

CHARLES K. BLANDIN FOUNDATION
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEARS ENDED DECEMBER 31, 2003 AND 2002

**CHARLES K. BLANDIN FOUNDATION
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YEARS ENDED DECEMBER 31, 2003 AND 2002**

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of the Charles K. Blandin Foundation (a nonprofit organization) as of December 31, 2003 and 2002, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Charles K. Blandin Foundation as of December 31, 2003 and 2002, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Larson, Allen, Weishair & Co., LLP

LARSON, ALLEN, WEISHAIR & CO., LLP

Minneapolis, Minnesota
February 13, 2004

**CHARLES K. BLANDIN FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2003 AND 2002**

ASSETS	<u>NOTE</u>	<u>2003</u>	<u>2002</u>
Cash and Cash Equivalents		\$ 867,565	\$ 275,442
Investments at Fair Value	2	51,532,084	44,477,641
Investment Income Receivable		267,675	640,932
Property and Equipment	4	3,560,060	3,744,896
Beneficial Interest in Blandin Residuary Trust	1	330,051,516	284,361,466
Other Assets		<u>179,934</u>	<u>200,923</u>
Total Assets		<u>\$ 386,458,834</u>	<u>\$ 333,701,300</u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts Payable and Accrued Expenses		\$ 654,512	\$ 660,085
Grants and Scholarships Payable	8	<u>26,762,467</u>	<u>28,690,655</u>
Total Liabilities		<u>27,416,979</u>	<u>29,351,228</u>
NET ASSETS			
Unrestricted	1	28,990,339	19,988,606
Permanently Restricted	1	<u>330,051,516</u>	<u>284,361,466</u>
Total Net Assets		<u>359,041,855</u>	<u>304,350,072</u>
Total Liabilities and Net Assets		<u>\$ 386,458,834</u>	<u>\$ 333,701,300</u>

See accompanying Notes to Financial Statements.

**CHARLES K. BLANDIN FOUNDATION
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2003**

	2003				
	NOTE	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
GAINS, REVENUES, LOSSES AND CONTRIBUTIONS					
Contribution from Blandin Residuary Trust		\$ -	\$ 15,486,707	\$ -	\$ 15,486,707
Investment Income		562,003	-	-	562,003
Net Realized and Unrealized Investment Gains (Losses)	2	7,523,394	-	-	7,523,394
Increase (Decrease) in Beneficial Interest of Perpetual Trust	1	-	-	45,690,050	45,690,050
Other Income		65,226	-	-	65,226
Net Assets Released from Restrictions		<u>15,486,707</u>	<u>(15,486,707)</u>	<u>-</u>	<u>-</u>
Total Gains, Revenues, Losses and Contributions		23,637,330	-	45,690,050	69,327,380
EXPENSES					
Charitable Activities:					
Grants		7,568,900	-	-	7,568,900
Scholarships		554,777	-	-	554,777
Programs	9	<u>3,893,635</u>	<u>-</u>	<u>-</u>	<u>3,893,635</u>
Total Charitable Activities		12,017,312	-	-	12,017,312
Administrative		<u>2,618,285</u>	<u>-</u>	<u>-</u>	<u>2,618,285</u>
Total Expenses		<u>14,635,597</u>	<u>-</u>	<u>-</u>	<u>14,635,597</u>
CHANGE IN NET ASSETS		9,001,733	-	45,690,050	54,691,783
Net Assets - Beginning of Year		<u>19,988,606</u>	<u>-</u>	<u>284,361,466</u>	<u>304,350,072</u>
NET ASSETS - END OF YEAR		<u>\$ 28,990,339</u>	<u>\$ -</u>	<u>\$ 330,051,516</u>	<u>\$ 359,041,855</u>

See accompanying Notes to Financial Statements.

**CHARLES K. BLANDIN FOUNDATION
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2002**

	2002				
	NOTE	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
GAINS, REVENUES, LOSSES AND CONTRIBUTIONS					
Contribution from Blandin Residuary Trust		\$ -	\$ 14,914,140	\$ -	\$ 14,914,140
Investment Income		769,351	-	-	769,351
Net Realized and Unrealized Investment Gains (Losses)	2	(5,617,221)	-	-	(5,617,221)
Increase (Decrease) in Beneficial Interest of Perpetual Trust	1	-	-	(51,282,871)	(51,282,871)
Other Income		6,630	-	-	6,630
Net Assets Released from Restrictions		<u>21,251,992</u>	<u>(21,251,992)</u>	<u>-</u>	<u>-</u>
Total Gains, Revenues, Losses and Contributions		16,565,054	(6,337,852)	(51,282,871)	(41,055,669)
EXPENSES					
Charitable Activities:					
Grants		25,924,161	-	-	25,924,161
Scholarships Programs	9	684,475	-	-	684,475
		<u>3,361,858</u>	<u>-</u>	<u>-</u>	<u>3,361,858</u>
Total Charitable Activities		29,970,494	-	-	29,970,494
Administrative		<u>1,730,594</u>	<u>-</u>	<u>-</u>	<u>1,730,594</u>
Total Expenses		<u>31,855,389</u>	<u>-</u>	<u>-</u>	<u>31,855,389</u>
CHANGE IN NET ASSETS		(15,290,335)	(6,337,852)	(51,282,871)	(72,911,058)
Net Assets - Beginning of Year		<u>35,278,941</u>	<u>6,337,852</u>	<u>335,644,337</u>	<u>377,261,130</u>
NET ASSETS - END OF YEAR		<u>\$ 19,988,606</u>	<u>\$ -</u>	<u>\$ 284,361,466</u>	<u>\$ 304,350,072</u>

See accompanying Notes to Financial Statements.

**CHARLES K. BLANDIN FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2003 AND 2002**

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from C.K. Blandin Residuary Trust	\$ 15,486,707	\$ 14,914,140
Interest and Dividends Received	935,260	1,063,918
Cash Paid for Administrative Expenses	(2,244,474)	(1,580,024)
Cash Paid for Operating Programs	(3,893,636)	(3,141,323)
Cash Paid for Grants and Scholarships	(10,051,865)	(9,841,280)
Net Cash Provided by Operating Activities	231,992	1,415,431
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Equipment and Building	(108,821)	(40,735)
Proceeds from Sale of Investments	25,503,215	53,014,725
Purchase of Investments	(25,034,263)	(54,525,477)
Net Cash Provided (Used) by Investing Activities	360,131	(1,551,487)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	592,123	(136,056)
Cash and Cash Equivalents - Beginning	275,442	411,498
CASH AND CASH EQUIVALENTS - ENDING	\$ 867,565	\$ 275,442
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in Net Assets	\$ 54,691,783	\$ (72,911,058)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	275,046	274,734
Loss on Disposal of Fixed Assets	18,611	-
Change in Value of Blandin Residuary Trust	(45,690,050)	51,282,871
Net Realized and Unrealized Investment (Gains) Losses	(7,523,394)	5,617,221
(Increase) Decrease In Current Assets:		
Interest and Dividends Receivable	373,257	140,265
Prepaid Expenses and Other Receivables	20,989	(129)
Increase (Decrease) in Current Liabilities:		
Accounts Payable and Accrued Expenses	(6,062)	23,636
Grants and Scholarships Payable	(1,928,188)	16,987,891
Net Cash Provided by Operating Activities	\$ 231,992	\$ 1,415,431
SUPPLEMENTAL INFORMATION		
Excise Taxes Paid	\$ -	\$ -

See accompanying Notes to Financial Statements.

**CHARLES K. BLANDIN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organizational Purpose

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

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

Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, the Foundation considers all short-term, highly liquid money market investments to be cash equivalents.

Investments

Investments in debt and equity securities with readily determinable fair values are carried at quoted market value. Program related investments, consisting of promissory notes receivable from various organizations and non-publicly traded equity securities, are carried at cost or estimated market value, if lower than cost. Partnership investments are stated at fair market value, which is determined by the partnership general partner for real estate and partnership investments less a discount of ten percent. The net changes in market prices and the realized gains and losses on investments sold are reflected in the statements of activities as net realized and unrealized gains or losses on investments.

Fair Value of Financial Instruments

At December 31, 2003 and 2002, the fair value of all financial instruments approximates carrying value. The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Investments – Fair value is based on quoted market prices or estimated fair value at the reporting date.

All Other – Carrying value is a reasonable estimate of fair value for all other financial instruments due to the short-term nature of those financial instruments.

Property, Furniture and Equipment

Property, furniture, and equipment are recorded at cost and depreciated over their estimated useful lives, as shown below, using the straight-line method of depreciation. The Charles K. Blandin Foundation capitalizes all assets with a cost in excess of \$1,000, provided those assets have a useful life extending beyond one year.

**CHARLES K. BLANDIN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Furniture and Equipment (Continued)

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

Beneficial Interest in Perpetual Trust

The Charles K. Blandin Foundation is the sole beneficiary of the Charles K. Blandin Residuary Trust, the assets of which are not in the possession of the Foundation. Substantially all of the Foundation's non-investment income is received from this Trust. The Foundation's beneficial interest in the Trust is valued at the current market value of the net assets held by the Trust and is shown as permanently restricted as these assets are currently unavailable for distribution. Market value fluctuations in the Trust are reflected on the Statement of Activities, as a change in permanently restricted net assets.

Net Assets

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

Unrestricted - Represents assets over which the Foundation Board of Trustees has discretionary control.

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

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

Net Assets Released from Restrictions

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

**CHARLES K. BLANDIN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grants Payable

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

Functional Allocation of Expense

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

Use of Estimates

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

Reclassifications

Investment expenses have been netted with investment income for 2003 and 2002. The change has no effect on the change in net assets as previously reported.

NOTE 2 INVESTMENTS

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

	2003			2002		
	Cost	Fair Value	Unrealized (Depreciation) Appreciation	Cost	Fair Value	Unrealized (Depreciation) Appreciation
Domestic-Value Equities	\$ 5,910,697	\$ 5,857,618	\$ (53,079)	\$ 4,915,557	\$ 3,573,547	\$ (1,342,010)
Domestic - Small Equities	4,814,584	5,543,532	728,948	6,101,461	5,050,518	(1,050,943)
Domestic - Midcap Equities	4,780,588	5,971,964	1,191,376	-	-	-
Domestic - Growth Equities	7,215,129	9,023,468	1,808,339	10,028,110	10,050,160	22,050
International Equities	5,885,308	6,560,937	675,629	5,702,172	4,861,271	(840,901)
Bonds	11,776,078	11,359,875	(416,203)	10,477,830	10,973,890	496,060
Venture Capital	2,740,520	1,702,405	(1,038,115)	2,347,163	1,585,522	(761,641)
Real Estate	4,114,916	3,512,285	(602,631)	2,958,795	2,073,416	(885,379)
Cash	-	-	-	1,256,849	1,256,849	-
Program-Related and Directed	2,000,000	2,000,000	-	5,052,468	5,052,468	-
	\$ 49,237,820	\$ 51,532,084	\$ 2,294,264	\$ 48,840,405	\$ 44,477,641	\$ (4,362,764)

**CHARLES K. BLANDIN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002**

NOTE 2 INVESTMENTS (CONTINUED)

	<u>2003</u>	<u>2002</u>
Net Realized Gain (Loss) on Investments	\$ 866,419	\$ (515,810)
Net Unrealized Gain (Loss) on Investments	<u>6,656,975</u>	<u>(5,101,411)</u>
	7,523,394	(5,617,221)
Interest and Dividends	725,813	923,653
Investment Fees	<u>(163,810)</u>	<u>(154,302)</u>
	562,003	769,351
Net Investment Income	<u><u>\$ 8,085,397</u></u>	<u><u>\$ (4,847,870)</u></u>

NOTE 3 SECURITIES LENDING

The Charles K. Blandin Foundation lends its investment securities to registered broker dealers. The borrower must provide collateral in an amount 102% in excess of the loaned securities value. The Foundation receives either (i) a fee in the case of non-cash collateral or (ii) payment of a portion of earnings in the case of cash collateral. The amount of collateral is adjusted daily based on market value changes on the loaned security. The borrower must return identical securities to close the loan at which time the collateral will be returned. Collateral is held by the investment custodian and is immediately available upon default. All earnings from interest and dividends on the loaned security revert to the Foundation, except for commission to the agent for handling this security lending which is 60% of the net earnings for each loan. There were no securities on loan as of December 31, 2003 and 2002.

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2003</u>	<u>2002</u>
Land, Building and Improvements	\$ 5,218,042	\$ 5,218,042
Furniture, Equipment and Vehicles	<u>1,358,171</u>	<u>1,290,428</u>
	6,576,213	6,508,470
Less: Accumulated Depreciation	<u>(3,016,153)</u>	<u>(2,763,574)</u>
Net Property and Equipment	<u><u>\$ 3,560,060</u></u>	<u><u>\$ 3,744,896</u></u>

**CHARLES K. BLANDIN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002**

NOTE 5 FEDERAL EXCISE TAXES AND DISTRIBUTION REQUIREMENTS

The Charles K. Blandin Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is not subject to federal income tax. However, the Foundation is classified as a private foundation, and as such, is subject to a federal excise tax of 2% (reduced to 1% if certain requirements are met) on taxable net investment income, which principally includes income from investments plus net realized capital gains (net capital losses, however, are not deductible) less expenses incurred.

The federal excise tax, representing 2% of taxable investment income, was approximately \$71,000 and \$-0- in 2003 and 2002, respectively.

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

	2003	2002
Provision:		
Current	\$ 25,311	\$ (80,525)
Deferred	46,000	-
Total	\$ 71,311	\$ (80,525)
Liability:		
Current	\$ 31,134	\$ 5,823
Deferred	46,000	-
Total	\$ 77,134	\$ 5,823

The Foundation is subject to distribution requirements of the Internal Revenue Code. Accordingly, it must distribute, in the year immediately following receipt, 100% of the contribution received from the Trust and 5% of the previous years average market value of its assets as defined by the Internal Revenue Code. Failure to meet this distribution requirement subjects the Foundation to a 15% tax on the undistributed balance. The Foundation has complied with the distribution requirements through December 31, 2003.

NOTE 6 EMPLOYEE BENEFIT PLANS

Defined Contribution Plans

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

**CHARLES K. BLANDIN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002**

NOTE 6 EMPLOYEE BENEFIT PLANS (CONTINUED)

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 \$140,000 and \$129,000 for the years ended December 31, 2003 and 2002, respectively.

Severance Agreements

The Foundation has entered into severance agreements which provide benefits to specific employees upon reaching retirement age, as defined. The related liability, discounted to the present value of the future commitment, is \$12,068 and \$366,136 at December 31, 2003 and 2002, respectively.

Deferred Compensation

The Foundation provides a deferred compensation, salary deferral arrangement under Internal Revenue Code Section 457(f). The plan allows for salary deferral for participating employees, with no matching contributions by the Foundation.

NOTE 7 CONTINGENCY AND CONCENTRATION OF CREDIT RISK

Certain debt instruments involve credit risk. The Foundation's mortgage investments are collateralized while other debt instruments are generally unsecured.

The Charles K. Blandin Foundation is a secondary guarantor on a \$1,000,000 mortgage. Management believes the likelihood of the Foundation becoming responsible for this liability is remote.

**CHARLES K. BLANDIN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002**

NOTE 8 GRANTS AND SCHOLARSHIPS PAYABLE

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

<u>Year</u>	<u>2003</u>	<u>2002</u>
2003*	\$ -	\$ 27,820,689
2004	26,271,208	972,500
2005	469,500	25,000
2006	29,000	-
2007	29,000	-
Total Grant Commitments	<u>26,798,708</u>	<u>28,818,189</u>
Discount to Present Value	<u>(36,241)</u>	<u>(127,534)</u>
Total Present Value of Grant Commitments	<u><u>\$ 26,762,467</u></u>	<u><u>\$ 28,690,655</u></u>

* The Foundation Board of Trustees has approved a \$20 million commitment to provide capital to the Grand Itasca Clinic and Hospital, for the purpose of construction of a local, innovative health care facility.

NOTE 9 CHARITABLE ACTIVITIES - PROGRAMS

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

	<u>2003</u>	<u>2002</u>
Charitable Activities - Programs		
Blandin Associates	\$ 283,598	\$ 306,718
Children 1st	159,019	142,556
Community Leadership Program	1,401,706	1,265,668
Community Advantage Leadership Program	355,297	314,559
Public Policy and Engagement	622,864	340,868
Grant Making	342,622	273,159
Institutional Leadership	649,014	535,850
Other	79,515	182,480
Total Charitable Activities - Programs	<u><u>\$ 3,893,635</u></u>	<u><u>\$ 3,361,858</u></u>

Blandin Associates – A program of the Foundation which recruits cohorts of up to 25 individuals from around the state who display a passion and aptitude for meeting an unmet need in their community. In return for making a commit to act on their passion, associates participate in quarterly training session over the two year life of the project that are designed to sharpen the associates' skills as an effective advocate for change. This program was exited at the end of 2003.

**CHARLES K. BLANDIN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002**

NOTE 9 CHARITABLE ACTIVITIES – PROGRAMS (CONTINUED)

Children First – A Foundation program initiated in 1998 as a volunteer-based effort with the goal that all children in Itasca County start kindergarten healthy and ready to do their best.

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

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

Public Policy and Engagement brings research, people, and organizations together to address opportunities to strengthen rural Minnesota. The program encourages informed citizen action to assure that rural perspectives are well represented in public discourse. The Foundation has committed resources to address two public policy issues *Vital Forest/Vital Communities* and *Broadband Initiative*.

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

Key rural institutions are major factors in local economies and the Foundation has chosen to work with educators and health care providers. The goal is to help these key institutions address their unique challenges and become more dynamically engaged in community work. The Blandin Education Leadership Program helps local school districts to identify and improve key district and school outcomes. The Blandin Health Care Leadership Program is a data intensive program based on a Performance Improvement Assessment for the hospital.

SUPPLEMENTARY INFORMATION

**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION**

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

Our report on our audits of the basic financial statements of the Charles K. Blandin Foundation for 2003 and 2002 appears on page 1. We conducted our audits in accordance with U. S. generally accepted auditing standards for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of program expenses and administrative expenses are presented for purposes of additional analysis, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Larson, Allen, Weishair & Co., LLP

LARSON, ALLEN, WEISHAIR & CO., LLP

Minneapolis, Minnesota
February 13, 2004

CHARLES K. BLANDIN FOUNDATION
SCHEDULES OF PROGRAM EXPENSES
YEARS ENDED DECEMBER 31, 2003 AND 2002
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	2003	2002
BLANDIN ASSOCIATES		
Personnel	\$ 84,060	\$ 83,490
Program Operations	24,666	25,836
Communications	-	538
Professional Services	172,993	194,737
Building Operations	1,879	2,117
Total Blandin Associates	283,598	306,718
CHILDREN FIRST!		
Personnel	46,824	14,379
Program Operations	77,403	60,220
Communications	11,417	12,840
Professional Services	22,649	54,848
Building Operations	726	269
Total Children First!	159,019	142,556
BLANDIN COMMUNITY LEADERSHIP PROGRAM		
Personnel	308,966	313,490
Program Operations	466,977	496,205
Communications	50,452	13,546
Professional Services	567,676	433,278
Building Operations	7,635	9,149
Total Community Leadership	1,401,706	1,265,688
BLANDIN COMMUNITY ADVANTAGE LEADERSHIP PROGRAM		
Personnel	133,449	139,722
Program Operations	53,870	49,402
Communications	-	2,501
Professional Services	165,179	119,856
Building Operations	2,799	3,078
Total Community Partnership	355,297	314,559
PUBLIC POLICY AND ENGAGEMENT		
Personnel	225,666	152,865
Program Operations	93,714	85,331
Communications	13,250	8,930
Professional Services	285,273	90,243
Building Operations	4,961	3,499
Total Public Policy and Engagement	622,864	340,868

CHARLES K. BLANDIN FOUNDATION
SCHEDULES OF PROGRAM EXPENSES (CONTINUED)
YEARS ENDED DECEMBER 31, 2003 AND 2002
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	<u>2003</u>	<u>2002</u>
GRANT MAKING		
Personnel	\$ 212,697	\$ 186,233
Program Operations	32,151	26,064
Communications	5,881	2,808
Professional Services	85,630	52,060
Building Operations	<u>6,263</u>	<u>5,994</u>
Total Grant Making	342,622	273,159
INSTITUTIONAL LEADERSHIP		
Personnel	58,616	216,235
Program Operations	222,335	164,437
Communications	1,043	-
Professional Services	365,667	150,550
Building Operations	<u>1,353</u>	<u>4,628</u>
Total Institutional Leadership	649,014	535,850
OTHER	<u>79,515</u>	<u>182,480</u>
TOTAL OPERATING PROGRAMS	<u>\$ 3,893,635</u>	<u>\$ 3,361,858</u>

CHARLES K. BLANDIN FOUNDATION
SCHEDULES OF ADMINISTRATIVE EXPENSES
YEARS ENDED DECEMBER 31, 2003 AND 2002
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	<u>2003</u>	<u>2002</u>
ADMINISTRATIVE		
Personnel	\$ 1,181,498	\$ 771,134
Organization Operations	130,795	144,042
Communications	92,295	58,226
Professional Services	564,184	250,873
Building Operations	73,930	85,199
Trustee Expense	226,110	225,880
Taxes	74,427	(79,495)
Subtotal	<u>2,343,239</u>	<u>1,455,859</u>
Depreciation	275,046	274,734
Total Administrative	<u>\$ 2,618,285</u>	<u>\$ 1,730,594</u>