	317,050	285,468
Precision Response	2,800	80,856	45,850
Quality Food Centers	2,800	98,574	112,350

Schedule of Investments (continued)

	Number of Shares	Original Cost	Fair Value
Reliastar Financial Corporation	3,000	129,210	181,125
RP Scherer Corporation	1,400	\$ 59,316	\$ 64,400
Schering Plough Corporation	1,050	79,271	83,738
Seagate Technology	3,800	168,440	174,800
Sears Roebuck & Company	2,200	105,547	105,600
Sitel Corporation	5,200	73,922	51,350
St. Jude Medical, Inc.	5,000	124,500	162,500
St. Paul Companies, Inc.	3,200	54,619	214,400
Staples, Inc.	8,700	162,013	156,600
Starbucks Corporation	3,500	121,588	104,564
Steris Corporation	2,100	73,856	68,775
Sunglass Hut International	7,800	75,792	56,550
Talbots, Inc.	3,500	96,161	94,500
Tech Data Corporation	3,500	66,356	85,750
Toro Company	4,000	128,780	140,000
Tyco International Ltd	1,650	97,226	100,650
U.S. Bancorp	1,000	53,875	57,125
UAL Corporation	3,350	251,661	249,156
United Healthcare Corporation	850	39,055	41,331
Walgreen Company	2,700	103,062	124,200
Walt Disney Company	1,400	106,445	114,450
Zilog, Inc.	3,700	71,317	68,913
Total Stocks	353,489	\$ 11,568,017	\$ 14,769,091
Total Investments		\$ 14,511,887	\$ 17,738,834

Schedule of Grant Commitments and Payments

Year Ended April 30, 1997

	Grant Commitments Payable at Beginning of Year	Commitments Made During During Year	Paid During Year	Grant Commitments Payable End of Year
Advocating Change Together (ACT) St. Paul, Minnesota <i>The development of Tools for Change: Self advocacy and self determination skills for persons with developmental disabilities</i>	\$	\$ 10,000	\$ 10,000	\$
Ain-Dah-Yung (Our Home) Shelter St. Paul, Minnesota <i>American Indian Youth cultural reclamation and coming of age rituals</i>		3,745	3,745	
American Red Cross, St. Paul Chapter St. Paul, Minnesota <i>Living with AIDS at Home: A Course for Caregivers</i>		3,000	3,000	
AMICUS Minneapolis, Minnesota <i>Project RAFIKI: A joint venture with the Minneapolis Urban League to support African American adult offenders</i>		5,000	5,000	
Archdiocesan AIDS Ministry Program Minneapolis, Minnesota <i>Emergency Relief/Needs Program for people in crisis</i>		5,000	5,000	
Asian Media Access St. Paul, Minnesota <i>Youth Media Camp</i>		4,000	4,000	
Association of Black Foundation Executives Washington, DC <i>General support of philanthropic programs</i>		125	125	
Augsburg College Minneapolis, Minnesota <i>Ninth Annual Student Recognition Banquet for American Indian student graduates from area colleges</i>		1,000	1,000	
Boy Scouts of America Indianhead Council Saint Paul, Minnesota <i>Saint Paul Inner City Youth Programs</i>		1,150	1,150	

Schedule of Grant Commitments and Payments (continued)

	Grant Commitments Payable at Beginning of Year	Commitments Made During Year	Paid During Year	Grant Commitments Payable End of Year
Caponi Art Park Eagan, Minnesota <i>Program and volunteer staff development</i>	\$	\$ 7,000	\$ 3,500	\$ 3,500
College of St. Scholastica Duluth, Minnesota <i>Inashke! Ojibwemowin: An Ojibwe Language and cultural instruction program</i>		8,324	8,324	
Cooper-Lewter Rites of Passage St. Paul, Minnesota <i>Programs on becoming contributing members of the community for African American youth and families at risk</i>		5,000	5,000	
Council on Foundations New York, New York <i>Programs and activities for grantmakers in the field of philanthropy</i>		750	750	
East Metro Women's Council White Bear Lake, Minnesota <i>Programs which assist low income families in breaking the cycle of poverty</i>		7,000	7,000	
Face to Face St. Paul, Minnesota <i>Safe Zone: A drop-in and first contact program for homeless and unaccompanied youth</i>		5,000	5,000	
Family Services, Inc. St. Paul, Minnesota <i>Mental Health Services for low income gay, lesbian, transgender and bisexual people</i>		1,500	1,500	
Friends of the St. Paul Public Library St. Paul, Minnesota <i>Gathering at the River II: Exploration of the many cultures that make up the Twin Cities</i>		5,000	5,000	
The Foundation Center New York City <i>To provide resources about philanthropy</i>		300	300	

Schedule of Grant Commitments and Payments (continued)

	Grant Commitments Payable at Beginning of Year	Commitments Made During Year	Paid During Year	Grant Commitments Payable End of Year
Hill Monastic Manuscript Library Collegeville, Minnesota <i>A. A. Heckman Fund: To help young scholars access the 25 million page collection of world-wide monastic documents for primary research</i>	\$	\$ 20,000	\$	\$ 20,000
Hmong Minnesota Pacific Association St. Paul, Minnesota <i>To provide after school employment training activities to Hmong youth workers</i>		5,000	2,500	2,500
Independent Sector Washington, DC <i>To provide education about philanthropy</i>		170	170	
Indian Child Welfare Law Center Minneapolis, Minnesota <i>Support of legal representation to Indian families and tribes in cases governed by the Indian Child Welfare Act</i>		5,000	5,000	
Intermedia Arts Minnesota, fiscal agent for Artemis Productions Minneapolis, Minnesota <i>FRESCOS, a film and ethics curriculum using a study of the St. Thomas frescos</i>		5,000	5,000	
Junior Achievement of Upper Midwest Minneapolis, Minnesota <i>Partnership between Minnesota American Indian Chamber of Commerce and Junior Achievement for Urban American Indians</i>	2,500	(2,500)		
Lakota Fund, Inc., fiscal agent for Lakol Ikce Oyale Peta Ilekiyap (Rekindling the campfires of a Nation) Kyle, South Dakota <i>The development of Tiospayes (extended family land based units) on The Pine Ridge Indian Reservation</i>		10,000	10,000	
Lao PTA of Minnesota, fiscal agent for Lao Mothers and Girls Alliance Minneapolis, Minnesota <i>To provide programming by cross-aged women to Lao teenage girls</i>		5,750	2,875	2,875

Schedule of Grant Commitments and Payments (continued)

	Grant Commitments Payable at Beginning of Year	Commitments Made During Year	Paid During Year	Grant Commitments Payable End of Year
The Loft Minneapolis, Minnesota <i>Literature exchanges between writers from the Iowa International Writing Program and local writers</i>	\$	\$ 5,450	\$ 5,450	\$
The League of Minnesota Human Rights Commission Robbinsdale, Minnesota <i>To establish new Human Rights Commissions throughout Minnesota</i>		10,000	10,000	
Mankato State University Mankato, Minnesota <i>Dental Health Programs for Native Americans on the White Earth, Cass Lake, Red Lake and Leech Lake Reservations</i>		3,000	3,000	
Minnesota Council on Foundations Minneapolis, Minnesota <i>Support of programs in organized philanthropy</i>		840	840	
Minnesota Indian Women's Resource Center Minneapolis, Minnesota <i>Support of chemical dependency programs for American Indian women and their families</i>		5,000	5,000	
Minnesota Project St. Paul, Minnesota <i>The development of a network to support sustainable rural activities</i>		1,000	1,000	
Minnesota Senior Federation St. Paul, Minnesota <i>Retirement Plans in Minnesota: A program to assess and to encourage adequate benefits coverage by nonprofit organizations for their employees</i>		7,000	7,000	
Minnesota Women in the Trades St. Paul, Minnesota <i>Support of programs for the retention of women in non-traditional vocations: manual, mechanical, technical, craft or skilled trade jobs</i>		5,000	2,500	2,500
Model Cities Health Center, Inc. St. Paul, Minnesota <i>To support a Dental Training Program</i>		8,000	8,000	

Schedule of Grant Commitments and Payments (continued)

	Grant Commitments Payable at Beginning of Year	Commitments Made During Year	Paid During Year	Grant Commitments Payable End of Year
National Charities Information Bureau New York, New York <i>To support services to Philanthropic Agencies</i>	\$	\$ 450	\$ 450	\$
Native Americans in Philanthropy Minneapolis, Minnesota <i>To support programs in philanthropy</i>		150	150	
Portage for Youth St. Paul, Minnesota <i>Support of productive after-school activities for girls in high-risk environments</i>		5,000	5,000	
Prairie Public Television Fargo, North Dakota <i>To support production of White Earth Ricing: "Rice Lake: A Portrait of an Ojibwe Community"</i>		3,450	3,450	
PROJECT 120 St. Paul, Minnesota <i>To develop the New Americans Program: A week-long emergence in all aspects of state government</i>		5,000	5,000	
Project Foundation Minneapolis, Minnesota <i>Programming for youth without permanent shelter</i>		5,000	5,000	
Saint John's University Saint Paul-Nagasaki Sister City Committee St. Paul, Minnesota <i>50th Anniversary of the bombing of Nagasaki and 40th Anniversary of the Sister City Program</i>		7,000	7,000	
United Cambodian Association of Minnesota St. Paul, Minnesota <i>Cambodian Elders Program: Culturally competent support services, citizenship classes and gardening</i>		7,000	7,000	
University of Iowa Iowa City, Iowa <i>International Writers Program: Convening writers of excellence from all over the world for mutual exchanges</i>		7,000	7,000	

Schedule of Grant Commitments and Payments (continued)

	Grant Commitments Payable at Beginning of Year	Commitments Made During Year	Paid During Year	Grant Commitments Payable End of Year
Walker West Music Academy St. Paul, Minnesota <i>General music instruction using African American cultural traditions to at-risk young people</i>	\$	\$ 9,000	\$ 4,500	\$ 4,500
Women and Foundations/Corporate Philanthropy New York, New York <i>To support programs in philanthropy</i>		60	60	
Women's Cancer Resource Center Minneapolis, Minnesota <i>To promote Women's Cancer awareness and prevention</i>		2,000	2,000	
Totals	\$ 2,500	\$ 227,714	\$ 194,339	\$ 35,875

Grotto Guidelines and Grant Deadlines

Often people who write grant proposals are grappling with a tremendous task. They have a wonderful concept, community support and commitment, and are then confronted with the challenge of making their vision fit into pre-existing foundation guidelines. Unfortunately, as a result, many people are unnecessarily frustrated.

The Grotto Foundation guidelines have been developed to give our staff and Board as much information as possible about your project and your organization – not as an obstacle to potential applicants. The Minnesota Common Grant Application with the additional attachments outlined below should be sufficient for our needs. In lieu of using that, you may submit your proposal in any way that you feel most readily conveys what you want us to know. If we need more information, we will ask for it.

Grotto Foundation accepts the Minnesota Common Grant Application Form with additional material requested by the Grotto Foundation outlined on page 28-31.

To be sure that your project is a good fit and is presented well, you will want to:

- Check the Mission Statement of Policy on page 3 of this report to be sure that the Grotto Foundation goals and objectives for grantmaking are consistent with your grant request.
- Include a cover letter that introduces your organization and your proposal, and makes a link between your proposal and the mission, goals and objectives of the Grotto Foundation.
- Type your proposal. Don't hesitate to reproduce the form on your computer. If you must make a choice between using more space or using a smaller font size, *please* use more space.
- Submit one copy of your proposal to the Grotto Foundation. If possible, in addition to the original proposal, we would appreciate a computer disc with your request on it. Please label the disc and include the name and version of your word processing program.

Grotto Grant Deadlines

Please keep the following grant deadline schedule in mind when submitting your proposal:

Deadline	Review and Board Decision
Jan 15	April
March 15	June
July 15	October
November 15	February

Distribution Network

Additional copies of the Minnesota Common Grant Application Form are available from the following sources:

- Foundation Center Collections: Duluth Public Library 218/723-3802; Minneapolis Public Library 612/372-6555; St. Paul Public Library 612/292-6307; Southwest State University Library, Marshall 507/537-7278.
Note: Each location has different distribution requirements; call individual locations for details.
- Minnesota Council of Nonprofits: Fax-on-demand system 612/646-3090.
- Minnesota Council on Foundations: Call 612/338-1989. One copy will be sent per organization.

Minnesota Common Grant Application Form – Cover Sheet

You may reproduce this form on your computer.

Organization Information

Legal Name of Organization _____

Address _____

City _____ State _____ Zip _____ Telephone _____ Fax _____

Individuals Responsible:

Name of Top Paid Staff _____ Title _____ Direct Dial Phone # _____

Contact Person (if different from top paid staff) _____ Title _____ Direct Dial Phone # _____

Organization Description: (2-3 sentences)

Is your organization an IRS 501(c)(3) not-for-profit? _____ Yes _____ No

If no, is your organization a public agency/unit of government or religious institution? _____ Yes _____ No

If no, name of fiscal agent (fiscal sponsor) _____

Amount and Type of Support Requested

The dollar amount being requested: \$ _____

Funds are being requested for (make sure the funder provides the type of support you are requesting, then check the appropriate line):

_____ general operating support _____ capital _____ other: _____
_____ project support _____ endowment
_____ start-up costs _____ technical assistance

If a project, give project duration: _____ Month _____ Year to _____ Month _____ Year

If operating support, fiscal year: _____ Month _____ Year to _____ Month _____ Year

Budget

Total annual organization budget: \$ _____

Total project budget (for support other than general operating): \$ _____

Proposal Summary (If operating or start-up support, relate to the organization. If project and other support, relate to the project.)

Project name (if applying for project support): _____

Please give a 2-3 sentence summary of the request:

Geographic area served:

Population served:

Authorization

Name of Top Paid and/or Board Chair (type) _____

Signature _____

Minnesota Common Grant Application – Proposal Narrative

Please provide the following information in a narrative in this order. Five to seven pages or fewer is recommended, excluding attachments. (Be sure to include a cover letter which introduces your organization and proposal and makes a strategic link between your proposal and the mission and grantmaking interest of each funder to whom you apply.)

A. Organizational Information

1. Brief summary of organization history.
2. Brief summary of organization mission and goals.
3. Description of current programs, activities, service statistics, and strengths/accomplishments.
4. Your organization's relationship with other organizations working to meet the same needs or providing similar services. Please explain how you differ from these other agencies.
5. Number of board members, full time paid staff, part-time paid staff, and volunteers.

B. Purpose of Grant

1. Situation
 - The situation – opportunity, problem, issue, need, and the community – that your proposal addresses.
 - How that focus was determined?
 - Who was involved in that decision-making process?
2. Specific activities
 - Specific activities for which you seek funding.
 - Who will carry out those activities: (If individuals are known, describe qualifications).
 - Your overall goal(s).
 - Specific objectives or ways in which you will meet the goal(s).
 - Actions that will accomplish your objectives.
 - Time frame in which all this will take place.
3. Impact of activities
 - How the proposed activities will benefit the community in which they will occur, being as clear as you can about the impact you expect to have.
 - Long-term strategies (if applicable) for sustaining this effort.

C. Evaluation

1. How will you measure the effectiveness of your activities?
2. Your criteria (measurable, if possible) for a successful program and the results you expect to have achieved by the end of the funding period.
3. Who will be involved in evaluating this work (staff, board, constituents, community, consultants)?
4. How will evaluations be used?

Attachments

Requirements for financial information and other supporting materials vary with funder. The Grotto Foundation guidelines are itemized on page 31.

Minnesota Common Grant Application Form – Budget

You may reproduce this form on your computer.

If you already prepare organizational and project budgets that contain this information, please feel free to submit them in their original forms. For project proposals, most grantmakers will request both organization and project budgets. (Note: The Grotto Foundation requests both organizational and project financials including last year's actuals, actuals to date this year and a three year projected budget.)

Check which budget(s) are included _____ Organization Budget _____ Project Budget

Budget for the period: _____ to _____

Income		Expense		
Source Support	Amount	Item	Amount	%FT/PT
Government grants & contracts	_____	Salaries & wages <i>for project budgets break down by individual position and indicate full or part-time</i>	_____	_____
Foundations	_____		_____	_____
Corporations	_____		_____	_____
United Way or other federated campaigning	_____	Subtotal	_____	_____
Individual contributions	_____	Insurance benefits & other related taxes	_____	_____
Fundraising events & products	_____	Consultants & Professional fees	_____	_____
Membership income	_____	Travel	_____	_____
In-kind support	_____	Equipment	_____	_____
Revenue		Supplies	_____	_____
Earned Income	_____	Printing & copying	_____	_____
Other (specify)	_____	Telephone & fax	_____	_____
_____	_____	Postage & delivery	_____	_____
_____	_____	Rent & utilities	_____	_____
_____	_____	In-kind expenses	_____	_____
_____	_____	Other (specify)	_____	_____
_____	_____	_____	_____	_____
Total Income	_____	Total Expense	_____	_____
		Difference <i>Income less expenses</i>	_____	_____

Minnesota Common Grant Application – Attachments Requested by Grotto Foundation, Inc.

The following items are required of all Grotto Foundation applicants:

1. The applicant's updated 501(c)(3) letter from the Internal Revenue Service.
2. The Applicant's registration receipt from the Minnesota Attorney General's Office Charities Review Section or, where required by law, the appropriate state governmental agency.
3. The name(s) of Chief Administrative Officer(s) of applying organizations.
4. A statement of agreements signed by the administrative officer(s) and by the board chair which include the following:
 - A statement endorsing the proposal and agreeing that the organization will assume the full responsibilities involved and the proper fiscal management of, and accounting for, any grant received, and will make certain that any reports required by the Grotto Foundation are submitted on time.
 - A statement to submit regularly and on time such progress evaluations and financial reports as are requested by the Grotto Foundation. It is assumed that, unless a special request is made by the Foundation, a final report will be submitted upon the completion of the grant. The Foundation usually requests semi-annual progress and financial reports and may request additional reports if appropriate, and if agreed upon mutually by the Foundation and the organization.
 - A statement that no part of the grant from the Foundation will be used to support propaganda for, or in opposition to legislation, either enacted or proposed, or campaigning for or against any candidate for a public office, or to employ or compensate for such activities. The agency will not use this grant for the purposes of funding what is perceived to be grassroots lobbying under the revised Internal Revenue Code of 1988.
 - A statement that this proposal has been reviewed by the board of directors of the applying organization, or will be reviewed at a Board meeting, and give the date of that meeting.
5. A statement regarding the existence of a governing board which meets regularly. State the size of the Board, frequency of meetings and average numbers attending each meeting. A list of the board members and their affiliations.
6. The most recently audited financial report, if your agency requires an audit, and organizational and project financials including last year's actuals, actuals to date and a three year projected budget. Please note the additional financial information requested under the Budget section.
7. Any additional information that you feel Grotto Foundation may need to make an informed decision about your application.



**GROTTO
FOUNDATION**^{INC.}

Community, Family and Understanding

W-1050 First National Bank Building
332 Minnesota Street
St. Paul, Minnesota 55101-1312

(651) 225-0777 fax: (651) 225-0752
651 651



December 29, 1998

Margaret R. Thomas
Executive Director
Grotto Foundation, Inc.
W. 1050 First National Bank Building
332 Minnesota Street
Saint Paul, MN 5101-1312

Dear Ms. Thomas:

We are delighted that the Education and Housing Equity Project (EHEP) has decided to submit funding proposals for continuation of the Community Circles Collaborative and expansion of the *Choices for Community* project. Dick Little has asked us to write this letter of support, and we are honored to do so.

The Study Circles Resource Center (SCRC) is a project of the Topsfield Foundation, a private, nonprofit, nonpartisan foundation dedicated to advancing deliberative democracy and improving the quality of public life in the U. S. To carry out this mission, SCRC provides free materials and technical assistance to organizers of community-wide study circle programs, which engage large numbers of citizens in discussion and action on critical public issues.

Since we provide free materials and services, we have to apply strict criteria to our participation in a project. We chose to assist the Community Circle Collaborative for several reasons: the Collaborative's articulation of the challenges posed by residential and educational segregation in the Twin Cities; their appreciation of the community-building power of study circles, also called community circles; and the fact that the Collaborative represents a broad array of Twin Cities organizations. These qualities provided a strong foundation for *Choices for Community*.

We are very pleased with the progress made by the Collaborative so far. The Collaborative has recruited over 100 other organizations, including churches and synagogues, school districts, housing agencies, human rights commissions, cities, neighborhood groups, block clubs, and other community-based groups and civic groups, who will in turn recruit and convene participants. The total of 53 community circles already completed is an impressive start.

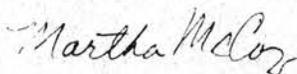
Furthermore, the report on the first round of community circles shows that the Collaborative is thoughtfully taking stock of the program, identifying both weaknesses and strengths in preparation for the second round. Few study circle programs have done as good a job of documentation and analysis. One change that has already resulted from this process is a completely different approach toward action in the second round, including plans for an action forum and citizen task forces working on various aspects of the issue. We have seen this kind of approach lead to sustained change in other communities, and we think it holds great promise for the Twin Cities.

The progress made by *Choices for Community* is doubly impressive because regional issues like segregation are so crucial to the future of many communities, and yet have – until now – not been the subject of large-scale public dialogue programs. William Barnes, co-author of *The New Regional Economies*, writes, “We need to develop a regional civics that is not about governmental entities. It’s about citizens, community groups, businesses, and government agencies coming together to act in the common interest of the region.” In that sense, the work of the Community Circle Collaborative is truly unprecedented. By engaging citizens of the Twin Cities in honest, productive dialogue about some crucial, controversial regional issues, the Education and Housing Equity Project is the first organization in the country to try to create this kind of “regional civics.”

In the second round, there will be greater emphasis on including public officials in the circles and the action forum. This will strengthen the ability of *Choices for Community* to connect grassroots voices to the policymaking process. In Oklahoma, organizers used a similar strategy to involve over 1,000 people across the state in study circles on criminal justice and corrections. One of the outcomes of the project was House Bill 1213, a radical bipartisan revision of the state’s corrections system which upheld the main policy ideas being advanced by study circle participants.

The Study Circles Resource Center is committed to assisting EHEP and the Community Circle Collaborative in this work. In March 1998, we provided a free one-day training in study circle organizing and facilitation at Hamline University, which was attended by almost 100 Twin Cities residents representing scores of organizations. We have a strong interest in the success of *Choices for Community* and we look forward to the continuation of this productive working relationship.

Sincerely,



Martha McCoy
Executive Director



Matt Leighninger
Program Director

Cc: Stacey Millett, Program Officer, Grotto Foundation
Dick Little, Coordinator, Community Circle Collaborative



**GROTTO
FOUNDATION**_{INC.}

Community, Family and Understanding

February 26, 1999

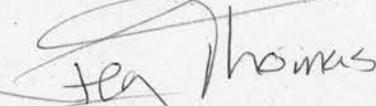
Mr. Dick Little
Executive Director
The Education and Housing Equity Project (EHEP)
122 West Franklin Avenue, Suite 310
Minneapolis, MN 55404-2452

Dear Mr. Little,

I regret to inform you that the Directors of the Grotto Foundation, at their February 24, 1999 meeting, declined your request of \$10,000.00.

Please know that the Grotto Foundation, Inc. staff and board discussed your proposal at length. We appreciate the difficulties you face in your endeavor, and wish you every success in obtaining the support and resources needed for your program.

Sincerely,



Margaret R. Thomas
Executive Director

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GROTTO FOUNDATION^{INC.}

Community, Family and Understanding

W-1050 First National Bank Building 332 Minnesota Street
St. Paul, Minnesota 55101-1312

Mr. Dick Little
Executive Director
The Education and Housing Equity Project (EHEP)
122 West Franklin Avenue, Suite 310
Minneapolis, MN 55404-2452



EDUC122 554043022 1998 18 03/03/99
NOTIFY SENDER OF NEW ADDRESS
: EDUCATION HOUSING EQUITY PROJECT EHE
2211 RIVERSIDE AVE #185
MINNEAPOLIS MN 55454-1350

55404/2452



Grant Application to the Grotto Foundation

COVER SHEET

Date of Application: 11-15-98

ORGANIZATION INFORMATION

Education and Housing Equity Project

Legal Name of Organization

Augsburg College, CB 185, 2211 Riverside Avenue

Address

Minneapolis, MN 55454

(612) 330-1505

(612) 330-1507 or 1649

City, State, Zip

Telephone

FAX

Individuals Responsible:

Dick Little

Executive Director

(612) 330-1505 or 724-5662

Name of top paid staff

Title

Direct dial phone #

Contact person (if different from top paid staff)

Title

Direct dial phone #

Organization Description:

The Education and Housing Equity Project was founded in 1995 to promote racially and economically inclusive communities and schools that work for all children in the Twin Cities metropolitan area. Its primary focus is on expanding public understanding and informed public action on the relationship between residential, economic and racial segregation and educational achievement in our public schools. To accomplish its mission, EHEP has initiated the Community Circles Collaborative, a project that brings together citizens and community organizations from throughout the metro area in public conversations focused on the challenges of housing segregation, educational achievement and racial equity in the Twin Cities metropolitan region.

Is your organization an IRS 501(c)(3) not-for-profit? YES NO

If no, is your organization a public agency/unit of government
or religious institution: YES NO

If no, name of fiscal agent (fiscal sponsor) _____

AMOUNT AND TYPE OF SUPPORT REQUESTED

The dollar amount being requested:

\$ 10,000

Funds are being requested for:

general operating support

capital

other: _____

project support

endowment

start-up costs

technical assistance

If a project, give project duration:

January Month 1999 Year

to

June Month 1999 Year

If operating support, fiscal year:

_____ Month _____ Year

to

_____ Month _____ Year

BUDGET

Total annual organization budget:

\$ 65,000

Total project budget (for support other than general operating):

\$ 45,000

PROPOSAL SUMMARY

(If operating or start-up support relate to the organization. If project and other support, relate to the project.)

Project name (if applying for project support):

Community Circle Conversations on Education, Housing and Segregation

Please give a 2-3 sentence summary of the request:

We are requesting support for launching and completing the second round of community circles that will be convened in 1999 focusing on the challenges of achieving racially and economically inclusive schools and communities. Our goal is to engage over 1,000 citizens from 75% of the municipalities in the metro area participating in 100 study circles. These circles will consist of 8 to 15 participants each who will meet at least 5 times for 2 hours each meeting. Each circle will meet on specific dates and at specific locations, use a prepared discussion guide, and will be moderated by experienced facilitators. In addition to providing meeting places and/or recruiting diverse participants, sponsoring organizations will provide scribes to record and report the results of each circle conversation. A report to the community will be produced. A citizens summit and action forum will bring participants together at the conclusion of the circle conversations to discuss findings and conclusions/recommendations public officials(who will also be invited to participate in the circles) and to connect participants with action opportunities (promising practices and action organizations).

Geographic area served: The Twin Cities Metropolitan Area

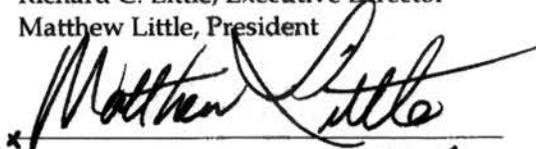
Population served: Adults and children from many different walks of life in schools and communities in the Twin Cities area. Communities of color and lower income residents and students from inner urban areas as well as suburban communities will be emphasized and targeted in this project. Diversity of participants is a key consideration of this project.

AUTHORIZATION

Name of top paid staff and/or Board Chair:

Richard C. Little, Executive Director
Matthew Little, President

Signature

x 
x 



GROTTO FOUNDATION^{INC.}

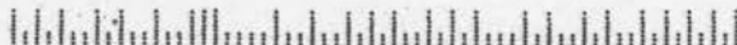
Community, Family and Understanding

W-1050 First National Bank Building 332 Minnesota Street
St. Paul, Minnesota 55101-1312

Mr. Dick Little
Executive Director
The Education and Housing Equity Project (EHEP)
Community Circle Collaborative
122 West Franklin Avenue, Suite 310
Minneapolis, MN 55404-2452



55404-2452 10





**GROTTO
FOUNDATION**_{INC.}
Community, Family and Understanding

July 31, 1998

Mr. Dick Little
Executive Director
The Education and Housing Equity Project (EHEP)
Community Circle Collaborative
122 West Franklin Avenue, Suite 310
Minneapolis, MN 55404-2452

Dear Mr. Little,

The Grotto Foundation is in receipt of your proposal: "General operating support" in the amount of \$10,000.00. The Grotto Foundation Board of Directors will be reviewing your proposal at their Board meeting on October 21, 1998.

I look forward to discussing your proposal with the Board. Our program staff will contact you if more information is needed regarding your proposal, prior to that date. If you have questions, please contact Goni Blake, Data Manager, at (612) 225-0777, ext.10.

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Sincerely,

Margaret R. Thomas
Margaret R. Thomas
Executive Director

MRT/gb

X₁₂ BETSY BURNS X₁₃ STACY MILLET