Charles K. Blandin Foundation

Financial Statements
December 31, 2018

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Independent Auditor's Report

RSM US LLP

Board of Trustees
Charles K. Blandin Foundation

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, 2018 and 2017, 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.

Emphasis of Matter
Charles K. Blandin Foundation adopted Accounting Standard Update (ASU) No. 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, during the year ended December 31, 2018 with retrospective application, see Note 1. The adoption of the standard resulted in additional footnote disclosures and significant changes to classification of net assets and the disclosures related to net assets. Our opinion is not modified with respect to this matter.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Charles K. Blandin Foundation as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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, except for the portion marked “unaudited”, has been subjected to the auditing procedures applied in the audits 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. The information in Management’s Discussion and Analysis marked “unaudited” 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. In our opinion, except for the portion marked “unaudited”, 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 do not express an opinion or provide assurance on it.

RSM US LLP

Des Moines, Iowa
June 17, 2019

Charles K. Blandin Foundation

Statements of Financial Position
December 31, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	**$ 1,457,692**	$ 1,123,061
Restricted cash	**399,638**	399,638
Investments at fair value	**35,178,615**	39,170,935
Accounts and investment income receivable	**94,477**	69,142
Beneficial interest in Charles K. Blandin Residuary Trust	**373,536,444**	406,958,982
Mission related investments	**4,287,581**	2,931,673
Other assets	**296,727**	327,770
Property, furniture and equipment, net	**4,937,797**	5,196,969
Total assets	**$ 420,188,971**	$ 456,178,170
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	**$ 401,633**	$ 559,939
Grants and scholarships payable	**9,950,444**	9,000,411
Long-term debt, net of unamortized debt issuance costs	**3,413,380**	5,273,770
Total liabilities	**13,765,457**	14,834,120
Net assets:		
Without donor restrictions:		
Unrestricted	**24,097,552**	25,929,068
Board designated	**8,789,518**	8,456,000
Total net assets without donor restrictions	**32,887,070**	34,385,068
With donor restrictions:		
Beneficial interest in Charles K. Blandin Residuary Trust	**373,536,444**	406,958,982
Total net assets	**406,423,514**	441,344,050
Total liabilities and net assets	**$ 420,188,971**	$ 456,178,170

See notes to financial statements.

Charles K. Blandin Foundation

Statement of Activities
Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Gains, revenues, losses and contributions:			
Investment income (distributions) from			
Charles K. Blandin Residuary Trust	$ -	$ 19,524,057	$ 19,524,057
Investment income	1,027,413	-	1,027,413
Net realized and unrealized investment loss	(2,290,035)	-	(2,290,035)
(Decrease) in beneficial interest of perpetual trust	-	(33,422,538)	(33,422,538)
Change in swap value	46,419	-	46,419
Other income	2,629	-	2,629
Net assets released from restrictions	19,524,057	(19,524,057)	-
Total gains (losses), revenues and contributions	18,310,483	(33,422,538)	(15,112,055)
Expenses:			
Charitable activities:			
Grants	11,479,742	-	11,479,742
Scholarships	869,651	-	869,651
Programs	5,063,043	-	5,063,043
Total charitable activities	17,412,436	-	17,412,436
Administrative	2,396,045	-	2,396,045
Total expenses	19,808,481	-	19,808,481
Change in net assets	(1,497,998)	(33,422,538)	(34,920,536)
Net assets, beginning of year	34,385,068	406,958,982	441,344,050
Net assets, end of year	$ 32,887,070	$ 373,536,444	$ 406,423,514

See notes to financial statements.

Charles K. Blandin Foundation

Statement of Activities
Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Gains, revenues, losses and contributions:			
Investment income (distributions) from			
Charles K. Blandin Residuary Trust	$ -	$ 18,064,071	$ 18,064,071
Investment income	747,713	-	747,713
Net realized and unrealized investment gain	4,533,659	-	4,533,659
Increase in beneficial interest of perpetual trust	-	36,367,628	36,367,628
Change in swap value	95,403	-	95,403
Other income	12,881	-	12,881
Net assets released from restrictions	18,064,071	(18,064,071)	-
Total gains, revenues and contributions	23,453,727	36,367,628	59,821,355
Expenses:			
Charitable activities:			
Grants	9,962,666	-	9,962,666
Scholarships	849,607	-	849,607
Programs	4,772,471	-	4,772,471
Total charitable activities	15,584,744	-	15,584,744
Administrative	2,315,053	-	2,315,053
Total expenses	17,899,797	-	17,899,797
Change in net assets	5,553,930	36,367,628	41,921,558
Net assets, beginning of year	28,831,138	370,591,354	399,422,492
Net assets, end of year	$ 34,385,068	$ 406,958,982	$ 441,344,050

See notes to financial statements.

Charles K. Blandin Foundation

Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	**$ (34,920,536)**	$ 41,921,558
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	**395,455**	422,849
Amortization	**33,973**	33,973
Change in value of Charles K. Blandin Residuary Trust	**33,422,538**	(36,367,628)
Net realized and unrealized investment (gains) losses	**2,290,035**	(4,533,659)
Change in interest rate swap value	**(46,419)**	(95,403)
(Increase) decrease in assets:		
Accounts and investment income receivable	**(25,335)**	(20,852)
Other assets	**31,043**	(65,357)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	**(111,887)**	(262,311)
Grants and scholarships payable	**950,033**	(1,053,067)
Net cash provided by (used in) operating activities	**2,018,900**	(19,897)
Cash flows from investment activities:		
Purchase of property, furniture and equipment	**(136,283)**	(172,146)
Proceeds from sale of investments	**37,432,035**	28,172,446
Purchase of investments	**(35,729,750)**	(26,671,274)
(Increase) decrease in mission related investments	**(1,355,908)**	720,062
Net cash provided by investing activities	**210,094**	2,049,088
Cash flows from financing activities:		
Repayment of long-term debt	**(1,894,363)**	(1,837,102)
Net increase in cash and cash equivalents	**334,631**	192,089
Cash and cash equivalents:		
Beginning of year	**1,123,061**	930,972
End of year	**$ 1,457,692**	$ 1,123,061
Supplemental information:		
Grants paid	**$ 10,553,559**	$ 10,132,774
Scholarships paid	**932,667**	914,866
Interest paid	**175,914**	293,715

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 percent of its grants paid to the Grand Rapids area over a six-year rolling period.

The Blandin Foundation's mission is to be a trusted partner and advocate to strengthen rural Minnesota communities, especially the Grand Rapids area. The vision is healthy, inclusive rural communities. The Foundation stands with rural Minnesota communities as they design and claim vibrant, resilient futures. Blandin Foundation is one of only a handful of private foundations in the nation focused exclusively on rural communities, places which are persistently underserved and marginalized.

Cash, cash equivalents and concentration of risk: 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 more than the FDIC insurance limit. The Foundation has not incurred any losses because 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 on 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 gains 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 noninvestment 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 with donor restriction and have a permanent restriction 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 net assets with donor restriction column.

Note 1 Summary of Significant Accounting Policies (Continued)

Fair value of financial instruments: At December 31, 2018 and 2017, 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 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. 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.

Charitable 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. If a program-related investment is subsequently determined to be uncollectible or the value is permanently impaired, then the Foundation may record the uncollectible amount as a grant appropriation or record an impairment reserve. During the years ended December 31, 2018 and 2017, there was $0 and $200,000, respectively, of new program-related investments. There were distributions to existing program-related investments of $500,000 and $0 for the years ended December 31, 2018 and 2017, respectively.

Note 1 Summary of Significant Accounting Policies (Continued)

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, 2018 and 2017, there was $940,000 and $0, 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 more than $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:

Without Donor Restrictions: Represents assets over which the Foundation's Board of Trustees (Trustees) has discretionary control. The Trustees adopted a policy whereby a portion of undesignated net assets are designated in an amount equivalent of next year's adopted operating expenses.

With Donor Restrictions: Represents resources subject to donor imposed restrictions that will be satisfied by actions of the Foundation or the passage of time. As of December 31, 2018, the Foundation's net assets with donor restrictions consist entirely of assets of the Trust which are permanently restricted and included in with donor restrictions. The Foundation is the sole beneficiary of Trust distributions and Trust assets are restricted at the donor's request. The Trust is required by Internal Revenue Service (IRS) regulations to distribute annually, 5 percent of the average monthly ending market values of its previous year net assets or, according to the Trust documents, distribute 100 percent of Trust income, whichever is greater. For the years ended December 31, 2018 and 2017, the Trust calculated the required 5 percent 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 percent distribution, a portion of the corpus of the Trust will be paid out to cover the remaining distribution requirement. Distributions from the Trust totaled $19,524,057 and $18,064,071 during the years ended December 31, 2018 and 2017, respectively.

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.

Note 1 Summary of Significant Accounting Policies (Continued)

Board compensation: In accordance with the provision of Charles K. Blandin's Will, Foundation Trustees are compensated. For both the years ending December 31, 2018 and 2017, there were 12 Board members and they were compensated $224,250 and $213,750, 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: 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. Management has implemented ASU 2016-14 and is reflected in the 2018 financial statements. The changes incorporated into the financial statements include qualitative and quantitative requirements in the following areas: net asset classes, presentation of net investment return, additional disclosure related to expenses (see Note 11) and liquidity and availability of resources (see Note 12). Following the adoption of the ASU all net assets previously classified as temporarily restricted and permanently restricted net assets are now classified in with donor restrictions in the financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 is effective for fiscal years beginning after December 15, 2018. ASU 2016-18 must be applied using a retrospective transition method. The Foundation is currently evaluating the impact of the adoption of this guidance on the financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities,* which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. Specifically, ASU 2016-01 revises an entity's presentation of certain fair value changes for financial assets and liabilities measured at fair value. ASU 2016-01 is effective for annual periods beginning after December 15, 2018, with early adoption permitted. The Foundation is evaluating the impact of the ASU on the financial statements.

Note 1 Summary of Significant Accounting Policies (Continued)

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement.* ASU 2018-13 amends the required disclosures associated with Level 3 fair value measurements. ASU 2018-13 is effective for annual periods beginning after December 15, 2019, with early adoption permitted. The Foundation is evaluating the impact of the ASU on the financial statements.

Reclassification: Certain items on the statements of financial position and cash flows for the year ended December 31, 2017 have been reclassified to be consistent with their presentation for the year ended December 31, 2018 with no impact on ending cash, net assets or change in net assets.

Subsequent events: In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through June 17, 2019, 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:

	2018			2017		
	Cost	Fair Value	Unrealized (Depreciation) Appreciation	Cost	Fair Value	Unrealized (Depreciation) Appreciation
Domestic large cap equities	$ -	$ -	$ -	$ 122,775	$ 134,127	$ 11,352
Domestic mid cap equities	3,883,687	3,998,640	114,953	3,292,310	4,218,759	926,449
Domestic small cap equities	1,139,511	1,602,496	462,985	1,317,917	1,998,198	680,281
International equities	4,489,322	3,913,947	(575,375)	1,580,251	1,872,861	292,610
Fixed income	4,809,903	4,682,350	(127,553)	4,142,359	4,134,247	(8,112)
Alternative investments	9,488,399	11,169,261	1,680,862	10,574,632	15,730,469	5,155,837
Natural resources publicly traded limited partnerships	-	-	-	2,987,923	1,290,186	(1,697,737)
Equity mutual funds	6,969,140	9,319,216	2,350,076	5,738,290	9,102,609	3,364,319
Cash	492,705	492,705	-	689,479	689,479	-
	$ 31,272,667	$ 35,178,615	$ 3,905,948	$ 30,445,936	$ 39,170,935	$ 8,724,999

As of December 31, 2018 and 2017, the Foundation has future capital call requirements for investments of approximately $1,762,000 and $2,137,000, respectively.

Note 3. 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.

Note 3. Fair Value Measurements (Continued)

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.

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, 2018:

	Level 1	Level 2	Level 3	Total
Domestic mid cap equities	$ 3,998,640	$ -	$ -	$ 3,998,640
Domestic small cap equities	1,602,496	-	-	1,602,496
International equities	3,913,947	-	-	3,913,947
Fixed income	-	4,682,350	-	4,682,350
Equity mutual funds	9,319,216	-	-	9,319,216
Beneficial interest in Charles K. Blandin Residual Trust	-	-	373,536,444	373,536,444
Interest rate swap liability	-	-	(10,714)	(10,714)
Total	$ 18,834,299	$ 4,682,350	$ 373,525,730	397,042,379
Investments valued at net asset value:				
Alternative investments				11,169,261
				$ 408,211,640

Note 3. Fair Value Measurements (Continued)

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, 2018:

	Beneficial Interest	Interest Rate Swap Liability	Total
Beginning balance, December 31, 2017	$ 406,958,982	$ (57,133)	$ 406,901,849
Change in value of swap	-	46,419	46,419
(Decrease) in value of beneficial interest, net of distributions	(33,422,538)	-	(33,422,538)
Ending balance, December 31, 2018	$ 373,536,444	$ (10,714)	$ 373,525,730

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, 2017:

	Level 1	Level 2	Level 3	Total
Domestic large cap equities	$ 134,127	$ -	$ -	$ 134,127
Domestic mid cap equities	4,218,759	-	-	4,218,759
Domestic small cap equities	1,998,198	-	-	1,998,198
International equities	1,872,861	-	-	1,872,861
Fixed income	-	4,134,247	-	4,134,247
Equity mutual funds	9,102,609	-	-	9,102,609
Natural resources publicly traded limited partnerships	1,290,186	-	-	1,290,186
Beneficial interest in Charles K. Blandin Residual Trust	-	-	406,958,982	406,958,982
Interest rate swap liability	-	-	(57,133)	(57,133)
Total	$ 18,616,740	$ 4,134,247	$ 406,901,849	429,652,836
Investments valued at net asset value:				
Alternative investments				15,730,469
				$ 445,383,305

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, 2017:

	Beneficial Interest	Interest Rate Swap	Total
Beginning balance, December 31, 2016	$ 370,591,354	$ (152,536)	$ 370,438,818
Change in value of swap	-	95,403	95,403
Increase in value of beneficial interest, net of distributions	36,367,628	-	36,367,628
Ending balance, December 31, 2017	$ 406,958,982	$ (57,133)	$ 406,901,849

Note 3. Fair Value Measurements (Continued)

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of December 31, 2018 and 2017:

	Net Asset Value as of December 31, 2018	Net Asset Value as of December 31, 2017	Unfunded Commitments as of December 31, 2018	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Venture capital (a)	$ 777,513	$ 654,214	$ 231,547	None	NA
Real estate (b)	2,719,732	3,851,869	747,109	None	NA
Debt (c)	1,665,126	1,662,606	55,449	None	NA
Buyout (d)	784,144	464,033	353,172	None	NA
Special situation (e)	1,274,211	1,035,222	374,350	None	NA
International equity (f)	1,372,811	4,671,758	-	Monthly	3–6 days
Domestic equity (f)	970,220	1,601,341	-	Monthly	30 days
Emerging market (f)	1,605,504	1,789,426	-	Monthly	30 days
	$ 11,169,261	$ 15,730,469	$ 1,761,627		

The investments not currently eligible for 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 includes 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 situations 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 (IRC) 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.

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, 2018 and 2017, 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 are 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, 2018 and 2017, there was an allowance of $1,000,000 for 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, 2018 and 2017, the program-related and directed investments consisted of the following:

	2018	2017
Program-related investments	$ 2,139,307	$ 1,680,095
Less:		
Discounts:		
Beginning of year	(148,422)	(154,859)
(Increases) decreases	(43,304)	6,437
Subtotal program-related investments	1,947,581	1,531,673
Directed investments	3,340,000	2,400,000
Less allowance and discounts	(1,000,000)	(1,000,000)
Subtotal directed investments	2,340,000	1,400,000
Total mission related investments, net	$ 4,287,581	$ 2,931,673

At December 31, 2018 and 2017, there were no unreserved past due program-related investments.

Note 5. Property, Furniture and Equipment

Property, furniture and equipment consist of the following at December 31, 2018 and 2017:

	2018	2017
Land, building and improvements	$ 8,385,634	$ 8,304,590
Furniture, equipment and vehicles	3,308,883	3,253,644
Total	11,694,517	11,558,234
Less accumulated depreciation	(6,756,720)	(6,361,265)
Net property, furniture and equipment	$ 4,937,797	$ 5,196,969

Note 6. Long-Term Debt, Interest Rate Swap and Bond Reserve Fund

Debt obligations of the Foundation consisted of the following at December 31, 2018 and 2017:

	2018	2017
Revenue Bonds Series 2010, interest payable semiannually on November 1 and May 1 at rates ranging between 3.00% and 4.00% (4.00% at December 31, 2018), with principal payable annually on May 1 through 2019. The bond is secured by a Bond Reserve Fund.	$ 780,000	$ 1,525,000
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.	1,841,704	2,073,548
Promissory note bearing interest at a fixed interest rate of 3.38% requiring $80,367 principal and interest monthly payments, through November 2019.	864,256	1,781,775
	3,485,960	5,380,323
Less unamortized debt issuance costs	72,580	106,553
	$ 3,413,380	$ 5,273,770

The summary of approximate annual future maturities of principal on bonds as of December 31, 2018, is as follows:

Years ending December 31:	
2019	$ 1,883,000
2020	246,000
2021	252,000
2022	259,000
2023	266,000
Thereafter	580,000
	$ 3,486,000

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 percent principal and interest requirements on outstanding bonds payable during the then-current or any succeeding fiscal year or (2) 10 percent of the original principal amount of all series of the bonds then outstanding or (3) 125 percent 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 years ended December 31, 2018 and 2017, and is recorded in restricted cash on the statements of financial position.

The Foundation incurred interest expense on long-term debt of approximately $176,000 and $294,000 during the years ended December 31, 2018 and 2017, 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 percent. 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 current notional amount of the Agreement is $1,000,000 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 of approximately $11,000 and $57,000 as of December 31, 2018 and 2017, 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 percent (reduced to 1 percent if certain requirements are met) on taxable net investment income, which principally includes income from investments plus net realized capital gains (net capital losses, however, are not deductible) less expenses incurred.

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

	2018	2017
(Benefit) expenses:		
Current	$ (30,640)	$ (8,943)
(Asset) liabilities:		
Current	$ (43,900)	$ (31,568)
Deferred	77,882	181,190
	$ 33,982	$ 149,622

The Foundation is subject to distribution requirements of the IRC. Accordingly, it must distribute, in the year immediately following receipt, 100 percent of the contribution received from the Trust and 5 percent of the previous year’s average monthly market value of its assets as defined by the IRC. Failure to meet this distribution requirement subjects the Foundation to a 30 percent tax on the undistributed balance. The Foundation has complied with the distribution requirements through December 31, 2018.

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 after their first year of service. The Foundation contributes 6 percent of each employee's annual compensation. All participants are entitled to a benefit equal to their vested percentage of the individuals' pension account balance. The vesting schedule is based on the number of full years of service from zero to 100 percent, vesting at six years.

The Foundation also contributes to a plan qualified under section 403(b) of the IRC. The plan covers all employees who work a minimum of 1,000 hours in a 12-month period. The Foundation contributes a matching contribution of up to 6 percent of gross compensation for all participating employees. All participants are immediately vested in contributions from the Foundation, employee deferral contributions and investment earnings thereon. Employee deferrals are subject to annual limits as defined by the IRC.

Foundation contributions related to these defined contribution plans was approximately $323,000 and $309,000 for the year's ended December 31, 2018 and 2017, 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:

	Amount
2019 scholarships	$ 495,200
2019 grants	8,540,298
2020 grants	920,000
2021 grants	85,000
Total grant and scholarship commitments	10,040,498
Discount to present value	(90,054)
Total present value of grant and scholarship commitments	$ 9,950,444

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.

	2018	2017
Charitable activities—Programs:		
Leadership development	$ 2,601,534	$ 2,432,437
Public policy and engagement	1,135,258	1,117,420
Grants and scholarships	1,326,251	1,222,614
Total charitable activities—Programs	$ 5,063,043	$ 4,772,471

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. 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 the following focus areas: *broadband, student success, early childhood quality and quantity of care and a fair and complete census.*

High-speed Internet, or "broadband," today is indispensable infrastructure for thriving communities. 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 to decrease disparities between rural and urban broadband access.

Student Success and Early Childhood: 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.

Census—A fair and complete 2020 Census is a bedrock of American society and constitutionally mandated. Too often, rural peoples and other marginalized populations are underrepresented, which has implications for commerce, community development and governmental representation. Blandin Foundation is engaged specifically within Minnesota.

Grants and scholarships: The Foundation partners with community-focused organizations throughout rural Minnesota to build healthy communities. A minimum of 60 percent 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 propose 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.

Note 11 Natural and Functional Expenses

As discussed in Note 1, ASU No. 2016-14 requires the Foundation to provide an analysis of expenses by both natural and functional classification. Natural expenses are defined by their nature, such as salaries, rent, supplies, etc. Functional expenses are classified by the type of activity for which expenses were incurred, for example, administrative and direct program costs. Expenses were allocated by function using a reasonable and consistent approach also discussed in Note 1.

The table below presents expenses by both their natural and function for the year ended December 31, 2018:

	Charitable Activities					
	Grants	Scholarships	Programs	Total	Administrative	Total Expenses
Grants	$ 11,479,742	$ -	$ -	$ 11,479,742	$ -	$ 11,479,742
Scholarships	-	869,651	-	869,651	-	869,651
Salary, benefits and payroll taxes	-	-	3,076,836	3,076,836	893,850	3,970,686
Trustee fees and costs	-	-	-	-	326,182	326,182
Travel, conferences and meetings	-	-	604,577	604,577	94,776	699,353
Professional fees	-	-	890,254	890,254	300,826	1,191,080
Printing and publications	-	-	21,977	21,977	6,729	28,706
Building and grounds	-	-	60,036	60,036	81,077	141,113
Other expenses	-	-	226,025	226,025	304,574	530,599
Interest	-	-	-	-	175,914	175,914
Depreciation	-	-	183,338	183,338	212,117	395,455
Total	$ 11,479,742	$ 869,651	$ 5,063,043	$ 17,412,436	$ 2,396,045	$ 19,808,481

The table below presents expenses by both their natural and function for the year ended December 31, 2017:

	Charitable Activities					
	Grants	Scholarships	Programs	Total	Administrative	Total Expenses
Grants	$ 9,962,666	$ -	$ -	$ 9,962,666	$ -	$ 9,962,666
Scholarships	-	849,607	-	849,607	-	849,607
Salary, benefits and payroll taxes	-	-	2,919,206	2,919,206	834,648	3,753,854
Trustee fees and costs	-	-	-	-	282,674	282,674
Travel, conferences and meetings	-	-	576,360	576,360	82,578	658,938
Professional fees	-	-	783,572	783,572	280,158	1,063,730
Printing and publications	-	-	23,770	23,770	7,015	30,785
Building and grounds	-	-	46,418	46,418	73,992	120,410
Other expenses	-	-	231,345	231,345	229,224	460,569
Interest	-	-	-	-	293,715	293,715
Depreciation	-	-	191,800	191,800	231,049	422,849
Total	$ 9,962,666	$ 849,607	$ 4,772,471	$ 15,584,744	$ 2,315,053	$ 17,899,797

Note 12 Liquidity

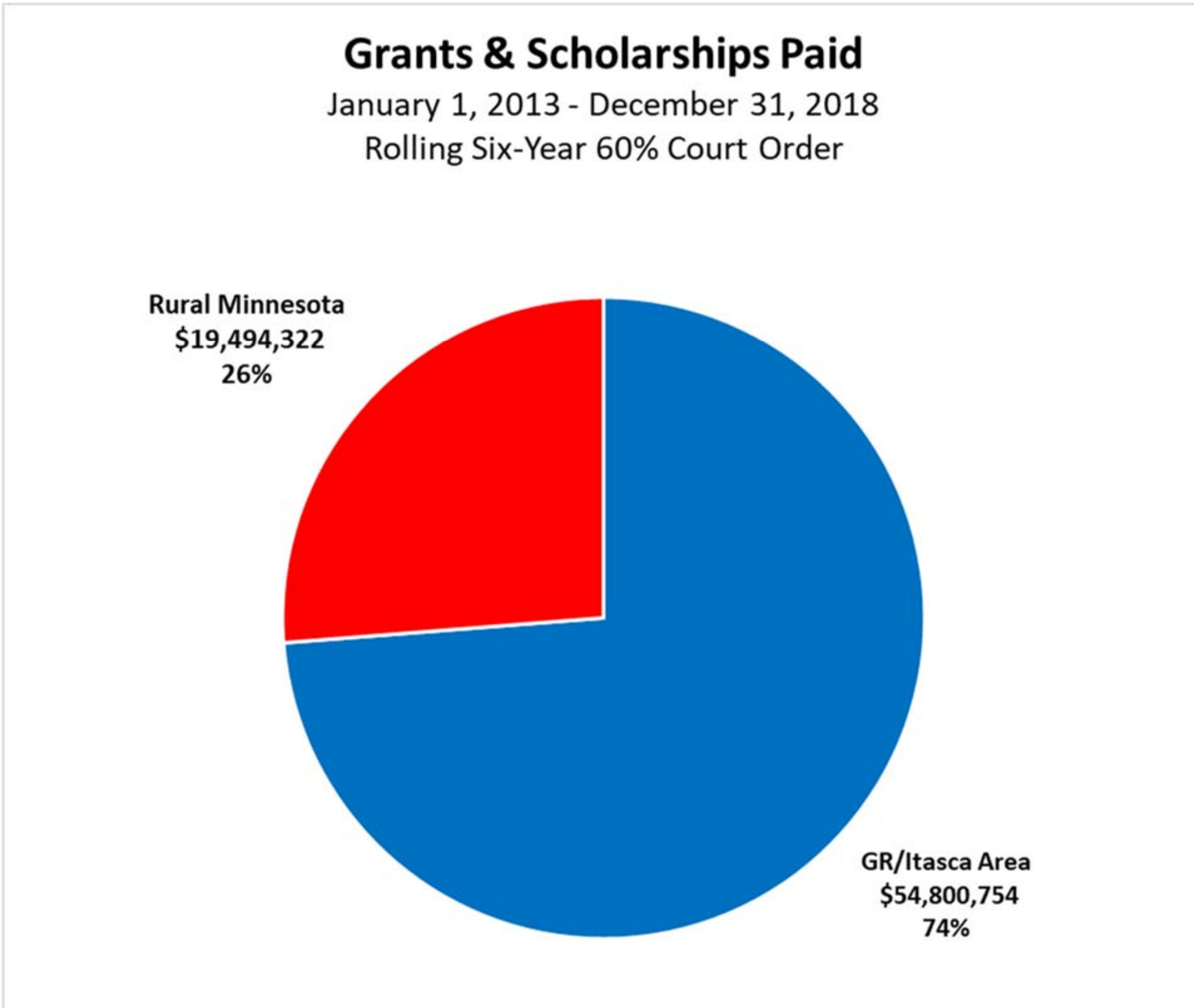
The Foundation endeavors to structure its financial assets to be available and liquid as its general expenditure, liabilities, and other obligations become due. The Foundation's investments at fair value are 79.6 percent liquid as of year-end December 31, 2018. There are likely to be additional components of the Foundation's investments that may be available and liquid within one year. These components include certain portions of marketable alternatives, as well as return of capital from both private equity and real asset holdings.

The Foundation's financial assets available within one year of December 31, 2018 to meet general expenditures include:

	Amount
Cash and cash equivalents	$ 1,457,692
Accounts and investment income receivable	94,477
Investments	28,002,178
Other assets	293,729
Total financial assets	$ 29,848,076

SUPPLEMENTAL INFORMATION

A six-year rolling period of grants and scholarships paid in the local giving area versus rural Minnesota is reflected in the chart below. The chart displays the Foundation's adherence to the court order of at least 60% of grants to be distributed locally. Approximately $54.8 million, or 74%, of grants have been paid in the local area during the timeframe represented. The Foundation's annual Form 990-PF tax return and audited financial statements were used as base documents.



MANAGEMENT DISCUSSION AND ANALYSIS

Charles K. Blandin Foundation
Management's Discussion and Analysis (Unaudited)
Year Ended December 31, 2018

This is management's discussion and analysis of the Charles K. Blandin Foundation's (the Foundation) audited financial statements for the year ended December 31, 2018. Please read 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 be a trusted partner and advocate to strengthen rural Minnesota communities, especially the Grand Rapids area. The Foundation stands with rural Minnesota communities and leaders as they design and claim ambitious, vibrant and resilient futures. 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.

The Foundation's vision is of healthy, inclusive rural communities. The Foundation's work--and that of its partners--is viewed through the lens of four areas of focus:

Vibrant Itasca County
The 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 is focused on building strong relationships for all Itasca communities to be vibrant, thriving, and healthy. The Foundation supports a wide spectrum of partners and initiatives, with emphasis given to those based on collaboration and people facing inequities.

Invest in community leadership
As the only statewide foundation in Minnesota focused exclusively on rural communities, the Foundation stands with community partners to design, claim, and work toward communities that work for all residents. In short, the Foundation seeks to support and inspire inclusive rural leadership.

The Foundation works toward outcomes, such as new and diverse people taking formal and informal leadership roles and leadership program alumni being supported and equipped to take courageous action to help their communities address barriers, especially socio-economic, racial, and cultural.

Expand opportunity
The Foundation encourages and supports inclusive community efforts that intentionally blend educational attainment, economic innovation, and equity. Outcomes the Foundation seeks include community members collaborating to reduce systemic barriers, especially for people persistently excluded. The Foundation also focuses its resources and relationships to enhance rural communities' ability to learn and adapt to change.

Effective stewards
This strategy is inward facing, focused on growing and leveraging Foundation resources, relationships, and opportunities. For example, staff and board capacities are developed, strengthened, and utilized. The organizational culture is welcoming, inclusive, and empowering. In addition, the Foundation declares its commitment to managing financial assets with integrity and transparency in perpetuity. To this end, the Foundation has achieved the Glasspockets designation by Foundation Center.

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; and the Paper Company is owned by UPM Kymmene, based in Finland.

The Foundation is mainly funded by annual distributions from the Trust, of which the Foundation is the sole beneficiary. As of December 31, 2018, the Trust is worth approximately $373.5 million.

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

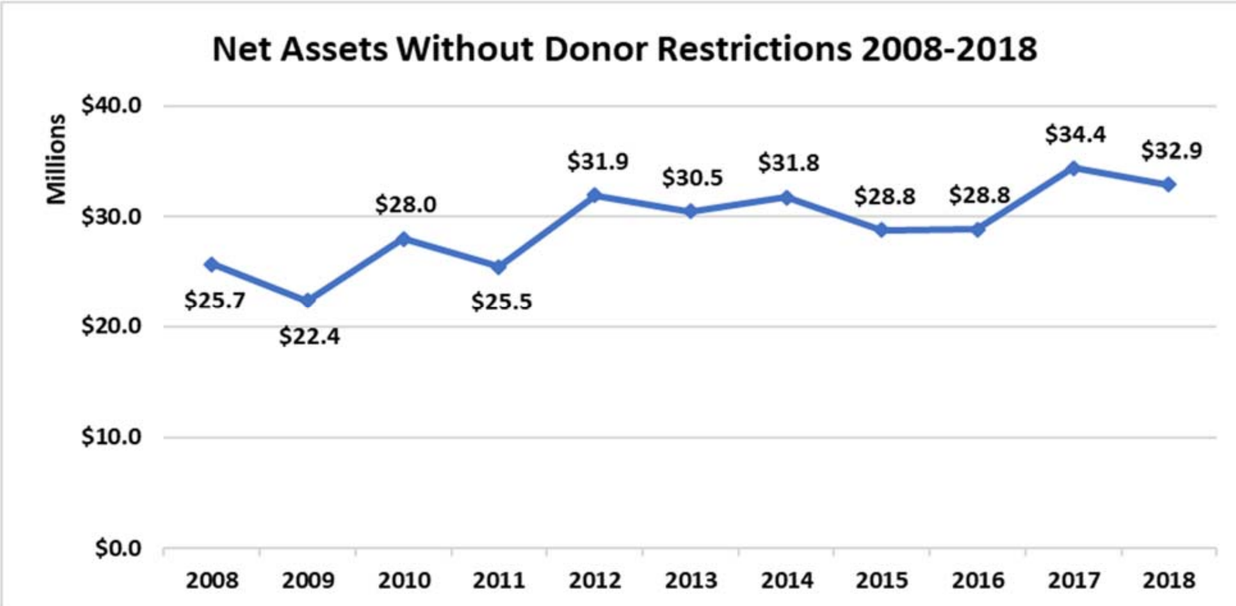
Overview of the Financial Statements
This discussion and analysis introduce the Foundation's basic financial statements. The Foundation's basic financial statements are the following: (1) statement of financial position; (2) statement of activities; (3) statement of cash flows; and (4) notes to the financial statements. This report also demonstrates the Foundation's adherence to Paragraph II and III of the Stipulation and Order, which is the requirement, effective January 1, 2015, that the local giving area receive an average of at least sixty percent (60%) of all grants paid over a six-year rolling period.

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

The total assets of the Foundation decreased by $36.0 million at year-end 2018 compared to year-end 2017. This is mostly attributed to the decrease in the value of the beneficial interest in the Trust. The value of the Trust decreased $33.5 million, from $407.0 million at end-of-year 2017 to $373.5 million at end-of-year 2018. Two key reasons for the decrease in Trust value are from the fourth quarter market activity generating annual financial losses and the annual calculated distributions to the Foundation. The cash and cash equivalents at end-of-year 2018 is more than enough to pay grant and scholarship commitments in early 2019.

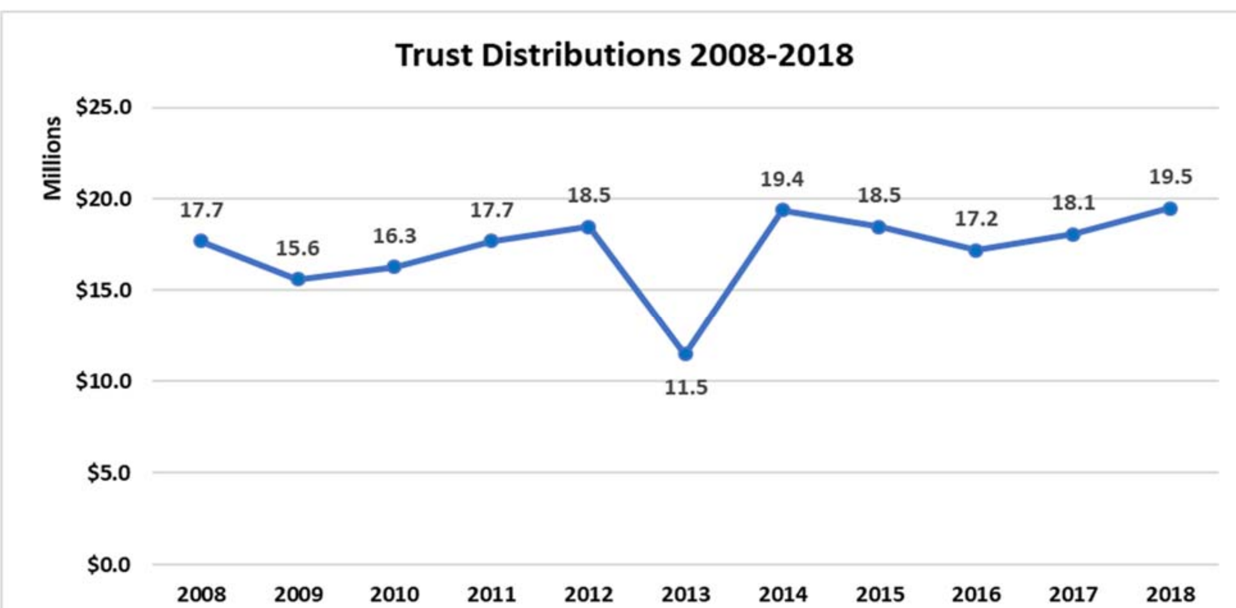
There was a decrease of $4.0 million in the Foundation's investment value from 2017 to 2018. The rate of return did not exceed the 5% annual payout for the Foundation's charitable grant making and programs, which is what local and rural participants and organizations receive. Mission related investments increased by $1.4 million from 2017 to 2018, with continued implementation of the Foundation's revised mission related investment policy.

Total 2018 net assets without donor restrictions of the Foundation decreased $1.5 million compared to 2017. The amount of Board designated net assets in 2018 increased $333 thousand compared to 2017 in accordance with adopted policy, which directly links the Board designated amount to next year's operating budget, less grants and scholarships. The chart on the next page shows a historical snapshot of net assets without donor restrictions of the Foundation.

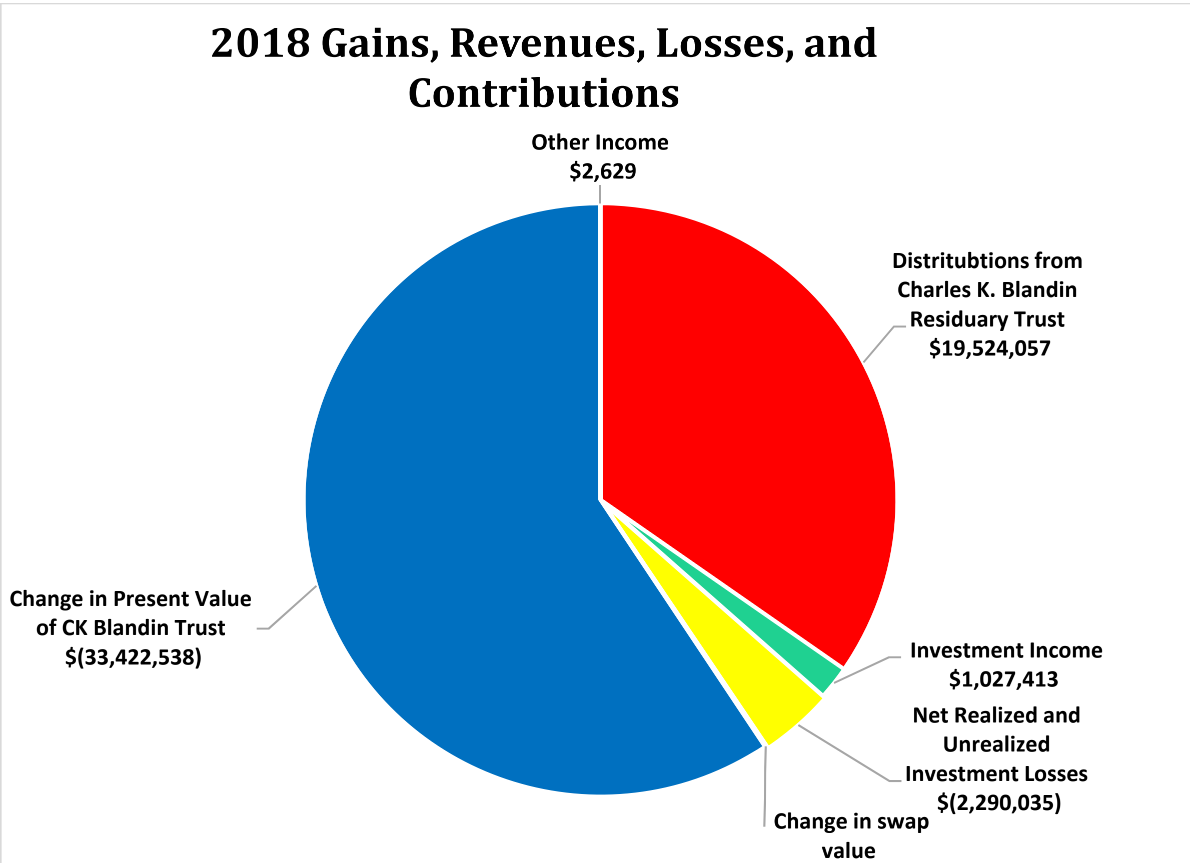


Statement of Activities
The statement of activities (income statement) is a summary of revenues from all sources and all expenses of the Foundation. The statement shows any surplus (deficit) of revenue over expenses. Generally accepted accounting principles (GAAP) require the audited financial statements to classify revenues and expenses as without donor restrictions or with donor restrictions.

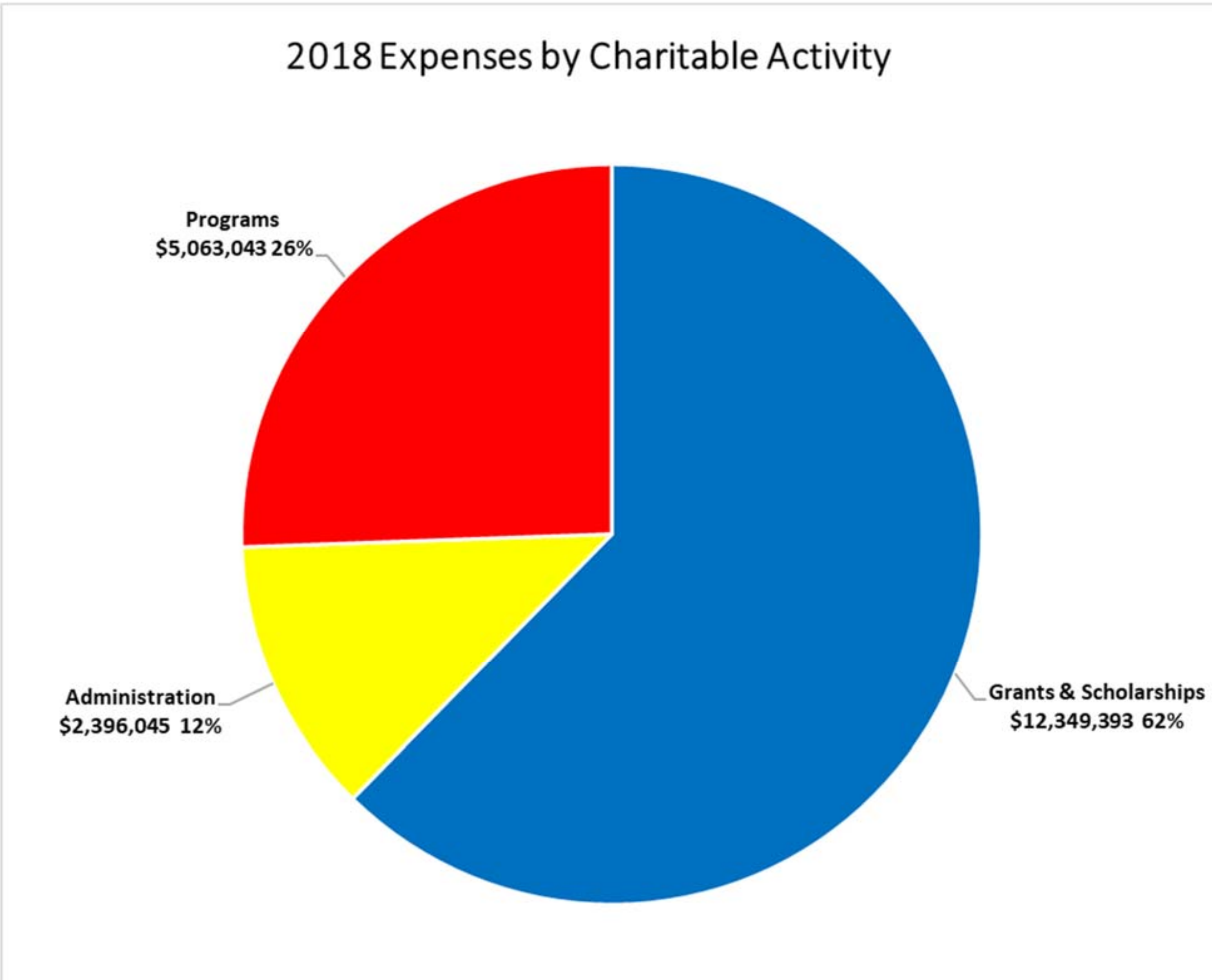
Investment income (distributions) from the Trust was $19.5 million in 2018. Trust distributions remain the Foundation's main source of revenue. Activities in the financial markets for 2018 resulted in a 4.6% negative annual investment return for the Foundation, which did not beat the absolute return target benchmark of All Urban CPI + 5%. Below is a chart showing historical Trust investment income (distributions) to the Foundation.



Net realized and unrealized investment losses for the Foundation equaled $2.3 million and were negative 4% of total revenue. The beneficial interest in the Trust decreased $33.4 million and were a negative 59% of total revenue. See below for a chart of the 2018 Foundation revenues by category.



The Board of Trustees approved a net $12.4 million in grants and scholarships in 2018. The Foundation's direct charitable activities totaled $5.1 million, which includes the leadership and public policy & engagement programs. Administrative costs were $2.4 million in 2018. See chart below for a breakdown of 2018 charitable expenses by activity.



Below contains further information on grant-making and larger programmatic activities:

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 8,049 grants totaling $404.4 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 remaining balance used to support initiatives in other parts of rural Minnesota. Scholarships are awarded to students having graduated from high schools in the local giving area and are focused on improving the educational attainment of disadvantaged populations. More than 20,345 area youth have received scholarships totaling over $24.9 million since 1956. The 2018 costs of $1.3 million are associated with the administration of the grant and scholarship making programs.

Leadership Program – The nationally recognized Blandin Community Leadership Program and Blandin Reservation Community Leadership Program combine residential retreats with ongoing workshops to strengthen the abilities of new and seasoned community leaders to frame challenges and opportunities, collaborate with others effectively across all segments of community, and mobilize resources to achieve specific outcomes. For over 30 years, the Foundation has trained more than 7,7626 community leaders in 586 rural Minnesota communities through various community leadership programs and 11 Tribal reservations with total program expenses of $2.6 million for 2018.

Public Policy and Engagement Program – Part of strengthening rural Minnesota is helping assure rural perspectives are well represented in public discourse. The 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 $1.1 million in 2018.

Statement of Cash Flows
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 2018, cash was provided by operating ($2.0 million) and investing ($0.2 million) activities, while it was used in financing ($1.9 million) activities. This resulted in an increase in cash of $0.3 million at the end of 2018. Financing activities in 2018 were for the repayment of long-term debt of $1.9 million.

Cash used to pay grants and scholarships in 2018 totaled $11.5 million, of which $8.3 million or 74% was for the Grand Rapids/Itasca County area. See the Grants by Location (includes scholarships) table on the next page for more information.

Notes to the Financial Statements
A complete set of financial statements includes footnotes that provide further information to the reader about the Foundation's accounting policies and other explanatory information. There are several detailed footnotes on investments, program-related and directed investments, and outstanding bonds.

Other Information
The Foundation has an Audit Committee and a Finance & Investment Committee. Both committees inform and advise the Foundation's Board of Trustees. Members of the Foundation Board are identified in the Foundation's 990-PF annual tax return.

The Residuary 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 Residuary Trust are identified in the Residuary 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 (classified as "local") and those that are outside of its home giving 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 2013–2018 timeframe is reflected in the figures and charts below, which confirms the Foundation complied with the 60% court order. $54.8 million or 74% of grants were paid in the local area. 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)

	2008 Amount	2009 Amount	2010 Amount	2011 Amount	2012 Amount
Local	$ 7,842,539	$ 6,049,916	$ 12,571,531	$ 9,315,795	$ 7,082,932
Rural	4,421,314	3,015,684	4,307,648	3,604,934	3,931,124
TOTAL	$ 12,263,853	$ 9,065,600	$ 16,879,179	$ 12,920,729	$ 11,014,056

	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	$ 51,377,716	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	$ 74,500,480	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	$ 57,236,069	72.1%	$ 10,053,480	$ 54,718,018	72.3%
Rural	3,083,268	22,097,371	27.9%	3,188,254	20,977,977	27.7%
TOTAL	$ 13,417,432	$ 79,333,440	100.0%	$ 13,241,734	$ 75,695,995	100.0%

	2017 Amount	2012-2017 6-Year Rolling Total	2012-2017 6-Year Rolling Average	2018 Amount	2013-2018 6-Year Rolling Total	2013-2018 6-Year Rolling Average
Local	$ 8,218,915	$ 53,621,138	72.6%	$ 8,262,548	$ 54,800,754	73.8%
Rural	2,828,725	$ 20,201,768	27.4%	3,223,678	$ 19,494,322	26.2%
TOTAL	$ 11,047,640	$ 73,822,906	100.0%	$ 11,486,226	$ 74,295,076	100.0%

Note: Grant amounts are determined from publicly reported grant detail listed in the Foundation's Form 990-PF tax return. 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 six-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 six-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 local area;
2. The grant amounts paid in the prior year on a cash basis of accounting outside of the local 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

	Combined Assets (Fair Market Value) Source: 990-PF	Receipts (Accrual Basis) Source: 990-PF	Grants (Cash Basis) Source: 990-PF	Program Expenses (Accrual Basis) Source: Audit		Administrative Expenses (Accrual Basis) Source: Audit		Total Program & Administrative Expenses (Cash Basis) Source: Audit		Total Program & Administrative Expenses (Accrual Basis) Source: Audit
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	417,470,522	18,348,478	13,241,734	4,751,170		2,991,372	*	7,187,789	**	7,956,678
2017	456,178,170	19,911,241	11,047,640	4,772,471		2,315,053	*	6,632,721	**	7,320,628
2018				5,063,043		2,396,045	*			

* The administrative expenses in the audit column do not include investment expenses which are netted against investment income 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, ASU 2016-14, implemented in the 2018 fiscal year. The Foundation has not changed any charitable financial practices. There have 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.

Grant, program, and administrative expenses, and program-related investments made in the Grand Rapids area have a multiplier effect and the dollars likely recirculate several times. For example, the Foundation's payroll was $2.9 million in 2018 and all employees live in the Itasca County area. The Foundation also spent $2.2 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.

Charles K. Blandin Foundation
Management's Discussion and Analysis (Unaudited)
Year Ended December 31, 2018

At the June 2018 Board meeting, the following resolutions were unanimously carried by Board vote:

WHEREAS, the RSM US LLP firm, contracted to perform 2017 audit and tax services, has discussed with the Audit Committee in their audit 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 has discussed with the Audit Committee in their audit review that there were no newly issued accounting standards 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, the accuracy of the amount and the local and rural designation of grants paid in 2017, and

BE IT RESOLVED, that the Audit Committee has reviewed the Management Discussion & Analysis of the Foundation and recommends the Board of Trustees confirms the Foundation has complied with the required distribution of 60% grants paid in the local giving area over the six-year rolling period and have identified no significant changes in the charitable financial practices of the Foundation.

BE IT FURTHER RESOLVED, that the Board of Trustees has reviewed the supplemental information and Management Discussion & Analysis and confirms the Foundation has complied with the required distribution of 60% grants paid in the local giving area over the six-year rolling period and have identified no significant changes in the charitable financial practices of the Foundation.

At the December 2018 Board meeting, the following resolutions were unanimously carried by Board vote:

WHEREAS, the RSM US LLP USA firm has completed the Foundation's 2017 990-T and related state returns, which have been reviewed by Foundation staff; and

NOW THEREFORE, BE IT RESOLVED, that the Board of Trustees ratifies the Audit Committee's acceptance of the Charles K. Blandin Foundation 2017 990-T and related state returns, as signed by the appropriate authority, and with an IRS approved extension to November 15, filed by the approved April 2015 Court Order due date September 30, 2018.

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 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 218-326-0523. The President/CEO will review the question or concern and respond within ten business days to the community member.