

**CHARLES K. BLANDIN FOUNDATION**  
**FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY INFORMATION**  
**YEARS ENDED DECEMBER 31, 2006 AND 2005**

**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, 2006 and 2005, 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, 2006 and 2005, 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, Weishair & Co., LLP*  
**LARSON, ALLEN, WEISHAIR & CO., LLP**

Minneapolis, Minnesota  
March 8, 2007

**CHARLES K. BLANDIN FOUNDATION**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2006 AND 2005**

	<u>NOTE</u>	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>			
Cash and Cash Equivalents		\$ 164,016	\$ 79,872
Investments at Fair Value	2	68,268,392	62,491,188
Investment Income Receivable		626,592	491,477
Property and Equipment	4	3,109,681	3,231,943
Beneficial Interest in Blandin Residuary Trust	1	390,312,540	355,203,587
Collateral - Securities Lending Agreement	3	7,833,707	10,812,371
Payable - Securities Lending Agreement	3	(7,833,707)	(10,812,371)
Other Assets		<u>1,814,915</u>	<u>1,824,942</u>
Total Assets		<u>\$ 464,296,136</u>	<u>\$ 423,323,009</u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>LIABILITIES</b>			
Accounts Payable and Accrued Expenses		\$ 849,407	\$ 753,292
Grants and Scholarships Payable	9	14,581,600	18,983,478
Long-Term Debt	5	<u>18,055,000</u>	<u>19,075,000</u>
Total Liabilities		33,486,007	38,811,770
<b>NET ASSETS</b>			
Unrestricted	1	18,907,224	8,167,121
Unrestricted - Board Designated		<u>21,590,365</u>	<u>21,140,531</u>
Total Unrestricted		40,497,589	29,307,652
Permanently Restricted	1	<u>390,312,540</u>	<u>355,203,587</u>
Total Net Assets		<u>430,810,129</u>	<u>384,511,239</u>
Total Liabilities and Net Assets		<u>\$ 464,296,136</u>	<u>\$ 423,323,009</u>

See accompanying Notes to Financial Statements.

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

2006					
	NOTE	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
<b>GAINS, REVENUES, LOSSES, AND CONTRIBUTIONS</b>					
Contribution from Blandin Residuary Trust		\$ -	\$ 18,886,921	\$ -	\$ 18,886,921
Investment Income		707,244	-	-	707,244
Net Realized and Unrealized Investment Gains	2	7,935,245	-	-	7,935,245
Increase in Beneficial Interest of Perpetual Trust	1	-	-	35,108,953	35,108,953
Other Income		12,193	-	-	12,193
Net Assets Released from Restrictions		18,886,921	(18,886,921)	-	-
Total Gains, Revenues, Losses, and Contributions		27,541,603	-	35,108,953	62,650,556
<b>EXPENSES</b>					
Charitable Activities:					
Grants		8,616,956	-	-	8,616,956
Scholarships		701,283	-	-	701,283
Programs	10	3,760,910	-	-	3,760,910
Total Charitable Activities		13,079,149	-	-	13,079,149
Administrative		3,272,517	-	-	3,272,517
Total Expenses		16,351,666	-	-	16,351,666
<b>CHANGE IN NET ASSETS</b>		11,189,937	-	35,108,953	46,298,890
Net Assets - Beginning of Year		29,307,652	-	355,203,587	384,511,239
<b>NET ASSETS - END OF YEAR</b>		\$ 40,497,589	\$ -	\$ 390,312,540	\$ 430,810,129

See accompanying Notes to Financial Statements.

**CHARLES K. BLANDIN FOUNDATION  
STATEMENTS OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2005**

		2005			
	NOTE	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
<b>GAINS, REVENUES, LOSSES, AND CONTRIBUTIONS</b>					
Contribution from Blandin Residuary Trust		\$ -	\$ 17,806,844	\$ -	\$ 17,806,844
Investment Income		908,828	-	-	908,828
Net Realized and Unrealized Investment Gains	2	2,519,683	-	-	2,519,683
Increase in Beneficial Interest of Perpetual Trust	1	-	-	5,019,754	5,019,754
Other Income		251,473	-	-	251,473
Net Assets Released from Restrictions		17,806,844	(17,806,844)	-	-
Total Gains, Revenues, Losses, and Contributions		21,486,828	-	5,019,754	26,506,582
<b>EXPENSES</b>					
Charitable Activities:					
Grants		16,003,987	-	-	16,003,987
Scholarships		696,315	-	-	696,315
Programs	10	3,656,672	-	-	3,656,672
Total Charitable Activities		20,356,974	-	-	20,356,974
Administrative		2,765,678	-	-	2,765,678
Total Expenses		23,122,652	-	-	23,122,652
<b>CHANGE IN NET ASSETS</b>		(1,635,824)	-	5,019,754	3,383,930
Net Assets - Beginning of Year		30,943,476	-	350,183,833	381,127,309
<b>NET ASSETS - END OF YEAR</b>		\$ 29,307,652	\$ -	\$ 355,203,587	\$ 384,511,239

See accompanying Notes to Financial Statements.

**CHARLES K. BLANDIN FOUNDATION  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2006 AND 2005**

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from C.K. Blandin Residuary Trust	\$ 18,886,921	\$ 17,806,844
Interest and Dividends Received	572,129	495,394
Cash Paid for Administrative Expenses	(2,026,362)	(1,577,724)
Cash Paid for Interest on Long-Term Debt	(853,908)	(761,054)
Cash Paid for Operating Programs	(3,760,910)	(3,906,672)
Cash Paid for Grants and Scholarships	(13,720,117)	(8,967,018)
Net Cash Provided (Used) by Operating Activities	(902,247)	3,089,770
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Equipment and Building	(137,651)	(96,929)
Proceeds from Sale of Investments	20,965,536	40,697,955
Purchase of Investments	(18,807,494)	(42,935,029)
Cash Restricted for Debt Payment	(14,000)	93,679
Net Cash Provided (Used) by Investing Activities	2,006,391	(2,240,324)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of Long-Term Debt	(1,020,000)	(905,000)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	84,144	(55,554)
Cash and Cash Equivalents - Beginning	79,872	135,426
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<u>\$ 164,016</u>	<u>\$ 79,872</u>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 46,298,890	\$ 3,383,930
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	259,913	261,608
Amortization	38,242	38,243
Change in Value of Blandin Residuary Trust	(35,108,953)	(5,019,754)
Net Realized and Unrealized Investment Gains	(7,935,245)	(2,740,005)
(Increase) Decrease In Current Assets:		
Interest and Dividends Receivable	(135,115)	(193,112)
Prepaid Expenses and Other Receivables	(14,215)	(231,943)
Increase (Decrease) in Current Liabilities:		
Accounts Payable and Accrued Expenses	96,114	(142,481)
Grants and Scholarships Payable	(4,401,878)	7,733,284
Net Cash Provided (Used) by Operating Activities	<u>\$ (902,247)</u>	<u>\$ 3,089,770</u>
<b>SUPPLEMENTAL INFORMATION</b>		
Excise Taxes Paid	<u>\$ 72,000</u>	<u>\$ 31,000</u>

See accompanying Notes to Financial Statements.

**CHARLES K. BLANDIN FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005**

**NOTE 1     SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organizational Purpose**

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

The Foundation's role is to infuse and energize rural community economics in which the Foundation offers: leadership development programs that help communities capitalize on their assets; grant making to support community-generated economic strategies and also provides Community Responsive Grants in the Grand Rapids area; and a public policy program to inform and engage the public on issues affecting rural economic viability.

**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.

**Fair Value of Financial Instruments**

At December 31, 2006 and 2005, 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 5.017%. The value of the swap itself is considered immaterial to the financial statements for the year ended December 31, 2006, and therefore, not recorded.



**CHARLES K. BLANDIN FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005**

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

**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 \$101,981 and \$63,738 for the years ended December 31, 2006 and 2005, respectively. Amortization expense totaled \$38,242 and \$38,243 for the years ended December 31, 2006 and 2005, respectively.

Bond reserve funds were \$923,425 and \$909,424 for the years ended December 31, 2006 and 2005, respectively.

**Net Assets**

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

**Unrestricted** – Represents assets over which the Foundation Board of Trustees has discretionary control. In 2005, 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.

**CHARLES K. BLANDIN FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005**

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

**Net Assets (Continued)**

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

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

**Net Assets Released from Restrictions**

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

**Grants Payable**

Grant commitments are charged to operations at the time the grants are approved by the Board of Trustees. Grants are cancelled at the time of Board of Trustee action.

**Functional Allocation of Expense**

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

**Use of Estimates**

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

**CHARLES K. BLANDIN FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006 AND 2005**

**NOTE 2 INVESTMENTS**

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

	2006			2005		
	Cost	Fair Value	Unrealized (Depreciation) Appreciation	Cost	Fair Value	Unrealized (Depreciation) Appreciation
Domestic-Value Equities	\$ 4,672,205	\$ 5,813,311	\$ 1,141,106	\$ 4,490,067	\$ 4,922,077	\$ 432,010
Domestic - Small Equities	5,268,303	7,010,096	1,741,793	5,980,098	7,487,055	1,506,957
Domestic - Midcap Equities	3,906,434	6,902,538	2,996,104	4,360,944	6,999,941	2,638,997
Domestic - Growth Equities	7,839,117	10,067,145	2,228,028	7,389,213	9,102,372	1,713,159
International Equities	9,361,185	13,154,713	3,793,528	8,989,998	10,440,114	1,450,116
Bonds	9,611,500	9,478,973	(132,527)	10,136,425	10,086,419	(50,006)
Venture Capital	5,127,663	4,073,452	(1,054,211)	4,962,998	3,338,884	(1,624,114)
Real Estate	4,588,803	4,372,196	(216,607)	4,797,272	3,750,627	(1,046,645)
Bond Hedge Fund	3,000,000	3,343,691	343,691	3,000,000	3,058,580	58,580
Cash	2,052,277	2,052,277	-	1,230,119	1,230,119	-
Program-Related and Directed	2,000,000	2,000,000	-	2,075,000	2,075,000	-
	<u>\$ 57,427,487</u>	<u>\$ 68,268,392</u>	<u>\$ 10,840,905</u>	<u>\$ 57,412,134</u>	<u>\$ 62,491,188</u>	<u>\$ 5,079,054</u>

	2006	2005
Net Realized Gain on Investments	\$ 2,185,187	\$ 3,559,322
Net Unrealized Gain (Loss) on Investments	6,018,728	(819,317)
Investment Fees	(268,670)	(220,322)
	<u>7,935,245</u>	<u>2,519,683</u>
Interest and Dividends	707,244	908,828
Net Investment Income	<u>\$ 8,642,489</u>	<u>\$ 3,428,511</u>

At the end of fiscal 2006 and 2005, the Foundation held investments in a hedge fund. The fund is being used to provide an alternative to fixed income securities. There were no significant unrealized or realized gains or losses in the hedge fund, for the years ended December 31, 2006 and 2005.

**CHARLES K. BLANDIN FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005**

**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% 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% of the net earnings for each loan. The fair market value of securities on loan was \$7,990,381 and \$11,040,736 as of December 31, 2006 and 2005, respectively.

**NOTE 4 PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

	2006	2005
Land, Building and Improvements	\$ 5,268,054	\$ 5,268,003
Furniture, Equipment and Vehicles	1,652,597	1,517,425
	<u>6,920,651</u>	<u>6,785,428</u>
Less: Accumulated Depreciation	<u>(3,810,970)</u>	<u>(3,553,485)</u>
Net Property and Equipment	<u>\$ 3,109,681</u>	<u>\$ 3,231,943</u>

**NOTE 5 LONG-TERM DEBT**

Debt obligations of the Charles K. Blandin Foundation consisted of the following at December 31, 2006 and 2005, respectively:

	2006	2005
Charitable Activities - Programs:		
Children First!	\$ 39,044	\$ 158,225
Community Leadership Program	1,980,174	1,529,648
Community Advantage Leadership Program	-	283,065
Public Policy and Engagement	910,713	741,706
Grant Making	498,720	386,973
Institutional Leadership	-	60,322
Other	332,259	496,733
Total Charitable Activities - Programs	<u>\$ 3,760,910</u>	<u>\$ 3,656,672</u>

**CHARLES K. BLANDIN FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005**

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

The summary of annual future maturities of principal on bonds as of December 31, 2006 is as follows:

<u>Year Ending December 31,</u>	<u>Scheduled Payment</u>	<u>Contractual Payment</u>
2007	\$ 1,040,000	\$ 9,640,000
2008	1,055,000	555,000
2009	1,075,000	575,000
2010	1,200,000	600,000
2011	1,220,000	620,000
Thereafter	12,465,000	6,065,000
Total	<u>\$ 18,055,000</u>	<u>\$ 18,055,000</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% 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 \$923,425 and \$909,424 for the years ended December 31, 2006 and 2005, respectively.

**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, 2006 and 2005 was 3%. The County of Itasca has entered into a repayment agreement with the Charles K. Blandin Foundation for repayment of the bonds. The bonds are secured solely by the bond reserve fund. Bonds due on or after May 1, 2010 are subject to redemption by the issuer at a redemption price equal to the principal amount plus accrued interest to the date of redemption.

**Revenue Bond – Series 2004B**

During 2004, the Charles K. Blandin Foundation issued \$10,000,000 of Variable Rate Demand Revenue Bonds, Series 2004B. The interest rate of the bonds at December 31, 2006 and 2005 was 5.017% and 4.35%, respectively. The variable rate is calculated daily, weekly, or monthly as determined by the Remarketing Agent as the lowest rate of interest which in the agent's judgment would cause the bonds to have a market value as of the date of determination equal to 100% of the principal amount plus accrued interest.

The bonds are the sole responsibility of the Foundation and are secured through a \$10,140,000 letter of credit. The letter of credit expires 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.

**CHARLES K. BLANDIN FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005**

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

**Revenue Bond – Series 2004B (Continued)**

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, 2006.

**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 5.017%. 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, 2006, the fair value of the swap agreement liability was approximately \$11,500.

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.

**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% (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, representing 2% of taxable investment income, was approximately \$187,000 and \$15,000 in 2006 and 2005, respectively.

**CHARLES K. BLANDIN FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005**

**NOTE 6    FEDERAL EXCISE TAXES AND DISTRIBUTION REQUIREMENTS (CONTINUED)**

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

	<u>2006</u>	<u>2005</u>
Provision:		
Current	\$     72,000	\$     31,000
Deferred	115,236	(16,385)
Total	<u>\$   187,236</u>	<u>\$   14,615</u>
Liability:		
Current	\$     31,134	\$     31,134
Deferred	256,818	141,582
Total	<u>\$   287,952</u>	<u>\$   172,716</u>

The Foundation is subject to distribution requirements of the Internal Revenue Code. Accordingly, it must distribute, in the year immediately following receipt, 100% of the contribution received from the Trust and 5% of the previous years average market value of its assets as defined by the Internal Revenue Code. Failure to meet this distribution requirement subjects the Foundation to a 15% tax on the undistributed balance. The Foundation has complied with the distribution requirements through December 31, 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% 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 \$169,000 and \$160,000 for the years ended December 31, 2006 and 2005, respectively.

**CHARLES K. BLANDIN FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005**

**NOTE 7 EMPLOYEE BENEFIT PLANS (CONTINUED)**

**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 \$66,380 and \$60,139 at December 31, 2006 and 2005, 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.

**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>2006</u>	<u>2005</u>
2007	\$ 10,750,724	\$ 12,388,425
2008	4,079,300	4,219,800
2009	225,000	3,298,500
2010	-	40,000
Total Grant Commitments	15,055,024	19,946,725
Discount to Present Value	(473,424)	(963,247)
Total Present Value of Grant Commitments	<u>\$ 14,581,600</u>	<u>\$ 18,983,478</u>



**CHARLES K. BLANDIN FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005**

**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.

	2006	2005
Charitable Activities - Programs:		
Children First!	\$ 39,044	\$ 158,225
Community Leadership Program	1,980,174	1,529,648
Community Advantage Leadership Program	-	283,065
Public Policy and Engagement	910,713	741,706
Grant Making	498,720	386,973
Institutional Leadership	-	60,322
Other	332,259	496,733
Total Charitable Activities - Programs	<u>\$ 3,760,910</u>	<u>\$ 3,656,672</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.

Community Leadership Program – The Blandin Community Leadership Program (BCLP) has served over 4,000 leaders from 244 rural Minnesota communities since its inception in 1985. The program focuses on individuals and community change. This internationally recognized program is centered on three core competencies: framing opportunities and challenges that lead to effective action; building social capital for collaboration and resource sharing; and mobilizing a critical mass of resources to achieve specific outcomes.

Community Advantage Leadership Program – A part of the Community Leadership Program, the Community Advantage Leadership Program (CALP) develops teams of leaders to advance their local economies. CALP is an advanced leadership program that trains leaders to create private-sector driven changes that produce economic advantages with benefits that are widely shared throughout the community and possibly the region.

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. The Foundation has committed resources to address two public policy issues *Vital Forest/Vital Communities* and *Broadband Initiative*.

Grant Making – The Foundation has three areas of grant making: local grants that impact the Grand Rapids/Itasca County area; a limited number of grants to communities that develop strong community economic advantage strategies; and grants that address rural economic advantage issues on a statewide or regional level. Community and statewide grants must contribute to the community economic advantage strategy, and local grants are split between economic advantage and responsive grants that address a range of social and community issues. The above costs are associated with the administration of the grant making program.

## **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 2006 and 2005 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.

*Larson, Allen, Weishair & Co., LLP*  
**LARSON, ALLEN, WEISHAIR & CO., LLP**

Minneapolis, Minnesota  
March 8, 2007

**CHARLES K. BLANDIN FOUNDATION**  
**SCHEDULES OF PROGRAM EXPENSES**  
**YEARS ENDED DECEMBER 31, 2006 AND 2005**  
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	2006	2005
<b>CHILDREN FIRST!</b>		
Personnel	\$ 27,183	\$ 97,767
Program Operations	8,085	41,617
Communications	2,006	3,042
Professional Services	94	11,290
Building Operations	1,676	4,509
Total Children First!	39,044	158,225
<b>BLANDIN COMMUNITY LEADERSHIP PROGRAM</b>		
Personnel	516,079	417,611
Program Operations	613,610	530,766
Communications	56,591	22,478
Professional Services	781,740	542,144
Building Operations	12,154	16,649
Total Blandin Community Leadership Program	1,980,174	1,529,648
<b>BLANDIN COMMUNITY ADVANTAGE LEADERSHIP PROGRAM</b>		
Personnel	-	113,236
Program Operations	-	26,636
Professional Services	-	133,249
Building Operations	-	9,944
Total Blandin Community Advantage Leadership Program	-	283,065
<b>PUBLIC POLICY AND ENGAGEMENT</b>		
Personnel	348,112	265,495
Program Operations	108,541	74,285
Communications	96,818	88,652
Professional Services	350,536	303,913
Building Operations	6,706	9,361
Total Public Policy and Engagement	910,713	741,706

**CHARLES K. BLANDIN FOUNDATION**  
**SCHEDULES OF PROGRAM EXPENSES (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2006 AND 2005**  
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	<u>2006</u>	<u>2005</u>
<b>GRANT MAKING</b>		
Personnel	402,265	284,858
Program Operations	41,665	30,300
Communications	1,633	2,542
Professional Services	43,356	59,508
Building Operations	<u>9,801</u>	<u>9,765</u>
Total Grant Making	498,720	386,973
<b>INSTITUTIONAL LEADERSHIP</b>		
Program Operations	-	24,740
Professional Services	<u>-</u>	<u>35,582</u>
Total Institutional Leadership	-	60,322
<b>OTHER</b>	<u>332,259</u>	<u>496,733</u>
<b>TOTAL OPERATING PROGRAMS</b>	<u><u>\$ 3,760,910</u></u>	<u><u>\$ 3,656,672</u></u>

**CHARLES K. BLANDIN FOUNDATION**  
**SCHEDULES OF ADMINISTRATIVE EXPENSES**  
**YEARS ENDED DECEMBER 31, 2006 AND 2005**  
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	2006	2005
<b>ADMINISTRATIVE EXPENSES</b>		
Personnel	\$ 897,536	\$ 842,167
Organization Operations	247,994	211,103
Interest on Long-Term Debt	851,383	758,529
Communications	85,304	4,427
Professional Services	317,100	274,338
Building Operations	90,347	56,529
Trustee Expense	309,760	337,412
Taxes	213,180	19,565
Subtotal	3,012,604	2,504,070
Depreciation	259,913	261,608
Total Administrative Expenses	<u>\$ 3,272,517</u>	<u>\$ 2,765,678</u>

**CHARLES K. BLANDIN FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
YEAR ENDED DECEMBER 31, 2006**

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, 2006. 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**

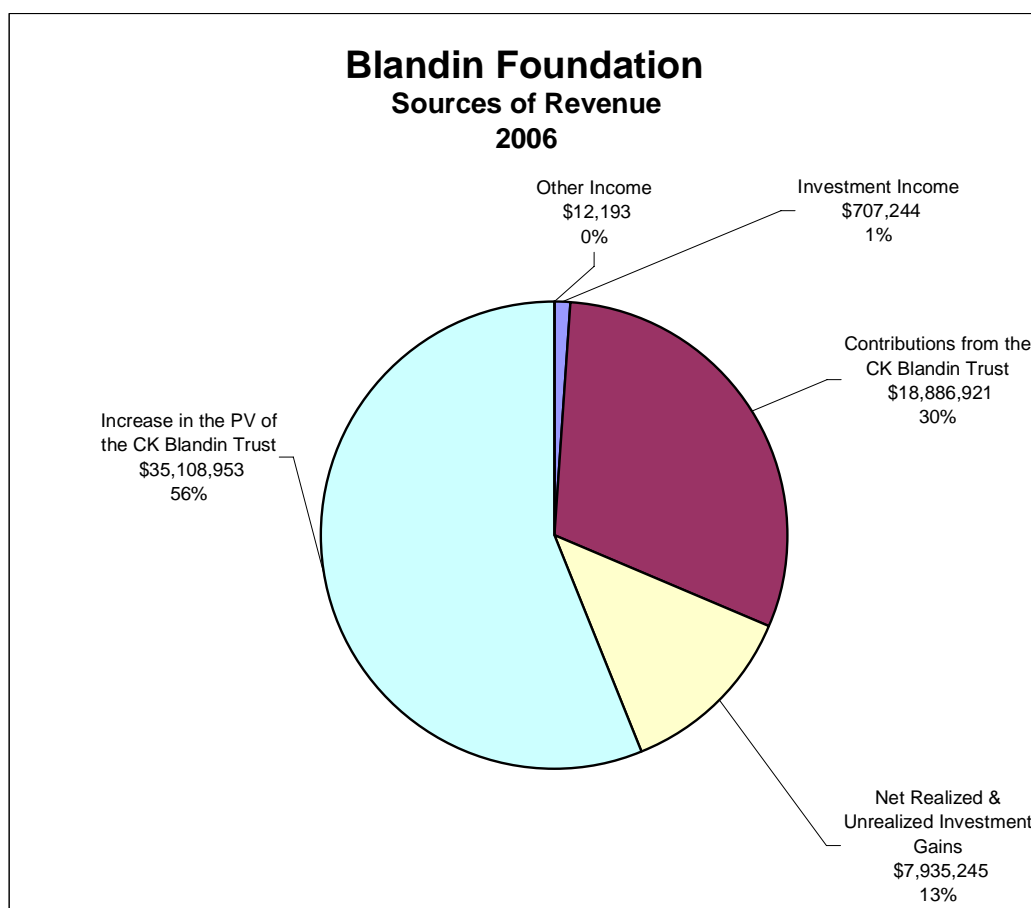
The Foundation's mission is to strengthen communities in rural Minnesota especially the Grand Rapids area. Our aim is for healthy communities grounded in strong economies where the burdens and benefits are widely shared. The Foundation's role is to infuse and energize rural community economies in Minnesota. For that purpose, the Foundation offers:

- Leadership development programs that help communities capitalize on their assets;
- Grant making to support community-generated economic strategies and, provide Community Responsive Grants in the Grand Rapids area;
- Public Policy programs to inform and engage the public on issues affecting rural economic viability, which currently include two major initiatives: Vital Forests/Vital Communities and Rural Broadband.

**CHARLES K. BLANDIN FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
YEAR ENDED DECEMBER 31, 2006**

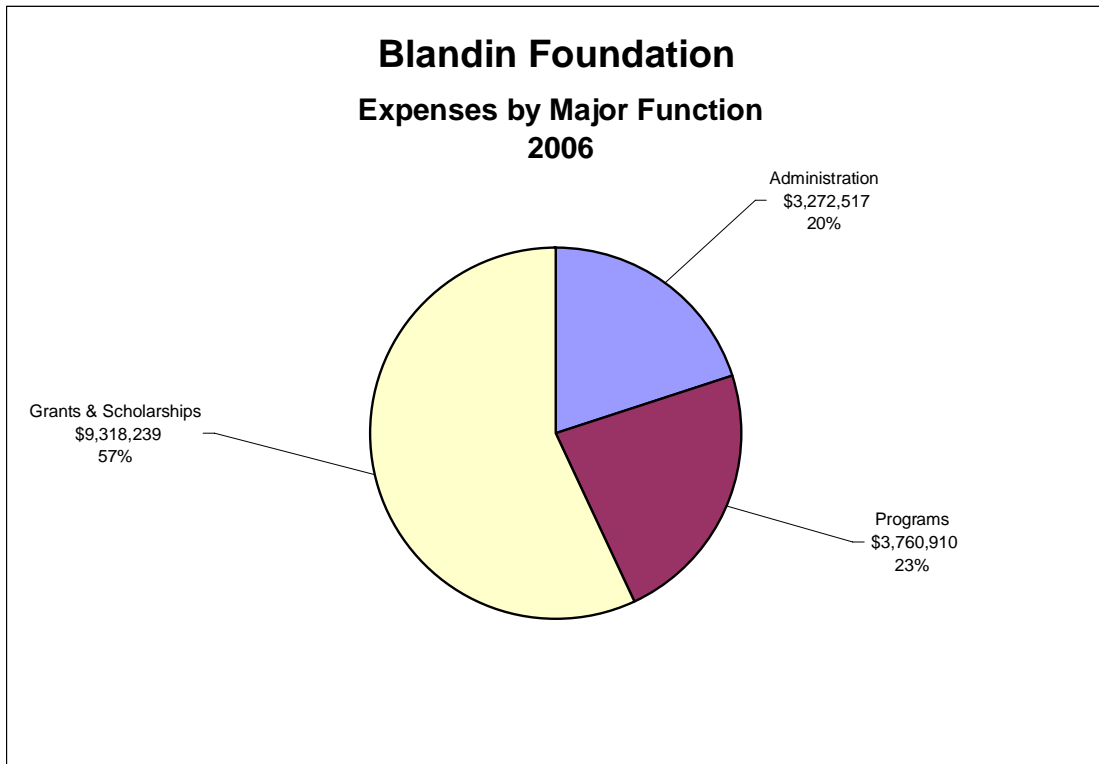
**FINANCIAL HIGHLIGHTS**

- Total revenues exceeded expenses by \$46.3 million, of which \$35.1 million was the net change in the permanently restricted value of Charles K. Blandin Trust. There was an \$11.1 million increase in the Foundation's unrestricted net assets.
- Permanently restricted net assets of the Foundation increased from \$355 million at 2005 year-end to \$390 million at 2006 year-end.
- The Foundation received \$18.8 million in contributions from the Charles K. Blandin Trust for 2006.
- The annual investment returns for the Foundation and the Charles K. Blandin Trust assets were 15% and 15.9%, respectively, for 2006.
- In 2006, the Foundation paid out grants totaling \$13,720,000 of which \$9,709,000 or 70% were for the local area. The approved grants and scholarships, which is shown as expense on the Foundation's statement of activities was \$9,318,000.
- The total 2006 expenses were \$16,352,000 - grants and scholarships accounted for 56% of the total, operating programs accounted for 23% and administration expenses 21%.





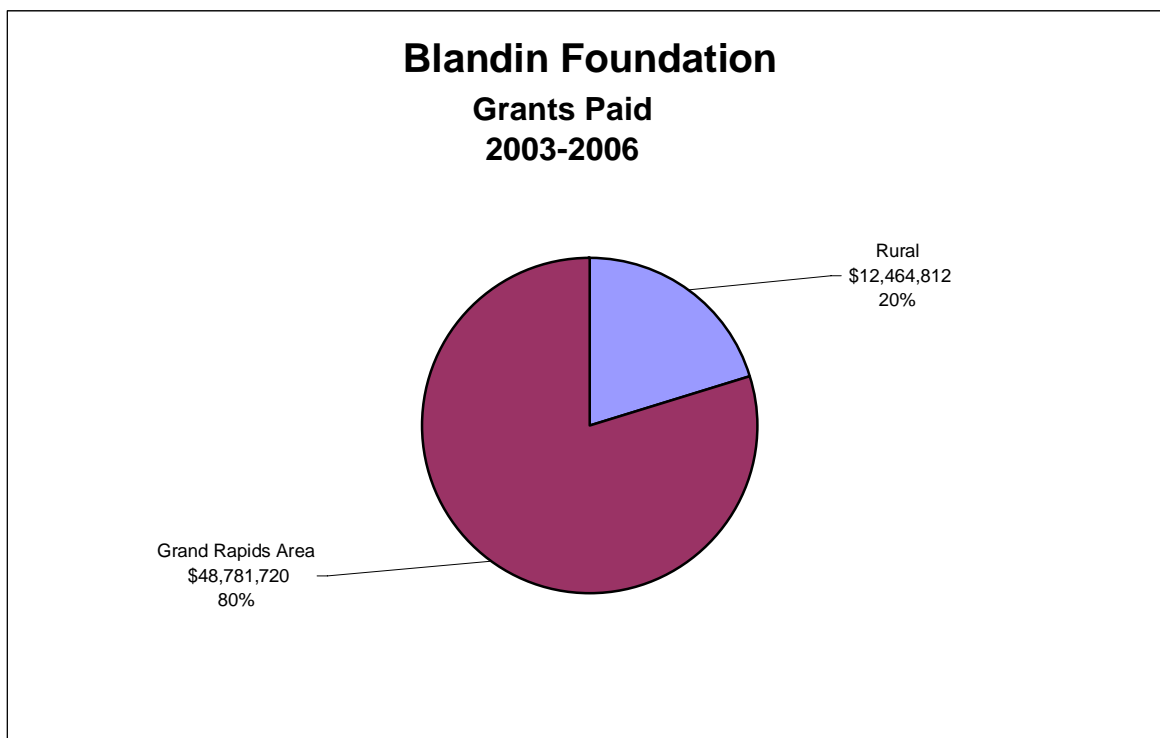
**CHARLES K. BLANDIN FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
YEAR ENDED DECEMBER 31, 2006**



Accrual basis

**CHARLES K. BLANDIN FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
YEAR ENDED DECEMBER 31, 2006**

In December 2003, the Foundation's Board of Trustees approved a resolution, ratified by the Ramsey County District Court, to distribute an average of at least 55% of all paid grants to the Grand Rapids area over a six-year rolling period beginning with 2003. This action resulted from objections brought to the court's attention that questioned the Foundation's compliance with the founder's will. The following chart indicates the level of grants paid to the Grand Rapids area starting 2003 through 2006.



**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).