CHARLES K. BLANDIN FOUNDATION

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED December 31, 2015 AND 2014

CHARLES K. BLANDIN FOUNDATION
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Charles K. Blandin Foundation, which comprise the statement of financial position as of December 31, 2015 and 2014, and the related statements of activities and cash flows for the years then ended and the related notes to the financial statements, (collectively, financial statements).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Charles K. Blandin Foundation as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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

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

RSM US LLP

Des Moines, Iowa
June 15, 2016

Charles K. Blandin Foundation

Statements of Financial Position
December 31, 2015 and 2014

	2015	2014
Assets		
Cash and cash equivalents	$ 3,281,826	$ 2,495,948
Investments at fair value (Note 2)	36,437,522	42,967,982
Accounts and investment income receivable	45,026	276,707
Beneficial interest in Charles K. Blandin Residuary Trust (Note 1)	359,922,588	392,950,604
Mission related investments (Note 4)	3,063,909	2,753,279
Other assets, net	930,869	820,480
Property, furniture and equipment (Note 5)	5,324,660	2,583,406
Total assets	**$ 409,006,400**	**$ 444,848,406**
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 1,092,500	$ 1,022,765
Grants and scholarships payable	10,236,377	11,069,318
Long-term debt	8,979,773	8,025,000
Total liabilities	**20,308,650**	**20,117,083**
Net assets:		
Unrestricted	20,275,162	20,367,210
Unrestricted—Board designated	8,500,000	11,413,510
Total unrestricted	**28,775,162**	**31,780,720**
Permanently restricted	359,922,588	392,950,604
Total net assets	**388,697,750**	**424,731,324**
Total liabilities and net assets	**$ 409,006,400**	**$ 444,848,406**

See Notes to Financial Statements.

Charles K. Blandin Foundation

Statement of Activities
Year Ended December 31, 2015

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

See Notes to Financial Statements.

Charles K. Blandin Foundation

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

Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	**2014**
Cash Flows From Operating Activities		
Change in net assets	$ (36,033,573)	$ (3,420,241)
Adjustments to reconcile change in net assets to:		
Net cash (used in) operating activities:		
Depreciation	136,089	177,618
Amortization	37,555	38,499
Change in value of Charles K. Blandin Residuary Trust	33,028,016	4,691,753
Net realized and unrealized investment (gains) losses	2,108,949	(1,129,521)
Change in interest rate swap value	(147,927)	(163,397)
(Increase) decrease in current assets:		
Accounts and investment income receivable	231,681	(242,859)
Other assets	(54,359)	(26,966)
Program-related and directed investments	(310,630)	10,881
(Decrease) in liabilities:		
Accounts payable and accrued expenses	18,567	(47,565)
Grants and scholarships payable	(832,941)	(58,212)
Net cash (used in) operating activities:	(1,818,573)	(170,010)
Cash Flows From Investment Activities		
Purchase of property, furniture and equipment	(129,477)	(197,219)
Purchase of property, furniture and equipment, building remodel	(2,548,771)	-
Proceeds from sale of investments	61,869,488	46,261,894
Purchase of investments	(57,447,977)	(43,658,787)
Net cash provided by investing activities:	1,743,263	2,405,888
Cash Flows From Financing Activities		
Payment of bond issuance costs	(93,585)	-
Proceeds from long-term debt	6,100,000	-
Repayment of long-term debt	(5,145,227)	(1,360,000)
Net cash provided by (used in) financing activities:	861,188	(1,360,000)
Net increase in cash and cash equivalents	785,878	875,878
Cash and Cash Equivalents, beginning of year	2,495,948	1,620,070
Cash and Cash Equivalents, end of year	**$ 3,281,826**	**$ 2,495,948**
Supplemental Disclosure of Noncash Investing and Financing Activities:		
Purchase of property and equipment on account	$ 199,095	$ -
Supplemental Information:		
Grants paid	$ 12,483,381	$ 11,853,849
Scholarships paid	934,051	891,132
Interest paid	335,752	403,251
Excise taxes paid	75,000	120,000

See Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organizational Purpose

The Charles K. Blandin Foundation (the Foundation), incorporated under the laws of Minnesota, awards grants, operates programs, and brings research, people, and organizations together to address opportunities that strengthen the Grand Rapids area and rural communities throughout Minnesota. The Foundation has agreed to distribute a minimum of 60% of its grants paid to the Grand Rapids area over a six-year rolling period beginning January 1, 2015 (55% prior to January 1, 2015). Since 2005, the Foundation distribution to the Grand Rapids area has been above 60%.

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

Cash, Cash Equivalents and Concentration of Risk

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

Investments

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

The Foundation invests in a variety of investment vehicles. In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the amounts reported in the statements.

Investment Income 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 Blandin Residuary Trust

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments

At December 31, 2015 and 2014, 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, 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 bond debt due to the uncertainty of the bond refinance market. The 2015A Bond debt and promissory note were financed during the year ended December 31, 2015 therefore cost approximates fair value.

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

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

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

Mission Related Investments

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program-Related Investments: Program-related investments consist of debt positions in 501(c)(3) organizations that conduct activities that fulfill the charitable purposes of the Foundation. Program-related investments are initially recorded on the statements of financial position at cost after approved and when a request for payment has been paid. Uncollected interest earned on program-related investments with a debt position is recorded as earned and included in the investment account. These investments are recoverable over periods ranging up to 10 years. In the event that a program-related investment is subsequently determined to be uncollectible or the value is permanently impaired, the Foundation may record the uncollectible amount as a grant appropriation or record an impairment reserve. During the years ended December 31, 2015 and 2014 there was none and $350,000, respectively, of new program-related investments. There were no distributions for the years ended December 31, 2015 and 2014, respectively.

Directed Investments: Mission related investments funded from the unrestricted net assets of the Foundation are referred to as directed investments. Directed investments are initially recorded on the statements of financial position at cost after approved and when a capital call has been paid. During the years ended December 31, 2015 and 2014 there was one new directed investment in 2015 approved by the Board of $1,000,000 and at end of year 2015 had a capital call of $200,000 and no new directed investments for 2014.

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. Deferred bond issuance costs associated with the 2004A and 2004B bonds were written off in 2010 and 2015, respectively, when the bonds were refinanced and paid in full.

The Foundation's existing deferred debt acquisition costs are $280,734 for the Series 2010 bonds, promissory note, and Series 2015A bonds. For the years ended December 31, 2015 and 2014 accumulated amortization was $106,235 and $84,190, respectively.

Bond reserve funds were $499,638 and $399,638 for the years ended December 31, 2015 and 2014, respectively, for the Series 2010 and Series 2015A bonds.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Permanently Restricted – The assets of the Charles K. Blandin Residuary Trust (Trust) are permanently restricted at the donor's request. The Trust is required by IRS regulations to distribute annually, 5% of the average monthly ending market values of its previous year net assets or, according to the Trust documents, distribute 100% of Trust income, whichever is greater. For the years ended December 31, 2015 and 2014, 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.

Use of Estimates

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

Functional Allocation of Expense

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

Board Compensation

In accordance with the provision of Charles K. Blandin's Will, Foundation Trustees are compensated. For the years ending December 31, 2015 and 2014 Board members totaled 13 and were compensated $226,250 and $229,750, 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 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*. This standard 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 standard are effective for fiscal years beginning after December 15, 2016 and permits early adoption. The Foundation Trustees elected to early adopt the provisions which are reflected in Note 3.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In April 2015, the FASB issued ASU No. 2015-03, *Interest – Imputation of Interest*. This standard simplifies the presentation of debt issuance costs and requires that debt issuance costs related to a recognized debt liability be presented in the statement of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. For non-public entities, like the Foundation, the amendments in this standard are effective for fiscal years beginning after December 15, 2016. The Foundation is evaluating the impact of the standard on the financial statements.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through June 15, 2016, 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:

	2015			2014		
	Cost	Fair Value	Unrealized (Depreciation) Appreciation	Cost	Fair Value	Unrealized (Depreciation) Appreciation
Domestic large cap equities	$ 123,870	$ 67,201	$ (56,669)	$ 2,990,132	$ 3,748,642	$ 758,510
Domestic mid cap equities	3,135,754	3,837,987	702,233	3,389,989	4,620,029	1,230,040
Domestic small cap equities	1,397,665	1,413,633	15,968	-	-	-
International equities	2,515,497	2,363,288	(152,209)	2,706,400	2,438,972	(267,428)
Fixed Income	4,285,073	4,357,812	72,739	1,653,785	1,765,778	111,993
Alternative investments	11,559,458	13,330,239	1,770,781	14,293,966	17,458,604	3,164,638
Natural resources publicly traded limited partnerships	2,075,837	1,502,733	(573,104)	2,098,296	2,016,001	(82,295)
Equity mutual funds	7,586,870	8,787,777	1,200,907	2,902,736	4,652,163	1,749,427
Cash	776,852	776,852	-	6,267,793	6,267,793	-
	$ 33,456,876	$ 36,437,522	$ 2,980,646	$ 36,303,097	$ 42,967,982	$ 6,664,885

	2015	2014
Net realized gain on investments	$ 1,768,933	$ 2,591,928
Net unrealized (loss) on investments	(3,632,356)	(1,462,407)
Investment fees	(245,526)	(290,261)
	(2,108,949)	839,260
Interest and dividends	658,061	537,209
Net investment income (loss) gain	$ (1,450,888)	$ 1,376,469

As of December 31, 2015 and 2014, the Foundation has future capital call requirements for investments of approximately $2,928,000 and $2,229,000, respectively.

NOTE 3 FAIR VALUE MEASUREMENTS

Fair Value Measurements

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

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

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

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

Level 2 - Financial assets and liabilities are valued using inputs quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.

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

The Foundation uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The Beneficial interest in Blandin Residuary Trust is a Level 3 asset due to lack of observed markets for the Trust interest. However, according to the unaudited financial information provided from the Trust, the underlying investments would be categorized at December 31, 2015, approximately $235 million (65%) Level 1, $47 million (13%) Level 2, and $78 million (22%) Level 3 and at December 31, 2014, approximately $229 million (58%) Level 1, $80 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, 2015:

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

The following table provides a summary of changes in fair value of the Foundation's Level 3 financial assets and liabilities for the year ended December 31, 2015:

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

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

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, 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 resources publicly traded limited partnerships	2,016,001	-	-	2,016,001
Beneficial interest in Charles K. Blandin Residual Trust	-	-	392,950,604	392,950,604
Interest rate swap	-	-	(428,682)	(428,682)
Total	$ 19,241,585	$ -	$ 392,521,922	411,763,507
Investments valued at net asset value:				
Alternative investments				17,458,604
				$ 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:

	Beneficial Interest	Interest Rate Swap	Total
Beginning Balance, January 1, 2014	$ 397,642,357	$ (592,079)	397,050,278
Change in value of swap	-	163,397	163,397
Increase in value of beneficial interest	(4,691,753)	-	(4,691,753)
Ending Balance, December 31, 2014	$ 392,950,604	$ (428,682)	$ 392,521,922

Fair Value Measurements of Investments in certain entities that calculate net asset value per share (or its equivalent) as of December 31, 2015 and 2014:

	Net Asset Value as of December 31, 2015	Net Asset Value as of December 31, 2014	Unfunded Commitments as of December 31, 2015	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Venture capital	$ 893,417	$ 1,016,407	$ 402,936	None	NA
Real estate	3,338,214	3,676,795	1,029,045	None	NA
Debt	187,124	1,878,971	143,921	Monthly	90 days
Buyout	792,171	1,013,782	1,075,284	None	NA
Special situtation	1,456,556	1,534,924	276,968	None	NA
International equity	1,283,848	3,973,054	-	Monthly	3–6 days
Domestic equity	4,218,302	2,975,285	-	Daily	1 day
Emerging market	1,160,607	1,389,386	-	Monthly	30 days
	$ 13,330,239	$ 17,458,604	$ 2,928,154		

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

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

(a) Venture Capital represents investments in startup firms and small businesses with perceived long-term growth potential. These are all partnership investments in which the Foundation plans to hold for the entire duration and are illiquid.

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

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

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

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

(f) International equity, domestic equity, and emerging market equity are funds with underlying investments in primarily publicly traded domestic and foreign stocks. Units are priced daily by the fund managers yet the fund manager may impose certain liquidity restrictions on investors.

NOTE 4 MISSION RELATED INVESTMENTS

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

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

NOTE 4 MISSION RELATED INVESTMENTS (CONTINUED)

The approved program-related investments are carried at cost basis on the statement of financial position at year-end. An allowance for program-related investments is established based on annual review by the Foundation's Investment Committee of the status of all program-related investments. If the Investment Committee determines that a specific program-related investment should have an allowance established the Investment Committee recommends to the Board of Trustees who approves the allowance. At December 31, 2015, and 2014, there was none and a $2,000,000 allowance for current program-related investments, respectively. Program-related investment interest is recorded annually as income earned per the terms of the specific individual program-related investment loan agreement. If no interest rate is stated in the program-related investment loan agreement then the loan is discounted on an annual basis at a rate equivalent to the prime rate at end of the year when the loan was approved.

Directed investments are used to further the Foundation's mission and is fundamentally a financial investment rather than a grant and must meet applicable prudent investor standards like more conventional investments. A directed investment is subject to the similar investment policies and procedures as the other investments in which the Foundation invests according to the mission related investment revised policy. At both December 31, 2015 and 2014, there was a $1,000,000 allowance for current directed investments. The approved directed investments are carried at cost basis on the statement of financial position at year-end less any unfunded commitments.

At December 31, 2015 and 2014, the program-related and directed investments consisted of the following:

	2015	2014
Program-related investments	$ 3,025,000	$ 5,025,000
Less:		
Allowance and discounts		
Beginning of year	(271,720)	(2,207,144)
Decreases (Increases)	110,629	(64,577)
Subtotal program-related investments	2,863,909	2,753,279
Directed investments	1,200,000	1,000,000
Less: Allowance and discounts	(1,000,000)	(1,000,000)
Subtotal: Directed investments	200,000	-
Total program-related investments, net	$ 3,063,909	$ 2,753,279

At December 31, 2015 and 2014, there were no unreserved past due program-related investments.

NOTE 5 PROPERTY, FURNITURE AND EQUIPMENT

Property, furniture and equipment consist of the following:

	2015	2014
Land, building and improvements	$ 5,603,546	$ 5,603,546
Furniture, equipment and vehicles	2,705,105	2,575,628
Construction in process	2,747,865	-
Total	11,056,516	8,179,173
Less accumulated depreciation	(5,731,856)	(5,595,768)
Net property and equipment	$ 5,324,660	$ 2,583,406

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

Debt obligations of the Foundation consisted of the following at December 31, 2015 and 2014, respectively:

	2015	2014
Variable Rate Demand Revenue Bonds Series 2004B paid in full during the year ended December 31, 2015.	$ -	$ 4,400,000
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.	2,950,000	3,625,000
Revenue Bonds Series 2015A bearing interest at a fixed interest rate of 2.82% requiring $23,912 principal and interest monthly payments through January 2026.	2,500,000	-
Promissory note bearing interest at a fixed interest rate of 3.38% requiring $80,367 principal and interest monthly payments, through November 2019.	3,529,773	-
	$ 8,979,773	$ 8,025,000

The summary of approximate annual future maturities of principal on bonds as of December 31, 2015 is as follows:

Year Ending December 31,	
2016	$ 1,758,000
2017	1,837,000
2018	1,894,000
2019	1,888,000
2020	246,000
Thereafter	1,357,000
	$ 8,980,000

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

Bond Reserve Fund

As part of the issuance of the County of Itasca, Minnesota, Demand Revenue Bonds, Series 2010, the Foundation must maintain a reserve fund equal to the reserve requirement. The reserve requirement is the lesser of: (1) 50% principal and interest requirements on outstanding bonds payable during the then current or any succeeding fiscal year or (2) 10% of the original principal amount of all series of the bonds then outstanding or (3) 125% of the average annual debt service on the outstanding bonds. The bond reserve serves as collateral for the bonds. The balance of the bond reserve fund was $399,638 at both the years ended December 31, 2015 and 2014, and is recorded in other assets on the statements of financial position. In addition included in other assets at December 31, 2015 and 2014 is $100,000 and none, respectively, of bond reserves related to the 2015A bonds.

Bank Loan – Promissory Note

On November 27, 2015 the Foundation entered into a $3,600,000 promissory note with the Grand Rapids State Bank. The proceeds were used to pay off the outstanding principal of the revenue bond series 2004B. Interest rate is fixed at 3.38% with monthly principal and interest payments through maturity on November 27, 2019.

Revenue Notes – Series 2015A

On December 31, 2015, the County of Itasca, Minnesota issued $2,500,000 of Tax Exempt Revenue Notes, Series 2015A. The fixed interest rate of the notes at December 31, 2015 was 2.82%. The County of Itasca has entered into a loan agreement with the Charles K. Blandin Foundation for repayment of the notes. The interest of Itasca County, Minnesota in the loan agreement has been pledged and assigned to Grand Rapids State Bank, Northview Bank, American Bank of the North, The First National Bank of Coleraine, Deerwood Bank, and First State Bank of Bigfork, pursuant to a pledge agreement dated December 31, 2015 between Itasca County and the six banks. The principal and interest is paid monthly and matures on January 1, 2026.

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 Charles K. Blandin 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.

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, 2015 and 2014.

These bonds were called and paid off on November 30, 2015 from the bank loan. The letter of credit used to secure this debt was cancelled on December 9, 2015.

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

The Foundation incurred interest expense on long-term debt of approximately $336,000 and $401,000 during the years ended December 31, 2015 and 2014, respectively.

Interest Rate Swap

The Foundation entered into an interest rate swap agreement (the Agreement) effective March 1, 2006. The purpose of the swap was to convert the variable rate interest on the Variable Rate Demand Revenue Bonds, Series 2004B to a synthetic fixed rate of 5.071%. Under terms of the Swap Agreement, the Foundation began making fixed rate payments of interest on April 1, 2006. During the year ended December 31, 2015 the Foundation paid the Series 2004B in full and this interest rate swap agreement is considered to be an orphaned swap agreement. The notional amount of the Agreement is $8,100,000 and gradually decreases to zero upon the termination of the Agreement on May 1, 2019. The fair value of the swap agreement was a liability as of December 31, 2015 and 2014, was approximately $281,000 and $429,000, respectively, and recorded in accrued expenses.

NOTE 7 FEDERAL EXCISE TAXES AND DISTRIBUTION REQUIREMENTS

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

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

	2015	2014
Expenses:		
Current	$ 1,315	$ 56,910
Deferred	-	9,746
	$ 1,315	$ 66,656
Liabilities:		
Current	$ 11,504	$ 21,504
Deferred	59,613	133,298
	$ 71,117	$ 154,802

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, 2015.

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 $290,000 and $265,000 for the year's ended December 31, 2015 and 2014, 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
2016 scholarships	$ 471,365
2016 grants	8,210,758
2017 grants	1,444,673
2018 grants	207,874
Total grant and scholarship commitments	10,334,670
Discount to present value	(98,293)
Total present value of grant and scholarship commitments	$ 10,236,377

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.

	2015	2014
Charitable activities—Programs:		
Leadership development	$ 2,498,362	$ 2,504,179
Public policy and engagement	1,161,236	1,124,436
Grants and scholarships	1,193,798	1,119,548
Total charitable activities—Programs	$ 4,853,396	$ 4,748,163

NOTE 10 CHARITABLE ACTIVITIES – PROGRAMS (CONTINUED)

Leadership Development

For more than 30 years, the Foundation has developed over 6,924 community leaders in 535 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.*

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 Foundation has approved 6,786 grants totaling approximately $370 million. Grants, in conjunction with resources from other stakeholders, provide incentives to implement strategies that create healthy rural Minnesota communities. A minimum of 60% of grants are targeted to the Itasca County local giving area, with the balance used to support initiatives in other parts of rural Minnesota. To be eligible for a Foundation grant, organizations must be located in Minnesota, be a 501(c)(3) organization, unit of government or education, and proposed projects that align with the Foundation's mission and focus areas which include:

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

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

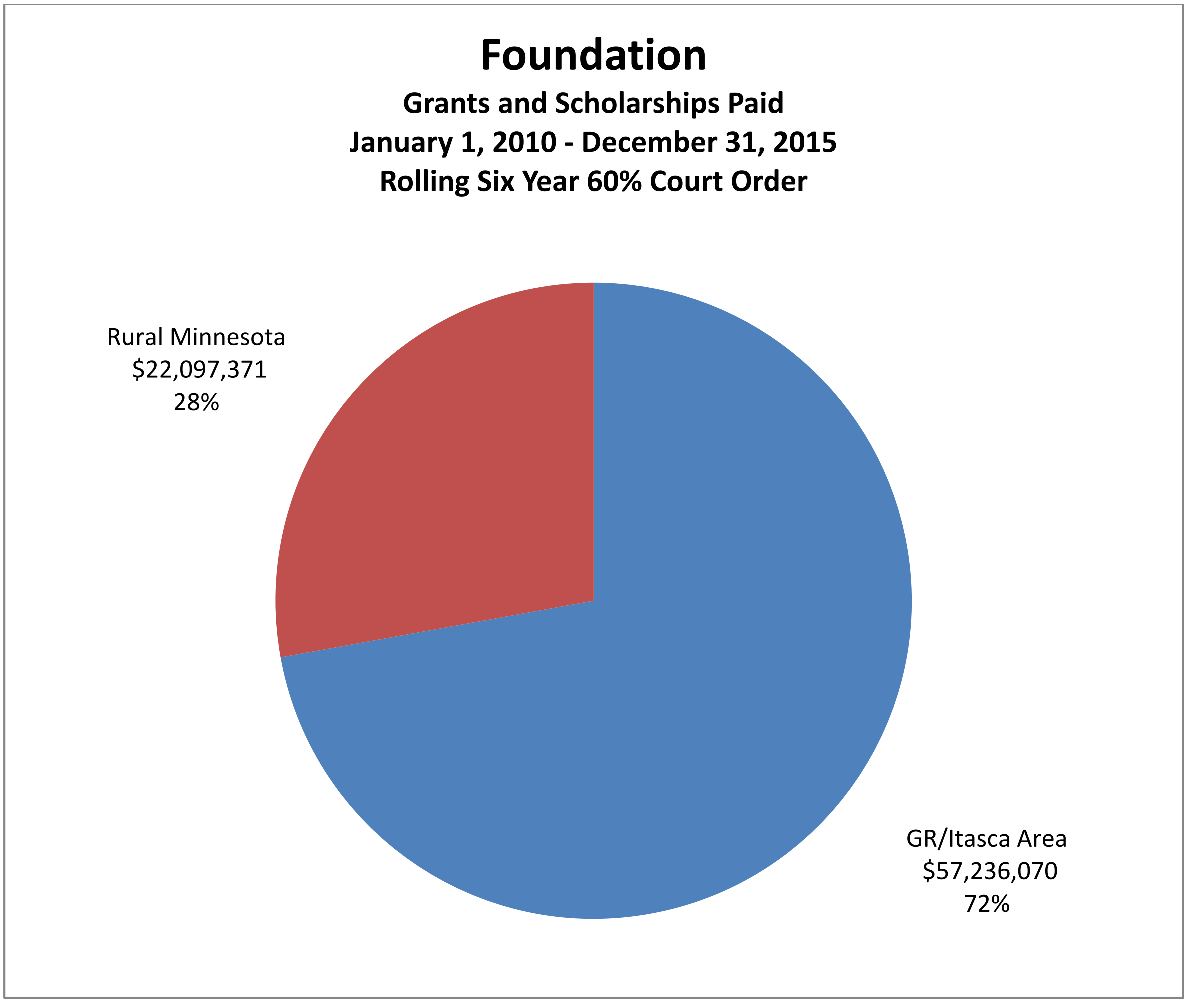
Expanded rural opportunity through the blend of community economic vitality, intentional inclusion and education success.

NOTE 10 CHARITABLE ACTIVITIES – PROGRAMS (CONTINUED)

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 20,000 area youth have received scholarships totaling more than $22 million since 1956.

SUPPLEMENTAL INFORMATION

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



The six-year rolling period 2010-2015 timeframe is reflected in the figures and charts below, which confirm the Foundation is in compliance with the 60% court order, with $57,236,070 or 72% of grants paid in the local area.

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

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

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

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

Every aspect of 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 Foundation audited financial statements for the calendar year ended December 31, 2015. Please read it in conjunction with the auditor's report and audited financial statements, which are presented at the front of this report.

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

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

Since the sale of the Blandin Paper Company (the Paper Company) in 1977, the financial resources of the Charles K. Blandin Residuary Trust (the Trust) and the Foundation have expanded dramatically. The Trust and the Foundation are distinct and legally separate from the Paper Company; the Paper Company is owned by 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, 2015, the Trust is worth approximately $360 million.

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

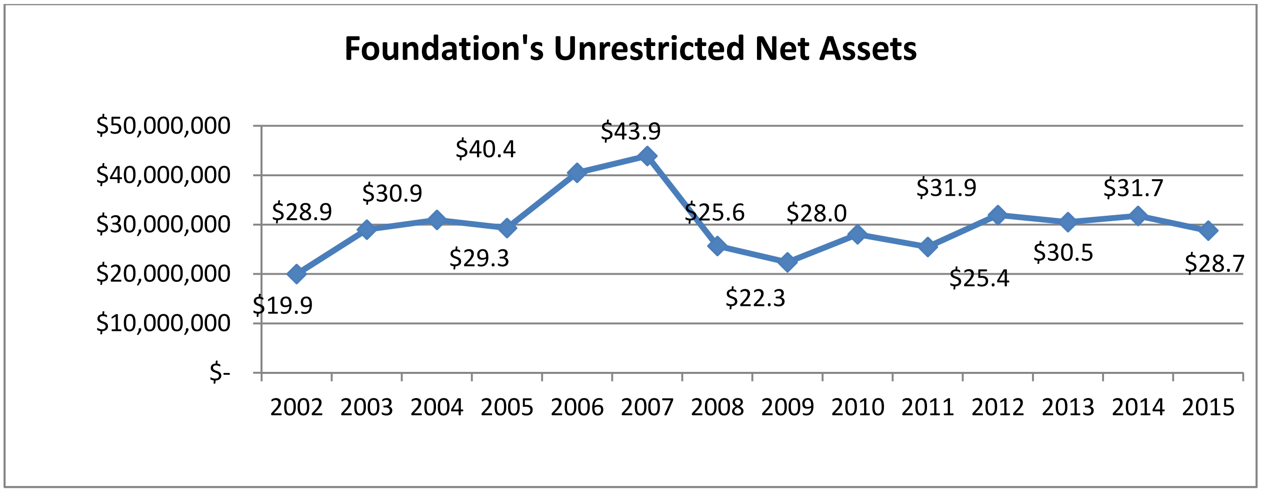
Overview of the Financial Statements
This discussion and analysis introduces the Foundation's basic financial statements. The Foundation's basic financial statements are (1) statement of financial position, (2) statement of activities, (3) statement of cash flows, and (4) the notes to the financial statements,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

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

The total assets of the Foundation decreased by $36 million at year-end 2015. This is mostly attributed to the decrease in the value of the beneficial interest in the Trust. The value of the Trust decreased $33 million, from $393 million at end-of-year 2014 million to $360 million at end-of-year 2015, due to weak economic markets returning (4.1)% for the year and the annual calculated distributions to the Foundation. The cash and cash equivalents at end-of-year 2015 is more than sufficient to pay grant and scholarship commitments early in 2016.

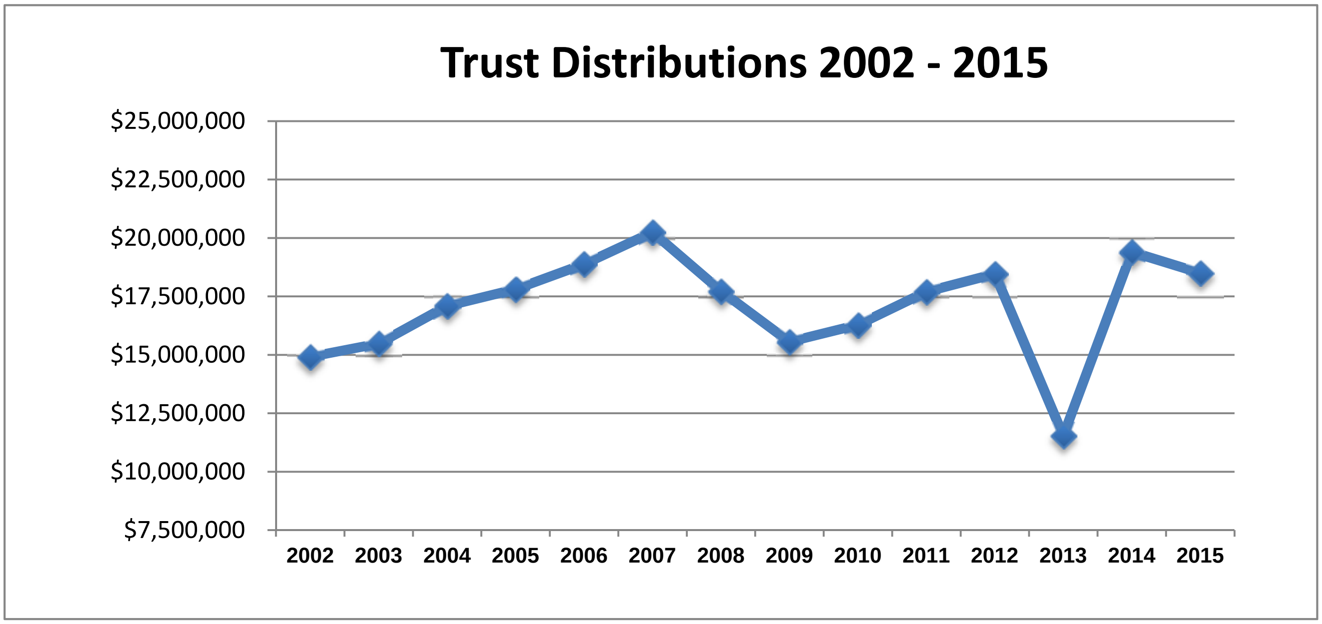
The Foundation's investment value decreased by $6.5 million from 2014 to 2015. A 5% annual payout for the Foundation charitable grantmaking and programs which local and rural participants and organizations receive, bond principal payments and payoffs of $5,075,000, and an investment rate of return less than the required 5% payout all directly contribute to the reduction of the investment value. Program-related and directed investment values of the Foundation increased by $311 thousand from 2014 to 2015 as the Foundation starts to implement the revised mission investment policy.

Total 2015 unrestricted net assets of the Foundation decreased by $3 million, which was the result of 2015 revenues less than expenses at the end of 2015. The amount of unrestricted net assets – Board designated decreased in 2015 from 2014 in accordance with adopted policy which directly links the Board designated amount to next year's operating budget. The line chart below shows the historical unrestricted net assets of the Foundation.

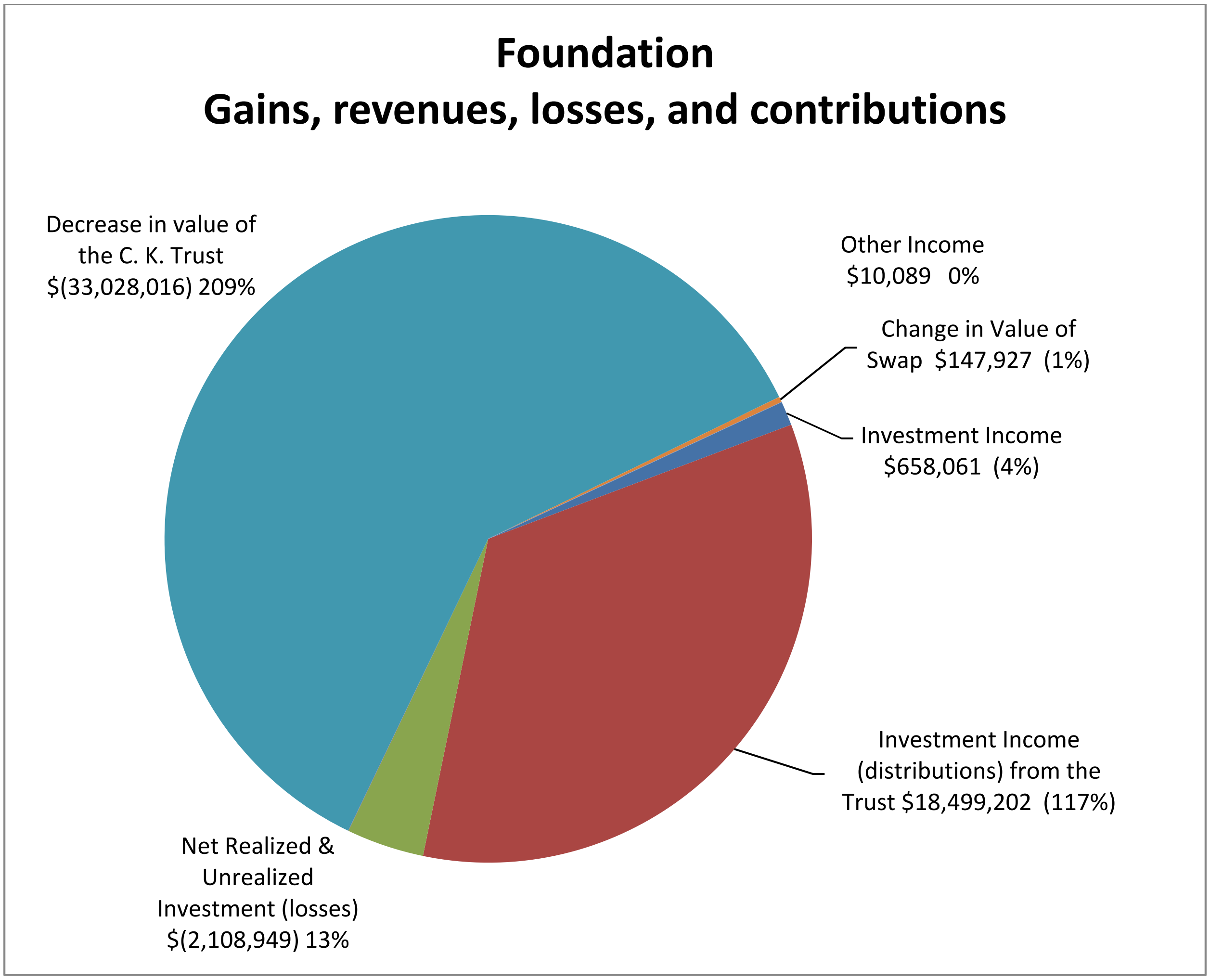


The statement of activities (income statement) is a summary of revenues from all sources and all expenses of the Foundation. The statement shows any excess (deficiency) of revenue over expenses. The audited financial statements require that the revenues and expenses are reported and classified as unrestricted,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

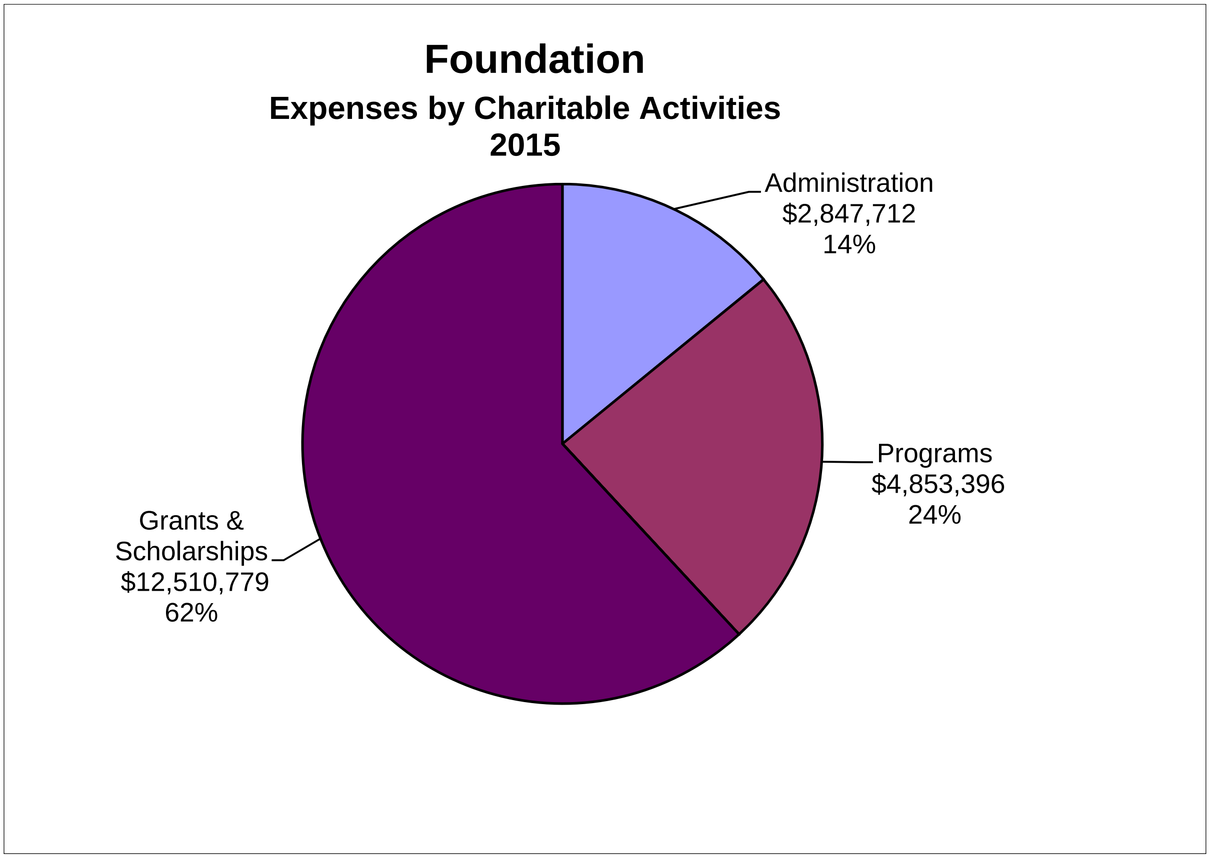
Investment income (distributions) from the Trust was $18.5 million in 2015, and is the Foundation's largest revenue source. The economic market resulted in a 4.1% negative annual investment return for the Foundation which was less than the 5% required payout. Below is a line chart showing historical Trust investment income (distributions) to the Foundation.



Net realized and unrealized investment losses for the Foundation equaled $2.1 million and were -4% of the total net (loss). See below pie chart of the 2015 Foundation revenues:



The Board of Trustees approved $12.5 million of grants and scholarships in 2015. The Foundation's direct charitable program activities totaled $4.8 million and includes leadership, public policy and engagement. Administrative costs were $2.8 million in 2015. Unrestricted revenues were less than expenses by $3 million decreasing the Foundation's unrestricted net assets. There was a decrease of $33 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 2015 charitable activities.



Charitable Program Activities:

Leadership Development – The nationally recognized Blandin Community Leadership Program (BCLP) couples residential retreats with ongoing workshops to build new and seasoned community leaders' ability to frame challenges and opportunities, collaborate with others effectively across all segments of community, and mobilize resources to achieve specific outcomes. For more than 30 years, Blandin Foundation has developed over 6,924 community leaders in 535 rural Minnesota communities through various community leadership programs and eleven rural reservations through the Reservation Community Leadership Program with total program expenses equaling $2,498,362 for 2015.

Public Policy and Engagement – Part of strengthening rural Minnesota is helping assure rural perspectives are well represented in public discourse. Blandin Foundation, with its partners, convenes and participates in public policy conversations on issues most important to the health of rural Minnesota communities. The public policy and engagement expenses were $1,161,236 in 2015.

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 6,786 grants totaling $370 million. Organizations must be located in Minnesota and a minimum of 60% of grants are targeted to the Itasca County local giving area, with the balance used to support initiatives in other parts of rural Minnesota. Scholarships are awarded in the local giving area, focused on improving educational attainment of disadvantaged populations. More than 20,000 area youth have received scholarships totaling more than $22 million since 1956. The 2015 costs of $1,193,798 are associated with the administration of the grant and scholarship making programs.

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

In 2015, cash was used in operating activities yet was offset by increases in cash from investing and financing activities resulting in an increase in cash of $786 thousand at the end of 2015. Cash used to pay grants and scholarship in 2015 equaled $13.4 million of which $10.3 million or 77% were for the Grand Rapids/Itasca County area. Repayment of long-term debt totaled payments for $5.1 million which used in cash financing activities in 2015. The Foundation refinanced the outstanding $3.6 million of variable rate bond principal to a fixed rate bank loan and $2.5 million fixed rate notes were issued for the building and parking lot expansion project. 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 $4.4 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.

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 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 2010–2015 timeframe is reflected in the figures and charts below which confirms the Foundation is in compliance with the 60% court order with $57,236,070 or 72% of grants paid in the local area.

Charles K. Blandin Foundation
Management's Discussion and Analysis (Unaudited)
Year Ended December 31, 2015

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

Six-Year Rolling Average Percentages

(See Annual 990PF Tax Form for Details)

							2003-2008	2003-2008
	2003	2004	2005	2006	2007	2008	6-Year Rolling	6-Year Rolling
	Amount	Amount	Amount	Amount	Amount	Amount	Total	Average
Local	$ 4,812,576	$ 28,422,350	$ 6,062,078	$ 7,339,357	$ 9,269,405	$ 7,842,539	$ 63,748,305	70.2%
Rural	4,117,097	1,584,245	2,914,341	6,355,760	7,724,493	4,421,314	27,117,250	29.8%
TOTAL	$ 8,929,673	$ 30,006,595	$ 8,976,419	$ 13,695,117	$ 16,993,898	$ 12,263,853	$ 90,865,555	100.0%
		2004-2009	2004-2009		2005-2010	2005-2010		
	2009	6-Year Rolling	6-Year Rolling	2010	6-Year Rolling	6-Year Rolling		
	Amount	Total	Average	Amount	Total	Average		
Local	$ 6,049,916	$ 64,985,645	71.4%	$ 12,571,531	$ 49,134,826	63.1%		
Rural	3,015,684	26,015,837	28.6%	4,307,648	28,739,240	36.9%		
TOTAL	$ 9,065,600	$ 91,001,482	100.0%	$ 16,879,179	$ 77,874,066	100.0%		
		2006-2011	2006-2011		2007-2012	2007-2012		
	2011	6-Year Rolling	6-Year Rolling	2012	6-Year Rolling	6-Year Rolling		
	Amount	Total	Average	Amount	Total	Average		
Local	$ 9,315,795	$ 52,388,543	64.0%	$ 7,082,932	$ 52,132,119	65.9%		
Rural	3,604,934	29,429,833	36.0%	3,931,124	27,005,197	34.1%		
TOTAL	$ 12,920,729	$ 81,818,376	100.0%	$ 11,014,056	$ 79,137,316	100.0%		
		2008-2013	2008-2013		2009-2014	2009-2014		
	2013	6-Year Rolling	6-Year Rolling	2014	6-Year Rolling	6-Year Rolling		
	Amount	Total	Average	Amount	Total	Average		
Local	$ 8,515,003	$ 51,377,717	69.0%	$ 9,416,644	$ 52,951,821	70.6%		
Rural	3,842,060	23,122,764	31.0%	3,328,337	22,029,787	29.4%		
TOTAL	$ 12,357,063	$ 74,500,481	100.0%	$ 12,744,981	$ 74,981,608	100.0%		
		2010-2015	2010-2015					
	2015	6-Year Rolling	6-Year Rolling					
	Amount	Total	Average					
Local	$ 10,334,164	$ 57,236,070	72.1%					
Rural	3,083,268	22,097,371	27.9%					
TOTAL	$ 13,417,432	$ 79,333,441	100.0%					

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

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

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

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

CHARLES K. BLANDIN FOUNDATION
Historical Comparisons

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

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 was one new accounting standard implemented in the 2015 calendar year. The Foundation has not changed any charitable financial practices. There has been no prior grants converted to programs and no programs have been converted to grants. The Foundation has developed a matrix process to utilize if there are any questions as to determination of geographic area impact of a grant, which was approved by the Board of Trustees in December 2013.

Grants, operating program and administrative expenses, and program-related investments spent in the Grand Rapids area have a multiplier effect and the dollars are potentially recirculated several times. For example, the Foundation's payroll was $2.6 million in 2015 and all employees live in the Itasca County area. The Foundation also spent $1.3 million in the Itasca County area paying local vendors for goods and services.

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

At the December 11, 2015 Board meeting, unanimously carried, the Board approved the following resolution:

WHEREAS, the McGladrey firm, contracted to perform auditing and tax services, has discussed with the Audit Committee, and their review has confirmed on a test basis as part of the overall audit and tax preparation, the accuracy of the amount of the local and rural designation of grants approved, paid and accrued for 2014, and

WHEREAS, the McGladrey firm has completed the 2014 990-PF and 990T Foundation annual tax returns which have been reviewed by the Audit Committee on November 3, 2015;

THEREFORE, BE IT RESOLVED, that the Board of Trustees ratifies the Charles K. Blandin Foundation 2014 990-PF and 990T annual federal and state tax returns after review which have been signed by the appropriate authority, and with an IRS approved extension to November 15, filed the tax return by the approved April 2015 Court Order due date of September 15, 2015.

Request for information

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

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