CHARLES K. BLANDIN FOUNDATION

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED December 31, 2016 and 2015

CHARLES K. BLANDIN FOUNDATION
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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Charles K. Blandin Foundation, which comprise the statements of financial position as of December 31, 2016 and 2015, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The information in Management's Discussion and Analysis, which is 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.

RSM US LLP

Des Moines, Iowa
June 16, 2017

Charles K. Blandin Foundation

Statements of Financial Position
December 31, 2016 and 2015

	2016	2015
Assets		
Cash and cash equivalents	$ 930,972	$ 3,281,826
Investments at fair value (Note 2)	36,138,448	36,437,522
Accounts and investment income receivable	48,290	45,026
Beneficial interest in Charles K. Blandin Residuary Trust (Note 1)	370,591,354	359,922,588
Mission related investments (Note 4)	3,651,735	3,063,909
Other assets	662,051	756,370
Property, furniture and equipment (Note 5)	5,447,672	5,324,660
Total assets	**$ 417,470,522**	**$ 408,831,901**
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 917,653	$ 1,092,500
Grants and scholarships payable	10,053,478	10,236,377
Long-term debt	7,076,899	8,805,274
Total liabilities	**18,048,030**	**20,134,151**
Net assets:		
Unrestricted	20,656,138	20,275,162
Unrestricted—Board designated	8,175,000	8,500,000
Total unrestricted	**28,831,138**	**28,775,162**
Permanently restricted	370,591,354	359,922,588
Total net assets	**399,422,492**	**388,697,750**
Total liabilities and net assets	**$ 417,470,522**	**$ 408,831,901**

See Notes to Financial Statements.

Charles K. Blandin Foundation

Statement of Activities
Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Gains, revenues, losses and contributions:				
Investment Income (distributions) from				
Charles K. Blandin Residuary Trust	$ -	$ 17,153,579	$ -	$ 17,153,579
Investment income	569,233	-	-	569,233
Net realized and unrealized investment				
gain (Note 2)	2,824,167	-	-	2,824,167
Increase in beneficial interest of perpetual				
trust (Note 1)	-	-	10,668,766	10,668,766
Change in swap value	128,219	-	-	128,219
Other income	36,948	-	-	36,948
Net assets released from restrictions	17,153,579	(17,153,579)	-	-
Total gains, revenues and contributions	20,712,146	-	10,668,766	31,380,912
Expenses:				
Charitable activities:				
Grants	12,032,361	-	-	12,032,361
Scholarships	881,267	-	-	881,267
Programs (Note 10)	4,751,170	-	-	4,751,170
Total charitable activities	17,664,798	-	-	17,664,798
Administrative	2,991,372	-	-	2,991,372
Total expenses	20,656,170	-	-	20,656,170
Change in net assets	55,976	-	10,668,766	10,724,742
Net assets, beginning of year	28,775,162	-	359,922,588	388,697,750
Net assets, end of year	**$ 28,831,138**	**$ -**	**$ 370,591,354**	**$ 399,422,492**

See Notes to Financial Statements.

Charles K. Blandin Foundation

Statement of Activities
Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Gains, revenues, losses and contributions:				
Investment Income (distributions) from				
Charles K. Blandin Residuary Trust	$ -	$ 18,499,202	$ -	$ 18,499,202
Investment income	658,061	-	-	658,061
Net realized and unrealized investment				
(losses) (Note 2)	(2,108,949)	-	-	(2,108,949)
(Decrease) in beneficial interest of				
perpetual trust (Note 1)	-	-	(33,028,016)	(33,028,016)
Change in swap value	147,927	-	-	147,927
Other income	10,089	-	-	10,089
Net assets released from restrictions	18,499,202	(18,499,202)	-	-
Total gains, revenues, (losses) and contributions	17,206,330	-	(33,028,016)	(15,821,686)
Expenses:				
Charitable activities:				
Grants	11,619,179	-	-	11,619,179
Scholarships	891,600	-	-	891,600
Programs (Note 10)	4,853,396	-	-	4,853,396
Total charitable activities	17,364,175	-	-	17,364,175
Administrative	2,847,712	-	-	2,847,712
Total expenses	20,211,887	-	-	20,211,887
Change in net assets	(3,005,557)	-	(33,028,016)	(36,033,573)
Net assets, beginning of year	31,780,719	-	392,950,604	424,731,323
Net assets, end of year	**$ 28,775,162**	**$ -**	**$ 359,922,588**	**$ 388,697,750**

See Notes to Financial Statements.

Charles K. Blandin Foundation

Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
Cash Flows From Operating Activities		
Change in net assets	$ 10,724,742	$ (36,033,573)
Adjustments to reconcile change in net assets to net cash (used in) operating activities:		
Depreciation	313,215	136,089
Amortization	33,973	37,555
Loss on disposal of property and equipment	20,045	-
Change in value of Charles K. Blandin Residuary Trust	(10,668,766)	33,028,016
Net realized and unrealized investment (gains) losses	(2,824,167)	2,108,949
Change in interest rate swap value	(128,220)	(147,927)
(Increase) decrease in current assets:		
Accounts and investment income receivable	(3,264)	231,681
Other assets	94,319	(54,359)
Misson related investments	(587,826)	(310,630)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	152,468	18,567
Grants and scholarships payable	(182,899)	(832,941)
Net cash (used in) operating activities	(3,056,380)	(1,818,573)
Cash Flows From Investment Activities		
Purchase of property, furniture and equipment	(579,407)	(129,477)
Purchase of property, furniture and equipment, building remodel	(75,960)	(2,548,771)
Proceeds from sale of investments	24,829,232	61,869,488
Purchase of investments	(21,705,991)	(57,447,977)
Net cash provided by investing activities	2,467,874	1,743,263
Cash Flows From Financing Activities		
Payment of bond issuance costs	-	(93,585)
Proceeds from long-term debt	-	6,100,000
Repayment of long-term debt	(1,762,348)	(5,145,227)
Net cash provided by (used in) financing activities	(1,762,348)	861,188
Net increase (decrease) in cash and cash equivalents	(2,350,854)	785,878
Cash and Cash Equivalents, beginning of year	3,281,826	2,495,948
Cash and Cash Equivalents, end of year	**$ 930,972**	**$ 3,281,826**
Supplemental Disclosure of Noncash Investing and Financing Activities:		
Purchase of property and equipment on account	$ -	$ 199,095
Supplemental Information:		
Grants paid	$ 12,304,985	$ 12,483,381
Scholarships paid	936,749	934,051
Interest paid	365,408	335,752
Excise taxes paid	-	75,000

See 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 a minimum of 60% of its grants paid to the Grand Rapids area over a six-year rolling period.

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. The 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, Cash Equivalents and Concentration of Risk

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. The Foundation has not incurred any losses as a result of this concentration.

Investments

Investments in debt and equity securities with readily determinable fair values are carried at quoted market value. The Foundation has elected to report the fair value of partnership investments using the practical expedient. The practical expedient allows for the use of net asset value (NAV), either as reported by the partnership general partner or as adjusted by the Foundation based as various factors, including contributions and withdrawals. 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.

Investment Income

Interest and dividend income is recorded when earned. Realized gain and losses are recorded as the difference between historical cost and fair value when an investment is sold. Unrealized gains and losses are recorded for the change in fair value of investments between reporting periods. Interest, dividends, partnership distributions, and other revenues earned but not yet received by the Foundation on its investments at the end of the year are reported as investment income receivable.

Beneficial Interest in Charles K. Blandin Residuary Trust

The 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 irrevocable 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 beneficial interest in perpetual trust in the permanently restricted net assets column.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments

At December 31, 2016 and 2015, the fair value of all financial instruments approximates carrying value. 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 following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Investments in Equity and Debt Securities – Fair value is determined based on reference to quoted market prices on publicly traded exchanges.

Beneficial Interest in Charles K. Blandin Residuary Trust – The Foundation is the sole beneficiary of the Trust. The fair value of the Trust is equal to net assets of the Trust. The net assets of the Trust are determined as the fair value of the investments of the Trust, less any obligations of the Trust. The Trust holds investments in equity and debt securities and investments, such as private equity, venture capital and real estate, that are valued using the practical expedient. The Foundation determines the fair value of investments held by the Trust in the same manner that investments it holds directly are valued. Obligations of the Trust are short term in nature and are recorded as the amount due, with no discounts applied. The Trust is classified as a Level 3 asset as the Foundation has an interest in the Trust and does not own the underlying assets.

Long-Term Debt – It is not practicable to estimate the fair value of the 2010 and 2015A debt due to the uncertainty of the bond refinance market.

Grants Payable – The fair value of grants payable approximates carrying value as they are recorded at the present value of the future payments, using an appropriate discount rate at the time of the grant.

Interest Rate Swap – This derivative instrument is valued using a discounted cash flow model that uses observable yield curve inputs to calculate fair value and is classified within Level 3 of the hierarchy.

For all other financial instruments, including investment income receivable, accounts payable and accrued expense, the carrying value approximates fair value due to the short-term nature of the instruments.

Mission Related Investments

The purpose of the Blandin Foundation's Mission Related Investment (MRI) activities is to increase the organization's charitable impact by utilizing a broader range of its financial assets in furtherance of mission, while maintaining prudent, long-term stewardship of assets that preserve its capacity to generate impact into the future. The revised MRI policy was adopted by the Board of Trustees in March 2015. For the sake of making a clear distinction on the source of funds, the Blandin Foundation uses the following definitions in its MRI policies: investments made from the annual five percent mandatory charitable distribution of the Foundation for which there is an expectation of partial or full repayment and known as program-related investments for financial reporting purposes.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program-Related 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 after approved and when a request for payment has been paid. 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. During the years ended December 31, 2016 and 2015 there were no new program-related investments. There were distributions to existing Program-Related investments of $90,000 and none for the years ended December 31, 2016 and 2015, respectively.

Directed Investments: Mission related investments funded from the unrestricted net assets of the Foundation are referred to as directed investments. Directed investments are initially recorded on the statements of financial position at cost after approved and when a capital call has been paid. During the years ended December 31, 2016 and 2015 there was $1,200,000 and $200,000, respectively, capital invested through capital calls.

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 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

Net Assets

Net assets are classified based on the presence or absence of 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 (Trustees) has discretionary control. The Trustees adopted a policy whereby a portion of unrestricted net assets are designated in the amount of the minimum financial covenant on Variable Rate Demand Revenue Bonds, Series 2004B (see Note 6), plus an amount up to the equivalent of next year's adopted operating expenses.

Temporarily Restricted – Temporarily restricted assets represents resources subject to donor imposed restrictions that will be satisfied by actions of the Foundation or the passage of time.

Permanently Restricted – The assets of the Charles K. Blandin Residuary Trust (Trust) are permanently restricted at the donor's request. The Trust is required by IRS regulations to distribute annually, 5% of the average monthly ending market values of its previous year net assets or, according to the Trust documents, distribute 100% of Trust income, whichever is greater. For the years ended December 31, 2016 and 2015, the Trust calculated the required 5% distribution to the Foundation based 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)

Grants and Scholarships Payable

Grant and scholarship commitments are charged to operations at the time the grants are approved by the Trustees. Grant cancellations, if any, are recognized at the time of Trustee action. 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.

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.

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.

Board Compensation

In accordance with the provision of Charles K. Blandin's Will, Foundation Trustees are compensated. For the years ending December 31, 2016 and 2015 Board members totaled 13 and were compensated $230,500 and $226,250, respectively.

Income Taxes

The Foundation has received an exemption from Federal income taxes from the Internal Revenue Service under the provisions of Section 501(c)(3). The Foundation follows the accounting guidance for the recognition of uncertain tax positions. The Foundation is subject to federal and state income taxes to the extent it has unrelated business income. The Foundation has evaluated its material tax positions and determined there are no income tax effects with respect to its 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 items that are subject to tax on unrelated business income, or other taxes.

Recent Accounting Pronouncements

During the year ended December 31, 2016, the Foundation adopted the provisions of Accounting Standards Update 2015-03, *Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03)*. Under this new accounting policy, the Foundation has retrospectively presented all deferred debt acquisition costs as a direct deduction from the carrying amount of the related obligation on the statement of financial position. The effects of the retrospective application of the accounting change on the year ended December 31, 2015, is to decrease other assets and long-term debt by $174,499 on the statement of financial position. Amortization of deferred debt acquisition costs is recorded using the straight line interest method, which approximates the effective interest method.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 amends the requirements for financial statements and notes in Topic 958, Not-for-Profit Entities, and improves the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance, and cash flows. ASU 2016-14 is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early application is permitted. Management is currently evaluating the effect that adopting this new accounting guidance will have on the statements of operations, cash flows and financial position.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through June 16, 2017, the date the financial statements were recommended by the Audit Committee to the Trustees to be approved and issued.

NOTE 2 INVESTMENTS

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

	2016			2015		
	Cost	Fair Value	Unrealized (Depreciation) Appreciation	Cost	Fair Value	Unrealized (Depreciation) Appreciation
Domestic large cap equities	$ 55,739	$ 57,765	$ 2,026	$ 123,870	$ 67,201	$ (56,669)
Domestic mid cap equities	2,987,114	3,886,306	899,192	3,135,754	3,837,987	702,233
Domestic small cap equities	1,436,716	1,675,577	238,861	1,397,665	1,413,633	15,968
International equities	1,752,194	1,735,105	(17,089)	2,515,497	2,363,288	(152,209)
Fixed Income	4,472,581	4,452,253	(20,328)	4,285,073	4,357,812	72,739
Alternative investments	10,408,892	14,171,671	3,762,779	11,559,458	13,330,239	1,770,781
Natural resources publicly traded limited partnerships	2,620,308	1,400,196	(1,220,112)	2,075,837	1,502,733	(573,104)
Equity mutual funds	6,198,391	8,160,781	1,962,390	7,586,870	8,787,777	1,200,907
Cash	598,794	598,794	-	776,852	776,852	-
	$ 30,530,729	$ 36,138,448	$ 5,607,719	$ 33,456,876	$ 36,437,522	$ 2,980,646

	2016	2015
Net realized gain on investments	$ 588,718	$ 1,768,933
Net unrealized gain (loss) on investments	2,449,585	(3,632,356)
Investment fees	(214,136)	(245,526)
	2,824,167	(2,108,949)
Interest and dividends	569,233	658,061
Net investment gain (loss)	$ 3,393,400	$ (1,450,888)

As of December 31, 2016 and 2015, the Foundation has future capital call requirements for investments of approximately $2,618,000 and $2,928,000, respectively.

NOTE 3 FAIR VALUE MEASUREMENTS

Fair Value Measurements

The Foundation follows the accounting guidance for fair value, which applies to reported balances that are required or permitted to be measured at fair value. The guidance 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 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 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.

The Foundation uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. 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 Trust, the underlying investments would be categorized at December 31, 2016, approximately $249 million (67%) Level 1, $42 million (12%) Level 2, and $80 million (21%) Level 3 and at December 31, 2015, approximately $235 million (65%) Level 1, $47 million (13%) Level 2 and $78 million (22%) Level 3.

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table presents the Foundation's fair value hierarchy for those assets and (liabilities) measured at fair value on a recurring basis as of December 31, 2016:

	Level 1	Level 2	Level 3	Total
Domestic large cap	$ 57,765	$ -	$ -	$ 57,765
Domestic mid cap	3,886,306	-	-	3,886,306
Domestic small cap	1,675,577	-	-	1,675,577
International equity	1,735,105	-	-	1,735,105
Fixed income	4,452,253	-	-	4,452,253
Equity mutual funds	8,160,781	-	-	8,160,781
Natural resources publicly traded limited partnerships	1,400,196	-	-	1,400,196
Beneficial interest in Charles K. Blandin Residual Trust	-	-	370,591,354	370,591,354
Interest rate swap liability	-	-	(152,535)	(152,535)
Total	$ 21,367,983	$ -	$ 370,438,819	391,806,802
Investments valued at net asset value:				
Alternative investments				14,171,671
				$ 405,978,473

The following 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, 2016:

	Beneficial Interest	Interest Rate Swap Liability	Total
Beginning Balance, January 1, 2016	$ 359,922,588	$ (280,755)	$ 359,641,833
Change in value of swap	-	128,219	128,219
Increase in value of beneficial interest, net of distributions	10,668,766	-	10,668,766
Ending Balance, December 31, 2016	$ 370,591,354	$ (152,536)	$ 370,438,818

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table presents the Foundation's fair value hierarchy for those assets and (liabilities) measured at fair value on a recurring basis as of December 31, 2015:

	Level 1	Level 2	Level 3	Total
Domestic large cap equities	$ 67,201	$ -	$ -	$ 67,201
Domestic mid cap equities	3,837,987	-	-	3,837,987
Domestic small cap equities	1,413,633	-	-	1,413,633
International equities	2,363,288	-	-	2,363,288
Fixed income	4,357,812	-	-	4,357,812
Equity mutual funds	8,787,777	-	-	8,787,777
Natural resources publicly traded limited partnerships	1,502,733	-	-	1,502,733
Beneficial interest in Charles K. Blandin Residual Trust	-	-	359,922,588	359,922,588
Interest rate swap liability	-	-	(280,755)	(280,755)
Total	$ 22,330,431	$ -	$ 359,641,833	381,972,264
Investments valued at net asset value:				
Alternative investments				13,330,239
				$ 395,302,503

The following 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, 2015:

	Beneficial Interest	Interest Rate Swap	Total
Beginning Balance, January 1, 2015	$ 392,950,604	$ (428,682)	$ 392,521,922
Change in value of swap	-	147,927	147,927
Decrease in value of beneficial interest	(33,028,016)	-	(33,028,016)
Ending Balance, December 31, 2015	$ 359,922,588	$ (280,755)	$ 359,641,833

Fair Value Measurements of Investments in certain entities that calculate net asset value per share (or its equivalent) as of December 31, 2016 and 2015:

	Net Asset Value as of December 31, 2016	Net Asset Value as of December 31, 2015	Unfunded Commitments as of December 31, 2016	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Venture capital (a)	$ 789,857	$ 893,417	$ 365,995	None	NA
Real estate (b)	3,735,744	3,338,214	423,368	None	NA
Debt (c)	256,887	187,124	308,110	Monthly	90 days
Buyout (d)	831,697	792,171	895,473	None	NA
Special situation (e)	1,722,085	1,456,556	625,420	None	NA
International equity (f)	3,962,301	4,218,302	-	Monthly	3–6 days
Domestic equity (f)	1,483,096	1,283,848	-	Daily	30 days
Emerging market (f)	1,390,004	1,160,607	-	Monthly	30 days
	$ 14,171,671	$ 13,330,239	$ 2,618,366		

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

The investments not currently eligible of redemption are expected to be liquidated over the period of approximately 15 years.

(a) Venture Capital represents investments 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.

(b) Real Estate represents investments in land and related improvements, including buildings. The majority of these investments are partnership investments in which the Foundation plans to hold for the entire duration and are illiquid.

(c) Debt include investments in corporate bonds or government bonds that value their investments daily but impose certain liquidity restrictions on investors through periodic fund openings ranging from weekly to quarterly. Investing in corporate debt securities and government securities provides diversification, interest income, and growth potential to the overall portfolio.

(d) Buyout occurs when an acquiring investor gains controlling interest of another company. A leveraged buyout (LBO) is when a company is purchased with a combination of equity and significant amounts of borrowed money, structured in such a way that the cash flows or assets are used as the collateral to secure and repay the money borrowed to purchase the company. The Foundation’s investments are all partnership investments in which the Foundation plans to hold for the entire duration and are illiquid.

(e) Special situation are private capital investments whose strategies are not fully described by the four traditional classification of Venture, Buyout, Debt, or Real Estate. This could mean a combination of the former four classifications, or a unique and/or opportunistic strategy that does not fit within any of the four traditional classifications. The majority of these investments the Foundation plans to hold for the entire duration and are illiquid.

(f) International equity, domestic equity, and emerging market equity are funds with underlying investments in primarily publicly traded 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 MISSION RELATED INVESTMENTS

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

The Foundation uses program-related investments to further the mission of the Foundation; to strengthen rural Minnesota communities, especially the Grand Rapids area.

NOTE 4 MISSION RELATED INVESTMENTS (CONTINUED)

The approved program-related investments are carried at cost basis on the statement of financial position at year-end. An allowance for program-related investments is established based on annual review by the Foundation's Investment Committee of the status of all program-related investments. If the Investment Committee determines that a specific program-related investment should have an allowance established the Investment Committee recommends to the Board of Trustees who approves the allowance. At December 31, 2016, and 2015, there was no allowance for current program-related investments. Program-related investment interest is recorded annually as income earned per the terms of the specific individual program-related investment loan agreement. If no interest rate is stated in the program-related investment loan agreement then the loan is discounted on an annual basis at a rate equivalent to the prime rate at end of the year when the loan was approved.

Directed investments are used to further the Foundation's mission and is fundamentally a financial investment rather than a grant and must meet applicable prudent investor standards like more conventional investments. A directed investment is subject to the similar investment policies and procedures as the other investments in which the Foundation invests according to the mission related investment revised policy. At both December 31, 2016 and 2015, there was a $1,000,000 allowance for current directed investments. The approved directed investments are carried at cost basis on the statement of financial position at year-end less any unfunded commitments.

At December 31, 2016 and 2015, the program-related and directed investments consisted of the following:

	2016	2015
Program-related investments	$ 2,406,594	$ 3,025,000
Less:		
Allowance and discounts		
Beginning of year	(161,091)	(271,720)
Decreases	6,232	110,629
Subtotal program-related investments	2,251,735	2,863,909
Directed investments	2,400,000	1,200,000
Less: Allowance and discounts	(1,000,000)	(1,000,000)
Subtotal: Directed investments	1,400,000	200,000
Total program-related investments, net	$ 3,651,735	$ 3,063,909

At December 31, 2016 and 2015, there were no unreserved past due program-related investments.

NOTE 5 PROPERTY, FURNITURE AND EQUIPMENT

Property, furniture and equipment consist of the following:

	2016	2015
Land, building and improvements	$ 8,235,686	$ 5,603,546
Furniture, equipment and vehicles	3,178,777	2,705,105
Construction in process	-	2,747,865
Total	11,414,463	11,056,516
Less accumulated depreciation	(5,966,791)	(5,731,856)
Net property and equipment	$ 5,447,672	$ 5,324,660

NOTE 6 LONG-TERM DEBT, INTEREST RATE SWAP AND BOND RESERVE FUND

Debt obligations of the Foundation consisted of the following at December 31, 2016 and 2015, respectively:

	2016	2015
Revenue Bonds Series 2010, interest payable semiannually on November 1 and May 1 at rates ranging between 3.00% and 4.00% (3.00% at December 31, 2016) with principal payable annually on May 1 through 2019. Bond secured by Bond Reserve Fund.	$ 2,250,000	$ 2,950,000
Revenue Bonds Series 2015A bearing interest at a fixed interest rate of 2.80% requiring $23,912 principal and interest monthly payments through January 2026.	2,298,998	2,500,000
Promissory note bearing interest at a fixed interest rate of 3.38% requiring $80,367 principal and interest monthly payments, through November 2019.	2,668,427	3,529,773
	7,217,425	8,979,773
Less unamortized debt issuance costs	140,526	174,499
	$ 7,076,899	$ 8,805,274

The summary of approximate annual future maturities of principal on bonds as of December 31, 2016 is as follows:

Year Ending December 31,	
2017	$ 1,833,000
2018	1,895,000
2019	1,888,000
2020	246,000
2021	252,000
Thereafter	1,104,000
	$ 7,218,000

NOTE 6 LONG-TERM DEBT, INTEREST RATE SWAP AND BOND RESERVE FUND (CONTINUED)

Bond Reserve Fund

As part of the issuance of the County of Itasca, Minnesota, Demand Revenue Bonds, Series 2010, the Foundation must maintain a reserve fund equal to the reserve requirement. The reserve requirement is the lesser of: (1) 50% principal and interest requirements on outstanding bonds payable during the then current or any succeeding fiscal year or (2) 10% of the original principal amount of all series of the bonds then outstanding or (3) 125% of the average annual debt service on the outstanding bonds. The bond reserve serves as collateral for the bonds. The balance of the bond reserve fund was $399,638 at both the years ended December 31, 2016 and 2015, and is recorded in other assets on the statements of financial position. In addition included in other assets at December 31, 2016 and 2015 is none and $100,000, respectively, of bond reserves related to the 2015A bonds. The reserve requirement was satisfied during the year ended December 31, 2016 following completion of the construction project.

The Foundation incurred interest expense on long-term debt of approximately $366,000 and $336,000 during the years ended December 31, 2016 and 2015, respectively.

Interest Rate Swap

The Foundation entered into an interest rate swap agreement (the Agreement) effective March 1, 2006. The purpose of the swap was 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. During the year ended December 31, 2015 the Foundation paid the Series 2004B in full and this interest rate swap agreement is considered to be an orphaned swap agreement. 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. The fair value of the swap agreement was a liability as of December 31, 2016 and 2015, was approximately $153,000 and $281,000, respectively, and recorded in accrued expenses.

NOTE 7 FEDERAL EXCISE TAXES AND DISTRIBUTION REQUIREMENTS

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:

	2016	2015
Expenses:		
Current	$ 60,166	$ 1,315
Liabilities:		
Current	$ 19,136	$ 11,504
Deferred	112,147	59,613
	$ 131,283	$ 71,117

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 year's average monthly market value of its assets as defined by the Internal Revenue Code. Failure to meet this distribution requirement subjects the Foundation to a 30% tax on the undistributed balance. The Foundation has complied with the distribution requirements through December 31, 2016.

NOTE 8 EMPLOYEE BENEFIT PLANS

Defined Contribution Plans

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

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

Foundation contributions related to these defined contribution plans was approximately $307,000 and $290,000 for the year’s ended December 31, 2016 and 2015, respectively.

NOTE 9 GRANTS AND SCHOLARSHIPS PAYABLE

Grants and scholarships payable are recorded when approved by the 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 approved and scheduled for payment are as follows:

Year	Amount
2017 scholarships	$ 489,533
2017 grants	7,701,866
2018 grants	1,649,874
2019 grants	342,000
Total grant and scholarship commitments	10,183,273
Discount to present value	(129,795)
Total present value of grant and scholarship commitments	$ 10,053,478

NOTE 10 CHARITABLE ACTIVITIES—PROGRAMS

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

	2016	2015
Charitable activities—Programs:		
Leadership development	$ 2,411,626	$ 2,498,362
Public policy and engagement	1,148,012	1,161,236
Grants and scholarships	1,191,532	1,193,798
Total charitable activities—Programs	$ 4,751,170	$ 4,853,396

NOTE 10 CHARITABLE ACTIVITIES – PROGRAMS (CONTINUED)

Leadership Development

This is a unique nationally-recognized program that builds competencies in three major areas: (1) framing opportunities and challenges that lead to effective action, (2) building social capital for collaboration and resource sharing, and (3) mobilizing a critical mass of resources to achieve specific outcomes. The program is designed for community teams that reflect diversity of their community from all walks-of-life. A combination of an intensive residential retreat, coupled with on-going workshops, trains leaders in communications, conflict management, networking and stakeholder analysis.

Public Policy and Engagement

Part of strengthening rural Minnesota is helping assure rural perspectives are well represented in public discourse. The Foundation, with partners, convenes and participates in public policy conversations on issues most important to the health of rural Minnesota communities. The Foundation currently has two focus areas: *broadband and student success.*

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

Student Success a strong start in life — education, nurturing, discovery, growth, work — sets the foundation and direction for the lives of individuals and communities alike. The Foundation partnerships focused on the success of all students assist people, particularly those in Itasca County, Minnesota, who seek opportunities that enhance their lives, their children's lives, and their community as a whole.

Grants and Scholarships

The Foundation partners with community-focused organizations throughout rural Minnesota to build healthy communities. A minimum of 60% of grants are targeted to the Itasca County local giving area, with the balance used to support initiatives in other parts of rural Minnesota. To be eligible for a Foundation grant, organizations must be located in Minnesota, be a 501(c)(3) organization, unit of government or education, and proposed projects that align with the Foundation's mission and focus areas which include:

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

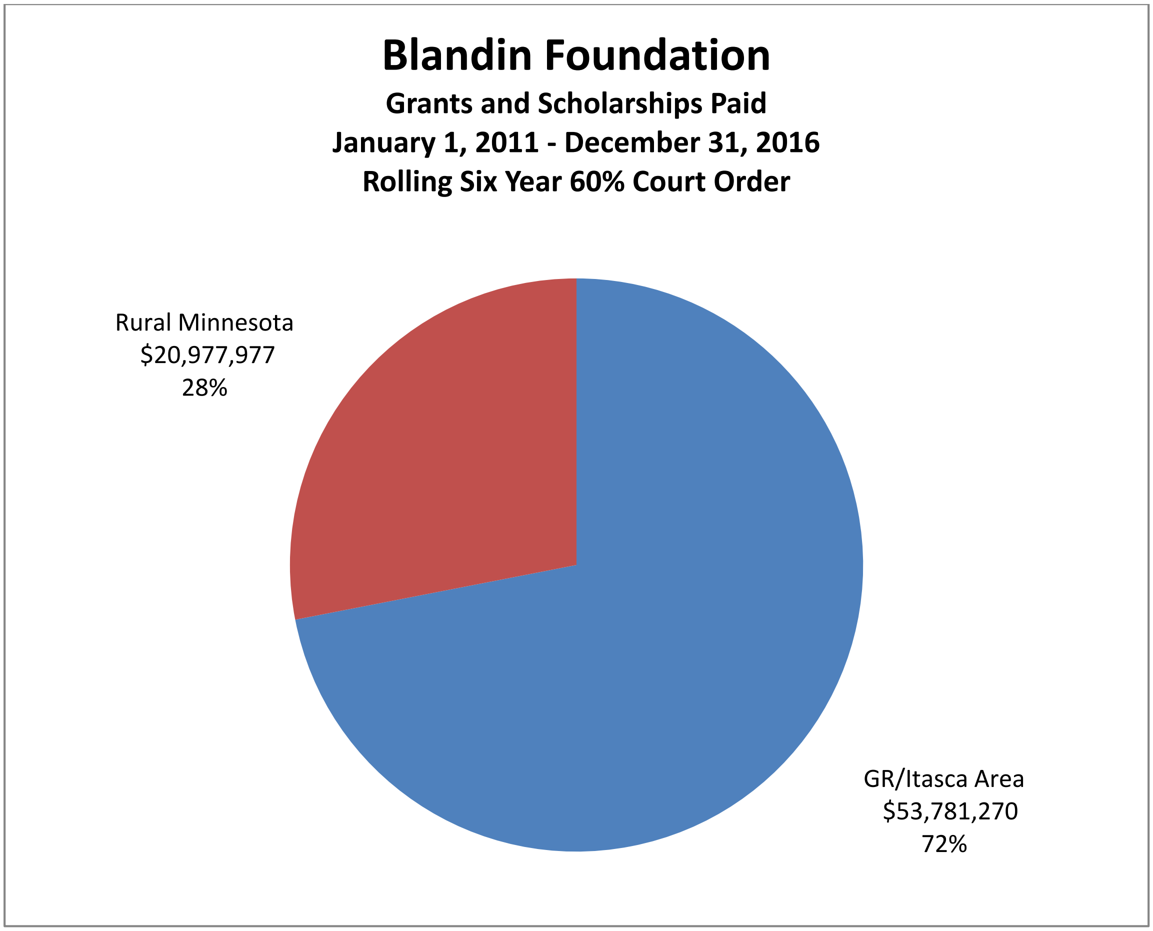
Skilled community leaders who recognize and capitalize on opportunities, strengthen diverse relationships, and motivate others to act to strengthen their community of place or interest.

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

Scholarships are awarded in the local giving area, focused on improving educational attainment of disadvantaged populations. The above costs are associated with the administration of the grant and scholarship making programs. Each year, hundreds of students from Itasca County, Minnesota, area schools are awarded need-based scholarships to continue their education at community college, college or university, trade schools and certificate programs throughout the United States.

SUPPLEMENTAL INFORMATION

The Foundation's annual 990-PF Foundation tax return and audited financial statements are used as base documents for the below charts.



The six-year rolling period 2011-2016 timeframe is reflected in the figures and charts below, which confirm the Foundation is in compliance with the 60% court order, with $53,781,270 or 72% of grants paid in the local area.

MANAGEMENT DISCUSSION AND ANALYSIS

Charles K. Blandin Foundation's (the Foundation) vision is to help build healthy rural Minnesota communities. We view our work -- and that of our partners -- through the lens of three focus areas to identify efforts that move most effectively toward our vision.

Vibrant Itasca County
Blandin Foundation's primary geographic focus is Itasca County (north central Minnesota) and a few neighboring communities. This region was the "wood basket" of the Grand Rapids-based Blandin Paper Company when it was owned by Foundation founder Charles K. Blandin in the early 20th Century.

Today the Foundation's primary focus -- and the focus of the majority of its resources -- is on its partnerships with its "home communities" of Bigfork, Blackduck, Bovey, Calumet, Cohasset, Coleraine, Deer River, Effie, Goodland, Grand Rapids, Hill City, Keewatin, LaPrairie, Marble, Marcell, Nashwauk, Northome, Pengilly, Remer, S. Lake, Taconite, Talmoon, Warba, Wawina, Wirt, and Zemple.

The Foundation's work and giving in the area supports a wide spectrum of partners and initiatives focused on the vibrancy of these communities and the organizations strengthening them.

Invest in leaders
As the only statewide foundation in Minnesota focused exclusively on rural communities, Blandin Foundation partners with communities to build and sustain healthy communities that thrive in times of challenge and opportunity.

Community leaders spearhead these efforts. Individuals from all walks of life contribute their perspectives and passions, and work together to find common ground to create positive change and work for inclusive good. Within this context of leadership, how things get done in a community is as important as what gets done. Energy builds as people see new possibilities in themselves, in one another and in their community.

Every aspect of the Foundation's work – grantmaking, community leadership training and convening – supports and encourages people committed to enriching rural Minnesota.

Expand opportunity
An evolving area of work, the Foundation seeks to blend educational attainment, economic opportunity and broader inclusion in rural Minnesota communities, so all residents have greater opportunities to prosper. Emphasis is on work that moves beyond traditional approaches and that increases impact through a synergistic approach. Examples include:

- Greater educational and economic opportunities for people of all backgrounds
- Reduced structural barriers that prevent people from reaching their full potential
- Accelerated innovation driven by interaction of more diverse perspectives
- Increased self-determination

This is management's discussion and analysis of the Foundation's audited financial statements for the year ended December 31, 2016. Please read it in conjunction with the auditor's report and audited financial statements, which are presented at the front of this report.

About the Charles K. Blandin Foundation

The Foundation is a private foundation based in Grand Rapids, Minnesota, founded by Charles K. Blandin in 1941 to aid and promote Grand Rapids and the surrounding area. In designing the Foundation, Mr. Blandin emphasized flexibility to ensure it could adapt to changing times, with an underlying philosophy that its work should lead to the "betterment of mankind." Mr. Blandin stated "*furthermore, it is not the intention thru the medium of the Foundation, established as it is for the purpose of charitable enterprises and items that will be incidental to the welfare of the community to pauperize individuals or any class of people. Quite to the contrary, it is the intention of the Foundation, I hope, to be of material assistance in helping people to assist themselves. This, of course, would apply to both young and old, not overlooking the fact that in certain instances the principles of charity alone must be applied."* The Foundation is the state's largest rural-based and rural-focused foundation.

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

Since the sale of the Blandin Paper Company (the Paper Company) in 1977, the financial resources of the Charles K. Blandin Residuary Trust (the Trust) and the Foundation have expanded dramatically. The Trust and the Foundation are distinct and legally separate from the Paper Company; the Paper Company is owned by UPM Kymmene, based in Finland.

The Foundation is funded by annual distributions from the Trust of which the Foundation is the sole beneficiary. As of December 31, 2016, the Trust is worth approximately $371 million.

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

Overview of the Financial Statements

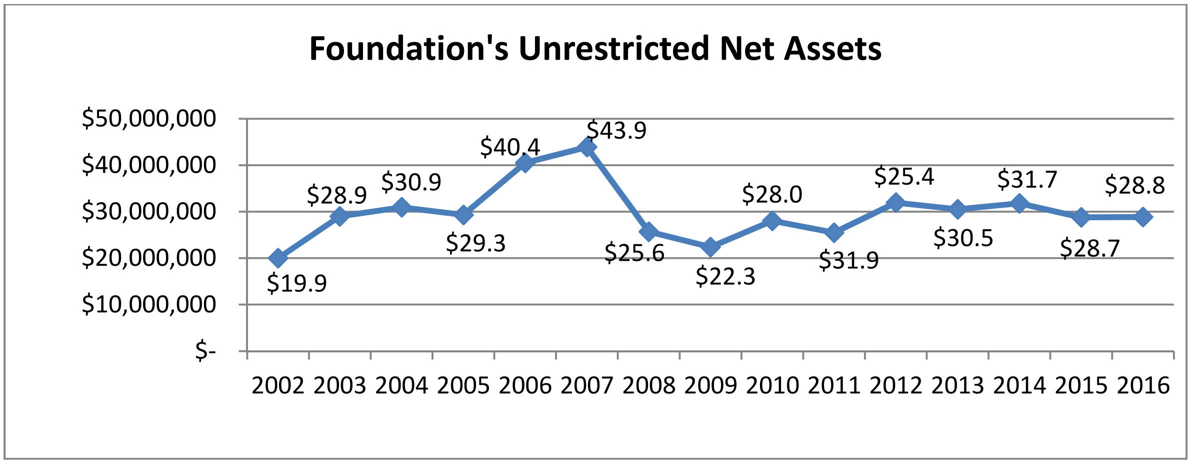
This discussion and analysis introduces the Foundation's basic financial statements. The Foundation's basic financial statements are (1) statement of financial position, (2) statement of activities, (3) statement of cash flows, and (4) the notes to the financial statements, which focus on the entity as a whole, rather than reporting on separate fund groups. This report also demonstrates its compliance with Paragraph II and III of the Stipulation and Order, the requirement, effective January 1, 2015, that the Grand Rapids area receive an average of at least sixty percent (60%) (previously 55%) of all grants paid over a six-year rolling period.

The statement of financial position (balance sheet) includes the Foundation's financial assets, liabilities and net assets.

The total assets of the Foundation increased by $9 million at year-end 2016. This is mostly attributed to the increase in the value of the beneficial interest in the Trust. The value of the Trust increased $11 million, from $360 million at end-of-year 2015 to $371 million at end-of-year 2016, due to stronger economic markets generating returns that exceeded the annual calculated distributions to the Foundation. The cash and cash equivalents at end-of-year 2016 is more than sufficient to pay grant and scholarship commitments early in 2017.

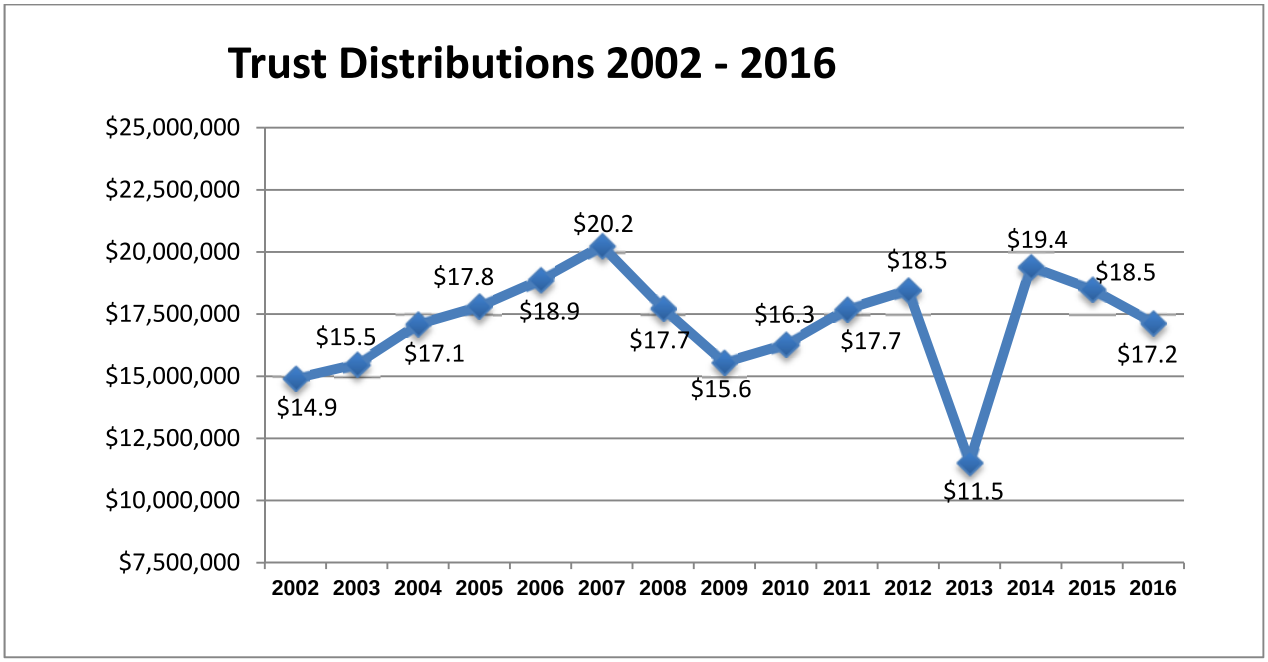
There was no change in the Foundation's investment value from 2015 to 2016. The rate of return nearly met the 5% annual payout for the Foundation's charitable grantmaking and programs which local and rural participants and organizations receive. Mission related investments increased by $588 thousand from 2015 to 2016 with continued implementation of the Foundation's revised mission investment policy.

Total 2016 unrestricted net assets of the Foundation remained constant compared to 2015. The amount of unrestricted net assets – Board designated decreased in 2016 from 2015 in accordance with adopted policy which directly links the Board designated amount to next year's operating budget. The line chart below shows the historical unrestricted net assets of the Foundation.

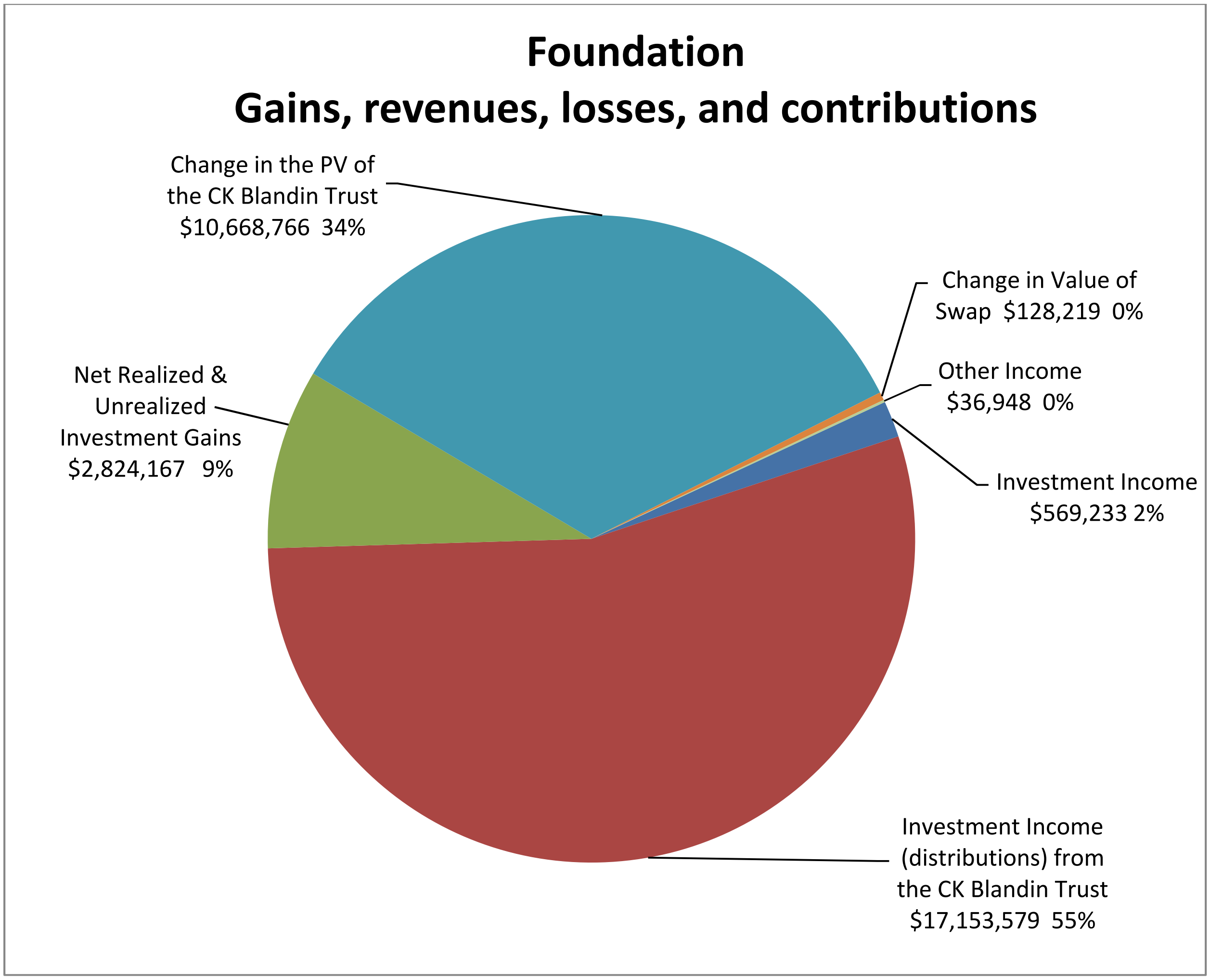


The statement of activities (income statement) is a summary of revenues from all sources and all expenses of the Foundation. The statement shows any excess (deficiency) of revenue over expenses. The audited financial statements require that the revenues and expenses are reported and classified as unrestricted,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

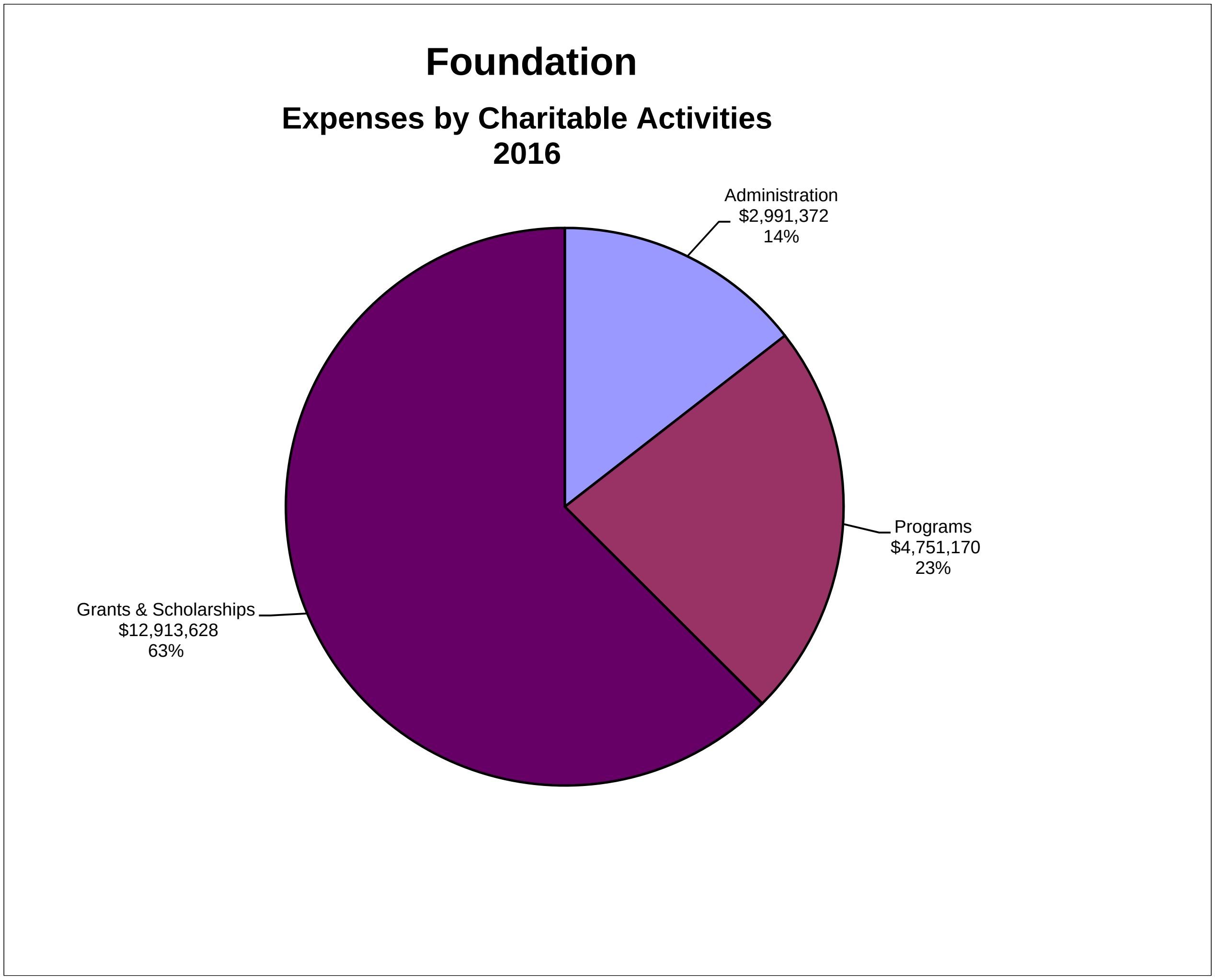
Investment income (distributions) from the Trust was $17.2 million in 2016, and is the Foundation's largest revenue source. The economic market resulted in a 9.6% positive annual investment return for the Foundation beating out the 5% required payout. Below is a line chart showing historical Trust investment income (distributions) to the Foundation.



Net realized and unrealized investment gains for the Foundation equaled $2.8 million and were 9% of the total net revenue. See below pie chart of the 2016 Foundation revenues:



The Board of Trustees approved $12.9 million of grants and scholarships in 2016. The Foundation's direct charitable program activities totaled $4.8 million and includes leadership, and public policy and engagement. Administrative costs were $3 million in 2016. Unrestricted revenues matched expenses maintaining the Foundation's unrestricted net assets. There was an increase of $10.7 million in the beneficial interest in the Trust which is a permanently restricted net asset of the Foundation. See pie chart below for a breakdown of 2016 charitable activities.



Charitable Program Activities:

Leadership Development – The nationally recognized Blandin Community Leadership Program (BCLP) couples residential retreats with ongoing workshops to build new and seasoned community leaders' ability to frame challenges and opportunities, collaborate with others effectively across all segments of community, and mobilize resources to achieve specific outcomes. For more than 30 years, Blandin Foundation has developed over 7,169 community leaders in 580 rural Minnesota communities through various community leadership programs and eleven rural reservations through the Reservation Community Leadership Program with total program expenses equaling $2,411,626 for 2016.

Public Policy and Engagement – Part of strengthening rural Minnesota is helping assure rural perspectives are well represented in public discourse. Blandin Foundation, with its partners, convenes and participates in public policy conversations on issues most important to the health of rural Minnesota communities. The public policy and engagement expenses were $1,148,012 in 2016.

Grants and Scholarships – The Foundation supports partnerships through grants of money generated by the Trust. Since Charles K. Blandin's first grant of $600 for a community park in 1943, the Foundation has approved 7,238 grants totaling $382 million. Organizations must be located in Minnesota and a minimum of 60% of grants are targeted to the Itasca County local giving area, with the balance used to support initiatives in other parts of rural Minnesota. Scholarships are awarded in the local giving area, focused on improving educational attainment of disadvantaged populations. More than 20,000 area youth have received scholarships totaling more than $23 million since 1956. The 2016 costs of $1,191,532 are associated with the administration of the grant and scholarship making programs.

The statement of cash flows reports the sources and uses of the Foundation's cash. The three main sections in the statement of cash flows are cash flows from (1) operating activities, (2) investing activities, and (3) financing activities.

In 2016, cash was used in operating and financing activities. This was partially offset by increases in cash from investing activities resulting in a decrease in cash of $2.4 million at the end of 2016. Cash used to pay grants and scholarship in 2016 equaled $13.2 million of which $10.1 million or 76% were for the Grand Rapids/Itasca County area. Financing activities for 2016 included repayment of long-term debt of $1.8 million.

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. There are several detailed footnotes on investments, program-related and directed investments, and outstanding bonds.

The Foundation has an Audit Committee as well as a Finance and Investment Committee that informs and advises the Foundation's Board of Trustees. The members of the Foundation Board are identified in the Foundation's 990-PF annual tax return.

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

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 Foundation reports annually the rolling, six-year average of grants paid that are in its home giving area (largely Itasca County, Minnesota, and a few neighboring communities (classified as "local") and those that are outside of this home area (classified as "rural").

In calculating local grants, the Foundation follows the adopted policy of including grants expended 100% in the local area as local grants. Paid grants which include both local and rural impact are excluded from the definition of local for the purposes of the 55% calculation.

The April 2015 Court order released the Special Master, authorized the Foundation to author an annual independent auditor verified self-report of compliance to the Court order, and increased the percentage of local grants to 60% over a six-year rolling period starting in 2015.

The six-year rolling period 2011–2016 timeframe is reflected in the figures and charts below which confirms the Foundation is in compliance with the 60% court order with $53,781,270 or 72% of grants paid in the local area.

Charles K. Blandin Foundation
Management's Discussion and Analysis (Unaudited)
Year Ended December 31, 2016

The Foundation 990-PF annual tax return and audited financial statements are used as base documents for the below charts.

C.K. BLANDIN FOUNDATION
Grants by Location (includes scholarships)
Six-Year Rolling Average Percentages
(See Annual 990-PF Tax Form for Details)

	2003 Amount	2004 Amount	2005 Amount	2006 Amount	2007 Amount	2008 Amount	2003-2008 6-Year Rolling Total	2003-2008 6-Year Rolling Average
Local	$ 4,812,576	$28,422,350	$ 6,062,078	$ 7,339,357	$ 9,269,405	$ 7,842,539	$ 63,748,305	70.2%
Rural	4,117,097	1,584,245	2,914,341	6,355,760	7,724,493	4,421,314	27,117,250	29.8%
TOTAL	$ 8,929,673	$30,006,595	$ 8,976,419	$13,695,117	$ 16,993,898	$ 12,263,853	$ 90,865,555	100.0%

	2009 Amount	2004-2009 6-Year Rolling Total	2004-2009 6-Year Rolling Average	2010 Amount	2005-2010 6-Year Rolling Total	2005-2010 6-Year Rolling Average
Local	$ 6,049,916	$ 64,985,645	71.4%	$ 12,571,531	$ 49,134,826	63.1%
Rural	3,015,684	26,015,837	28.6%	4,307,648	28,739,240	36.9%
TOTAL	$ 9,065,600	$ 91,001,482	100.0%	$ 16,879,179	$ 77,874,066	100.0%

	2011 Amount	2006-2011 6-Year Rolling Total	2006-2011 6-Year Rolling Average	2012 Amount	2007-2012 6-Year Rolling Total	2007-2012 6-Year Rolling Average
Local	$ 9,315,795	$ 52,388,543	64.0%	$ 7,082,932	$ 52,132,119	65.9%
Rural	3,604,934	29,429,833	36.0%	3,931,124	27,005,197	34.1%
TOTAL	$12,920,729	$ 81,818,376	100.0%	$ 11,014,056	$ 79,137,316	100.0%

	2013 Amount	2008-2013 6-Year Rolling Total	2008-2013 6-Year Rolling Average	2014 Amount	2009-2014 6-Year Rolling Total	2009-2014 6-Year Rolling Average
Local	$ 8,515,003	$ 51,377,717	69.0%	$ 9,416,644	$ 52,951,821	70.6%
Rural	3,842,060	23,122,764	31.0%	3,328,337	22,029,787	29.4%
TOTAL	$12,357,063	$ 74,500,481	100.0%	$ 12,744,981	$ 74,981,608	100.0%

	2015 Amount	2010-2015 6-Year Rolling Total	2010-2015 6-Year Rolling Average	2016 Amount	2011-2016 6-Year Rolling Total	2011-2016 6-Year Rolling Average
Local	$10,334,164	$ 57,236,070	72.1%	$ 9,116,731	$ 53,781,270	71.9%
Rural	3,083,268	22,097,371	27.9%	3,188,254	20,977,977	28.1%
TOTAL	$13,417,432	$ 79,333,441	100.0%	$ 12,304,985	$ 74,759,247	100.0%

Note: Grant amounts are determined from publicly reported grant detail listed in the Foundation's tax returns, Form 990-PF. The listed amounts have been adjusted by the Court appointed Special Master to comply with requirements of the 2003 Ramsey County Minnesota Court Order requiring a minimum 6-year rolling average of 55% local grants. In April 2015 the Court ordered (1) release of the Special Master; (2) increased the minimum 6-year rolling average to 60% local grants; and (3) authorized the Foundation to start independent auditor verified self-reporting on the required minimum 6-year rolling average of 60% local grants.

Historical and annual charitable activities are reported in a chart which identifies financial information requested in the 2003 court order. Specifically this information includes:

1. The grant amounts paid in the prior year on a cash basis of accounting to the Grand Rapids area;
2. The grant amounts paid in the prior year on a cash basis of accounting outside of the Grand Rapids area;
3. The program expenses paid in the prior year on an accrual basis of accounting;
4. The administrative expenses paid in the prior year on an accrual basis of accounting;
5. The total expenditures on a cash basis of accounting for the prior year.

The base document used is the annual 990-PF tax return for this chart and is prepared as part of the auditing and tax preparation procedures.

CHARLES K. BLANDIN FOUNDATION
Historical Comparisons

				Program		Administrative		Total Program & Administrative Expenses		
	Combined Assets	Receipts	Grants	Expenses		Expenses				
	(Fair Market Value)	(Accrual Basis)	(Cash Basis)	(Accrual Basis)		(Accrual Basis)		Cash Basis		Accrual Basis
	Source: 990-PF	990-PF	990-PF	Audit		Audit			990-PF	
1998	N/A	$20,555,106	$ 13,627,691	N/A		$ 2,473,819		$ 3,446,491		$ 3,750,758
1999	$ 407,930,875	23,875,762	11,853,548	$ 2,123,598	#	2,452,250		2,004,272		2,440,750
2000	457,940,059	21,771,591	13,601,341	2,569,602		2,344,117		4,034,438		4,853,596
2001	389,600,831	21,160,961	15,418,132	2,719,566		2,443,550		4,608,556		5,111,053
2002	333,701,300	15,328,613	9,949,739	3,361,858		1,730,594	*	4,809,037	**	5,199,026
2003	386,458,834	17,144,166	8,929,673	3,893,635		2,618,285	*	6,274,680	**	6,663,731
2004	413,253,276	19,286,568	30,006,595	3,897,987		2,490,725	*	5,872,713	**	6,552,477
2005	423,323,009	22,526,467	8,976,419	3,656,672		2,765,678	*	6,269,020	**	6,642,672
2006	464,296,136	21,789,236	13,720,117	3,760,910		3,272,517	*	6,676,969	**	7,298,789
2007	472,839,298	30,395,870	17,077,344	4,132,314		3,383,896	*	6,946,615	**	7,842,028
2008	331,825,635	18,692,264	13,915,649	4,505,006		3,349,621	*	8,074,599	**	8,157,274
2009	386,166,167	13,492,457	9,067,801	4,275,830		3,248,309	*	7,271,107	**	7,745,942
2010	406,456,948	23,280,216	18,207,731	4,336,078	***	3,868,532	*	7,569,254	**	8,434,539
2011	381,260,734	22,687,228	15,221,483	4,028,680	***	3,387,998	*	7,387,780	**	7,664,814
2012	404,340,951	20,213,933	11,594,701	4,704,753	***	2,752,187	*	6,887,213	**	7,716,515
2013	449,897,821	16,592,676	12,429,008	4,966,321	***	2,414,529	*	7,079,737	**	7,648,968
2014	444,848,406	22,533,040	12,744,981	4,748,163		2,649,456	*	7,079,850	**	7,687,880
2015	409,006,400	20,936,285	13,417,432	4,853,396		2,847,712	*	7,336,591	**	7,946,634
2016				4,751,170		2,991,372				

Partial
* The administrative expenses in the audit column do not include investment expenses which are netted against investment incom
for audit presentation
** The 990-PF reports investment expense as part of administrative expenses.
*** Includes Federal ARRA program costs which are reimbursed by the federal government.

There was one new accounting standard implemented in the 2016 calendar year. The Foundation has not changed any charitable financial practices. There has been no prior grants converted to programs and no programs have been converted to grants. The Foundation has developed a matrix process to utilize if there are any questions as to determination of geographic area impact of a grant, which was approved by the Board of Trustees in December 2013.

Grants, operating program and administrative expenses, and program-related investments spent in the Grand Rapids area have a multiplier effect and the dollars are potentially recirculated several times. For example, the Foundation's payroll was $2.8 million in 2016 and all employees live in the Itasca County area. The Foundation also spent $1.3 million in the Itasca County area paying local vendors for goods and services.

The Foundation's annual report shall be reviewed by the Foundation's Board of Trustees each year, and after conducting such review, the Board of Trustees shall pass a resolution of their review and compliance to Court Orders and Stipulations.

At the December 2016 Board meeting, unanimously carried, the Board approved the following resolution:

WHEREAS, the RSM US LLP firm, contracted to perform auditing and tax services, has discussed with the Audit committee in their return review that there have been no significant changes to the Foundation's grant making and charitable distribution practices; and

WHEREAS, the RSM US LLP firm discussed with the Audit Committee there was one newly issued accounting standard that impact the Foundation; and

WHEREAS, the RSM US LLP firm has verified as part of the Foundation's annual audit procedures all material amounts and significant inputs, and recalculated all key computations related to numerical presentations in the supplemental information and has reviewed the Management Discussion and Analysis section of the Foundation's annual audit; and

WHEREAS, the RSM US LLP firm has confirmed on a test basis as part of the overall audit and return preparation the accuracy of the amount and the local and rural designation of the grants approved, paid and accrued for 2015, and

WHEREAS, the RSM US LLP firm has completed the 2015 990-PF and 990T Foundation annual returns which were reviewed by the Audit Committee on November 3;

BE IT FURTHER RESOLVED, that the Board of Trustees accepts the Charles K. Blandin Foundation 2015 990-PF and 990T annual returns after review which have been signed by the appropriate authority, and filed by the extension due date November 15, 2016.

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

A member of the Grand Rapids community with a question or concern regarding the Foundation's compliance with the 60% court order may present said question or concern to the Foundation's President/CEO, Kathleen Annette, at krannette@blandinfoundation.org or 326-0523. The President/CEO will review the question or concern and respond within ten business days to the community member.