CHARLES K. BLANDIN FOUNDATION

FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION
AND
SINGLE AUDIT COMPLIANCE REPORTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of Charles K. Blandin Foundation, Inc. as of December 31, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Charles K. Blandin Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 Charles K. Blandin Foundation as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2011, on our consideration of Charles K. Blandin Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Charles K. Blandin Foundation taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit 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.

LarsonAllen LLP

LarsonAllen LLP

Minneapolis, Minnesota
May 24, 2011

CHARLES K. BLANDIN FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2010 AND 2009

	Note	2010	2009
ASSETS			
Cash and Cash Equivalents		$ 300,068	$ 122,362
Investments at Fair Value	2	46,380,730	50,817,244
Investment Income Receivable		772,127	601,705
Beneficial Interest in Blandin Residuary Trust	1	350,584,886	326,177,264
Collateral - Securities Lending Agreement	4	980,669	2,026,231
Payable - Securities Lending Agreement	4	(1,243,726)	(2,422,799)
Program Related and Directed Investments	5	4,827,195	4,512,926
Other Assets		1,061,048	1,543,133
Property and Equipment	6	2,793,951	2,788,101
Total Assets		$ 406,456,948	$ 386,166,167
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts Payable and Accrued Expenses		$ 2,182,145	$ 1,625,419
Grants and Scholarships Payable	10	12,504,303	21,109,621
Long-Term Debt	7	13,155,000	14,885,000
Total Liabilities		27,841,448	37,620,040
NET ASSETS			
Unrestricted	1	10,607,614	945,863
Unrestricted - Board Designated		17,423,000	21,423,000
Total Unrestricted		28,030,614	22,368,863
Permanently Restricted	1	350,584,886	326,177,264
Total Net Assets		378,615,500	348,546,127
Total Liabilities and Net Assets		$ 406,456,948	$ 386,166,167

See accompanying Notes to Financial Statements.

CHARLES K. BLANDIN FOUNDATION
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2010

		2010			
	Note	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
GAINS, REVENUES, LOSSES, AND CONTRIBUTIONS					
Contribution from Blandin Residuary Trust		$ -	$ 16,284,793	$ -	$ 16,284,793
Investment Income		917,593	-	-	917,593
Net Realized and Unrealized Investment Gains	2	5,246,065	-	-	5,246,065
Increase in Beneficial Interest of Perpetual Trust	1	-	-	24,407,622	24,407,622
Grant Income		4,194,029	-	-	4,194,029
Change in Swap Value		(161,653)	-	-	(161,653)
Loss on Disposal and Other Income		79,594	-	-	79,594
Net Assets Released from Restrictions		16,284,793	(16,284,793)	-	-
Total Gains, Revenues, Losses, and Contributions		26,560,421	-	24,407,622	50,968,043
EXPENSES					
Charitable Activities:					
Grants		8,159,962	-	-	8,159,962
Grants - Federal ARRA		3,720,199			3,720,199
Scholarships		813,899	-	-	813,899
Expense - Federal ARRA		261,117	-	-	261,117
Programs	11	4,074,961	-	-	4,074,961
Total Charitable Activities		17,030,138	-	-	17,030,138
Administrative		3,868,532	-	-	3,868,532
Total Expenses		20,898,670	-	-	20,898,670
CHANGE IN NET ASSETS		5,661,751	-	24,407,622	30,069,373
Net Assets - Beginning of Year		22,368,863	-	326,177,264	348,546,127
NET ASSETS - END OF YEAR		$ 28,030,614	$ -	$ 350,584,886	$ 378,615,500

See accompanying Notes to Financial Statements.

CHARLES K. BLANDIN FOUNDATION
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2009

		2009			
	Note	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
GAINS, REVENUES, LOSSES, AND CONTRIBUTIONS					
Contribution from Blandin Residuary Trust		$ -	$ 15,559,739	$ -	$ 15,559,739
Investment Income		799,268	-	-	799,268
Net Realized and Unrealized Investment Gains	2	5,797,810	-	-	5,797,810
Increase in Beneficial Interest of Perpetual Trust	1	-	-	49,735,751	49,735,751
Grant Income		445,582	-	-	445,582
Change in Swap Value		520,574	-	-	520,574
Loss on Disposal and Other Income		29,604	-	-	29,604
Net Assets Released from Restrictions		15,559,739	(15,559,739)	-	-
Total Gains, Revenues, Losses, and Contributions		23,152,577	-	49,735,751	72,888,328
EXPENSES					
Charitable Activities:					
Grants		18,081,844	-	-	18,081,844
Scholarships		857,734	-	-	857,734
Programs	11	4,275,834	-	-	4,275,834
Total Charitable Activities		23,215,412	-	-	23,215,412
Administrative		3,248,309	-	-	3,248,309
Total Expenses		26,463,721	-	-	26,463,721
CHANGE IN NET ASSETS		(3,311,144)	-	49,735,751	46,424,607
Net Assets - Beginning of Year		25,680,007	-	276,441,513	302,121,520
NET ASSETS - END OF YEAR		$ 22,368,863	$ -	$ 326,177,264	$ 348,546,127

See accompanying Notes to Financial Statements.

CHARLES K. BLANDIN FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from C.K. Blandin Residuary Trust	$ 16,284,793	$ 15,559,739
Interest and Dividends Received	1,535,840	1,128,227
Cash Paid for Administrative Expenses	(2,195,052)	(2,175,193)
Cash Paid for Interest on Long-Term Debt	(714,529)	(749,560)
Cash Paid for Operating Programs	(4,074,961)	(4,275,830)
Cash Paid for ARRA Grants	(1,328,522)	-
Cash Paid for Grants and Scholarships	(17,604,209)	(9,217,800)
Net Cash Provided (Used) by Operating Activities	(8,096,640)	269,583
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Equipment and Building	(233,827)	(146,202)
Proceeds from Sale of Investments	48,376,397	50,890,040
Purchase of Investments	(38,693,818)	(50,023,151)
Cash Released (Restricted) for Debt Payment	555,594	(47,528)
Net Cash Provided by Investing Activities	10,004,346	673,159
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Long-Term Debt	6,155,000	-
Repayment of Long-Term Debt	(7,885,000)	(1,075,000)
Net Cash Used by Financing Activities	(1,730,000)	(1,075,000)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	177,706	(132,258)
Cash and Cash Equivalents - Beginning	122,362	254,620
CASH AND CASH EQUIVALENTS - ENDING	$ 300,068	$ 122,362
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Change in Net Assets	$ 30,069,373	$ 46,424,607
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	227,977	226,314
Amortization	12,172	38,244
Loss on Disposal of Fixed Asset	-	2,691
Write off of Program Related Investments	-	775,000
Change in Value of Blandin Residuary Trust	(24,407,622)	(49,735,751)
Net Realized and Unrealized Investment Gains	(4,879,576)	(6,221,673)
(Increase) Decrease In Current Assets:		
Interest and Dividends Receivable	(170,422)	(35,847)
Prepaid Expenses and Other Receivables	(85,681)	58,722
Program-Related and Directed Investments	(814,269)	(253,649)
Increase (Decrease) in Current Liabilities:		
Accounts Payable and Accrued Expenses	556,726	44,147
Grants and Scholarships Payable	(8,605,318)	8,946,778
Net Cash Provided (Used) by Operating Activities	$ (8,096,640)	$ 269,583
SUPPLEMENTAL INFORMATION		
Excise Taxes Paid	$ 35,904	$ 35,904

See accompanying Notes to Financial Statements.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments

At December 31, 2010 and 2009, 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, 2010 and 2009 of approximately $887,579 and $725,926, 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. The Foundation had $-0- write off of a Program-Related investment as of December 31, 2010 and $775,000 in 2009. New program-related investments totaling $25,000 and $-0- were approved in 2010 and 2009, respectively. Distributions of program-related investments were $750,000 and $150,000 in 2010 and 2009, 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

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 2004A and 2004B bonds less accumulated amortization of $254,953 and $216,710 for the years ended December 31, 2010 and 2009, respectively. Fifty percent of the balance of the 2004A and 2004B bonds debt acquisition costs were written off in 2010 and amounted to a new balance of $159,346 due to the retirement of the 2004A bonds. Deferred debt acquisition costs were $187,149 for the 2010 bonds. Amortization expense totaled $39,976 and $38,244 for the years ended December 31, 2010 and 2009, respectively. Bond reserve funds were $402,789 and $958,383 for the years ended December 31, 2010 and 2009, 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.

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 2010 and 2009, 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2007 to 2009 are open to examination by federal and state authorities.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through May 24, 2011, 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:

	2010			2009		
	Cost	Fair Value	Unrealized (Depreciation) Appreciation	Cost	Fair Value	Unrealized (Depreciation) Appreciation
Domestic - Large Cap Equities	$ 9,091,332	$ 10,417,975	$ 1,326,643	$ 8,673,441	$ 8,790,400	$ 116,959
Domestic - Small Cap Equities	2,955,102	3,936,697	981,595	3,133,249	3,639,426	506,177
Domestic - Midcap Equities	3,787,359	4,655,743	868,384	3,711,227	4,212,317	501,090
International Equities	6,978,836	9,673,420	2,694,584	7,338,448	8,991,924	1,653,476
Bonds	4,505,970	4,776,704	270,734	5,735,799	5,981,730	245,931
Alternative Investments	11,976,362	12,089,284	112,922	10,790,892	10,641,212	(149,680)
Mutual Funds	-	-	-	533,421	728,726	195,305
Cash	830,907	830,907	-	7,831,509	7,831,509	-
	$ 40,125,868	$ 46,380,730	$ 6,254,862	$ 47,747,986	$ 50,817,244	$ 3,069,258

	2010	2009
Net Realized Gain (Loss) on Investments	$ 1,804,207	$ (3,341,732)
Net Unrealized Gain on Investments	3,671,787	9,361,345
Investment Fees	(229,929)	(221,803)
	5,246,065	5,797,810
Interest and Dividends	917,593	799,268
Net Investment Income Gain	$ 6,163,658	$ 6,597,078

As of December 31, 2010 and 2009, the Foundation has future capital call requirements of approximately $833,000 and $1,200,000, respectively.

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, 2010, approximately $201 million (57%) Level 1 and $150 million (43%) Level 3.

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, 2010:

	Level 1	Level 2	Level 3	Total
Domestic Large Cap	$ 8,524,995	$ -	$ 1,892,980	$ 10,417,975
Domestic Small Cap	3,936,697	-	-	3,936,697
Domestic Mid Cap	4,655,743	-	-	4,655,743
International Equity	3,466,868	-	6,206,552	9,673,420
Bonds	4,776,704	-	-	4,776,704
Alternative Investments	975,390	-	11,113,894	12,089,284
Beneficial Interest in Blandin Residual Trust	-	-	350,584,886	350,584,886
Collateral - Securities Lending Agreement	-	980,669	-	980,669
Interest Rate Swap	-	-	(887,579)	(887,579)
Total	$ 26,336,397	$ 980,669	$ 368,910,733	$ 396,227,799

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, 2010:

	Domestic Large Cap	International Equity	Alternative Investments	Beneficial Interest	Interest Rate Swap	Total
Beginning Balance, January 1, 2010	$ 1,937,085	$ 5,352,981	$ 10,641,212	$ 326,177,264	$ (725,926)	$ 343,382,616
Net Realized Gains (Losses)	2,954	8,740	(131,399)	-	-	(119,705)
Change in Unrealized Depreciation	273,696	1,196,714	764,451	-	-	2,234,861
Net Sales	(320,755)	(351,883)	(160,370)	-	-	(833,008)
Change in Value of Swap	-	-	-	-	(161,653)	(161,653)
Increase in Value of Beneficial Interest	-	-	-	24,407,622	-	24,407,622
Ending Balance, December 31, 2010	$ 1,892,980	$ 6,206,552	$ 11,113,894	$ 350,584,886	$ (887,579)	$ 368,910,733

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, 2009:

	Level 1	Level 2	Level 3	Total
Domestic Large Cap	$ 6,853,315	$ -	$ 1,937,085	$ 8,790,400
Domestic Small Cap	3,639,426	-	-	3,639,426
Domestic Mid Cap	4,212,317	-	-	4,212,317
International Equity	3,638,943	-	5,352,981	8,991,924
Bonds	5,981,730	-	-	5,981,730
Mutual Funds	728,726	-	-	728,726
Alternative Investments	-	-	10,641,212	10,641,212
Beneficial Interest in Blandin Residuary Trust	-	-	326,177,264	326,177,264
Collateral - Securities Lending Agreement	-	2,026,231	-	2,026,231
Interest Rate Swap	-	-	(725,926)	(725,926)
Total	$ 25,054,457	$ 2,026,231	$ 343,382,616	$ 370,463,304

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, 2009:

	Domestic Large Cap	International Equity	Alternative Investments	Beneficial Interest	Interest Rate Swap	Total
Beginning Balance, January 1, 2009	$ 1,974,151	$ 5,065,658	$ 8,083,891	$ 276,441,513	$ (1,246,500)	$ 290,318,713
Net Realized Gains (Losses)	(350,045)	(206,242)	1,297,419	-	-	741,132
Change in Unrealized Depreciation	20,065	160,439	(475,838)	-	-	(295,334)
Net Purchases	292,914	333,126	1,735,740	-	-	2,361,780
Change in Value of Swap	-	-	-	-	520,574	520,574
Increase in Value of Beneficial Interest	-	-	-	49,735,751	-	49,735,751
Ending Balance, December 31, 2009	$ 1,937,085	$ 5,352,981	$ 10,641,212	$ 326,177,264	$ (725,926)	$ 343,382,616

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

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.

Fair Value Measurements of Investments in certain entities that calculate net asset value per share (or its equivalent) as of December 31, 2010:

	Net Asset Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Venture Capital	$ 3,047,860	$ 232,786	None	NA
Real Estate	4,137,431	162,803	None	NA
Debt	1,077,473	34,000	Monthly	90 days
Buyout	2,749,249	403,911	None	NA
International Equity	5,472,323	-	Monthly	3 - 6 days
Domestic Equity	1,892,419	-	Daily	1 day
Emerging Market	733,488	-	Monthly	30 days

Venture Capital money is provided to managers to invest in startup firms and small businesses with perceived long-term growth potential. These 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 majority of these investments 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. Fund managers price daily yet the fund manager may impose certain liquidity restrictions on investors.

Buyout occurs when an acquiring investor gains controlling interest of another company. The Foundation’s investments 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. Units are priced daily by the fund managers yet the fund manager may impose certain liquidity restrictions on investors.

NOTE 4 SECURITIES LENDING

The Foundation participates in securities lending through a program run by its custodial bank. Under the terms of its securities lending agreement, the program requires brokers who borrow securities from the Foundation to provide collateral of a value at least equal to 102% of the then fair value of the loaned securities and accrued interest, if any. This collateral is then reinvested on behalf of the Foundation by the custodial bank. The custodial bank has stated that the prime considerations of the collateral pools in which the collateral has been reinvested are "safety of principal and liquidity requirements," including "daily liquidity."

In addition, some of the securities in these collateral pools are subject to credit risk, including certain securities that are in receivership. Therefore, 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 of financial position.

Valuations of the collateral pools are provided to the Foundation by the custodial bank. For purposes of determining the values of collateral investments reflected on a balance sheet, the custodial bank uses financial models or other inputs where quoted prices in an active market are not available. Such valuations reflect hypothetical transactions, are subject to uncertainties, and accordingly do not reflect the amount that would be realized in a current sale. In addition, in light of the judgment involved in fair value decisions by the custodial bank, and given the current market conditions, the illiquidity of many of the securities in the collateral pool, and the credit risk associated with securities in the collateral pools, there can be no assurance that a fair value assigned to a particular security by the custodial bank is accurate.

At December 31, 2010, the Foundation had equity and fixed income securities with fair values of $980,669 on loan. At December 31, 2009, the Foundation had equity and fixed income securities with fair values of $2,026,231 on loan. The Foundation reflects the collateral received for securities on loan as an asset on its balance sheet and its obligation to return the collateral as a liability on its balance sheet. An asset of approximately $980,669 and $2,026,231, and the related liability representing the obligation to return collateral received of $1,243,726 and $2,422,799 are reflected on the balance sheet as of December 31, 2010 and 2009, respectively. The Foundation recorded an unrealized loss of $263,057 at December 31, 2010 and $396,568 at December 31, 2009.

NOTE 5 PROGRAM –RELATED AND DIRECTED INVESTMENTS

Program-related investments consist of the following at December 31:

	2010	2009
Program-Related Investments	$ 5,136,466	$ 5,131,214
Directed Investments	1,775,499	1,575,500
Less: Discounts on Program-Related Investments	(584,770)	(693,788)
Less: Allowance on Program-Related Investments	(500,000)	(500,000)
Less: Allowance on Directed Investments	(1,000,000)	(1,000,000)
Program-Related and Directed Investments, Net	$ 4,827,195	$ 4,512,926

NOTE 6 PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2010	2009
Land, Building and Improvements	$ 5,370,484	$ 5,352,951
Furniture, Equipment and Vehicles	2,105,858	1,907,743
Total	7,476,342	7,260,694
Less: Accumulated Depreciation	(4,682,391)	(4,472,593)
Net Property and Equipment	$ 2,793,951	$ 2,788,101

NOTE 7 LONG-TERM DEBT

Debt obligations of the Charles K. Blandin Foundation consisted of the following at December 31, 2010 and 2009, respectively:

Description	2010	2009
Series 2004A that are legally defeased as of November 30, 2010.	$ -	$ 7,285,000
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.	7,000,000	7,600,000
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.	6,155,000	-
Total	$ 13,155,000	$ 14,885,000

NOTE 7 LONG-TERM DEBT (CONTINUED)

The summary of annual future maturities of principal on bonds as of December 31, 2010 is as follows:

Year Ending December 31,	Scheduled Payment	Contractual Payment
2011	$ 1,215,000	$ 7,615,000
2012	1,220,000	620,000
2013	1,335,000	635,000
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	$ 13,155,000	$ 13,155,000

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 $402,789 and $958,383 for the years ended December 31, 2010 and 2009, respectively, and is recorded in other assets on the statements of financial position.

Revenue Bond – Series 2004A

During 2004, the County of Itasca, Minnesota issued $9,980,000 of Tax Exempt Demand Revenue Bonds, Series 2004A. The interest rate of the bonds at December 31, 2010 and 2009 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. Bonds due on or after May 1, 2010 are subject to redemption by the issuer at a redemption price equal to the principal amount plus accrued interest to the date of redemption. The bonds were redeemed in 2010 with the issuance of the 2010 bonds.

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, 2010 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.

NOTE 7 LONG-TERM DEBT (CONTINUED)

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, 2010 and 2009.

The bonds are the sole responsibility of the Foundation and are secured through a $7,139,729 letter of credit. On June 29, 2010, the Letter of Credit and Reimbursement Agreement was amended. The executed amended letter of credit expires on October 31, 2011, 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. Subsequent to year-end, 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.

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 less property and equipment of $10 million. The Foundation is not aware of any violations of the covenants as of December 31, 2010.

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, 2010 and 2009, the fair value of the swap agreement liability was approximately $887,579 and $725,926, respectively.

Swap agreement liability, determined in accordance with *Accounting for Derivative Instruments and Hedging Activities* accounting and reporting standards, was approximately $888,000 and $726,000 as of December 31, 2010 and 2009, respectively.

NOTE 8 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:

	2010	2009
Provision:		
Current Expense (Benefit)	$ 10,504	$ (19,496)
Total	$ 10,504	$ (19,496)
Liability:		
Deferred	125,097	61,405
Total	$ 125,097	$ 61,405

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, 2010.

NOTE 9 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.

NOTE 9 EMPLOYEE BENEFIT PLANS (CONTINUED)

Defined Contribution Plans (Continued)

Foundation contributions related to these defined contribution plans was approximately $235,000 and $215,000 for the years ended December 31, 2010 and 2009, respectively.

NOTE 10 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:

Year	Amount
2010	$ 10,096,180
2011	2,431,150
2012	136,650
Total Grant Commitments	12,663,980
Discount to Present Value	(159,677)
Total Present Value of Grant Commitments	$ 12,504,303

NOTE 11 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.

	2010	2009
Charitable Activities - Programs:		
Leadership Development	$ 2,469,707	$ 2,622,680
Public Policy and Engagement	966,256	1,047,151
Grants and Scholarships	638,998	605,999
Other	251,117	-
Total Charitable Activities - Programs	$ 4,326,078	$ 4,275,830

Leadership Development – For more than 20 years, Blandin has developed over 5,000 community leaders in 250 rural Minnesota communities and nine 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.

NOTE 11 CHARITABLE ACTIVITIES – PROGRAMS (CONTINUED)

Public Policy and Engagement – A Foundation program that brings research, people, and organizations together to address opportunities to strengthen rural Minnesota. The program encourages informed citizen action to assure that rural perspectives are well represented in public discourse. Blandin Foundation focuses resources on two critically important rural Minnesota policy issues: forest resources and broadband technology. Our Vital Forests/Vital Communities initiative champions the reciprocal relationship between healthy Minnesota communities and healthy forest eco-systems. Forestry is a key to the sustainability of many Minnesota communities. The Blandin Broadband Initiative: Keeping Communities Competitive focuses on broadband telecommunications, which is key to keeping communities competitive and thriving in a global economy.

Grants and Scholarships – Blandin Foundation 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. Grants are focused on six major priorities according to the Foundation's strategic plan. 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.

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

INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION

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

Our report on our audits of the basic financial statements of the Charles K. Blandin Foundation for 2010 and 2009 appears on page 1. We conducted our audits in accordance with U. S. generally accepted auditing standards for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of program expenses and administrative expenses and charts on charitable activities and paid grants are presented for purposes of additional analysis, and are not a required part of the basic financial statements. Such information has been subjected to the 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.

The information in Management's Discussion and Analysis, which is of a nonaccounting nature, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

LarsonAllen LLP
LarsonAllen LLP

Minneapolis, Minnesota
May 24, 2011

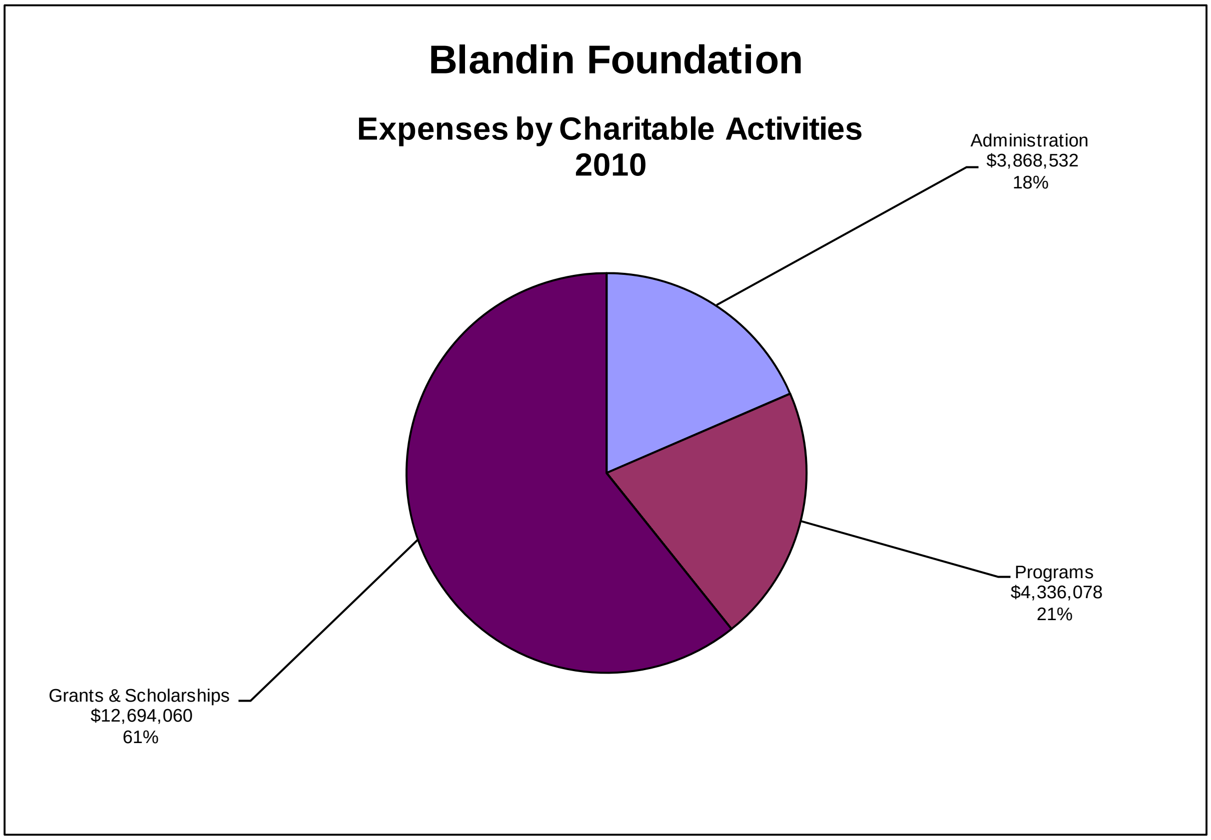
CHARLES K. BLANDIN FOUNDATION
SCHEDULES OF PROGRAM EXPENSES
YEARS ENDED DECEMBER 31, 2010 AND 2009
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	2010	2009
BLANDIN COMMUNITY LEADERSHIP PROGRAM		
Personnel	$ 723,373	$ 798,706
Program Operations	660,361	658,060
Communications	94,954	77,729
Professional Services	723,567	783,675
Building Operations	22,625	27,067
Additional Leadership Program Expenses	244,827	277,443
Total Blandin Community Leadership Program	2,469,707	2,622,680
PUBLIC POLICY AND ENGAGEMENT		
Personnel	550,243	542,377
Program Operations	113,272	94,441
Communications	13,859	64,891
Professional Services	274,658	330,442
Building Operations	14,224	15,000
Total Public Policy and Engagement	966,256	1,047,151
GRANT MAKING		
Personnel	546,774	514,211
Program Operations	54,476	62,440
Communications	5,622	5,177
Professional Services	15,132	4,171
Building Operations	16,994	20,000
Total Grant Making	638,998	605,999
OTHER		
Federal - ARRA Program Costs	261,117	-
TOTAL PROGRAMS	$ 4,336,078	$ 4,275,830

CHARLES K. BLANDIN FOUNDATION
SCHEDULES OF ADMINISTRATIVE EXPENSES
YEARS ENDED DECEMBER 31, 2010 AND 2009
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

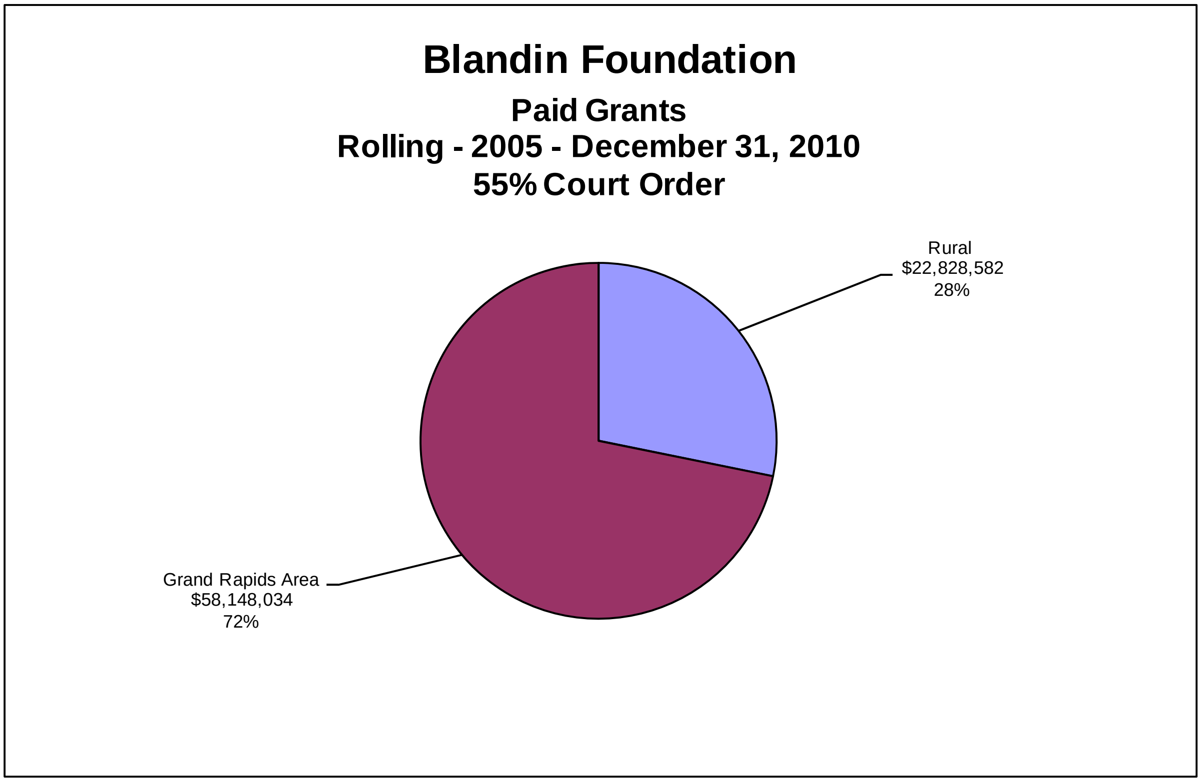
	2010	2009
ADMINISTRATIVE EXPENSES		
Personnel	$ 1,230,932	$ 936,599
Organization Operations	252,712	212,457
Interest on Long-Term Debt	714,429	735,301
Write Off Bond Amortization	199,322	-
Communications	199,325	132,376
Professional Services	534,592	563,993
Building Operations	54,966	35,973
Trustee Expense	321,241	301,339
Taxes	133,036	103,957
Subtotal	3,640,555	3,021,995
Depreciation	227,977	226,314
Total Administrative Expenses	$ 3,868,532	$ 3,248,309

CHARLES K. BLANDIN FOUNDATION
EXPENSES BY CHARITABLE ACTIVITIES
YEAR ENDED DECEMBER 31, 2010
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)



Accrual basis

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. The following chart indicates the level of grants paid to the Grand Rapids area starting 2005 through 2010.



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, 2010. Please read it in conjunction with the auditor's report and audited financial statements, which are presented at the front of this report.

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.

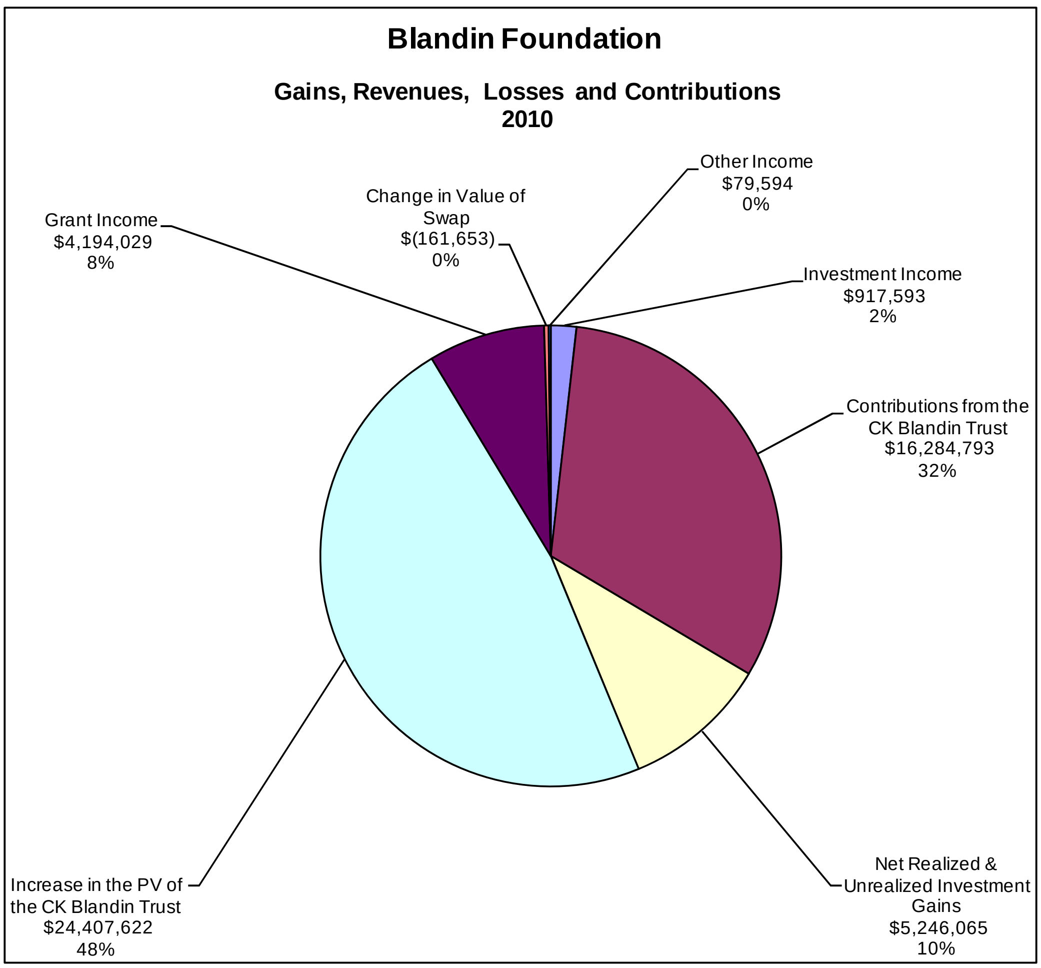
A complete set of financial statements includes footnotes that provide further information to the reader about the Foundation's financial policies and procedures. Footnotes are required and provide a great source of information.

ABOUT THE CHARLES K. BLANDIN FOUNDATION

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.

FINANCIAL HIGHLIGHTS

- Total revenue exceeded expenses by $30 million, of which $24 million was the increase in the net change in the permanently restricted value of Charles K. Blandin Residual Trust. There was a $5.6 million increase in the Foundation's unrestricted net assets.
- Permanently restricted net assets of the Foundation increased from $326 million at 2009 year-end to $350 million at 2010 year-end.
- The annual investment returns for the Charles K. Blandin Foundation and the Charles K. Blandin Residual Trust assets were 13.2% and 12.2%, respectively, for 2010.
- The Foundation received $16.2 million in contributions from the Charles K. Blandin Residual Trust for 2010.
- In 2010, the Foundation paid out grants and scholarships totaling $17,604,000 of which $14,486,000 or 82% were for the local area. The approved grants and scholarships, which is shown as an expense on the Foundation's Statement of Activities was $8,973,861.
- The total 2010 expenses were $20,898,670 – grants and scholarships accounted for 61% of the total, operating programs accounted for 21% and administration expenses 18%.



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 C. 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.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of Charles K. Blandin Foundation (the Organization) as of and for the year ended December 31, 2010, and have issued our report thereon dated May 24, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as 10-1 to be a material weakness.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Charles K. Blandin Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Charles K. Blandin Foundation, Inc. in a separate letter dated May 24, 2011.

Charles K. Blandin Foundation's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Charles K. Blandin Foundation's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the board of directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

LarsonAllen LLP

LarsonAllen LLP

Minneapolis, Minnesota
May 24, 2011

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited Charles K. Blandin Foundation's (the Organization) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended December 31, 2010. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to the major federal program is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Charles K. Blandin Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Charles K. Blandin Foundation's compliance with those requirements.

In our opinion, Charles K. Blandin Foundation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs or the year ended December 31, 2010.

Board of Directors
Charles K. Blandin Foundation

Internal Control over Compliance

The management of Charles K. Blandin Foundation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Charles K. Blandin Foundation's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Charles K. Blandin Foundation's internal control over compliance.

A *deficiency in internal control over complianc*e exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 10-2. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Charles K. Blandin Foundation's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Charles K. Blandin Foundation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

LarsonAllen LLP
LarsonAllen LLP

Minneapolis, Minnesota
May 24, 2011

CHARLES K. BLANDIN FOUNDATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2010

Federal Grantor/Pass-Through Grantor/Program Title	Contract Number	CFDA Number	Federal Expenditures
U.S. Department of Commerce			
American Recovery and Reinvestment Act - SBA Minnesota Intelligent Rural Communications	27-43-B10515	11.557	$ 3,981,316

NOTE 1 BASIS OF PRESENTATION

This schedule includes the federal grant activity of Charles K. Blandin Foundation and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, on used in the preparation of, the basic financial statements.

NOTE 2 FEDERAL AWARDS

Of the federal expenditures presented in the schedule, Charles K. Blandin Foundation provided federal awards to subrecipients as follows:

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
ARRA - Minnesota Intelligent Rural Communities	11.557	$3,720,199

CHARLES K. BLANDIN FOUNDATION
SUMMARY OF AUDITORS' RESULTS AND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Charles K. Blandin Foundation
2. One material weakness was noted during the audit of the financial statements of Charles K. Blandin Foundation
3. No instances of noncompliance material to the financial statements of Charles K. Blandin Foundation, were disclosed during the audit.
4. One significant deficiency was identified related to the audit of the major federal award programs for Charles K. Blandin Foundation
5. The auditors' report on compliance for the major federal award programs for Charles K. Blandin Foundation, expresses an unqualified opinion.
6. There were no audit findings required to be reported in accordance with Circular A-133.
7. The programs tested as major programs included U.S. Department of Commerce, Minnesota Intelligent Rural Communities, CFDA #11.557
8. The threshold for distinguishing Types A and B programs was $300,000.
9. Charles K. Blandin Foundation was determined not to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

Current Year Findings

10-1:

Condition: Lack of Segregation of Duties

Criteria
There is a lack of segregation of duties due to the access of the grants and scholarships module available to the Finance Director.

Cause of Condition
The Finance Director has full administrative rights to the accounting software.

Auditor Recommendation
We recommend segregating the check writing authority and recording authority from the general administrative access to all of the accounting modules.

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

Current Year Findings (Continued)

10-1:

Management Response

Currently the Charles K. Blandin Foundation uses 20 year old mission critical software which is fully integrated and customized and includes the accounting software. In 2011, the Foundation is implementing new critical mission software, which includes accounting software, in which the Finance Director is not an administrator. The board of trustees is aware of the lack of segregation in the current accounting software and the Finance Directors administrative right changes with the implementation of the new accounting software in 2011 and has agreed with staff's recommendation not to spend any additional money for programming costs to the old customized accounting software.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM

Current Year Findings

10-2:

Condition: Payments to Subrecipients

Criteria

Subrecipients should be reimbursed based on allowable expenses incurred.

Cause of Condition

Subrecipients are receiving funds prior to incurring allowable expenses.

Auditor Recommendation

Although the foundation follows its current grant policy related to payments to subrecipients, the foundation should make payments to its subrecipients on a reimbursement basis. Subrecipients should submit a summary of allowable expenses and be reimbursed accordingly. If payment has been made, we recommend monitoring subrecipients to ensure they are paying out the dollars on a timely basis.

Management Response

The Charles K. Blandin Foundation Public Policy program director responsible for this federal grant had received permission from this grant's program/grant officer who verified the Foundation's current grant making and payment processes used by the Charles K. Blandin were sufficient. This included a process in which a subrecipient may receive a grant payment prior to incurring all allowable expenses. The Finance Team, working in conjunction with the Public Policy Team, will send a notice with all checks to subrecipients indicating to the subrecipient the federal grant regulations and special conditions. The Finance Team will ensure that all subrecipients will have an onsite monitoring visit and a final site visit and review the timeliness of pay down and confirm allowable expenses of the grant dollars received.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM

Prior Year Findings

None noted.