CHARLES K. BLANDIN FOUNDATION

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED December 31, 2014 AND 2013

CHARLES K. BLANDIN FOUNDATION
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McGladrey

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Charles K. Blandin Foundation, which comprise the statements of financial position as of December 31, 2014 and 2013, and 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Charles K. Blandin Foundation as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements taken 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 as of and for the years ended December 31, 2014 and 2013, 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. In our opinion, the information as of and for the years ended December 31, 2014 and 2013 is fairly stated in all material respects in relation to the financial statements as a whole.

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

McGladrey LLP

Minneapolis, Minnesota
June 8, 2015

Charles K. Blandin Foundation

Statements of Financial Position
December 31, 2014 and 2013

Assets	**2014**	2013
Cash and Cash Equivalents	$ 2,495,948	$ 1,620,070
Investments (Note 2)	42,967,982	44,441,568
Accounts and Investment Income Receivable	276,707	33,848
Beneficial Interest in Charles K. Blandin Residuary Trust (Note 1)	392,950,604	397,642,357
Program-Related and Directed Investments (Note 4)	2,753,279	2,764,160
Other Assets, net	820,480	832,013
Property and Equipment (Note 5)	2,583,406	2,563,805
Total assets	**$ 444,848,406**	$ 449,897,821

Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 1,022,765	$ 1,233,727
Grants and scholarships payable	11,069,318	11,127,530
Long-term debt	8,025,000	9,385,000
Total liabilities	**20,117,083**	21,746,257
Net Assets		
Unrestricted	20,367,209	17,067,170
Unrestricted—Board designated	11,413,510	13,442,037
Total unrestricted	**31,780,719**	30,509,207
Permanently restricted	392,950,604	397,642,357
Total net assets	**424,731,323**	428,151,564
Total liabilities and net assets	**$ 444,848,406**	$ 449,897,821

See Notes to Financial Statements.

Charles K. Blandin Foundation

Statement of Activities
Year Ended December 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Gains, revenues, losses and contributions				
Investment income (distributions) from				
Charles K. Blandin Residuary Trust	$ -	$ 19,403,903	$ -	$ 19,403,903
Investment income	537,209	-	-	537,209
Net realized and unrealized investment				
gains (Note 2)	839,260	-	-	839,260
(Decrease) in beneficial interest of				
perpetual trust (Note 1)	-	-	(4,691,753)	(4,691,753)
Change in swap value	163,397	-	-	163,397
Net assets released from restrictions	19,403,903	(19,403,903)	-	-
Total gains, revenues, losses and contributions	20,943,769	-	(4,691,753)	16,252,016
Expenses				
Charitable activities:				
Grants	11,505,221	-	-	11,505,221
Scholarships	769,417	-	-	769,417
Programs (Note 10)	4,748,163	-	-	4,748,163
Total charitable activities	17,022,801	-	-	17,022,801
Administrative	2,649,456	-	-	2,649,456
Total expenses	19,672,257	-	-	19,672,257
Change in net assets	1,271,512	-	(4,691,753)	(3,420,241)
Net Assets, beginning of year	30,509,207	-	397,642,357	428,151,564
Net Assets, end of year	**$ 31,780,719**	**$ -**	**$ 392,950,604**	**$ 424,731,323**

See Notes to Financial Statements.

Charles K. Blandin Foundation

Statement of Activities
Year Ended December 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Gains, revenues, losses and contributions				
Investment income (distributions) from				
Charles K. Blandin Residuary Trust	$ -	$ 11,540,147	$ -	$ 11,540,147
Contribution from Charles K. Blandin				
Insurance Trust	237,815	-	-	237,815
Investment income	664,998	-	-	664,998
Net realized and unrealized investment				
gains (Note 2)	6,750,884	-	-	6,750,884
Increase in beneficial interest of				
perpetual trust (Note 1)	-	-	47,218,831	47,218,831
Grant income	56,946	-	-	56,946
Change in swap value	317,533	-	-	317,533
Other income	168,864	-	-	168,864
Net assets released from restrictions	11,540,147	(11,540,147)	-	-
Total gains, revenues, losses and contributions	19,737,187	-	47,218,831	66,956,018
Expenses				
Charitable activities:				
Grants	11,183,264	-	-	11,183,264
Scholarships	832,648	-	-	832,648
Program—Federal ARRA	84,131	-	-	84,131
Programs (Note 10)	4,882,190	-	-	4,882,190
Total charitable activities	16,982,233	-	-	16,982,233
Administrative	2,414,529	-	-	2,414,529
Total expenses	19,396,762	-	-	19,396,762
Change in net assets	340,425	-	47,218,831	47,559,256
Net Assets, beginning of year	30,168,782	-	350,423,526	380,592,308
Net Assets, end of year	**$ 30,509,207**	**$ -**	**$ 397,642,357**	**$ 428,151,564**

See Notes to Financial Statements.

Charles K. Blandin Foundation

Statements of Cash Flows
Years Ended December 31, 2014 and 2013

	2014	2013
Cash Flows From Operating Activities		
Change in net assets	$ (3,420,241)	$ 47,559,256
Adjustments to reconcile change in net assets to:		
Net cash (used in) operating activities:		
Depreciation	177,618	225,216
Amortization	38,499	38,500
Change in value of Charles K. Blandin Residuary Trust	4,691,753	(47,218,831)
Net realized and unrealized investment (gains)	(1,129,521)	(7,019,002)
Change in interest rate swap value	(163,397)	(317,533)
(Increase) decrease in current assets:		
Accounts and investment income receivable	(242,859)	40,209
Other assets	(26,966)	173,546
Program-related and directed investments	10,881	536,041
(Decrease) in current liabilities:		
Accounts payable and accrued expenses	(47,565)	(10,691)
Grants and scholarships payable	(58,212)	(339,162)
Net cash (used in) operating activities:	(170,010)	(6,332,451)
Cash Flows From Investment Activities		
Purchase of fixed assets	(197,219)	(147,487)
Proceeds from sale of investments	46,261,894	53,131,536
Purchase of investments	(43,658,787)	(45,525,089)
Net cash provided by investing activities	2,405,888	7,458,960
Cash Flows From Financing Activities		
Repayment of Long-Term Debt	(1,360,000)	(1,335,000)
Net increase (decrease) in cash and cash equivalents	875,878	(208,491)
Cash and Cash Equivalents, beginning of year	1,620,070	1,828,561
Cash and Cash Equivalents, end of year	**$ 2,495,948**	$ 1,620,070
Supplemental Information:		
Grants paid	$ 11,853,849	$ 11,633,225
Scholarships paid	891,132	795,783
Interest paid	403,251	433,136
Excise taxes paid	120,000	50,000

See Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organizational Purpose

The Charles K. Blandin Foundation (the Foundation), incorporated under the laws of Minnesota, awards grants, operates programs, and brings research, people, and organizations together to address opportunities that strengthen the Grand Rapids area and rural communities throughout Minnesota. The Foundation has agreed to distribute a minimum of 55% of its grants paid to the Grand Rapids area over a six-year rolling period beginning January 1, 2003. Effective January 1, 2015 the minimum was increased to 60%. Since 2004, the Foundation distribution to the Grand Rapids area has been above 63%.

The Blandin Foundation's mission is to strengthen communities in rural Minnesota, especially the Grand Rapids area. The vision is to be the premier partner for building healthy rural communities, grounded in strong economies, where the burdens and benefits are widely shared. The Foundation helps communities provide choice and opportunity for all, especially people facing social and economic challenges. Through grant-making, leadership development and public policy initiatives, goals are to support capacity of communities to identify issues and opportunities and help communities value and mobilize diverse ideas, opportunities, experiences, and people.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Foundation considers all short-term, highly liquid money market investments to be cash equivalents, except for funds held for investment purposes. At times, cash investments at financial institutions may be in excess of the FDIC insurance limit. The Foundation has not incurred any losses as a result of this concentration.

Investments

Investments in debt and equity securities with readily determinable fair values are carried at quoted market value. The Foundation has elected to report the fair value of Partnership investments using the practical expedient. The practical expedient allows for the use of net asset value (NAV), either as reported by the partnership 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 Receivable

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

Beneficial Interest in Charles K. Blandin Residuary Trust

The Foundation is the sole beneficiary of the Charles K. Blandin Residuary Trust (the Trust), the assets of which are not in the possession of the Foundation. Substantially all of the Foundation's non-investment income is received from the irrevocable Trust.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Foundation's beneficial interest in the Trust is valued at the current market value of the net assets held by the Trust and is shown as permanently restricted as these assets are currently unavailable for distribution. Market value fluctuations in the Trust are reflected on the statements of activities as a change in beneficial interest in perpetual trust in the permanently restricted net assets column.

Fair Value Measurements

The Foundation follows the accounting guidance for fair value, which applies to reported balances that are required or permitted to be measured at fair value. The guidance defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements.

The objective of a fair value measurement is to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the Statements of Financial Position are categorized based on the inputs to the valuation techniques as follows:

Level 1 - Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. The inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets.

Level 2 - Financial assets and liabilities are valued using inputs quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data. Level 2 includes private collateralized mortgage obligations, municipal bonds, and corporate debt securities. Level 2 also includes investments valued using the practical expedient that do not have significant redemption restrictions that would cause liquidation and report date NAV to be significantly different, if redemption were requested at the report date.

Level 3 - Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset. Level 3 includes investments valued using the practical expedient that have restrictive redemption requirements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments

At December 31, 2014 and 2013, 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 Residual Trust – The Foundation is the sole beneficiary of the Trust. The fair value of 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, hedge funds, 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 bond 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 payment, 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.

Program-Related and Directed Investments

Program-related investments consist of debt positions in 501(c)(3) organizations that conduct activities that fulfill the charitable purposes of the Foundation. Program-related investments are initially recorded on the statements of financial position at cost when approved. Uncollected interest earned on program-related investments with a debt position is recorded as earned and included in the investment account. These investments are recoverable over periods ranging up to 10 years. In the event that a program-related investment is subsequently determined to be uncollectible or the value is permanently impaired, the Foundation may record the uncollectible amount as a grant appropriation or record an impairment reserve. During the years ended December 31, 2014 and 2013 there was $350,000 and none, respectively, of new program-related investments. There were distributions totaling $25,000 and none for the years ended December 31, 2014 and 2013, respectively.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Furniture and Equipment

Property, furniture and equipment are recorded at cost and depreciated over their estimated useful lives, as shown below, using the straight-line method of depreciation. The Foundation capitalizes all assets with a cost in excess of $5,000, provided those assets have a useful life extending beyond one year.

Building and Improvements	10 - 30 Years
Furniture and Equipment	5 - 10 Years
Vehicles	5 Years

Other Assets – Deferred Debt Acquisition Costs and Reserve Funds

Included in other assets are deferred debt acquisition costs and debt reserve funds. The deferred debt acquisition costs are being amortized on a straight-line basis over the term of the bonds of 15 years for Series 2004B and 9 years for Series 2010. Deferred debt acquisition costs are $414,299 for the 2004B bonds less accumulated amortization of $325,774 and $308,069 for the years ended December 31, 2014 and 2013, respectively. Bond acquisition costs for the 2004A bonds in the amount of $159,345 was written off in 2010 when the bonds were refinanced. Amortization expense totaled $17,705 for each of the years ended December 31, 2014 and 2013.

Deferred debt acquisition costs were $187,149 for the 2010 bonds less accumulated amortization of $84,910 and $64,116 for the years ended December 31, 2014 and 2013, respectively. Amortization expense totaled $20,794 for each of the years ended December 31, 2014 and 2013.

Bond reserve funds were $399,638 for each of the years ended December 31, 2014 and 2013.

Net Assets

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

Unrestricted – Represents assets over which the Foundation's Board of Trustees (Trustees) has discretionary control. The Trustees adopted a policy whereby a portion of unrestricted net assets is designated in the amount of the minimum financial covenant on the Variable Rate Demand Revenue Bonds, Series 2004B (see Note 6), plus an amount up to the equivalent of next year's adopted operating expenses.

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

Permanently Restricted – The assets of the Trust are permanently restricted at the donor's request. The Trust is required by IRS regulations to distribute annually, 5% of the average monthly ending market values of its previous year net assets or, according to the Trust documents, distribute 100% of Trust income, whichever is greater. For the years ended 2014 and 2013, the Trust calculated the required 5% distribution to the Foundation based on the current year net asset values of the Trust. If the earnings on the assets of the Trust are not greater than or equal to the Trust's required 5% distribution, a portion of the corpus of the Trust will be paid out to cover the remaining distribution requirement.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

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

Functional Allocation of Expense

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

Board Compensation

In accordance with the provision of Charles K. Blandin's Will, Trustees are compensated. For the years ending December 31, 2014 and 2013 Board members totaled 13 and 10, respectively, and were compensated $229,750 and $190,750, 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. The Foundation is no longer subject to examination by Federal or state authorities for years end before December 31, 2011 nor has the foundation been notified of any impending examination and no examinations are currently in process.

Recent Accounting Pronouncements

In May 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-07, Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). This ASU amends the fair value accounting rules to remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share as a practical expedient. For non-public entities, like the Foundation, the amendments in this ASU are effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years and permits early adoption. The Foundation has elected not to early adopt the provisions of this ASU and are evaluating the impact on the Foundation's financial statements.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through June 8, 2015, 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:

	2014			2013		
	Cost	Fair Value	Unrealized (Depreciation) Appreciation	Cost	Fair Value	Unrealized (Depreciation) Appreciation
Domestic large cap equities	$ 2,990,132	$ 3,748,642	$ 758,510	$ 3,314,333	$ 4,668,111	$ 1,353,778
Domestic mid cap equities	3,389,989	4,620,029	1,230,040	3,448,563	4,752,744	1,304,181
International equities	2,706,400	2,438,972	(267,428)	227,991	581,390	353,399
Bonds	1,653,785	1,765,778	111,993	4,655,226	4,603,362	(51,864)
Alternative investments	14,293,966	17,458,604	3,164,638	15,758,038	19,502,544	3,744,506
Natural Resource Publicly Traded Limited Partnerships	2,098,296	2,016,001	(82,295)	-	-	-
Equity mutual funds	2,902,736	4,652,163	1,749,427	5,868,964	7,747,057	1,878,093
Cash	6,267,793	6,267,793	-	2,586,360	2,586,360	-
	$ 36,303,097	$ 42,967,982	$ 6,664,885	$ 35,859,475	$ 44,441,568	$ 8,582,093

	2014	2013
Net realized gain on investments	$ 2,591,928	$ 3,923,906
Net unrealized (loss) gain on investments	(1,462,407)	3,095,096
Investment fees	(290,261)	(268,118)
	839,260	6,750,884
Interest and dividends	537,209	664,998
Net investment income gain	$ 1,376,469	$ 7,415,882

As of December 31, 2014 and 2013, the Foundation has future capital call requirements of approximately $2,229,000 and $1,863,000, respectively. The Trust as of December 31, 2014 and 2013 has future capital call requirements of approximately $27,139,000 and $26,231,000, respectively, which represent obligations of the Trust.

NOTE 3 FAIR VALUE MEASUREMENTS

The Foundation uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The Trust is a Level 3 asset due to lack of observed markets for the Trust interest. However, according to the unaudited financial information provided from the Trust, the underlying investments would be categorized at December 31, 2014, approximately $229 million (58%) Level 1, $80 million (21%) Level 2, and $83 million (21%) Level 3 and at December 31, 2013, approximately $229 million (38%) Level 1, $85 million (21%) Level 2 and $83 million (21%) Level 3.

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table presents the Foundation's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2014:

	Level 1	Level 2	Level 3	Total
Domestic large cap	$ 3,748,642	$ -	$ -	$ 3,748,642
Domestic mid cap	4,620,029	-	-	4,620,029
International equity	2,438,972	-	-	2,438,972
Fixed income	1,765,778	-	-	1,765,778
Equity mutual funds	4,652,163	-	-	4,652,163
Natural Resource Publicly Traded Limited Partnerships	2,016,001	-	-	2,016,001
Alternative investments	-	10,753,907	6,704,697	17,458,604
Beneficial interest in Charles K. Blandin Residuary Trust	-	-	392,950,604	392,950,604
Interest rate swap	-	-	(428,682)	(428,682)
Total	$ 19,241,585	$ 10,753,907	$ 399,226,619	$ 429,222,111

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, 2014:

	Alternative Investments	Beneficial Interest	Interest Rate Swap	Total
Beginning Balance, January 1, 2014	$ 7,458,156	$ 397,642,357	$ (592,079)	404,508,434
Net realized gains	84,138	-	-	84,138
Change in unrealized appreciation	274,810	-	-	274,810
Net sales	(1,112,407)	-	-	(1,112,407)
Change in value of swap	-	-	163,397	163,397
(Decrease) in value of beneficial interest	-	(4,691,753)	-	(4,691,753)
Ending Balance, December 31, 2014	$ 6,704,697	$ 392,950,604	$ (428,682)	$ 399,226,619

The following table presents the Foundation's fair value hierarchy for those assets measured at fair value on a recurring basis as of December 31, 2013:

	Level 1	Level 2	Level 3	Total
Domestic large cap	$ 4,668,111	$ -	$ -	$ 4,668,111
Domestic mid cap	4,752,744	-	-	4,752,744
International equity	581,390	-	-	581,390
Fixed income	4,603,362	-	-	4,603,362
Equity mutual funds	7,747,057	-	-	7,747,057
Alternative investments	-	12,044,388	7,458,156	19,502,544
Beneficial interest in Charles K. Blandin Residuary Trust	-	-	397,642,357	397,642,357
Interest rate swap	-	-	(592,079)	(592,079)
Total	$ 22,352,664	$ 12,044,388	$ 404,508,434	$ 438,905,486

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, 2013:

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	Alternative Investments	Beneficial Interest	Interest Rate Swap	Total
Beginning Balance, January 1, 2013	$ 8,504,606	$ 350,423,526	$ (909,612)	$ 358,018,520
Net realized gains	651,924	-	-	651,924
Change in unrealized appreciation	(219,257)	-	-	(219,257)
Net sales	(1,479,117)	-	-	(1,479,117)
Change in value of swap	-	-	317,533	317,533
(Decrease) in value of beneficial interest	-	47,218,831	-	47,218,831
Ending Balance, December 31, 2013	$ 7,458,156	$ 397,642,357	$ (592,079)	$ 404,508,434

Fair Value Measurements of Investments in certain entities that calculate net asset value per share (or its equivalent) as of December 31, 2014 and 2013:

	Net Asset Value as of December 31, 2014	Net Asset Value as of December 31, 2013	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Venture capital	$ 1,016,407	$ 1,136,328	$ 22,310	None	NA
Real estate	3,676,795	4,015,488	528,726	None	NA
Debt	1,878,971	1,686,318	208,588	Monthly	90 days
Buyout	1,013,782	1,604,206	959,919	None	NA
Special situtation	1,534,924	1,409,877	509,184	None	NA
International equity	3,973,054	2,685,077	-	Monthly	3–6 days
Domestic equity	2,975,285	5,564,038	-	Daily	1 day
Emerging market equity	1,389,386	1,401,212	-	Monthly	30 days
	$ 17,458,604	$ 19,502,544	$ 2,228,727		

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

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.

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.

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

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.

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

Special situation are private capital investments whose strategies are not fully described by the four traditional classifications 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.

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 PROGRAM - RELATED AND DIRECTED INVESTMENTS

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

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

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 Trustees who approves the allowance. At both December 31, 2014, and 2013, there was a $2,000,000 allowance for current program related investments. Program-related investment interest is recorded annually as income earned per the terms of the specific individual program related investment loan agreement. If no interest rate is stated in the program related investment loan agreement then the loan is discounted on an annual basis at a rate equivalent to the prime rate at end of the year when the loan was approved.

Directed investments are used to further the Foundation's mission and is fundamentally a financial investment rather than a grant and must meet applicable prudent investor standards like more conventional investments. A directed investment is subject to the same investment policies and procedures as the other investments in which the Foundation invests. At both December 31, 2014 and 2013, there was a $1,000,000 allowance for current directed investments. The approved directed investments are carried at cost basis on the statement of financial position at year-end less any unfunded commitments.

At both December 31, 2014 and 2013, program related and directed investments represented 0.6% of total assets.

NOTE 4 PROGRAM - RELATED AND DIRECTED INVESTMENTS (CONTINUED)

At December 31, 2014 and 2013, the program related and directed investments consisted of the following:

	2014	2013
Program-related investments	$ 5,025,000	$ 4,732,500
Less:		
Allowance and discounts		
Beginning of year	(2,207,144)	(2,301,966)
Decreases (Increases)	(64,577)	94,822
Subtotal program-related investments	2,753,279	2,525,356
Directed investments	1,000,000	1,238,804
Less: Allowance and discounts	(1,000,000)	(1,000,000)
Subtotal: Directed investments	-	238,804
Total program-related investments, net	$ 2,753,279	$ 2,764,160

At December 31, 2014 and 2013, there were no unreserved past due program-related investments.

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2014	2013
Land, building and improvements	$ 5,603,546	$ 5,591,746
Furniture, equipment and vehicles	2,575,628	2,417,632
Total	8,179,173	8,009,378
Less accumulated depreciation	(5,595,768)	(5,445,573)
Net property and equipment	$ 2,583,406	$ 2,563,805

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

Debt obligations of the Foundation consisted of the following at December 31, 2014 and 2013, respectively:

	2014	2013
Charles K. Blandin Foundation, Variable Rate Demand Revenue Bonds Series 2004B, interest payable monthly, principal payable annually on May 1 through 2019. Bond secured by letter of credit.	$ 4,400,000	$ 5,100,000
Charles K. Blandin Foundation, Revenue Bonds Series 2010, interest payable semiannually on November 1 and May 1, principal payable annually on May 1 through 2019. Bond secured by Bond Reserve Fund.	3,625,000	4,285,000
	$ 8,025,000	$ 9,385,000

The summary of annual future maturities of principal on bonds as of December 31, 2014 is as follows:

Year Ending December 31,	Scheduled Payment	Contractual Payment
2015	$ 1,475,000	$ 5,075,000
2016	1,500,000	700,000
2017	1,625,000	725,000
2018	1,645,000	745,000
2019	1,780,000	780,000
	$ 8,025,000	$ 8,025,000

Bond Reserve Fund

As part of the issuance of the County of Itasca, Minnesota, Demand Revenue Bonds, Series 2010, the Foundation must maintain a reserve fund equal to the reserve requirement. The reserve requirement is the lesser of: (1) 50% principal and interest requirements on outstanding bonds payable during the then current or any succeeding fiscal year or (2) 10% of the original principal amount of all series of the bonds then outstanding or (3) 125% of the average annual debt service on the outstanding bonds. The bond reserve serves as collateral for the bonds. The balance of the bond reserve fund was $399,638 at both the years ended December 31, 2014 and 2013, and is recorded in other assets on the statements of financial position.

Revenue Bond – Series 2010

During 2010, the County of Itasca, Minnesota issued $6,155,000 of Tax Exempt Demand Revenue Bonds, Series 2010. The interest rate of the bonds at December 31, 2012 was 3%. The County of Itasca has entered into a repayment agreement with the Foundation for repayment of the bonds. The bonds are secured solely by the bond reserve fund. There is no redemption feature on the 2010 bonds. Principal is paid May 1 each year to 2019 and interest payments are semi-annually.

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

Revenue Bond – Series 2004B

During 2004, the Foundation issued $10,000,000 of Variable Rate Demand Revenue Bonds, Series 2004B. The bonds are at variable rate; however, the Foundation entered into a swap agreement in 2006, fixing the rate at 5.071% as of December 31, 2014 and 2013.

The bonds are the sole responsibility of the Foundation and are secured through a $4,539,729 letter of credit, due the earlier of April 29, 2016 or 366 days from the date of draw. On June 29, 2009, the Letter of Credit and Reimbursement Agreement was amended. The executed amended letter of credit which expired on October 31, 2010, with automatic 1-year extensions through October 31, 2014, subject to nonrenewal with a 90-day advance written notice from the bank. The Trustees on March 25, 2011 approved the second amendment to the Wells Fargo Bank letter of credit for the 2004B bond. The agreed language changes were favorable for the Foundation and gave the Trustees much more financial flexibility for financing future opportunities. The revised language allows the Foundation to issue additional debt and the minimum unrestricted net asset calculation is a declining balance concept.

Upon certain circumstances, the interest rate may be converted to a fixed rate. As long as the bonds carry a variable interest rate, they can be redeemed at the option of the bondholders. The Foundation has entered into an agreement that provides for the remarketing, to the extent possible, of the bonds in the event of redemption. In the event remarketing is unsuccessful, the letter of credit will be drawn upon to pay the Trustee.

The 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 sufficient to cause the ratio of unrestricted net assets to debt of the Foundation to be not less than 1.30 to 1.00. The Foundation is not aware of any covenant violations as of December 31, 2014.

The Foundation incurred interest expense on long-term debt of approximately $401,000 and $457,000 during the years ended December 31, 2014 and 2013, respectively.

Interest Rate Swap

The Foundation entered into an interest rate swap agreement (the Agreement) effective March 1, 2006. The purpose of the swap is to convert the variable rate interest on the Variable Rate Demand Revenue Bonds, Series 2004B to a synthetic fixed rate of 5.071%. Under terms of the Swap Agreement, the Foundation began making fixed rate payments of interest on April 1, 2006. The notional amount of the Agreement is $8,100,000 and gradually decreases to zero upon the termination of the Agreement on May 1, 2019. The fair value of the swap agreement was a liability as of December 31, 2014 and 2013, was approximately $429,000 and $592,000, respectively, and recorded in accrued expenses.

NOTE 7 FEDERAL EXCISE TAXES AND DISTRIBUTION REQUIREMENTS

The Foundation is classified as a private foundation, and as such, is subject to a federal excise tax of 2% (reduced to 1% if certain requirements are met) on taxable net investment income, which principally includes income from investments plus net realized capital gains (net capital losses, however, are not deductible) less expenses incurred.

NOTE 7 FEDERAL EXCISE TAXES AND DISTRIBUTION REQUIREMENTS (CONTINUED)

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

	2014	2013
Expenses:		
Current	$ 56,910	$ 60,000
Deferred	9,746	71,012
	$ 66,656	$ 131,012
Liabilities:		
Current	$ 21,504	$ 36,504
Deferred	133,298	171,642
	$ 154,802	$ 208,146

The Foundation is subject to distribution requirements of the Internal Revenue Code. Accordingly, it must distribute, in the year immediately following receipt, 100% of the contribution received from the Trust and 5% of the previous year's average monthly market value of its assets as defined by the Internal Revenue Code. Failure to meet this distribution requirement subjects the Foundation to a 30% tax on the undistributed balance. The Foundation has complied with the distribution requirements through December 31, 2014.

NOTE 8 EMPLOYEE BENEFIT PLANS

Defined Contribution Plans

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

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

Foundation contributions related to these defined contribution plans was approximately $265,000 and $263,000 for the years ended December 31, 2014 and 2013, respectively.

NOTE 9 GRANTS AND SCHOLARSHIPS PAYABLE

Grants and scholarships payable are recorded when approved by the Trustees. Long-term grants and scholarships payable (payable in over one year) are discounted to the present value of future commitments using the prime rate of interest at year-end. Grants and scholarships approved and scheduled for payment are as follows:

Year	Amount
2015 scholarships	$ 461,216
2015 grants	9,564,814
2016 grants	1,103,865
Total grant and scholarship commitments	11,129,895
Discount to present value	(60,577)
Total present value of grant and scholarship commitments	$ 11,069,318

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.

	2014	2013
Charitable activities—Programs:		
Leadership development	$ 2,504,179	$ 2,545,976
Public policy and engagement	1,124,436	1,192,979
Grants and scholarships	1,119,548	1,143,235
Other	-	84,131
Total charitable activities—Programs	$ 4,748,163	$ 4,966,321

Leadership Development

For more than 30 years, Blandin has developed over 6,800 community leaders in 422 rural Minnesota communities and eleven rural reservations through our Blandin Community Leadership Programs (BCLP). This is a unique nationally-recognized program that builds competencies in three major areas: (1) framing opportunities and challenges that lead to effective action, (2) building social capital for collaboration and resource sharing, and (3) mobilizing a critical mass of resources to achieve specific outcomes. The program is designed for community teams that reflect diversity of their community from all walks-of-life. A combination of an intensive residential retreat, coupled with on-going workshops, trains leaders in communications, conflict management, networking and stakeholder analysis.

Public Policy and Engagement

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

NOTE 10 CHARITABLE ACTIVITIES – PROGRAMS (CONTINUED)

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

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

Grants and Scholarships

The Foundation partners with community-focused organizations throughout rural Minnesota to build healthy communities. Since Mr. Blandin's first grant of $600 for a community park in 1943, the Blandin Foundation has approved 6,333 grants approximately $358 million. Grants, in conjunction with resources from other stakeholders, provide incentives to implement strategies that create healthy rural Minnesota communities. A minimum of 55% of grants are targeted to the Itasca County local giving area, with the balance used to support initiatives in other parts of rural Minnesota. To be eligible for a Blandin Foundation grants, organizations must be located in Minnesota, be a 501(c)(3) organization, unit of government or education, and proposed projects that align with the Foundation's mission and focus areas of:

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. More than 19,625 area youth have received scholarships totaling more than $21 million since 1956.

Other

The Foundation has received federal funds to facilitate broadband deployment in rural areas through the Broadband Technology Opportunities Program (BTOP) of the U.S. Department of Commerce, under the auspices of the American Recovery and Reinvestment Act of 2009.

Supplementary Information

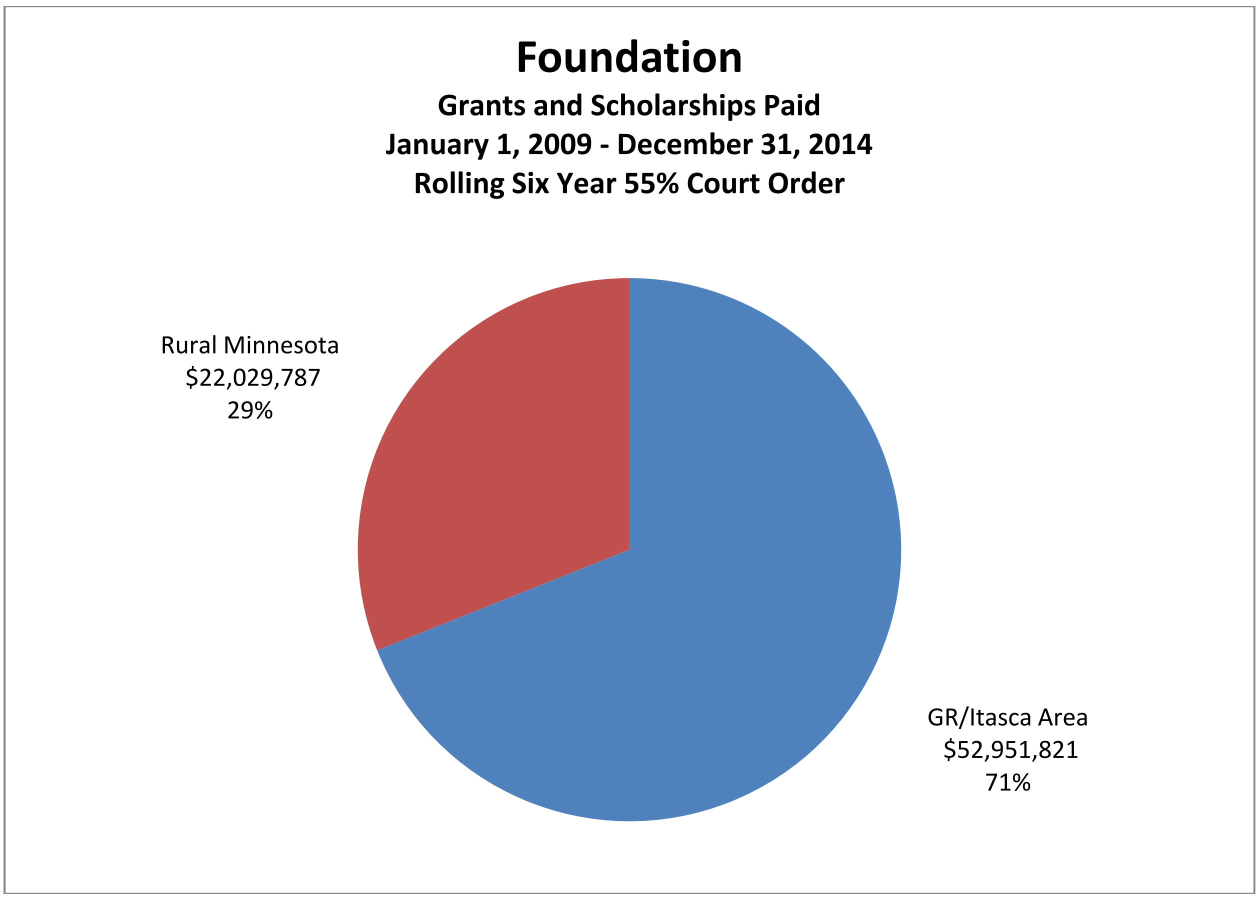
Charles K. Blandin Foundation
Management's Discussion and Analysis (Unaudited)
Year Ended December 31, 2014

In December 2003, the Foundation's Board of Trustees approved a resolution, ratified by the Ramsey County District Court, to distribute an average of at least 55% of all paid grants to the Grand Rapids area over a six-year rolling period, beginning with 2003. This action resulted from objections brought to the court's attention that questioned the Foundation's compliance with the founder's will. The Foundation reports annually the rolling, six-year average of grants paid that are in its home giving area (largely Itasca County, Minnesota, and a few neighboring communities (classified as "local") and those that are outside of this home area (classified as "rural").

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

The six-year rolling period 2009–2014 timeframe is reflected in the figures and charts below which confirms the Foundation is in compliance with the 55% court order with $52,951,821 or 71% of grants paid in the local area.

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



The six-year rolling period 2009-2014 timeframe is reflected in the figures and charts below, which confirm the Foundation is in compliance with the 55% court order, with $52,951,821 or 71% of grants paid in the local area.

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

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

Today the Foundation's primary focus -- and the focus of the majority of its resources -- is on its partnerships with its "home communities" of Bigfork, Blackduck, Bovey, Calumet, Cohasset, Coleraine, Deer River, Effie, Goodland, Grand Rapids, Hill City, Keewatin, LaPrairie, Marble, Marcell, Nashwauk, Northome, Pengilly, Remer, S. Lake, Taconite, Talmoon, Warba, Wawina, Wirt, and Zemple.
Blandin Foundation's work and giving in the area supports a wide spectrum of partners and initiatives focused on the vibrancy of these communities and the organizations strengthening them.

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

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

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

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

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

This is management's discussion and analysis of the Charles K. Blandin Foundation's (the Foundation) audited financial statements for the calendar year ended December 31, 2014. Please read it in conjunction with the auditor's report and audited financial statements, which are presented at the front of this report.

Charles K. Blandin Foundation
Management's Discussion and Analysis (Unaudited)
Year Ended December 31, 2014

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

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

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

The Foundation is funded by annual distributions from the Trust of which the Foundation is the sole beneficiary. As of December 31, 2014, the Trust is worth more than $392 million.

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

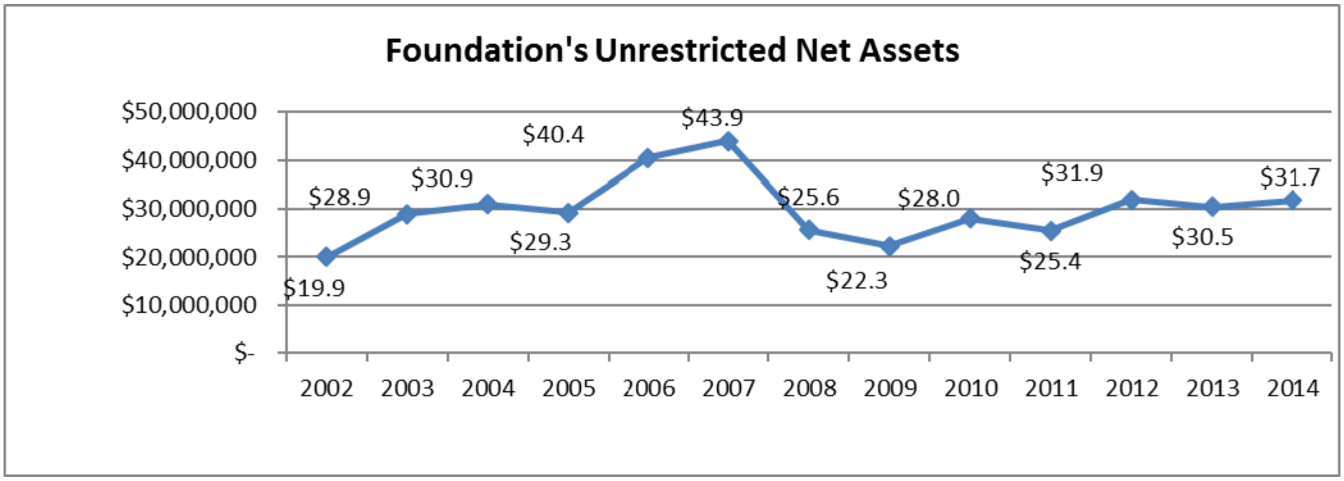
Overview of the Financial Statements
This discussion and analysis introduces the Foundation's basic financial statements. The Foundation's basic financial statements are (1) statement of financial position, (2) statement of activities, (3) statement of cash flows, and (4) the notes to the financial statements,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

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

The total assets of the Foundation decreased by $5 million at year-end 2014. This is mostly attributed to the decrease in the value of the beneficial interest in the Trust. The cash and cash equivalents at end-of-year 2014 is more than sufficient to pay grant and scholarship commitments early in 2015. The value of the Trust decreased $5 million, from $397 million at end-of-year 2013 million to $392 million at end-of-year 2014, due to weak economic markets returning 3.4% for the year and the annual calculated distributions to the Foundation.

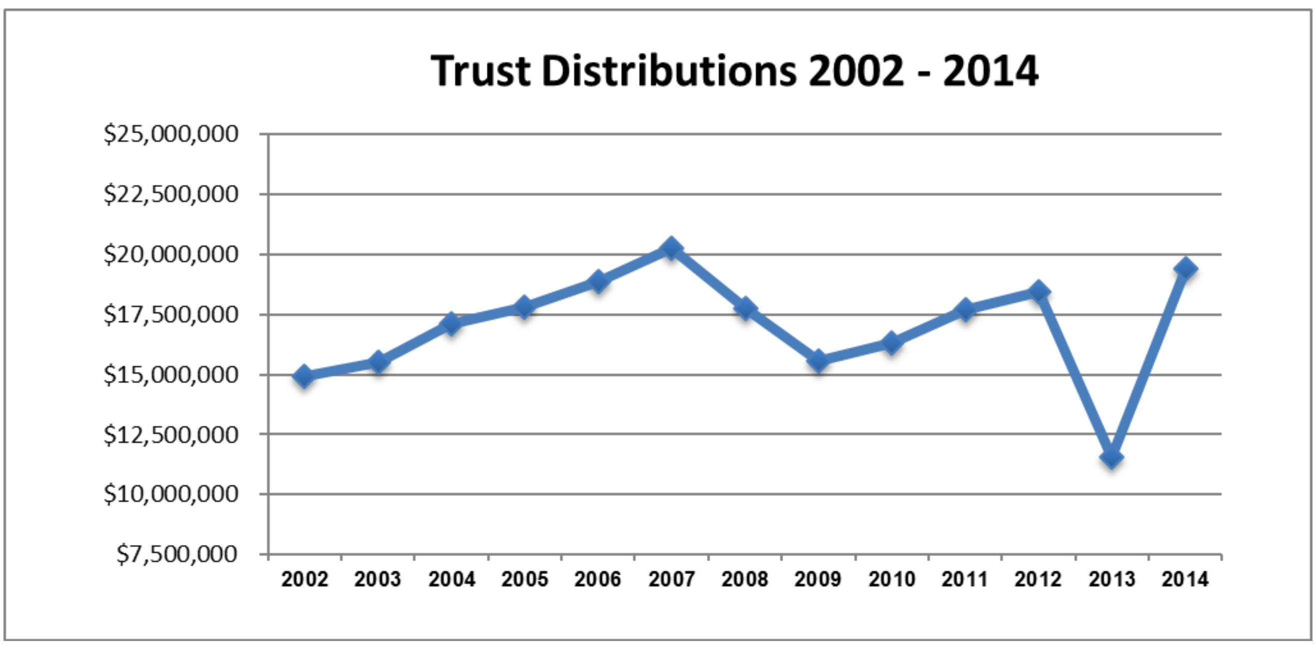
The Foundation's investment value decreased by $1.5 million from 2013 to 2014. A 5% annual payout for the Foundation charitable grantmaking and programs which local and rural participants and organizations receive, bond principal payments of $1,360,000, and an investment rate of return less than the required 5% payout all directly contribute to the reduction of the investment value. Program-related and directed investment values of the Foundation were constant from 2013 to 2014.

Total 2014 unrestricted net assets of the Foundation increased by $1.3 million, which was the result of 2014 revenues greater than expenses at the end of 2014. The amount of unrestricted net assets – Board designated decreased in 2014 from 2013 in accordance with adopted policy which directly links the Board designated amount to next year's operating budget and outstanding bond principal. The line chart below shows the historical unrestricted net assets of the Foundation.

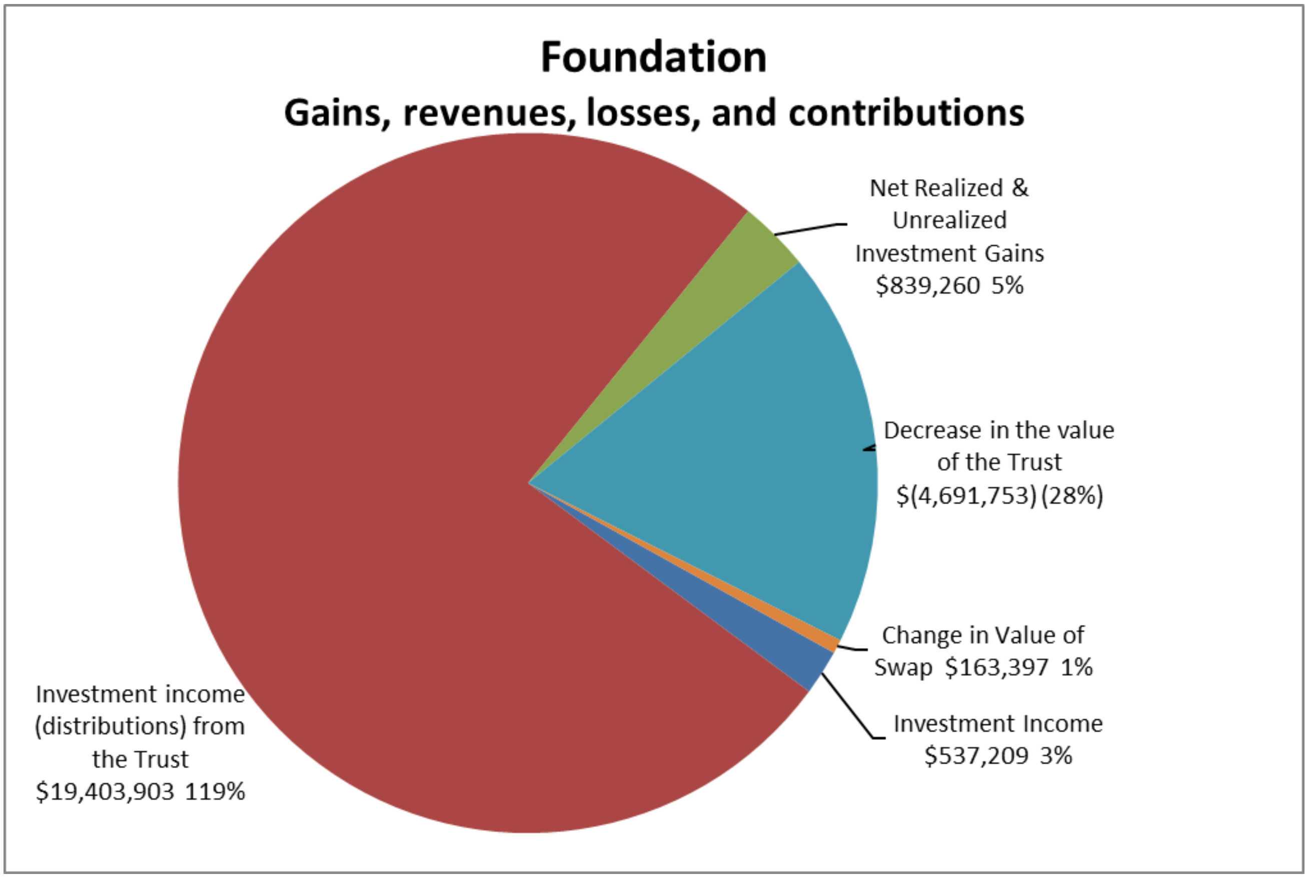


The statement of activities (income statement) is a summary of revenues from all sources and all expenses of the Foundation. The statement shows any excess of revenue over expenses. The audited financial statements require that the revenues and expenses are reported and classified as unrestricted, temporarily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

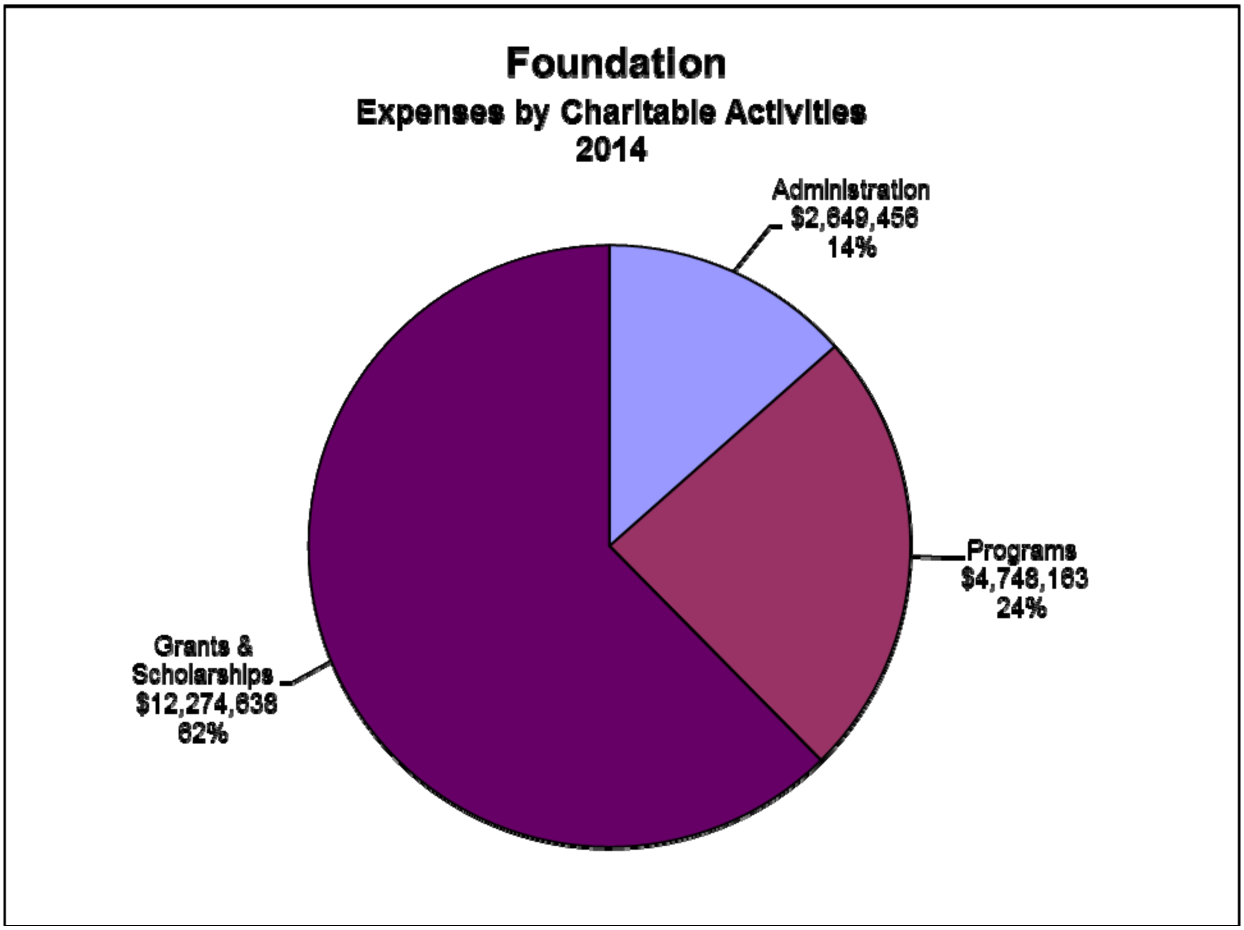
Investment income (distributions) from the Trust was $19.4 million in 2014, and is the Foundation's largest revenue source. The economic market resulted in a 1.9% positive annual investment return for the Foundation which was less than the 5% required payout. Below is a line chart showing historical Trust investment income (distributions) to the Foundation.



Net realized and unrealized investment gains for the Foundation equaled $839 thousand and were 5% of the total revenues. See below pie chart of the 2014 Foundation revenues:



The Board of Trustees approved $12 million of grants and scholarships in 2014. The Foundation's direct charitable program activities totaled $4.7 million and includes leadership, public policy and engagement. Administrative costs were $2.6 million in 2014. Unrestricted revenues were greater than expenses by $1.2 million increasing the Foundation's unrestricted net assets. There was a decrease of $4.7 million in the beneficial interest in the Trust which is a permanently restricted net asset of the Foundation. See pie chart below for a breakdown of 2014 charitable activities.



Charitable Program Activities:

Leadership Development – The nationally recognized Blandin Community Leadership Program (BCLP) couples residential retreats with ongoing workshops to build new and seasoned community leaders' ability to frame challenges and opportunities, collaborate with others effectively across all segments of community, and mobilize resources to achieve specific outcomes. For more than 30 years, Blandin has developed over 6,800 community leaders in 422 rural Minnesota communities through various community leadership programs and eleven rural reservations through the Reservation Community Leadership Program with total program expenses equaling $2,504,179 for 2014.

Public Policy and Engagement – 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 $1,124,436 in 2014.

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 6,333 grants totaling $358 million. Organizations must be located in Minnesota and a minimum of 55% of grants are targeted to the Itasca County local giving area, with the balance used to support initiatives in other parts of rural Minnesota. Scholarships are awarded in the local giving area, focused on improving educational attainment of disadvantaged populations. More than 19,300 area youth have received scholarships totaling more than $21 million since 1956. The 2014 costs of $1,119,548 are associated with the administration of the grant and scholarship making programs.

Other – The Foundation has received federal funds to facilitate broadband deployment in rural areas through the Broadband Technology Opportunities Program (BTOP) of the U.S. Department of Commerce, under the auspices of the American Recovery and Reinvestment Act of 2009 and finalized this grant in 2013.

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 2014, cash was used in operating and financing activities and cash was reduced yet was offset by increases in cash from investing resulting in an increase in cash of $876 thousand at the end-of-year 2014. Cash used to pay grants and scholarship in 2014 equal $12.7 million of which $9.4 million or 74% were for the Grand Rapids/Itasca County area. Repayment of long-term debt the bond principal payments for $1,360,000 used cash in 2014. The financing costs for the bonds are an administrative cost and are included in the annual operating budget. Proceeds from the sale of investments were greater than the total investments purchased by $2.6 million, which led to the overall increase in cash.

A complete set of financial statements includes footnotes that provide further information to the reader about the Foundation's financial policies and procedures. Footnotes are required and provide a great source of information. There are several detailed footnotes on investments, program-related and directed investments, and outstanding bonds.

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

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

Charles K. Blandin Foundation
Management's Discussion and Analysis (Unaudited)
Year Ended December 31, 2014

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

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

	2003 Amount	2004 Amount	2005 Amount	2006 Amount	2007 Amount	2008 Amount	2003-2008 6-Year Rolling Total	2003-2008 6-Year Rolling Average
Local	$ 4,812,576	$ 28,422,350	$ 6,062,078	$ 7,339,357	$ 9,269,405	$ 7,842,539	$ 63,748,305	70.2%
Rural	4,117,097	1,584,245	2,914,431	6,355,760	7,724,493	4,421,314	27,117,340	29.8%
TOTAL	$ 8,929,673	$ 30,006,595	$ 8,976,509	$ 13,695,117	$ 16,993,898	$ 12,263,853	$ 90,865,645	100.0%

	2009 Amount	2004-2009 6-Year Rolling Total	2004-2009 6-Year Rolling Average	2010 Amount	2005-2010 6-Year Rolling Total	2005-20010 6-Year Rolling Average
Local	$ 6,049,916	$ 64,985,645	71.4%	$ 12,571,531	$ 49,134,826	63.1%
Rural	3,015,684	26,015,927	28.6%	4,307,648	28,739,330	36.9%
TOTAL	$ 9,065,600	$ 91,001,572	100.0%	$ 16,879,179	$ 77,874,156	100.0%

	2011 Amount	2006-2011 6-Year Rolling Total	2006-2011 6-Year Rolling Average	2012 Amount	2007-2012 6-Year Rolling Total	2007-2012 6-Year Rolling Average
Local	$ 9,315,795	$ 52,388,543	64.0%	$ 7,082,932	$ 52,132,118	65.9%
Rural	3,604,934	29,429,833	36.0%	3,931,124	27,005,197	34.1%
TOTAL	$ 12,920,729	$ 81,818,376	100.0%	$ 11,014,056	$ 79,137,315	100.0%

	2013 Amount	2008-2013 6-Year Rolling Total	2008-2013 6-Year Rolling Average	2014 Amount	2009-2014 6-Year Rolling Total	2009-2014 6-Year Rolling Average
Local	$ 8,515,003	$ 51,377,717	69.0%	$ 9,416,644	$ 52,951,822	70.6%
Rural	3,842,060	23,122,764	31.0%	3,328,337	22,029,787	29.4%
TOTAL	$ 12,357,063	$ 74,500,481	100.0%	$ 12,744,981	$ 74,981,609	100.0%

Note: Grant amounts are determined from publicly reported grant detail listed in the Foundation's tax returns, Form 990-PF. The listed amounts have been adjusted by the Court appointed Special Master to comply with requirements of the 2003 Ramsey County Minnesota Court Order requiring a minimum 6-year rolling average of 55% local grants.

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

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

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

C.K. BLANDIN FOUNDATION
Historical Comparisons

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

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

Grants, operating program and administrative expenses, and program-related investments spent in the Grand Rapids area have a multiplier effect and the dollars are potentially recirculated several times. For example, the Foundation's payroll was $2.5 million in 2014 and all employees live in the Itasca County area. The Foundation also spent $1.2 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.

WHEREAS, the McGladrey firm contracted to perform auditing and tax services has discussed with the Audit committee in their review there has been no significant changes to the Foundation's grantmaking and charitable distribution practices; and

WHEREAS, the McGladrey firm discussed with the Audit Committee there were no newly issued accounting standards that impact the Foundation; and

WHEREAS, the McGladrey 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 McGladrey firm has confirmed on a test basis as part of the overall audit and tax preparation the accuracy of the amount and the local and rural designation of the grants approved, paid and accrued for 2013, and

WHEREAS, the McGladrey firm has completed the 2013 990-PF and 990T Foundation annual tax returns which have been reviewed by the Audit Committee on November 5;

THEREFORE, BE IT RESOLVED, that the Board of Trustees accepts the Charles K. Blandin Foundation 2013 990-PF and 990T annual tax returns after review which have been signed by the appropriate authority, and filed by the extension due date November 15, 2014.

RESOLVED, that the Board of Trustees accept the Audit Committee's recommendation to approve the 2013 audited financial statements and related auditor's letters of the Charles K. Blandin Foundation as submitted.

Request for information

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

A member of the Grand Rapids community with a question or concern regarding the Foundation's compliance with the 55% court order may present said question or concern to the Foundation's President/CEO, Kathleen Annette, at krannette@blandinfoundation.org or 326-0523. The President/CEO will review the question or concern and respond within ten business days to the community member.