

CHARLES K. BLANDIN FOUNDATION

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED DECEMBER 31, 2012 AND 2011

**CHARLES K. BLANDIN FOUNDATION
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011**

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	3
STATEMENTS OF ACTIVITIES	4
STATEMENTS OF CASH FLOWS	6
NOTES TO FINANCIAL STATEMENTS	7
INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION	23
SUPPLEMENTARY INFORMATION	
SCHEDULES OF PROGRAM EXPENSES	24
SCHEDULES OF ADMINISTRATIVE EXPENSES	25
CHART ON CHARITABLE ACTIVITIES	26
CHARTS ON PAID GRANTS	27
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	28

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Charles K. Blandin Foundation (a nonprofit organization), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Trustees
Charles K. Blandin Foundation

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Charles K. Blandin Foundation as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
May 15, 2013

**CHARLES K. BLANDIN FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011**

ASSETS	<u>Note</u>	<u>2012</u>	<u>2011</u>
Cash and Cash Equivalents		\$ 1,828,561	\$ 665,017
Investments at Fair Value	2	45,029,013	41,341,258
Investment Income Receivable		74,057	717,939
Beneficial Interest in Blandin Residuary Trust	1	350,423,526	329,581,515
Program Related and Directed Investments	5	3,300,201	5,153,403
Other Assets		1,044,059	1,107,543
Property and Equipment	6	<u>2,641,534</u>	<u>2,694,059</u>
Total Assets		<u>\$ 404,340,951</u>	<u>\$ 381,260,734</u>
 LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts Payable and Accrued Expenses		\$ 1,561,951	\$ 1,565,432
Grants and Scholarships Payable	10	11,466,692	12,696,307
Long-Term Debt	7	<u>10,720,000</u>	<u>11,940,000</u>
Total Liabilities		23,748,643	26,201,739
 NET ASSETS			
Unrestricted	1	14,406,569	7,892,784
Unrestricted - Board Designated		<u>15,762,213</u>	<u>17,584,696</u>
Total Unrestricted		30,168,782	25,477,480
Permanently Restricted	1	<u>350,423,526</u>	<u>329,581,515</u>
Total Net Assets		<u>380,592,308</u>	<u>355,058,995</u>
Total Liabilities and Net Assets		<u>\$ 404,340,951</u>	<u>\$ 381,260,734</u>

See accompanying Notes to Financial Statements.

**CHARLES K. BLANDIN FOUNDATION
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2012**

	2012				
	Note	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
GAINS, REVENUES, LOSSES, AND CONTRIBUTIONS					
Contribution from Blandin Residuary Trust		\$ -	\$ 18,466,197	\$ -	\$ 18,466,197
Investment Income		790,947	-	-	790,947
Net Realized and Unrealized Investment Gains	2	4,484,686	-	-	4,484,686
Increase in Beneficial Interest of Perpetual Trust	1	-	-	20,842,011	20,842,011
Realized Loss on Program Related Investments		(2,222,500)	-	-	(2,222,500)
Grant Income		310,893	-	-	310,893
Change in Swap Value		119,262	-	-	119,262
Other Income		60,185	-	-	60,185
Net Assets Released from Restrictions		18,466,197	(18,466,197)	-	-
Total Gains, Revenues, Losses, and Contributions		22,009,670	-	20,842,011	42,851,681
EXPENSES					
Charitable Activities:					
Grants		8,925,782	-	-	8,925,782
Grants - Federal ARRA		151,432	-	-	151,432
Scholarships		784,214	-	-	784,214
Program - Federal ARRA Programs	11	4,442,358	-	-	4,442,358
Total Charitable Activities		14,566,181	-	-	14,566,181
Administrative		2,752,187	-	-	2,752,187
Total Expenses		17,318,368	-	-	17,318,368
CHANGE IN NET ASSETS		4,691,302	-	20,842,011	25,533,313
Net Assets - Beginning of Year		25,477,480	-	329,581,515	355,058,995
NET ASSETS - END OF YEAR		<u>\$ 30,168,782</u>	<u>\$ -</u>	<u>\$ 350,423,526</u>	<u>\$ 380,592,308</u>

See accompanying Notes to Financial Statements.

CHARLES K. BLANDIN FOUNDATION
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2011

	2011				
	Note	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
GAINS, REVENUES, LOSSES, AND CONTRIBUTIONS					
Contribution from Blandin Residuary Trust		\$ -	\$ 17,864,873	\$ -	\$ 17,864,873
Investment Income		286,412	-	-	286,412
Net Realized and Unrealized Investment Losses	2	(515,845)	-	-	(515,845)
Decrease in Beneficial Interest of Perpetual Trust	1	-	-	(21,003,371)	(21,003,371)
Grant Income		521,565	-	-	521,565
Change in Swap Value		(141,295)	-	-	(141,295)
Other Income		105,000	-	-	105,000
Net Assets Released from Restrictions		<u>17,864,873</u>	<u>(17,864,873)</u>	<u>-</u>	<u>-</u>
Total Gains, Revenues, Losses, and Contributions		18,120,710	-	(21,003,371)	(2,882,661)
EXPENSES					
Charitable Activities:					
Grants		12,257,083	-	-	12,257,083
Grants - Federal ARRA		144,433	-	-	144,433
Scholarships		855,650	-	-	855,650
Program - Federal ARRA		279,508	-	-	279,508
Programs	11	<u>3,749,172</u>	<u>-</u>	<u>-</u>	<u>3,749,172</u>
Total Charitable Activities		17,285,846	-	-	17,285,846
Administrative		<u>3,387,998</u>	<u>-</u>	<u>-</u>	<u>3,387,998</u>
Total Expenses		<u>20,673,844</u>	<u>-</u>	<u>-</u>	<u>20,673,844</u>
CHANGE IN NET ASSETS		(2,553,134)	-	(21,003,371)	(23,556,505)
Net Assets - Beginning of Year		<u>28,030,614</u>	<u>-</u>	<u>350,584,886</u>	<u>378,615,500</u>
NET ASSETS - END OF YEAR		<u>\$ 25,477,480</u>	<u>\$ -</u>	<u>\$ 329,581,515</u>	<u>\$ 355,058,995</u>

See accompanying Notes to Financial Statements.

**CHARLES K. BLANDIN FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011**

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 25,533,313	\$ (23,556,505)
Adjustments to Reconcile Change in Net Assets to		
Net Cash Provided (Used) by Operating Activities:		
Depreciation	270,649	267,317
Amortization	38,506	38,500
Change in Value of Blandin Residuary Trust	(20,842,011)	21,003,371
Net Realized and Unrealized Investment (Gains) Losses	(4,744,261)	515,845
Change in Program Related Investment Allowance	2,222,500	-
Net Realized Gain on Securities Lending	-	(263,057)
(Increase) Decrease in Current Assets:		
Interest and Dividends Receivable	(78,618)	54,188
Prepaid Expenses and Other Receivables	24,978	(88,139)
Program Related and Directed Investments	353,202	(326,208)
Increase (Decrease) in Current Assets:		
Accounts Payable and Accrued Expenses	(3,481)	(616,713)
Grants and Scholarships Payable	(1,229,615)	192,004
Net Cash Provided (Used) by Operating Activities	1,545,162	(2,779,397)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	(218,124)	(167,425)
Proceeds from Sale of Investments	10,475,913	15,596,261
Purchase of Investments	(9,419,407)	(11,072,634)
Cash Released for Debt Payment	-	3,144
Net Cash Provided by Investing Activities	838,382	4,359,346
 CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of Long-Term Debt	(1,220,000)	(1,215,000)
 NET INCREASE IN CASH AND CASH EQUIVALENTS	1,163,544	364,949
Cash and Cash Equivalents - Beginning	665,017	300,068
 CASH AND CASH EQUIVALENTS - ENDING	\$ 1,828,561	\$ 665,017
 SUPPLEMENTAL INFORMATION		
Grants Paid	\$ 10,780,202	\$ 14,374,281
Scholarships Paid	\$ 814,498	\$ 847,202
Excise Taxes Paid	\$ 61,000	\$ 50,000

See accompanying Notes to Financial Statements.

**CHARLES K. BLANDIN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organizational Purpose

The Charles K. Blandin Foundation (the Foundation), incorporated under the laws of Minnesota, awards grants, operates programs, and brings research, people, and organizations together to address opportunities that strengthen the Grand Rapids area and rural communities throughout Minnesota. The Foundation has agreed to distribute 55% of its grants paid to the Grand Rapids area over a six-year rolling period beginning January 1, 2003.

The Blandin Foundation's mission is to strengthen communities in rural Minnesota, especially the Grand Rapids area. The vision is to be the premier partner for building healthy rural communities, grounded in strong economies, where the burdens and benefits are widely shared. Blandin Foundation helps communities provide choice and opportunity for all, especially people facing social and economic challenges. Through grant-making, leadership development and public policy initiatives, goals are to support capacity of communities to identify issues and opportunities and help communities value and mobilize diverse ideas, opportunities, experiences, and people.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Foundation considers all short-term, highly liquid money market investments to be cash equivalents, except for funds held for investment purposes. At times, cash investments at financial institutions may be in excess of the FDIC insurance limit.

Investments

Investments in debt and equity securities with readily determinable fair values are carried at quoted market value. Partnership investments are stated at fair market value, which is determined by the partnership general partner. The net changes in market prices and the realized gains and losses on investments sold are reflected in the statements of activities as net realized and unrealized gains or losses on investments.

The Foundation invests in a variety of investment vehicles. In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the amounts reported in the statements.

Fair Value Measurements

The Foundation follows *Fair Value Measurements* which applies to reported balances that are required or permitted to be measured at fair value under an existing accounting pronouncement. The pronouncement defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements.

**CHARLES K. BLANDIN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

The Foundation accounts for its investments at fair value. The Foundation has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy depending upon the transparency of inputs to the valuation of an asset or liability.

The objective of a fair value measurement is to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the Statements of Financial Position are categorized based on the inputs to the valuation techniques as follows:

Level 1 - Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. The inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets.

Level 2 - Financial assets and liabilities are valued using inputs quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data. Level 2 includes private collateralized mortgage obligations, municipal bonds, and corporate debt securities.

Level 3 - Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset. Level 3 includes private equity, venture capital, hedge funds and real estate.

The Foundation follows *The Fair Value Option for Financial Assets and Liabilities*, which allows entities the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on an instrument-by-instrument basis. The Foundation has not elected to measure any existing financial instruments at fair value which were not previously required to be at fair value. However, the Foundation may elect to measure newly acquired financial instruments at fair value in the future.

**CHARLES K. BLANDIN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments

At December 31, 2012 and 2011, the fair value of all financial instruments approximates carrying value. The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Investments and Beneficial Interest in Residual Trust – Fair value is based on quoted market prices or estimated fair value at the reporting date.

Long-Term Debt – Carrying value is a reasonable estimate of fair value since the long-term debt is valued based on the borrowing rates currently available to the Foundation for long-term borrowing with similar terms and average maturities. During 2006, the Foundation entered into an interest rate swap agreement, in which the interest rate is fixed at 5.071%. The value of the swap was a liability as of December 31, 2012 and 2011 of approximately \$909,612 and \$1,028,874, respectively, and recorded in accrued expenses.

All Other – Carrying value is a reasonable estimate of fair value for all other financial instruments due to the short-term nature of those financial instruments.

Program-Related and Directed Investments

Program-related investments consist of debt positions in 501(c)(3) organizations that conduct activities that fulfill the charitable purposes of the Foundation. Program-related investments are initially recorded on the statements of financial position at cost when approved. Uncollected interest earned on program-related investments with a debt position is recorded as earned and included in the investment account. These investments are recoverable over periods ranging up to 10 years. In the event that a program-related investment is subsequently determined to be uncollectible or the value is permanently impaired, the Foundation may record the uncollectible amount as a grant appropriation or record an impairment reserve. New program-related investments totaling \$-0- and \$115,000 were approved in 2012 and 2011, respectively. Distributions of program-related investments were \$-0- and \$115,000 in 2012 and 2011, respectively.

Property, Furniture and Equipment

Property, furniture and equipment are recorded at cost and depreciated over their estimated useful lives, as shown below, using the straight-line method of depreciation. The Charles K. Blandin Foundation capitalizes all assets with a cost in excess of \$5,000, provided those assets have a useful life extending beyond one year.

Building and Improvements	10 - 30 Years
Furniture and Equipment	5 - 10 Years
Vehicles	5 Years

**CHARLES K. BLANDIN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Beneficial Interest in Perpetual Trust

The Charles K. Blandin Foundation is the sole beneficiary of the Charles K. Blandin Residuary Trust (the Trust), the assets of which are not in the possession of the Foundation. Substantially all of the Foundation's non-investment income is received from the Trust.

The Foundation's beneficial interest in the Trust is valued at the current market value of the net assets held by the Trust and is shown as permanently restricted as these assets are currently unavailable for distribution. Market value fluctuations in the Trust are reflected on the statements of activities, as a change in permanently restricted net assets.

Other Assets – Deferred Debt Acquisition Costs and Reserve Funds

Included in other assets are deferred debt acquisition costs and debt reserve funds. The deferred debt acquisition costs are being amortized on a straight-line basis over the term of the bonds of 15 years for Series 2004B and 9 years for Series 2010. Deferred debt acquisition costs were \$573,644 for the 2004B bonds less accumulated amortization of \$290,363 and \$272,658 for the years ended December 31, 2012 and 2011, respectively. Bond acquisition costs for the 2004A bonds in the amount of \$159,345 was written off in 2010 when the bonds were refinanced. Amortization expense totaled \$17,705 for both years ended December 31, 2012 and 2011.

Deferred debt acquisition costs were \$187,149 for the 2010 bonds less accumulated amortization of \$43,321 and \$22,527 for the years ended December 31, 2012 and 2011, respectively. Amortization expense totaled \$20,794 for both years ended December 31, 2012 and 2011.

Bond reserve funds were \$399,638 and \$399,645 for the years ended December 31, 2012 and 2011, respectively.

Net Assets

Net assets are classified based on donor imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted – Represents assets over which the Foundation's Board of Trustees has discretionary control. The Foundation's Board of Trustees adopted a policy whereby a portion of unrestricted net assets is designated in the amount of the minimum financial covenant on the Variable Rate Demand Revenue Bonds, Series 2004B (see Note 7), plus an amount up to the equivalent of next year's adopted operating expenses.

Temporarily Restricted – Represents resources subject to donor imposed restrictions which will be satisfied by actions of the Foundation or the passage of time.

**CHARLES K. BLANDIN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets (Continued)

Permanently Restricted – Assets of the Charles K. Blandin Residuary Trust are permanently restricted at the donor's request. The Trust is required by IRS regulations to distribute annually, 5% of the average market value of its previous year net assets or, according to the Trust documents, distribute 100% of Trust income, whichever is greater. For the years ended 2012 and 2011, the Residuary Trust actually calculates the required 5% distribution to the Foundation on the current year net asset values of the Trust. If the earnings on the assets of the Trust are not greater than or equal to the Trust's required 5% distribution, a portion of the corpus of the Trust will be paid out to cover the remaining distribution requirement.

Net Assets Released from Restrictions

Net assets released from restrictions are released based on the passage of time.

Grants Payable

Grant commitments are charged to operations at the time the grants are approved by the board of trustees. Grants are cancelled at the time of board of trustee action.

Functional Allocation of Expense

Salaries and related expenses are allocated based on estimates of time spent on various programs. Other expenses, not directly identifiable by program or supporting service, are allocated based on the best estimates of management.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Uncertain Tax Positions

The Foundation follows guidance in the income tax standard regarding the recognition of uncertain tax positions. The guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax filing that are not certain to be realized. The implementation of this guidance had no impact on the Foundation's financial statements. The Foundation's tax filings are subject to review and examination by federal and state authorities. The Foundation is not aware of any activities that would jeopardize its tax exempt status, nor any additional that are subject to tax on unrelated business income, or other taxes. The filings for the years ending 2009 to 2011 are open to examination by federal and state authorities.

**CHARLES K. BLANDIN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through May 15, 2013, the date the financial statements were recommended by the Audit Committee to the board to be approved and issued.

NOTE 2 INVESTMENTS

Cost, market value and net appreciation (depreciation) of investments is as follows:

	2012			2011		
	Cost	Fair Value	Unrealized (Depreciation) Appreciation	Cost	Fair Value	Unrealized (Depreciation) Appreciation
Domestic - Large Cap Equities	\$ 12,519,022	\$ 14,405,313	\$ 1,886,291	\$ 12,621,420	\$ 13,812,749	\$ 1,191,329
Domestic - Small Cap Equities	-	-	-	1,163,543	1,202,809	39,266
Domestic - Midcap Equities	3,514,489	3,947,373	432,884	2,887,408	3,073,839	186,431
International Equities	7,655,221	10,011,617	2,356,396	7,183,953	8,049,712	865,759
Bonds	3,585,538	3,714,456	128,918	3,851,473	3,920,474	69,001
Alternative Investments	10,590,741	9,983,010	(607,731)	11,010,769	10,648,644	(362,125)
Cash	3,238,291	2,967,244	(271,047)	633,031	633,031	-
	<u>\$ 41,103,302</u>	<u>\$ 45,029,013</u>	<u>\$ 3,925,711</u>	<u>\$ 39,351,597</u>	<u>\$ 41,341,258</u>	<u>\$ 1,989,661</u>

	2012	2011
Net Realized Gain on Investments	\$ 2,808,211	\$ 3,661,242
Net Unrealized (Loss) Gain on Investments	1,936,050	(4,177,087)
Investment Fees	(259,575)	(248,136)
	4,484,686	(763,981)
Interest and Dividends	790,947	534,548
Net Investment Income (Loss) Gain	<u>\$ 5,275,633</u>	<u>\$ (229,433)</u>

As of December 31, 2012 and 2011, the Foundation has future capital call requirements of approximately \$1,125,100 and \$617,000, respectively. The Charles K. Blandin Residuary Trust as of December 31, 2012 and 2011 has future capital call requirements of approximately \$24,535,025 and \$22,558,819 respectively.

CHARLES K. BLANDIN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 3 FAIR VALUE MEASUREMENTS

The Foundation uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions, and other factors such as credit loss assumptions. The Beneficial Interest in Blandin Residuary Trust is a Level 3 asset due to lack of observed markets for the trust interest. However, according to the unaudited financial information provided from the Residuary Trust, the underlying investments would be categorized at December 31, 2012, approximately \$196 million (56%) Level 1, \$74 million (21%) Level 2 and \$80 million (23%) Level 3.

The following table presents the Foundation's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2012:

	Level 1	Level 2	Level 3	Total
Domestic Large Cap	\$ 13,288,823	\$ 1,116,490	\$ -	\$ 14,405,313
Domestic Mid Cap	3,947,373	-	-	3,947,373
International Equity	2,839,112	6,300,760	871,744	10,011,616
Fixed Income	3,714,456	-	-	3,714,456
Alternative Investments	-	2,350,148	7,632,862	9,983,010
Beneficial Interest in Blandin Residual Trust	-	-	350,423,526	350,423,526
Interest Rate Swap	-	-	(909,612)	(909,612)
Total	<u>\$ 23,789,764</u>	<u>\$ 9,767,398</u>	<u>\$ 358,018,520</u>	<u>\$ 391,575,682</u>

The following is a reconciliation of Level 3 assets for which significant unobservable inputs were used to determine fair value. The table provides a summary of changes in fair value of the Foundation's Level 3 financial assets and liabilities for the year ended December 31, 2012:

	Domestic Large Cap	International Equity	Alternative Investments	Beneficial Interest	Interest Rate Swap	Total
Beginning Balance, January 1, 2012	\$ 1,899,987	\$ 5,183,197	\$ 10,159,763	\$ 329,581,515	\$ (1,028,874)	\$ 345,795,588
Net Realized Gains	216,979	833	263,034	-	-	480,846
Change in Unrealized Appreciation (Depreciation)	(499,507)	1,441,675	61,263	-	-	1,003,431
Net Sales	(500,969)	546,799	(501,050)	-	-	(455,220)
Transfers from Level 3 to Level 2	(1,116,490)	(6,300,760)	(2,350,148)	-	-	(9,767,398)
Change in Value of Swap	-	-	-	-	119,262	119,262
Increase in Value of Beneficial Interest	-	-	-	20,842,011	-	20,842,011
Ending Balance, December 31, 2012	<u>\$ -</u>	<u>\$ 871,744</u>	<u>\$ 7,632,862</u>	<u>\$ 350,423,526</u>	<u>\$ (909,612)</u>	<u>\$ 358,018,520</u>

**CHARLES K. BLANDIN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table presents the Foundation's fair value hierarchy for those assets measured at fair value on a recurring basis as of December 31, 2011:

Assets Measured at Fair Value on a Recurring Basis

	Level 1	Level 2	Level 3	Total
Domestic Large Cap	\$ 11,912,762	\$ -	\$ 1,899,987	\$ 13,812,749
Domestic Small Cap	1,202,809	-	-	1,202,809
Domestic Mid Cap	3,073,839	-	-	3,073,839
International Equity	2,866,515	-	5,183,197	8,049,712
Bonds	3,920,473	-	-	3,920,473
Alternative Investments	449,000	-	10,159,763	10,608,763
Beneficial Interest in Blandin Residuary Trust	-	-	329,581,515	329,581,515
Interest Rate Swap	-	-	(1,028,874)	(1,028,874)
Total	<u>\$ 23,425,398</u>	<u>\$ -</u>	<u>\$ 345,795,588</u>	<u>\$ 369,220,986</u>

The following is a reconciliation of Level 3 assets for which significant unobservable inputs were used to determine fair value. The table provides a summary of changes in fair value of the Foundation's Level 3 financial assets and liabilities for the year ended December 31, 2011:

	Domestic Large Cap	International Equity	Alternative Investments	Beneficial Interest	Interest Rate Swap	Total
Beginning Balance, January 1, 2011	\$ 1,892,980	\$ 6,206,552	\$ 11,113,894	\$ 350,584,886	\$ (887,579)	\$ 368,910,733
Net Realized Gains	239	66,782	124,122	-	-	191,143
Change in Unrealized Appreciation (Depreciation)	282,528	439,070	(441,899)	-	-	279,699
Net Sales	(275,760)	(1,529,207)	(636,354)	-	-	(2,441,321)
Change in Value of Swap	-	-	-	-	(141,295)	(141,295)
Increase in Value of Beneficial Interest	-	-	-	(21,003,371)	-	(21,003,371)
Ending Balance, December 31, 2011	<u>\$ 1,899,987</u>	<u>\$ 5,183,197</u>	<u>\$ 10,159,763</u>	<u>\$ 329,581,515</u>	<u>\$ (1,028,874)</u>	<u>\$ 345,795,588</u>

In September 2009 guidance was issued under the ASC Topic – Fair Value Measurements and Disclosures which clarified the fair value level classification for entities that calculate net asset value per share or its equivalent. The guidance states that “if a reporting entity has the ability to redeem its investment with the investee at net asset value per share (or its equivalent) at the measurement date, the fair value measurement of the investment shall be categorized as Level 2 fair value measurement.”

Fair Value Measurements of Investments in certain entities that calculate net asset value per share (or its equivalent) as of December 31, 2012:

	Net Asset Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Venture Capital	\$ 1,194,289	\$ 39,560	None	NA
Real Estate	3,010,382	307,523	None	NA
Debt	2,871,469	493,878	Monthly	90 days
Buyout	2,662,124	284,129	None	NA
International Equity	5,390,523	-	Monthly	3 - 6 days
Domestic Equity	1,116,490	-	Daily	1 day
Emerging Market	910,237	-	Monthly	30 days

**CHARLES K. BLANDIN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

Venture Capital money is provided to managers to invest in startup firms and small businesses with perceived long-term growth potential. The unobservable inputs used to determine the fair value of the venture capital are all partnership investments in which the Foundation plans to hold for the entire duration and are illiquid.

Real Estate money is invested with fund managers who invest in land plus anything permanently fixed to it including buildings. The unobservable inputs used to determine the fair value of real estate are partnership investments in which the Foundation plans to hold for the entire duration and are illiquid.

Debt is an amount of money borrowed by one party from another. A debt arrangement gives the borrowing party permission to borrow money under the condition that it is to be paid back at a later date, usually with interest. Bonds, loans and commercial paper are all examples of debt. The unobservable inputs used to determine the fair value of debt are obtained daily by fund managers yet the fund manager may impose certain liquidity restrictions on investors.

Buyout occurs when an acquiring investor gains controlling interest of another company. The unobservable inputs used to determine the fair value of buyout funds are all partnership investments in which the Foundation plans to hold for the entire duration and are illiquid.

International, Domestic, and Emerging Equities are investments in domestic and foreign stocks. The unobservable inputs used to determine the fair value of international, domestic, and emerging equities are priced daily by the fund managers yet the fund manager may impose certain liquidity restrictions on investors.

NOTE 4 PROGRAM - RELATED AND DIRECTED INVESTMENTS

Program related investments have three characteristics as identified by the Internal Revenue Code of 1986, as amended: (1) a charitable purpose is the primary motivation; (2) generating income is not a significant motivation; and (3) program related investments cannot be made with intent to influence legislation or a political election.

The Charles K. Blandin Foundation uses program related investments to further the mission of the Foundation “to strengthen rural Minnesota communities, especially the Grand Rapids area”.

**CHARLES K. BLANDIN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 4 PROGRAM - RELATED AND DIRECTED INVESTMENTS (CONTINUED)

The approved program related investments are carried at cost basis on the Statement of Financial Position at year-end. An allowance for program related investments is established based on annual review by the Foundation's Investment Committee of the status of all program related investments. If the Investment Committee determines that a specific program related investment should have an allowance established the Investment Committee recommends to the Board of Trustees who approves the allowance. At December 31, 2012, and 2011, there is a \$2,000,000 and \$500,000 allowance for current program related investments, respectively. Program related investment interest is recorded annually as income earned per the terms of the specific individual program related investment loan agreement. If no interest rate is stated in the program related investment

loan agreement then the loan is discounted on an annual basis at a rate equivalent to the prime rate at end of the year when the loan was approved.

Directed investments are used to further the Foundation's mission and is fundamentally a financial investment rather than a grant and must meet applicable prudent investor standards like more conventional investments. A directed investment is subject to the same investment policies and procedures as the other investments in which the Foundation invests. The approved directed investments are carried at cost basis on the Statement of Financial Position at year-end less any unfunded commitments.

At December 31, 2012 and 2011, program related and directed investments represented 0.01% and 1.4% of total assets, respectively.

At December 31, 2012 and 2011, the program related and directed investments consisted of the following:

	<u>2012</u>	<u>2011</u>
Program Related Investments	\$ 5,030,000	\$ 5,230,340
Less: Allowance and Discounts		
Beginning of Year	(982,437)	(1,084,770)
Increases	180,471	102,333
Write-offs	<u>(1,500,000)</u>	<u>-</u>
Subtotal, Program Related Investments	2,728,034	4,247,903
Directed Investments	1,572,167	2,000,000
Less: Allowance and Discounts	<u>(1,000,000)</u>	<u>(1,094,500)</u>
Subtotal: Directed Investments	572,167	905,500
Total Program Related and Directed Investments	<u>\$ 3,300,201</u>	<u>\$ 5,153,403</u>

At December 31, 2012 and 2011, there were no past due program related investments.

**CHARLES K. BLANDIN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2012	2011
Land, Building and Improvements	\$ 5,435,329	\$ 5,370,484
Furniture, Equipment and Vehicles	2,426,562	2,273,283
Total	7,861,891	7,643,767
Less: Accumulated Depreciation	(5,220,357)	(4,949,708)
Net Property and Equipment	\$ 2,641,534	\$ 2,694,059

NOTE 6 LONG-TERM DEBT

Debt obligations of the Charles K. Blandin Foundation consisted of the following at December 31, 2012 and 2011, respectively:

<u>Description</u>	2012	2011
Charles K. Blandin Foundation, Variable Rate Demand Revenue Bonds Series 2004B, interest payable monthly, principal payable annually on May 1 through 2019. Bond secured by letter of credit.	\$ 5,800,000	\$ 6,400,000
Charles K. Blandin Foundation, Revenue Bonds Series 2010, interest payable semi-annually on November 1 and May 1, principal payable annually on May 1 through 2019. Bond secured by Bond Reserve Fund.	4,920,000	5,540,000
Total	\$ 10,720,000	\$ 11,940,000

The summary of annual future maturities of principal on bonds as of December 31, 2012 is as follows:

<u>Year Ending December 31,</u>	<u>Scheduled Payment</u>	<u>Contractual Payment</u>
2013	\$ 1,335,000	\$ 6,435,000
2014	1,360,000	660,000
2015	1,475,000	675,000
2016	1,500,000	700,000
2017	1,625,000	725,000
Thereafter	3,425,000	1,525,000
Total	\$ 10,720,000	\$ 10,720,000

**CHARLES K. BLANDIN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 6 LONG-TERM DEBT (CONTINUED)

Bond Reserve Fund

As part of the issuance of the County of Itasca demand revenue bonds, the Foundation is required to deposit a balance in the bond reserve fund equal to the reserve requirement. The reserve requirement is the lesser of: (1) 50% Principal and Interest Requirements on Outstanding Bonds payable during the then current or any succeeding fiscal year or (2) 10% of the original principal amount of all series of the bonds then outstanding or (3) 125% of the average annual debt service on the Outstanding Bonds. The bond reserve serves as collateral for the bonds. The balance of the bond reserve fund was \$399,638 and \$399,645 for the years ended December 31, 2012 and 2011, respectively, and is recorded in other assets on the statements of financial position.

Revenue Bond – Series 2010

During 2010, the County of Itasca, Minnesota issued \$6,155,000 of Tax Exempt Demand Revenue Bonds, Series 2010. The interest rate of the bonds at December 31, 2012 was 3%. The County of Itasca has entered into a repayment agreement with the Charles K. Blandin Foundation for repayment of the bonds. The bonds are secured solely by the bond reserve fund. There is no redemption feature on the 2010 bonds. Principal is paid May 1 each year to 2019 and interest payments are semi-annually.

Revenue Bond – Series 2004B

During 2004, the Charles K. Blandin Foundation issued \$10,000,000 of Variable Rate Demand Revenue Bonds, Series 2004B. The bonds are at variable rate; however, the Foundation entered into a swap agreement in 2006, fixing the rate at 5.071% as of December 31, 2012 and 2011.

The bonds are the sole responsibility of the Foundation and are secured through a \$5,939,729 letter of credit. On June 29, 2009, the Letter of Credit and Reimbursement Agreement was amended. The executed amended letter of credit expires on October 31, 2010, with automatic 1 year extensions through October 31, 2014. However, it is subject to non-renewal with a 90-day advance written notice from the bank. The board of trustees on March 25, 2011 approved the second amendment to the Wells Fargo Bank letter of credit for the 2004B bond. The agreed language changes were favorable for the Foundation and gave the board of trustees much more financial flexibility for financing future opportunities. The revised language allows the Foundation to issue additional debt and the minimum unrestricted net asset calculation is a declining balance concept.

Upon certain circumstances, the interest rate may be converted to a fixed rate. As long as the bonds carry a variable interest rate, they can be redeemed at the option of the bondholders. The Foundation has entered into an agreement that provides for the remarketing, to the extent possible, of the bonds in the event of redemption. In the event remarketing is unsuccessful, the letter of credit will be drawn upon to pay the trustee. The letter of credit is due the earlier of its expiration date or 366 days from the date of draw.

**CHARLES K. BLANDIN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 6 LONG-TERM DEBT (CONTINUED)

Revenue Bond – Series 2004B (Continued)

The Foundation has entered into a reimbursement agreement that provides for payments to the bank for draws, if any, that may be made upon the letter of credit. The reimbursement agreement contains a covenant requiring the Foundation to maintain unrestricted net assets sufficient to cause the ratio of unrestricted net assets to debt of the Foundation to be not less than 1.30 to 1.00. The Foundation reported to Wells Fargo Bank 86 days after 2012 year end and is not in compliance with the 45 day reporting covenant. The Foundation is not aware of any other violations of the covenants as of December 31, 2012.

Interest Rate Swap

The Foundation entered into an interest rate swap agreement (the Agreement) effective March 1, 2006. The purpose of the swap is to convert the variable rate interest on the Variable Rate Demand Revenue Bonds, Series 2004B to a synthetic fixed rate of 5.071%. Under terms of the Swap Agreement, the Foundation began making fixed rate payments of interest on April 1, 2006. The notional amount of the Agreement is \$8,100,000 and gradually decreases to zero upon the termination of the Agreement on May 1, 2019. As of December 31, 2012 and 2011, the fair value of the swap agreement liability was \$909,612 and \$1,028,874, respectively.

NOTE 7 FEDERAL EXCISE TAXES AND DISTRIBUTION REQUIREMENTS

The Charles K. Blandin Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is not subject to federal income tax. However, the Foundation is classified as a private foundation, and as such, is subject to a federal excise tax of 2% (reduced to 1% if certain requirements are met) on taxable net investment income, which principally includes income from investments plus net realized capital gains (net capital losses, however, are not deductible) less expenses incurred.

The federal excise tax provision and liability (refund) consists of the following as of December 31:

	<u>2012</u>	<u>2011</u>
Provision:		
Current Expense	\$ 26,504	\$ 26,504
Total	<u>\$ 26,504</u>	<u>\$ 26,504</u>
Liability:		
Deferred	100,630	39,793
Total	<u>\$ 100,630</u>	<u>\$ 39,793</u>

**CHARLES K. BLANDIN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 7 FEDERAL EXCISE TAXES AND DISTRIBUTION REQUIREMENTS (CONTINUED)

The Foundation is subject to distribution requirements of the Internal Revenue Code. Accordingly, it must distribute, in the year immediately following receipt, 100% of the contribution received from the Trust and 5% of the previous years average market value of its assets as defined by the Internal Revenue Code. Failure to meet this distribution requirement subjects the Foundation to a 15% tax on the undistributed balance. The Foundation has complied with the distribution requirements through December 31, 2012.

NOTE 8 EMPLOYEE BENEFIT PLANS

Defined Contribution Plans

All employees of the Charles K. Blandin Foundation working a minimum of 1,000 hours in a plan year are covered by a defined contribution money purchase plan. The Foundation contributes 6% of each employee's annual compensation. All participants are entitled to a benefit equal to their vested percentage of the individuals pension account balance. The vesting schedule is based on the number of full years of service from zero to 100% vesting at six years.

The Foundation also contributes to a plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers all employees who work a minimum of 1,000 hours in a twelve-month period. The Foundation contributes a matching contribution of up to 6% of gross compensation for all participating employees. All participants are immediately vested in contributions from the Foundation, employee deferral contributions and investment earnings thereon. Employee deferrals are subject to annual limits as defined by the Internal Revenue Code.

Foundation contributions related to these defined contribution plans was approximately \$225,000 and \$221,000 for the years ended December 31, 2012 and 2011, respectively.

NOTE 9 GRANTS AND SCHOLARSHIPS PAYABLE

Grants and scholarships payable are recorded when approved by the Foundation's Board of Trustees. Long-term grants and scholarships payable (payable in over one year) are discounted to the present value of future commitments using the prime rate of interest at year-end. Grants and scholarships have been approved and scheduled for payment as follows:

<u>Year</u>	<u>Amount</u>
2013	\$ 9,936,941
2014	1,393,500
2015	226,000
Total Grant Commitments	11,556,441
Discount to Present Value	(89,749)
Total Present Value of Grant Commitments	\$ 11,466,692

**CHARLES K. BLANDIN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 10 CHARITABLE ACTIVITIES – PROGRAMS

The charitable programs listed separately below, represent the major programs which are internally administered by the Blandin Foundation, with other self-administered grant programs comprising the smaller charitable programs that are also internally administered.

	2012	2011
Charitable Activities - Programs:		
Leadership Development	\$ 2,328,372	\$ 2,157,762
Public Policy and Engagement	1,048,810	915,904
Grants and Scholarships	1,065,176	675,506
Other	262,395	279,508
Total Charitable Activities - Programs	\$ 4,704,753	\$ 4,028,680

Leadership Development – For more than 25 years, Blandin has developed over 6,000 community leaders in 397 rural Minnesota communities and eleven rural reservations through our Blandin Community Leadership Program (BCLP). This is an unique nationally-recognized program that builds competencies in three major areas: (1) framing opportunities and challenges that lead to effective action, (2) building social capital for collaboration and resource sharing, and (3) mobilizing a critical mass of resources to achieve specific outcomes. The program is designed for community teams that reflect diversity of their community from all walks-of-life. A combination of an intensive residential retreat, coupled with on-going workshops, trains leaders in communications, conflict management, networking and stakeholder analysis.

Public Policy and Engagement – Part of strengthening rural Minnesota is helping assure rural perspectives are well represented in public discourse. Blandin Foundation, with partners, convenes and participates in public policy conversations on issues most important to the health of rural Minnesota communities. The Foundation currently has three focus areas: *broadband, early childhood development, and government services redesign.*

Broadband has revolutionized business, government, education, work and lifestyles. Without robust broadband access and fully technologically literate populations, rural communities will be unable to take advantage of the extraordinary benefits that ultra-high-speed, next-generation Internet can provide. Since 2003, the Blandin Community Broadband Program has engaged at local, state and federal levels to ignite and sustain policies that support rural access to robust broadband.

Early childhood development investment in the earliest years of a child's development, from birth to five years, is a key determinant in their future success – and in developing healthy communities, now and year from now. Blandin Foundation engages in broad public policy initiatives to advance success of every young, especially before age five.

**CHARLES K. BLANDIN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 10 CHARITABLE ACTIVITIES – PROGRAMS (CONTINUED)

Public Policy and Engagement (Continued)

Government services redesign the Blandin Foundation participates in the Beyond the Bottom Line Initiative, which works to redesign government services to focus on outcomes for Minnesotans. Redesign is the transformational change of how public services are designed to focus on achieving greater outcomes for the public dollar, rather than paying for process. From education, to health care and human services, to transportation and more, the initiative works to build awareness of redesign's important role in preserving public services in the face of Minnesota's structural deficit.

Grants and Scholarships – Blandin Foundation partners with community-focused organizations throughout rural Minnesota to build healthy communities. Since Mr. Blandin's first grant of \$600 for a community park in 1943, the Blandin Foundation has approved 5,600 grants, approximately \$336 million. Grants, in conjunction with resources from other stakeholders, provide incentives to implement strategies that create healthy rural Minnesota communities. A minimum of 55% of grants are targeted to the Itasca County local giving area, with the balance used to support initiatives in other parts of rural Minnesota. To be eligible for a Blandin Foundation grants, organizations must be located in Minnesota, be a 501(c)(3) organization, unit of government or education, and proposed projects that align with the Foundation's mission and focus areas of:

Vibrant home communities where all dimensions of local communities are healthier.

Skilled community leaders who recognize and capitalize on opportunities, strengthen diverse relationships, and motivate others to act to strengthen their community of place or interest.

Expanded rural opportunity through the blend of community economic vitality, intentional inclusion and education success.

Scholarships are awarded in the local giving area, focused on improving educational attainment of disadvantaged populations. The above costs are associated with the administration of the grant and scholarship making programs. Each year, hundreds of students from Itasca County, Minnesota, area schools are awarded need-based scholarships to continue their education at community college, college or university, trade schools and certificate programs throughout the United States. More than 19,000 area youth have received scholarships totaling more than \$20 million since 1956.

Other – Blandin Foundation has received federal funds to facilitate broadband deployment in rural areas through the Broadband Technology Opportunities Program (BTOP) of the U.S. Department of Commerce, under the auspices of the American Recovery and Reinvestment Act of 2009.

SUPPLEMENTARY INFORMATION



CliftonLarsonAllen

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

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

We have audited the financial statements of Charles K. Blandin Foundation as of and for the year ended December 31, 2012, and have issued our report thereon dated May 15, 2013, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The schedules of program expenses and administrative expenses and charts on charitable activities and paid grants are presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The information in Management's Discussion and Analysis, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
May 15, 2013

CHARLES K. BLANDIN FOUNDATION
SCHEDULES OF PROGRAM EXPENSES
YEARS ENDED DECEMBER 31, 2012 AND 2011
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

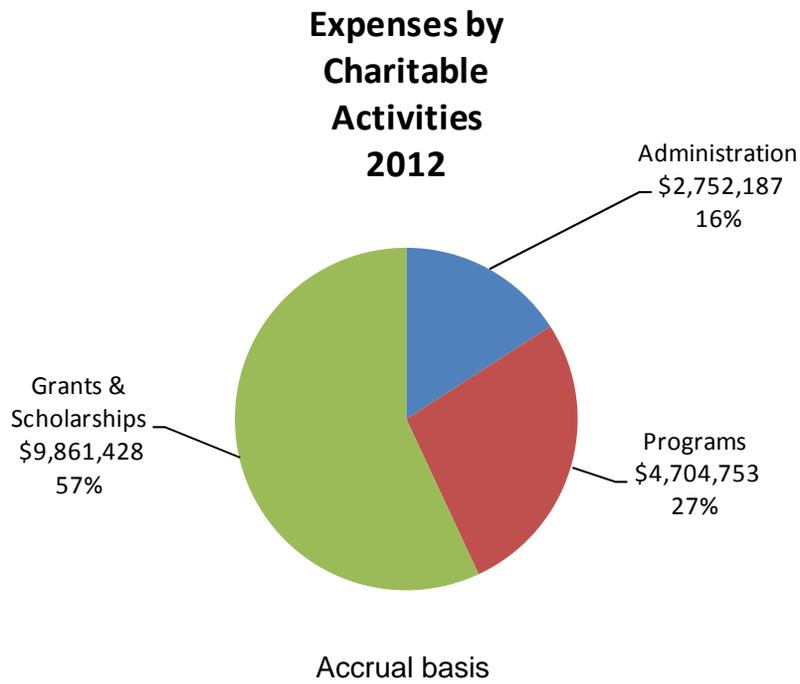
	<u>2012</u>	<u>2011</u>
BLANDIN COMMUNITY LEADERSHIP PROGRAM		
Personnel	\$ 926,702	\$ 754,409
Program Operations	621,867	654,921
Communications	6,102	52,402
Professional Services	718,488	643,322
Building Operations	55,214	19,242
Additional Leadership Program Expenses	-	33,466
Total Blandin Community Leadership Program	<u>2,328,373</u>	<u>2,157,762</u>
 PUBLIC POLICY AND ENGAGEMENT		
Personnel	662,733	554,732
Program Operations	97,402	124,489
Communications	10,962	25,945
Professional Services	243,002	198,640
Building Operations	34,711	12,097
Total Public Policy and Engagement	<u>1,048,810</u>	<u>915,903</u>
 GRANT MAKING		
Personnel	874,117	590,377
Program Operations	55,794	54,595
Communications	9,937	5,195
Professional Services	83,852	10,885
Building Operations	41,475	14,455
Total Grant Making	<u>1,065,175</u>	<u>675,507</u>
 OTHER		
Federal - ARRA Program Costs	<u>262,395</u>	<u>279,508</u>
 Total Programs	<u><u>\$ 4,704,753</u></u>	<u><u>\$ 4,028,680</u></u>

CHARLES K. BLANDIN FOUNDATION
SCHEDULES OF ADMINISTRATIVE EXPENSES
YEARS ENDED DECEMBER 31, 2012 AND 2011
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

ADMINISTRATIVE EXPENSES	2012	2011
Personnel	\$ 663,278	\$ 994,873
Organization Operations	296,556	274,253
Interest on Long-Term Debt	514,775	562,431
Write Off Bond Amortization	38,499	38,499
Communications	240,085	205,502
Professional Services	334,759	723,524
Building Operations	68,857	47,994
Trustee Expense	290,686	292,626
Taxes	128,771	(19,021)
Subtotal	2,576,266	3,120,681
Depreciation	175,921	267,317
Total Administrative Expenses	\$ 2,752,187	\$ 3,387,998

CHARLES K. BLANDIN FOUNDATION
CHART ON CHARITABLE ACTIVITIES
YEAR ENDED DECEMBER 31, 2012
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

Blandin Foundation



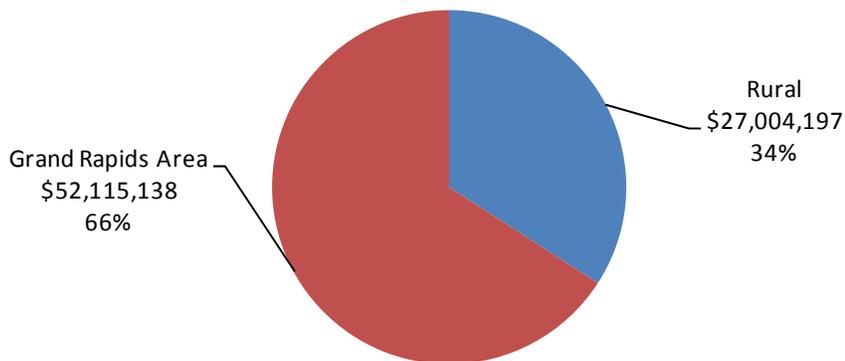
**CHARLES K. BLANDIN FOUNDATION
CHARTS ON PAID GRANTS
DECEMBER 31, 2007 – DECEMBER 31, 2012
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)**

In December 2003, the Foundation's Board of Trustees approved a resolution, ratified by the Ramsey County District Court, to distribute an average of at least 55% of all paid grants to the Grand Rapids area over a six-year rolling period beginning with 2003. This action resulted from objections brought to the court's attention that questioned the Foundation's compliance with the founder's will. Blandin Foundation reports annually the rolling, six-year average of grants paid that are in its home giving area (largely Itasca County and a few neighboring communities, classified as "local") and those that are outside of this home area (classified as "rural").

The definitions of "local" and "rural" grants were clarified by the Foundation's Board of Trustees on December 6, 2011. This clarification impacted grants throughout this 2007-2012 timeframe and is reflected in the figures and graphic below:

Blandin Foundation

Paid Grants & Scholarships January 1, 2007 - December 31, 2012 Rolling six-year 55% Court Order



**CHARLES K. BLANDIN FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEAR ENDED DECEMBER 31, 2012**

This is management's discussion and analysis of the Charles K. Blandin Foundation (the Foundation) audited financial statements for the calendar year ended December 31, 2012. Please read it in conjunction with the auditor's report and audited financial statements, which are presented at the front of this report.

ABOUT THE CHARLES K. BLANDIN FOUNDATION

The Charles K. Blandin Foundation is a private foundation based in Grand Rapids, Minnesota. Founded by Charles K. Blandin in 1941 to aid and promote Grand Rapids and the surrounding area. In designing the Foundation, Mr. Blandin emphasized flexibility to ensure it could adapt to changing times with an underlying philosophy that its work should lead to the "betterment of mankind" We are the state's largest rural-based and rural-focused foundation.

The Foundation's mission *is to strengthen communities in rural Minnesota, especially the Grand Rapids area. The vision is to be the premier partner for building healthy rural communities, grounded in strong economies, where the burdens and benefits are widely shared.* The Blandin Foundation addresses issues to enhance the economic viability of rural communities and the well-being of residents. The Foundation's management and Board of Trustees work diligently to ensure that Charles Blandin's legacy is served through wise investment and progressive leadership programs, meaningful public policy engagement, and grant making.

Since the sale of the Blandin Paper Company in 1977, the financial resources of the Residuary Trust and Foundation have expanded dramatically. Once linked, the Residuary Trust and the Foundation are now distinctly and legally separate from the paper company; the paper company is owned by UMP Kymmene, based in Finland.

The Blandin Foundation is funded by annual contributions from the Charles K. Blandin Residuary Trust of which the Foundation is the sole beneficiary. As of December 31, 2012, the foundation leveraged the proceeds from a Residuary Trust worth more than \$350 million

The Foundation's local giving area encompasses Itasca County communities, including Bigfork, Blackduck, Bovey, Calumet, Coleraine, Deer River, Grand Rapids, Hill City, Keewatin, Marble, Nashwauk, Northome and Taconite.

However, the legacy of Charles K. Blandin's endowment truly shines when paired with the passion of individuals within rural and local communities.

**CHARLES K. BLANDIN FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)(CONTINUED)
YEAR ENDED DECEMBER 31, 2012**

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis introduces the Foundation's basic financial statements. The Foundation's basic financial statements are: (1) Statement of Financial Position; (2) Statement of Activities; (3) Statement of Cash Flow; and (4) Notes to the financial statements which focus on the entity as a whole, rather than reporting on separate fund groups.

The Statement of Financial Position (Balance Sheet) includes the Foundation's financial assets, liabilities, and net assets.

The Statement of Activities (Income Statement) is a compilation of all revenues from all sources and all expenses of the Foundation. The statement shows any excess of revenue over expenses. The audited financial statements require that the revenues and expenses are reported and classified as unrestricted, temporarily restricted, and permanently restricted.

The Statement of Cash Flows reports the sources and uses of the Foundation's cash. There are three main sections in the Statement of Cash Flows: (1) cash flows from operating activities; (2) cash flows from investing activities; and (3) cash flows from financing activities.

A complete set of financial statements includes footnotes that provide further information to the reader about the Foundation's financial policies and procedures. Footnotes are required and provide a great source of information.

The Foundation has an audit, finance advisory, and investment committee which informs and advises the Foundation's Board. The members of the Foundation board are identified in the Foundation's 990PF annual tax return.

The Residuary Trust files a separate 990PF annual tax return, but salient information about the trust is incorporated into the Foundation's filing. The Trustees of the Residuary Trust are identified in the Trust's 990PF annual tax return.

FINANCIAL HIGHLIGHTS

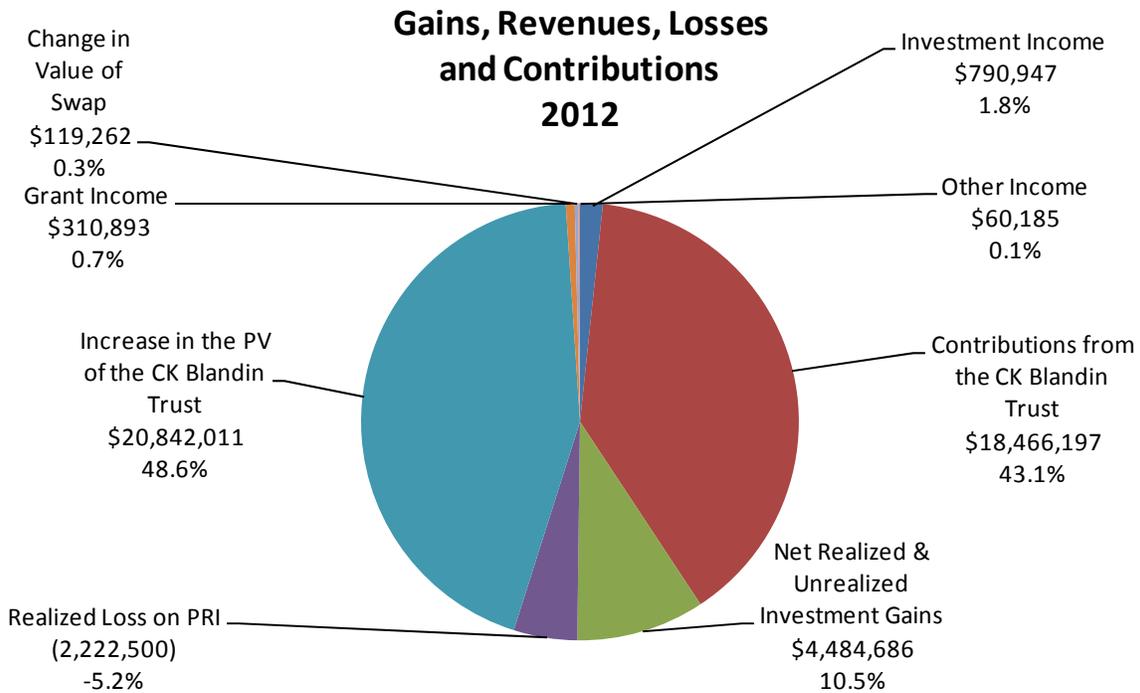
- Total revenues exceeded expenses by \$42.8 million, of which \$20.8 million was an increase in the net change in the permanently restricted value of the Charles K. Blandin Residual Trust. There was a \$4.6 million increase in the Foundation's unrestricted net assets.
- Permanently restricted net assets of the Foundation increased from \$329 million at 2011 year-end to \$350 million at 2012 year-end.
- The annual investment returns net of fees for the Charles K. Blandin Foundation and the Charles K. Blandin Residual Trust assets were 13.4% and 12.5%, respectively for 2012.
- The Foundation received \$18.4 million in contributions from the Charles K. Blandin Residual Trust for 2012.

**CHARLES K. BLANDIN FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)(CONTINUED)
YEAR ENDED DECEMBER 31, 2012**

FINANCIAL HIGHLIGHTS (CONTINUED)

- In 2012, the Foundation paid out grants and scholarships totaling \$11,014,056 of which \$7,065,951 or 65% were for the local area. The approved grants and scholarships, which is shown as an expense on the Foundation's Statement of Activities was \$9,709,996.
- The total 2012 expenses were \$17,318,368 – grants and scholarships accounted for 57% of the total, operating programs accounted for 27% and administration expenses 16%.

Blandin Foundation



REQUEST FOR INFORMATION

This financial report provides a general overview of the Blandin Foundation finances. Questions about this report or requests for additional financial information should be addressed to the Finance Director at The Charles K. Blandin Foundation, 100 North Pokegama Ave., Grand Rapids, MN 55744. The annual audited financial report is also available on-line at www.blandinfoundation.org.