

**CHARLES K. BLANDIN FOUNDATION**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEARS ENDED DECEMBER 31, 2007 AND 2006**

**CHARLES K. BLANDIN FOUNDATION  
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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of the Charles K. Blandin Foundation (a nonprofit organization) as of December 31, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audits in accordance with U.S. generally accepted auditing standards. 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Charles K. Blandin Foundation as of December 31, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

*Larson Allen LLP*

**LarsonAllen LLP**

Minneapolis, Minnesota  
March 12, 2008



**CHARLES K. BLANDIN FOUNDATION  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2007 AND 2006**

<b>ASSETS</b>	<u>NOTE</u>	<u>2007</u>	<u>2006</u>
Cash and Cash Equivalents		\$ 29,772	\$ 164,016
Investments at Fair Value	2	69,832,198	68,268,392
Investment Income Receivable		557,963	626,592
Property and Equipment	4	3,116,040	3,109,681
Beneficial Interest in Blandin Residuary Trust	1	396,618,814	390,312,540
Collateral - Securities Lending Agreement	3	11,108,419	7,833,707
Payable - Securities Lending Agreement	3	(11,108,419)	(7,833,707)
Other Assets		<u>2,684,511</u>	<u>1,814,915</u>
 Total Assets		 <u>\$ 472,839,298</u>	 <u>\$ 464,296,136</u>
 <b>LIABILITIES AND NET ASSETS</b>			
<b>LIABILITIES</b>			
Accounts Payable and Accrued Expenses		\$ 2,137,737	\$ 849,407
Grants and Scholarships Payable	9	13,167,428	14,581,600
Long-Term Debt	5	<u>17,015,000</u>	<u>18,055,000</u>
Total Liabilities		32,320,165	33,486,007
 <b>NET ASSETS</b>			
Unrestricted	1	21,049,639	18,907,224
Unrestricted - Board Designated		<u>22,850,680</u>	<u>21,590,365</u>
Total Unrestricted		43,900,319	40,497,589
Permanently Restricted	1	<u>396,618,814</u>	<u>390,312,540</u>
Total Net Assets		<u>440,519,133</u>	<u>430,810,129</u>
 Total Liabilities and Net Assets		 <u>\$ 472,839,298</u>	 <u>\$ 464,296,136</u>

See accompanying Notes to Financial Statements.

**CHARLES K. BLANDIN FOUNDATION  
STATEMENTS OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2007**

	NOTE	2007		TOTAL	
		UNRESTRICTED	TEMPORARILY RESTRICTED		PERMANENTLY RESTRICTED
<b>GAINS, REVENUES, LOSSES, AND CONTRIBUTIONS</b>					
Contribution from Blandin Residuary Trust		\$ -	\$ 20,248,005	\$ -	\$ 20,248,005
Investment Income		1,206,858	-	-	1,206,858
Net Realized and Unrealized Investment Gains	2	4,410,394	-	-	4,410,394
Increase in Beneficial Interest of Perpetual Trust	1	-	-	6,306,274	6,306,274
Grant Income		1,000,000	-	-	1,000,000
Change in Swap Value		(325,000)	-	-	(325,000)
Other Income		26	-	-	26
Net Assets Released from Restrictions		20,248,005	(20,248,005)	-	-
<b>Total Gains, Revenues, Losses, and Contributions</b>		<b>26,540,283</b>	<b>-</b>	<b>6,306,274</b>	<b>32,846,557</b>
<b>EXPENSES</b>					
Charitable Activities:					
Grants		14,812,602	-	-	14,812,602
Scholarships		808,742	-	-	808,742
Programs	10	4,132,314	-	-	4,132,314
<b>Total Charitable Activities</b>		<b>19,753,658</b>	<b>-</b>	<b>-</b>	<b>19,753,658</b>
Administrative		3,383,896	-	-	3,383,896
<b>Total Expenses</b>		<b>23,137,554</b>	<b>-</b>	<b>-</b>	<b>23,137,554</b>
<b>CHANGE IN NET ASSETS</b>		<b>3,402,729</b>	<b>-</b>	<b>6,306,274</b>	<b>9,709,003</b>
Net Assets - Beginning of Year		40,497,590	-	390,312,540	430,810,130
<b>NET ASSETS - END OF YEAR</b>		<b>\$ 43,900,319</b>	<b>\$ -</b>	<b>\$ 396,618,814</b>	<b>\$ 440,519,133</b>

See accompanying Notes to Financial Statements.

**CHARLES K. BLANDIN FOUNDATION  
STATEMENTS OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2006**

	NOTE	2006		TOTAL
		UNRESTRICTED	TEMPORARILY RESTRICTED	
<b>GAINS, REVENUES, LOSSES, AND CONTRIBUTIONS</b>				
Contribution from Blandin Residuary Trust		\$ -	\$ 18,886,921	\$ -
Investment Income		707,244	-	-
Net Realized and Unrealized Investment Gains	2	7,935,245	-	-
Increase in Beneficial Interest of Perpetual Trust	1	-	-	35,108,953
Grant Income		-	-	-
Change in Swap Value		-	-	-
Other Income		12,193	-	-
Net Assets Released from Restrictions		18,886,921	(18,886,921)	-
<b>Total Gains, Revenues, Losses, and Contributions</b>		<b>27,541,603</b>	<b>-</b>	<b>35,108,953</b>
<b>EXPENSES</b>				
Charitable Activities:				
Grants		8,616,956	-	-
Scholarships		701,283	-	-
Programs	10	3,760,910	-	-
<b>Total Charitable Activities</b>		<b>13,079,149</b>	<b>-</b>	<b>-</b>
Administrative		3,272,517	-	-
<b>Total Expenses</b>		<b>16,351,666</b>	<b>-</b>	<b>-</b>
<b>CHANGE IN NET ASSETS</b>		<b>11,189,937</b>	<b>-</b>	<b>35,108,953</b>
Net Assets - Beginning of Year		29,307,652	-	355,203,587
<b>NET ASSETS - END OF YEAR</b>		<b>\$ 40,497,589</b>	<b>\$ -</b>	<b>\$ 390,312,540</b>

See accompanying Notes to Financial Statements.

**CHARLES K. BLANDIN FOUNDATION  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2007 AND 2006**

	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from C.K. Blandin Residuary Trust	\$ 20,248,005	\$ 18,886,921
Interest and Dividends Received	949,669	572,129
Cash Paid for Administrative Expenses	(2,026,051)	(2,026,362)
Cash Paid for Interest on Long-Term Debt	(768,447)	(853,908)
Cash Paid for Operating Programs	(4,120,187)	(3,760,910)
Cash Paid for Grants and Scholarships	(19,301,852)	(13,720,117)
Net Cash Used by Operating Activities	(5,018,863)	(902,247)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Equipment and Building	(250,088)	(137,651)
Proceeds from Sale of Investments	31,804,153	20,965,536
Purchase of Investments	(25,588,986)	(18,807,494)
Cash Restricted for Debt Payment	(40,460)	(14,000)
Net Cash Provided by Investing Activities	5,924,619	2,006,391
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of Long-Term Debt	(1,040,000)	(1,020,000)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(134,244)	84,144
Cash and Cash Equivalents - Beginning	164,016	79,872
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	\$ 29,772	\$ 164,016
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 9,709,003	\$ 46,298,890
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation	243,729	259,913
Amortization	38,244	38,242
Change in Value of Blandin Residuary Trust	(6,306,274)	(35,108,953)
Net Realized and Unrealized Investment Gains	(4,736,212)	(7,935,245)
(Increase) Decrease In Current Assets:		
Interest and Dividends Receivable	68,629	(135,115)
Prepaid Expenses and Other Receivables	(867,379)	(14,215)
Increase (Decrease) in Current Liabilities:		
Accounts Payable and Accrued Expenses	288,330	96,114
Grants and Scholarships Payable	(3,456,933)	(4,401,878)
Net Cash Used by Operating Activities	\$ (5,018,863)	\$ (902,247)
<b>SUPPLEMENTAL INFORMATION</b>		
Excise Taxes Paid	\$ 163,000	\$ 72,000

See accompanying Notes to Financial Statements.

**CHARLES K. BLANDIN FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006**

**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 percent 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 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, our 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 Statement 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. Program related investments, consisting of promissory notes receivable from various organizations and non-publicly traded equity securities, are carried at cost or estimated market value, if lower than cost. Partnership investments are stated at fair market value, which is determined by the partnership general partner for real estate and partnership investments less a discount of ten percent. 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 of net assets available for benefits.

**CHARLES K. BLANDIN FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fair Value of Financial Instruments**

At December 31, 2007 and 2006, 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 percent. The value of the swap as of December 31, 2007 was approximately \$325,000 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.

**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 \$1,000, 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

**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 Statement 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. Deferred debt acquisition costs were \$573,644 less accumulated amortization of \$140,225 and \$101,981 for the years ended December 31, 2007 and 2006, respectively. Amortization expense totaled \$38,244 and \$38,242 for the years ended December 31, 2007 and 2006, respectively. Bond reserve funds were \$963,885 and \$923,425 for the years ended December 31, 2007 and 2006, respectively.

**CHARLES K. BLANDIN FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 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 5), plus an amount up to the equivalent of next year's adopted operating expenses, plus an additional amount up to \$4,000,000 for Board-selected programs or projects.

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 percent of the average market value of its previous year net assets or, according to the Trust documents, distribute 100 percent of Trust income, whichever is greater. If the earnings on the assets of the Trust are not greater than or equal to the Trust's required 5 percent 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.

**CHARLES K. BLANDIN FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Recent Accounting Pronouncements**

In September 2006, The Financial Accounting Standards Board ("FASB") issued FASB No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement emphasizes that fair value is a market-based measurement, not an entity-specific measurement. The implementation of this standard is required to be adopted in financial statements for periods beginning after November 15, 2007. The Foundation plans to adopt this standard in its financial statements for the year ended December 31, 2008.

Effective January 1, 2007, the Foundation adopted the provisions of FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes: An Interpretation of FASB Statement No. 109, ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS 109.

FIN 48 prescribes a recognition threshold and measurement principles for the financial statement recognition and measurement of tax positions taken or expected to be taken on a tax return that are not certain to be realized. The implementation of FIN 48 had no impact on the Foundation's financial statements.

**NOTE 2 INVESTMENTS**

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

	2007			2006		
	Cost	Fair Value	Unrealized (Depreciation) Appreciation	Cost	Fair Value	Unrealized (Depreciation) Appreciation
Domestic-Value Equities	\$ 4,601,801	\$ 4,751,325	\$ 149,524	\$ 4,672,205	\$ 5,813,311	\$ 1,141,106
Domestic - Small Equities	5,913,167	6,860,426	947,259	5,268,303	7,010,096	1,741,793
Domestic - Midcap Equities	6,460,669	7,463,034	1,002,365	3,906,434	6,902,538	2,996,104
Domestic - Growth Equities	8,183,184	10,354,390	2,171,206	7,839,117	10,067,145	2,228,028
International Equities	9,290,868	13,770,750	4,479,882	9,361,185	13,154,713	3,793,528
Bonds	12,078,486	11,867,856	(210,630)	9,611,500	9,478,973	(132,527)
Venture Capital	5,117,895	4,454,449	(663,446)	5,127,663	4,073,452	(1,054,211)
Real Estate	5,984,948	5,680,502	(304,446)	4,588,803	4,372,196	(216,607)
Bond Hedge Fund	-	-	-	3,000,000	3,343,691	343,691
Cash	471,036	281,646	(189,390)	2,052,277	2,052,277	-
Program-Related and Directed	4,347,820	4,347,820	-	2,000,000	2,000,000	-
	<u>\$ 62,449,874</u>	<u>\$ 69,832,198</u>	<u>\$ 7,382,324</u>	<u>\$ 57,427,487</u>	<u>\$ 68,268,392</u>	<u>\$ 10,840,905</u>

**CHARLES K. BLANDIN FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006**

**NOTE 2 INVESTMENTS (CONTINUED)**

	<u>2007</u>	<u>2006</u>
Net Realized Gain on Investments	\$ 7,940,979	\$ 2,185,187
Net Unrealized Gain (Loss) on Investments	(3,204,768)	6,018,728
Investment Fees	<u>(325,818)</u>	<u>(268,670)</u>
	4,410,394	7,935,245
Interest and Dividends	<u>1,206,858</u>	<u>973,605</u>
Net Investment Income	<u>\$ 5,617,252</u>	<u>\$ 7,935,245</u>

As of December 31, 2007 and 2006, the Foundation has future capital call requirements of approximately \$2,500,000 and \$3,200,000, respectively.

**NOTE 3 SECURITIES LENDING**

The Charles K. Blandin Foundation lends its investment securities to registered broker dealers. The borrower must provide collateral in an amount 102 percent in excess of the loaned securities value. The Foundation receives either (i) a fee in the case of non-cash collateral or (ii) payment of a portion of earnings in the case of cash collateral. The amount of collateral is adjusted daily based on market value changes on the loaned security. The borrower must return identical securities to close the loan at which time the collateral will be returned. Collateral is held by the investment custodian and is immediately available upon default. All earnings from interest and dividends on the loaned security revert to the Foundation, except for commission to the agent for handling this security lending which is 60 percent of the net earnings for each loan. The fair market value of the securities collateralizing the loan was \$11,330,587 and \$7,990,381 as of December 31, 2007 and 2006, respectively.

**NOTE 4 PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

	<u>2007</u>	<u>2006</u>
Land, Building and Improvements	\$ 5,400,054	\$ 5,268,055
Furniture, Equipment and Vehicles	<u>1,770,875</u>	<u>1,652,596</u>
	7,170,929	6,920,651
Less: Accumulated Depreciation	<u>(4,054,889)</u>	<u>(3,810,970)</u>
Net Property and Equipment	<u>\$ 3,116,040</u>	<u>\$ 3,109,681</u>

**CHARLES K. BLANDIN FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006**

**NOTE 5 LONG-TERM DEBT**

Debt obligations of the Charles K. Blandin Foundation consisted of the following at December 31, 2007 and 2006, respectively:

<u>Description</u>	<u>2007</u>	<u>2006</u>
County of Itasca, Minnesota, Demand Revenue Bonds Series 2004A, interest payable semi-annually on November 1 and May 1, principal payable annually on May 1 through 2019. Bond secured by Bond Reserve Fund.	\$ 8,415,000	\$ 9,475,000
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.	8,600,000	9,600,000
Total	<u>\$ 17,015,000</u>	<u>\$ 19,075,000</u>

The summary of annual future maturities of principal on bonds as of December 31, 2007 is as follows:

<u>Year Ending December 31,</u>	<u>Scheduled Payment</u>	<u>Contractual Payment</u>
2008	\$ 1,055,000	\$ 9,155,000
2009	1,075,000	575,000
2010	1,200,000	600,000
2011	1,220,000	620,000
2012	1,250,000	650,000
2013	1,375,000	675,000
2014	1,405,000	705,000
Thereafter	8,435,000	4,035,000
Total	<u>\$ 17,015,000</u>	<u>\$ 17,015,000</u>

**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 the maximum principal and interest requirements on outstanding bonds payable during the then current or any succeeding fiscal year or 10 percent of the original principal amount of the bonds. The bond reserve serves as collateral for the bonds. The balance of the bond reserve fund was \$963,885 and \$923,425 for the years ended December 31, 2007 and 2006, respectively.

**CHARLES K. BLANDIN FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006**

**NOTE 5 LONG-TERM DEBT (CONTINUED)**

**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, 2007 and 2006 was 3 percent. 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.

**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 percent as of December 31, 2007 and 2006.

The bonds are the sole responsibility of the Foundation and are secured through a \$10,140,000 letter of credit. The letter of credit expired on June 30, 2007 with automatic 1 year extensions through June 30, 2009. However, it is subject to non-renewal with a 90-day advance written notice from the bank.

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 in compliance with these financial covenants as of December 31, 2007.

**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 (see Note 5) to a synthetic fixed rate of 5.071 percent. 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 \$9,600,000 and gradually decreases to zero upon the termination of the Agreement on May 1, 2019. At December 31, 2007, the fair value of the swap agreement liability was approximately \$325,000.

**CHARLES K. BLANDIN FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006**

**NOTE 5 LONG-TERM DEBT (CONTINUED)**

**Interest Rate Swap (Continued)**

Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, establish accounting and reporting standards for derivative instruments and for hedging activities. They require that all derivatives, including those embedded in other contracts, be recognized as either assets or liabilities and that those financial instruments be measured at fair market value. This activity does not qualify as a cash flow hedge under SFAS No. 133.

**NOTE 6 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 percent (reduced to 1 percent 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:

	2007	2006
Provision:		
Current	\$ 163,000	\$ 72,000
Deferred	(109,000)	115,236
Total	\$ 54,000	\$ 187,236
Liability:		
Current	\$ 31,134	\$ 31,134
Deferred	147,646	256,818
Total	\$ 178,780	\$ 287,952

The Foundation is subject to distribution requirements of the Internal Revenue Code. Accordingly, it must distribute, in the year immediately following receipt, 100 percent of the contribution received from the Trust and 5 percent 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 percent tax on the undistributed balance. The Foundation has complied with the distribution requirements through December 31, 2007.

**CHARLES K. BLANDIN FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006**

**NOTE 7 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 percent 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 percent 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 \$157,000 and \$169,000 for the years ended December 31, 2007 and 2006, respectively.

**Severance Agreements**

The Foundation has entered into severance agreements which provide benefits to specific employees upon reaching retirement age, as defined. The related liability, discounted to the present value of the future commitment, is \$164,168 and \$66,380 at December 31, 2007 and 2006, respectively.

**NOTE 8 CONTINGENCY AND CONCENTRATION OF CREDIT RISK**

Certain debt instruments involve credit risk. The Foundation's mortgage investments are collateralized while other debt instruments are generally unsecured.

The Charles K. Blandin Foundation is a secondary guarantor on a \$1,000,000 mortgage. Management believes the likelihood of the Foundation becoming responsible for this liability is remote.

**CHARLES K. BLANDIN FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006**

**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>2007</u>
2008	\$ 8,990,734
2009	3,205,621
2010	650,000
2011	570,000
2012	480,000
Total Grant Commitments	<u>13,896,355</u>
Discount to Present Value	<u>(728,927)</u>
Total Present Value of Grant Commitments	<u><u>\$ 13,167,428</u></u>

**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.

	<u>2007</u>	<u>2006</u>
Charitable Activities - Programs:		
Children First!	\$ -	\$ 39,044
Leadership Development	2,375,152	1,980,174
Public Policy and Engagement	1,040,941	910,713
Grants and Scholarships	559,244	498,720
Other	156,977	332,259
Total Charitable Activities - Programs	<u><u>\$ 4,132,314</u></u>	<u><u>\$ 3,760,910</u></u>

Children First! – A Foundation program initiated in 1998 as a volunteer-based effort with the goal that all children in Itasca County start kindergarten healthy and ready to do their best.

Leadership Development – For more than 20 years, Blandin has developed 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.

**CHARLES K. BLANDIN FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006**

**NOTE 10 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 percent of grants are targeted to the Itasca County local giving area, which 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.

**SUPPLEMENTARY INFORMATION**

## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

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

Our report on our audits of the basic financial statements of the Charles K. Blandin Foundation for 2007 and 2006 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 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  
March 12, 2008

**CHARLES K. BLANDIN FOUNDATION**  
**SCHEDULES OF PROGRAM EXPENSES**  
**YEARS ENDED DECEMBER 31, 2007 AND 2006**  
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	2007	2006
<b>CHILDREN FIRST!</b>		
Personnel	\$ -	\$ 27,183
Program Operations	-	8,085
Communications	-	2,006
Professional Services	-	94
Building Operations	-	1,676
Total Children First!	-	39,044
 <b>BLANDIN COMMUNITY LEADERSHIP PROGRAM</b>		
Personnel	762,297	516,079
Program Operations	654,347	613,610
Communications	31,198	56,591
Professional Services	916,416	781,740
Building Operations	10,894	12,154
Total Blandin Community Leadership Program	2,375,152	1,980,174
 <b>PUBLIC POLICY AND ENGAGEMENT</b>		
Personnel	397,951	348,112
Program Operations	131,994	108,541
Communications	91,199	96,818
Professional Services	413,786	350,536
Building Operations	6,011	6,706
Total Public Policy and Engagement	1,040,941	910,713
 <b>GRANT MAKING</b>		
Personnel	424,741	402,265
Program Operations	78,987	41,665
Communications	5,473	1,633
Professional Services	39,755	43,356
Building Operations	10,288	9,801
Total Grant Making	559,244	498,720
 <b>OTHER</b>	156,977	332,259
 <b>TOTAL OPERATING PROGRAMS</b>	\$ 4,132,314	\$ 3,760,910

**CHARLES K. BLANDIN FOUNDATION**  
**SCHEDULES OF ADMINISTRATIVE EXPENSES**  
**YEARS ENDED DECEMBER 31, 2007 AND 2006**  
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	2007	2006
<b>ADMINISTRATIVE EXPENSES</b>		
Personnel	\$ 802,105	\$ 897,536
Organization Operations	360,559	247,994
Interest on Long-Term Debt	765,922	851,383
Communications	39,040	85,304
Professional Services	538,626	317,100
Building Operations	79,699	90,347
Trustee Expense	352,532	309,760
Taxes	201,684	213,180
Subtotal	3,140,167	3,012,604
Depreciation	243,729	259,913
Total Administrative Expenses	\$ 3,383,896	\$ 3,272,517

**CHARLES K. BLANDIN FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
YEAR ENDED DECEMBER 31, 2007**

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, 2007. 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. Financial Accounting Standards Board Statement Number 117 requires that the financial statements 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.

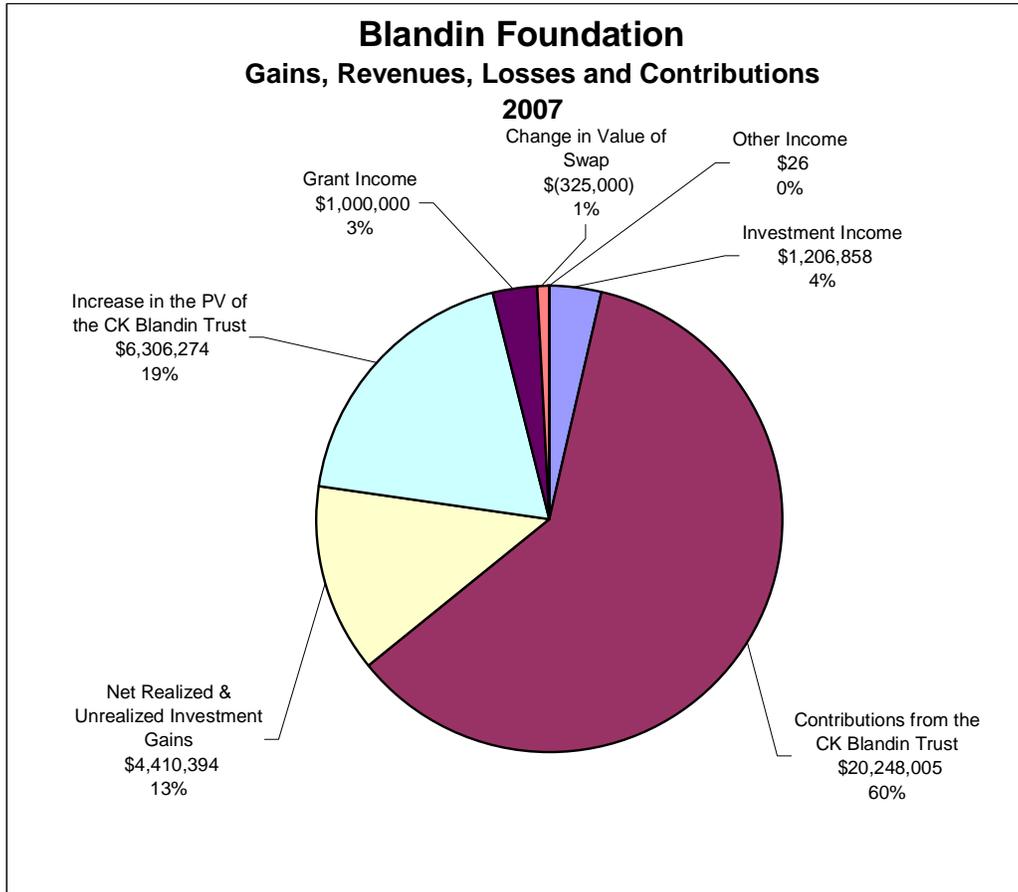
## **ABOUT THE CHARLES K. BLANDIN FOUNDATION**

*The Blandin Foundation's mission is to strengthen communities in rural Minnesota, especially the Grand Rapids area. The vision is 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, our goals are to support capacity of communities to identify issues and opportunities and help communities value and mobilize diverse ideas, opportunities, experiences, and people.*

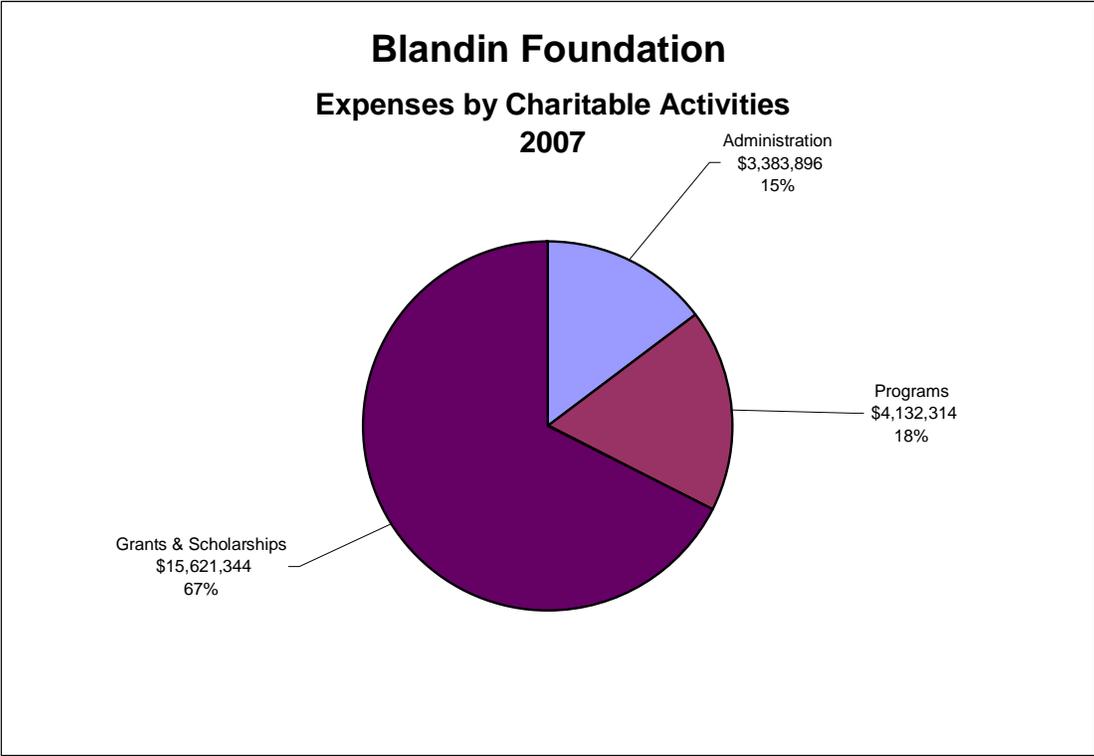
**CHARLES K. BLANDIN FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
YEAR ENDED DECEMBER 31, 2007**

**FINANCIAL HIGHLIGHTS**

- Total revenues exceeded expenses by \$9.7 million, of which \$6.3 million was the net change in the permanently restricted value of Charles K. Blandin Trust. There was a \$3.4 million increase in the Foundation's unrestricted net assets.
- Permanently restricted net assets of the Foundation increased from \$390 million at 2006 year-end to \$397 million at 2007 year-end.
- The annual investment returns for the Foundation and the Charles K. Blandin Trust assets were 6.7 percent and 6.8 percent, respectively, for 2007.
- The Foundation received \$20.2 million in contributions from the Charles K. Blandin Trust for 2007.
- In 2007, the Foundation paid out grants and scholarships totaling \$19,301,852 of which \$14,092,619 or 73 percent were for the local area. The approved grants and scholarships, which is shown as an expense on the Foundation's Statement of Activities was \$15,621,344.
- The total 2007 expenses were \$23,137,554 – grants and scholarships accounted for 67 percent of the total, operating programs accounted for 18 percent and administration expenses 15 percent.



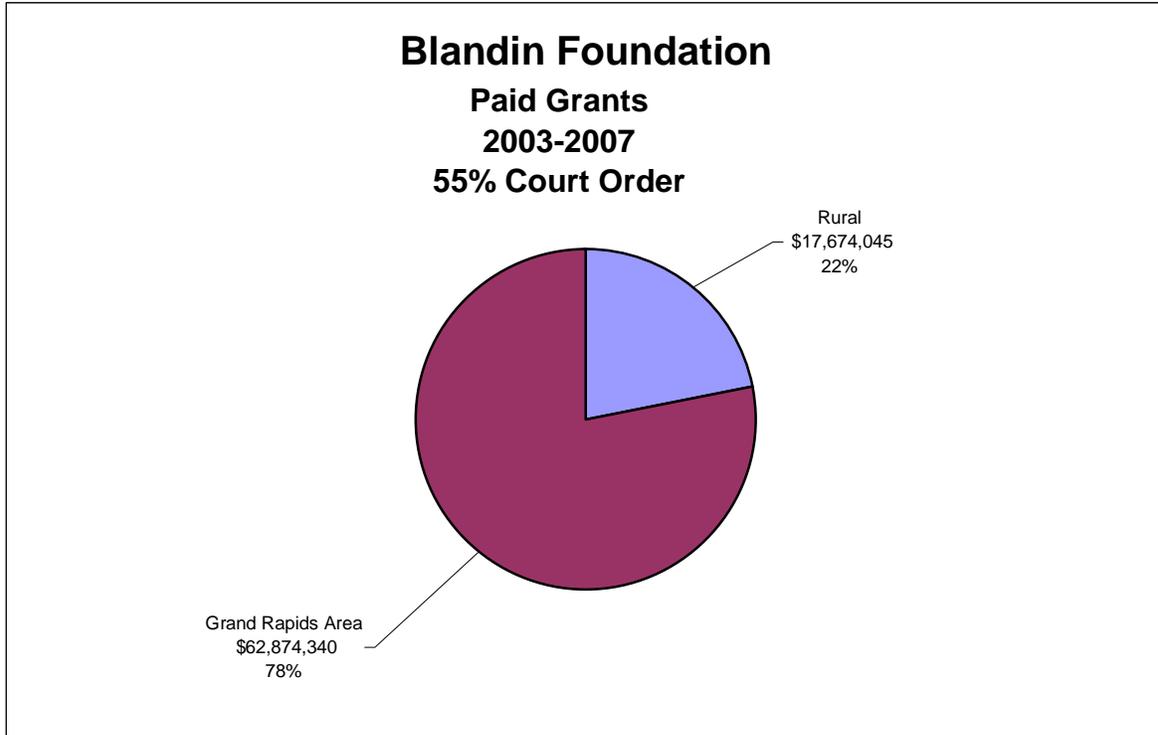
**CHARLES K. BLANDIN FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
YEAR ENDED DECEMBER 31, 2007**



Accrual basis

**CHARLES K. BLANDIN FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
YEAR ENDED DECEMBER 31, 2007**

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 percent 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 2003 through 2007.



**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 Blandin Foundation, 100 North Pokegama Ave., Grand Rapids, MN, 55744. The annual audited financial report is also available on-line at [www.blandinfoundation.org](http://www.blandinfoundation.org).