

**CHARLES K. BLANDIN FOUNDATION**  
**FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY INFORMATION**  
**YEARS ENDED DECEMBER 31, 2004 AND 2003**

**CHARLES K. BLANDIN FOUNDATION  
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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of the Charles K. Blandin Foundation (a nonprofit organization) as of December 31, 2004 and 2003, 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, 2004 and 2003, 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 11, 2005

**CHARLES K. BLANDIN FOUNDATION  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2004 AND 2003**

<b>ASSETS</b>	<u>NOTE</u>	<u>2004</u>	<u>2003</u>
Cash and Cash Equivalents		\$ 135,426	\$ 265,251
Investments at Fair Value	2	57,514,109	52,134,398
Investment Income Receivable		298,365	267,675
Property and Equipment	4	3,396,622	3,560,060
Beneficial Interest in Blandin Residuary Trust	1	350,183,833	330,051,516
Collateral - Securities Lending Agreement	3	12,415,525	-
Payable - Securities Lending Agreement	3	(12,415,525)	-
Other Assets		<u>1,724,921</u>	<u>179,934</u>
 Total Assets		 <u>\$ 413,253,276</u>	 <u>\$ 386,458,834</u>
 <b>LIABILITIES AND NET ASSETS</b>			
<b>LIABILITIES</b>			
Accounts Payable and Accrued Expenses		\$ 895,773	\$ 654,512
Grants and Scholarships Payable	9	11,250,194	26,762,467
Long-Term Debt	5	<u>19,980,000</u>	<u>-</u>
Total Liabilities		<u>32,125,967</u>	<u>27,416,979</u>
 <b>NET ASSETS</b>			
Unrestricted	1	30,943,476	28,990,339
Permanently Restricted	1	<u>350,183,833</u>	<u>330,051,516</u>
Total Net Assets		<u>381,127,309</u>	<u>359,041,855</u>
 Total Liabilities and Net Assets		 <u>\$ 413,253,276</u>	 <u>\$ 386,458,834</u>

See accompanying Notes to Financial Statements.

**CHARLES K. BLANDIN FOUNDATION  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2004**

2004					
	NOTE	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
<b>GAINS, REVENUES, LOSSES AND CONTRIBUTIONS</b>					
Contribution from Blandin Residuary Trust		\$ -	\$ 17,091,503	\$ -	\$ 17,091,503
Investment Income		789,402	-	-	789,402
Net Realized and Unrealized Investment Gains	2	4,592,446	-	-	4,592,446
Increase in Beneficial Interest of Perpetual Trust	1	-	-	20,132,317	20,132,317
Other Income		228,473	-	-	228,473
Net Assets Released from Restrictions		17,091,503	(17,091,503)	-	-
Total Gains, Revenues, Losses and Contributions		22,701,824	-	20,132,317	42,834,141
<b>EXPENSES</b>					
Charitable Activities:					
Grants		13,727,551	-	-	13,727,551
Scholarships		632,425	-	-	632,425
Programs	10	3,897,987	-	-	3,897,987
Total Charitable Activities		18,257,963	-	-	18,257,963
Administrative		2,490,725	-	-	2,490,725
Total Expenses		20,748,688	-	-	20,748,688
<b>CHANGE IN NET ASSETS</b>		1,953,136	-	20,132,317	22,085,453
Net Assets - Beginning of Year		28,990,340	-	330,051,516	359,041,856
<b>NET ASSETS - END OF YEAR</b>		<u>\$ 30,943,476</u>	<u>\$ -</u>	<u>\$ 350,183,833</u>	<u>\$ 381,127,309</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
<b>GAINS, REVENUES, LOSSES AND CONTRIBUTIONS</b>					
Contribution from Blandin					
Residuary Trust		\$ -	\$ 15,486,707	\$ -	\$ 15,486,707
Investment Income		562,003	-	-	562,003
Net Realized and Unrealized Investment Gains	2	7,523,394	-	-	7,523,394
Increase in Beneficial Interest of Perpetual Trust	1	-	-	45,690,050	45,690,050
Other Income		65,226	-	-	65,226
Net Assets Released from Restrictions		15,486,707	(15,486,707)	-	-
Total Gains, Revenues, Losses and Contributions		23,637,330	-	45,690,050	69,327,380
<b>EXPENSES</b>					
Charitable Activities:					
Grants		7,568,900	-	-	7,568,900
Scholarships		554,777	-	-	554,777
Programs	10	3,893,635	-	-	3,893,635
Total Charitable Activities		12,017,312	-	-	12,017,312
Administrative		2,618,285	-	-	2,618,285
Total Expenses		14,635,597	-	-	14,635,597
<b>CHANGE IN NET ASSETS</b>		9,001,733	-	45,690,050	54,691,783
Net Assets - Beginning of Year		19,988,606	-	284,361,466	304,350,072
<b>NET ASSETS - END OF YEAR</b>		<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  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from C.K. Blandin Residuary Trust	\$ 17,091,503	\$ 15,486,707
Interest and Dividends Received	758,712	935,260
Cash Paid for Administrative Expenses	(1,845,123)	(2,244,474)
Cash Paid for Operating Programs	(3,766,370)	(3,893,636)
Cash Paid for Grants and Scholarships	(29,872,249)	(10,051,865)
Net Cash Provided (Used) by Operating Activities	<u>(17,633,527)</u>	<u>231,992</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Equipment and Building	(112,287)	(108,821)
Proceeds from Sale of Investments	53,414,006	25,503,215
Purchase of Investments	(54,201,270)	(25,636,577)
Cash Restricted for Debt Payment	(1,003,103)	-
Net Cash Used by Investing Activities	<u>(1,902,654)</u>	<u>(242,183)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from Long-Term Debt	19,980,000	-
Line of Credit Advances	20,000,000	-
Line of Credit Payments	(20,000,000)	-
Cash Paid for Debt Issuance Costs	(573,644)	-
Net Cash Provided by Financing Activities	<u>19,406,356</u>	<u>-</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(129,825)	(10,191)
Cash and Cash Equivalents - Beginning	<u>265,251</u>	<u>275,442</u>
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<u>\$ 135,426</u>	<u>\$ 265,251</u>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 22,085,453	\$ 54,691,783
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	275,725	275,046
Amortization	25,495	-
Loss on Disposal of Fixed Assets	-	18,611
Change in Value of Blandin Residuary Trust	(20,132,317)	(45,690,050)
Net Realized and Unrealized Investment (Gains) Losses	(4,592,446)	(7,523,394)
(Increase) Decrease In Current Assets:		
Interest and Dividends Receivable	(30,690)	373,257
Prepaid Expenses and Other Receivables	6,265	20,989
Increase (Decrease) in Current Liabilities:		
Accounts Payable and Accrued Expenses	241,261	(6,062)
Grants and Scholarships Payable	(15,512,273)	(1,928,188)
Net Cash Provided (Used) by Operating Activities	<u>\$ (17,633,527)</u>	<u>\$ 231,992</u>
<b>SUPPLEMENTAL INFORMATION</b>		
Excise Taxes Paid	<u>\$ 33,000</u>	<u>\$ -</u>
Interest Paid	<u>\$ 353,286</u>	<u>\$ -</u>

See accompanying Notes to Financial Statements.

**CHARLES K. BLANDIN FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003**

**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 grants paid to the Grand Rapids area over a six-year rolling period beginning January 1, 2003.

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

**Cash and Cash Equivalents**

For the purpose of the Statement of Cash Flows, the Foundation considers all short-term, highly liquid money market investments to be cash equivalents, except for funds held for investment purposes. At times, cash investments at financial institutions may be in excess of the FDIC insurance limit.

**Investments**

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

**Fair Value of Financial Instruments**

At December 31, 2004 and 2003, the fair value of all financial instruments approximates carrying value. The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

**Investments and Beneficial Interest in Residual Trust** – Fair value is based on quoted market prices or estimated fair value at the reporting date.

**Long-Term Debt** – Carrying value is a reasonable estimate of fair value since the long-term debt is valued based on the borrowing rates currently available to the Foundation for long-term borrowing with similar terms and average maturities.

**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.

**CHARLES K. BLANDIN FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003**

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

**Property, Furniture and Equipment**

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

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

**Beneficial Interest in Perpetual Trust**

The Charles K. Blandin Foundation is the sole beneficiary of the Charles K. Blandin Residuary Trust, the 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.

**Other Assets - Deferred Debt Acquisition Costs and Reserve Funds**

Included in other assets are deferred debt acquisition costs and debt reserve funds. The deferred debt acquisition costs are being amortized on a straight-line basis over the term of the bonds of 15 years. Deferred debt acquisition costs were \$573,644 less accumulated amortization of \$25,495 for the year ended December 31, 2004. Amortization expense for the year ended December 31, 2004 was \$25,495. There were no deferred debt acquisition costs for the year ended December 31, 2003.

Bond reserve funds were \$1,003,103 and \$-0- for the years ended December 31, 2004 and 2003, respectively.

**Net Assets**

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

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

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

**CHARLES K. BLANDIN FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003**

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

**Net Assets (Continued)**

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.

**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**

Cash and cash equivalents held in investment accounts for investment purposes have been reclassified to investments for 2003. The change has no effect on the change in net assets as previously reported.

**CHARLES K. BLANDIN FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003**

**NOTE 2 INVESTMENTS**

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

	2004			2003		
	Cost	Fair Value	Unrealized (Depreciation) Appreciation	Cost	Fair Value	Unrealized (Depreciation) Appreciation
	Domestic-Value Equities	\$ 3,621,258	\$ 4,152,455	\$ 531,197	\$ 5,910,697	\$ 5,857,618
Domestic - Small Equities	5,010,732	6,521,101	1,510,369	4,814,584	5,543,532	728,948
Domestic - Midcap Equities	4,319,088	6,250,860	1,931,772	4,780,588	5,971,964	1,191,376
Domestic - Growth Equities	8,498,056	10,364,440	1,866,384	7,215,129	9,023,468	1,808,339
International Equities	7,208,245	8,456,503	1,248,258	5,885,308	6,560,937	675,629
Bonds	9,492,608	9,600,975	108,367	11,776,078	11,359,875	(416,203)
Venture Capital	3,543,174	2,168,470	(1,374,704)	2,740,520	1,702,405	(1,038,115)
Real Estate	4,217,472	4,294,200	76,728	4,114,916	3,512,285	(602,631)
Bond Hedge Fund	2,000,000	2,000,000	-	-	-	-
Cash	1,705,105	1,705,105	-	602,314	602,314	-
Program-Related and Directed	2,000,000	2,000,000	-	2,000,000	2,000,000	-
	<u>\$ 51,615,738</u>	<u>\$ 57,514,109</u>	<u>\$ 5,898,371</u>	<u>\$ 49,840,134</u>	<u>\$ 52,134,398</u>	<u>\$ 2,294,264</u>

	2004	2003
Net Realized Gain on Investments	\$ 988,339	\$ 866,419
Net Unrealized Gain on Investments	3,604,107	6,656,975
	4,592,446	7,523,394
Interest and Dividends	975,910	725,813
Investment Fees	(186,508)	(163,810)
	789,402	562,003
Net Investment Income	<u>\$ 5,381,848</u>	<u>\$ 8,085,397</u>

At the end of fiscal 2004 the Foundation invested in a hedge fund. The fund is being used to provide an alternative to fixed income securities. There was no significant activity or realized gains or losses for the year ended December 31, 2004.

**CHARLES K. BLANDIN FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003**

**NOTE 3 SECURITIES LENDING**

The Charles K. Blandin Foundation lends its investment securities to registered broker dealers. The borrower must provide collateral in an amount 102% in excess of the loaned securities value. The Foundation receives either (i) a fee in the case of non-cash collateral or (ii) payment of a portion of earnings in the case of cash collateral. The amount of collateral is adjusted daily based on market value changes on the loaned security. The borrower must return identical securities to close the loan at which time the collateral will be returned. Collateral is held by the investment custodian and is immediately available upon default. All earnings from interest and dividends on the loaned security revert to the Foundation, except for commission to the agent for handling this security lending which is 60% of the net earnings for each loan. The fair market value of securities on loan was \$12,415,525.41 as of December 31, 2004. There were no securities on loan as of December 31, 2003.

**NOTE 4 PROPERTY AND EQUIPMENT**

Property and equipment consists of the following:

	2004	2003
Land, Building and Improvements	\$ 5,218,042	\$ 5,218,042
Furniture, Equipment and Vehicles	1,470,458	1,358,171
	6,688,500	6,576,213
Less: Accumulated Depreciation	(3,291,878)	(3,016,153)
Net Property and Equipment	\$ 3,396,622	\$ 3,560,060

**NOTE 5 LONG-TERM DEBT**

Debt obligations of the Charles K. Blandin Foundation consisted of the following at December 31, 2004 and 2003, respectively:

Description	2004	2003
County of Itasca, Minnesota, Demand Revenue Bonds Series 2004A, interest currently at 3%, interest payable semi-annually on November 1 and May 1, principal payable annually on May 1 through 2019. Bond secured by Bond Reserve Fund.	\$ 9,980,000	\$ -
Charles K. Blandin Foundation, Variable Rate Demand Revenue Bonds Series 2004B, interest currently at 2.35%, interest payable monthly, principal payable annually on May 1 through 2019. Bond secured by letter of credit.	10,000,000	-
Total	\$ 19,980,000	\$ -

**CHARLES K. BLANDIN FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003**

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

The summary of annual future maturities of principal on bonds as of December 31, 2004 is as follows:

<u>Year Ending December 31,</u>	<u>Scheduled Payment</u>	<u>Contractual Payment</u>
2005	\$ 905,000	\$ 10,505,000
2006	1,020,000	520,000
2007	1,040,000	540,000
2008	1,055,000	555,000
2009	1,075,000	575,000
Thereafter	14,885,000	7,285,000
Total	<u>\$ 19,980,000</u>	<u>\$ 19,980,000</u>

**Bond Reserve Fund**

As part of the issuance of the County of Itasca demand revenue bonds the Foundation is required to deposit a balance in the bond reserve fund equal to the reserve requirement. The reserve requirement is the lesser of the maximum principal and interest requirements on outstanding bonds payable during the then current or any succeeding fiscal year or 10% of the original principal amount of the bonds. The bond reserve serves as collateral for the bonds. The balance of the bond reserve fund was \$1,003,103 and \$-0- for the years ended December 31, 2004 and 2003, respectively.

**Revenue Bond – Series 2004A**

During 2004, the County of Itasca, Minnesota issued \$9,980,000 of Tax Exempt Demand Revenue Bonds, Series 2004A. The interest rate of the bonds at December 31, 2004 was 3%. The County of Itasca has entered into a repayment agreement with the Charles K. Blandin Foundation for repayment of the bonds. The bonds are secured solely by the bond reserve fund. Bonds due on or after May 1, 2010 are subject to redemption by the issuer at a redemption price equal to the principal amount plus accrued interest to the date of redemption.

**Revenue Bond – Series 2004B**

During 2004, the Charles K. Blandin Foundation issued \$10,000,000 of Variable Rate Demand Revenue Bonds, Series 2004B. The interest rate of the bonds at December 31, 2004 was 2.35%. The variable rate is calculated daily, weekly, or monthly as determined by the Remarketing Agent as the lowest rate of interest which in the agent's judgment would cause the bonds to have a market value as of the date of determination equal to 100% of the principal amount plus accrued interest.

The bonds are the sole responsibility of the Foundation and are secured through a \$10,140,000 letter of credit. The letter of credit expires on June 30, 2005 with automatic 1 year extensions through June 30, 2009. However, it is subject to nonrenewal with a 90-day advance written notice from the bank.

**CHARLES K. BLANDIN FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003**

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

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

Upon certain circumstances, the interest rate may be converted to a fixed rate. As long as the bonds carry a variable interest rate, they can be redeemed at the option of the bondholders. The Foundation has entered into an agreement that provides for the remarketing, to the extent possible, of the bonds in the event of redemption. In the event remarketing is unsuccessful, the letter of credit will be drawn upon to pay the trustee. The letter of credit is due the earlier of its expiration date or 366 days from the date of draw.

The Foundation has entered into a reimbursement agreement that provides for payments to the bank for draws, if any, that may be made upon the letter of credit. The reimbursement agreement contains a covenant requiring the Foundation to maintain unrestricted net assets less property and equipment of \$10 million. The Foundation is in compliance with these financial covenants as of December 31, 2004.

**NOTE 6 FEDERAL EXCISE TAXES AND DISTRIBUTION REQUIREMENTS**

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

The federal excise tax, representing 2% of taxable investment income, was approximately \$148,000 and \$71,000 in 2004 and 2003, respectively.

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

	2004	2003
Provision:		
Current	\$ 32,936	\$ 25,311
Deferred	112,031	46,000
Total	\$ 144,967	\$ 71,311
Liability:		
Current	\$ 31,134	\$ 31,134
Deferred	157,967	46,000
Total	\$ 189,101	\$ 77,134

**CHARLES K. BLANDIN FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003**

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

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, 2004.

**NOTE 7 EMPLOYEE BENEFIT PLANS**

**Defined Contribution Plans**

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

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

Foundation contributions related to these defined contribution plans was approximately \$141,000 and \$140,000 for the years ended December 31, 2004 and 2003, 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 \$15,325 and \$12,068 at December 31, 2004 and 2003, 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. All amounts in the plan were paid during 2004.

**CHARLES K. BLANDIN FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003**

**NOTE 8 CONTINGENCY AND CONCENTRATION OF CREDIT RISK**

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

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

**NOTE 9 GRANTS AND SCHOLARSHIPS PAYABLE**

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

<u>Year</u>	<u>2004</u>	<u>2003</u>
2004	\$ -	\$ 26,271,208
2005	7,237,651	469,500
2006	2,405,000	29,000
2007	1,116,300	29,000
2008	1,000,000	-
Total Grant Commitments	11,758,951	26,798,708
Discount to Present Value	(508,757)	(36,241)
Total Present Value of Grant Commitments	<u>\$ 11,250,194</u>	<u>\$ 26,762,467</u>

**NOTE 10 CHARITABLE ACTIVITIES - PROGRAMS**

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

	<u>2004</u>	<u>2003</u>
Charitable Activities - Programs:		
Blandin Associates	\$ 3,816	\$ 283,598
Children 1st	196,867	159,019
Community Leadership Program	1,370,766	1,401,706
Community Advantage Leadership Program	351,547	355,297
Public Policy and Engagement	645,014	622,864
Grant Making	368,331	342,402
Institutional Leadership	598,336	649,014
Other	363,310	79,735
Total Charitable Activities - Programs	<u>\$ 3,897,987</u>	<u>\$ 3,893,635</u>

**CHARLES K. BLANDIN FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003**

**NOTE 10 CHARITABLE ACTIVITIES - PROGRAMS (CONTINUED)**

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.

Children First – A Foundation program initiated in 1998 as a volunteer-based effort with the goal that all children in Itasca County start kindegarten 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 becomes 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 2004 and 2003 appears on page 1. We conducted our audits in accordance with U. S. generally accepted auditing standards for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of program expenses and administrative expenses are presented for purposes of additional analysis, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

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

Minneapolis, Minnesota  
February 11, 2005

**CHARLES K. BLANDIN FOUNDATION**  
**SCHEDULES OF PROGRAM EXPENSES**  
**YEARS ENDED DECEMBER 31, 2004 AND 2003**  
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	2004	2003
<b>BLANDIN ASSOCIATES</b>		
Personnel	\$ 4,937	\$ 84,060
Program Operations	14	24,666
Communications	-	-
Professional Services	(1,135)	172,993
Building Operations	-	1,879
Total Blandin Associates	3,816	283,598
<b>CHILDREN FIRST!</b>		
Personnel	90,205	46,824
Program Operations	83,854	77,403
Communications	6,994	11,417
Professional Services	11,526	22,649
Building Operations	4,288	726
Total Children First!	196,867	159,019
<b>BLANDIN COMMUNITY LEADERSHIP PROGRAM</b>		
Personnel	330,858	308,966
Program Operations	480,773	466,977
Communications	31,973	50,452
Professional Services	497,725	567,676
Building Operations	29,437	7,635
Total Blandin Community Leadership Program	1,370,766	1,401,706
<b>BLANDIN COMMUNITY ADVANTAGE LEADERSHIP PROGRAM</b>		
Personnel	129,706	133,449
Program Operations	73,806	53,870
Communications	10	-
Professional Services	140,713	165,179
Building Operations	7,312	2,799
Total Blandin Community Advantage Leadership Program	351,547	355,297
<b>PUBLIC POLICY AND ENGAGEMENT</b>		
Personnel	229,424	225,666
Program Operations	89,086	93,714
Communications	32,869	13,250
Professional Services	277,409	285,273
Building Operations	16,226	4,961
Total Public Policy and Engagement	645,014	622,864

**CHARLES K. BLANDIN FOUNDATION**  
**SCHEDULES OF PROGRAM EXPENSES (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2004 AND 2003**  
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	<u>2004</u>	<u>2003</u>
<b>GRANT MAKING</b>		
Personnel	223,704	212,697
Program Operations	61,909	31,931
Communications	2,789	5,881
Professional Services	55,699	85,630
Building Operations	24,230	6,263
Total Grant Making	<u>368,331</u>	<u>342,402</u>
<b>INSTITUTIONAL LEADERSHIP</b>		
Personnel	108,230	58,616
Program Operations	275,343	222,335
Communications	547	1,043
Professional Services	209,455	365,667
Building Operations	4,761	1,353
Total Institutional Leadership	<u>598,336</u>	<u>649,014</u>
<b>OTHER</b>	<u>363,310</u>	<u>79,735</u>
<b>TOTAL OPERATING PROGRAMS</b>	<u><u>\$ 3,897,987</u></u>	<u><u>\$ 3,893,635</u></u>

**CHARLES K. BLANDIN FOUNDATION**  
**SCHEDULES OF ADMINISTRATIVE EXPENSES**  
**YEARS ENDED DECEMBER 31, 2004 AND 2003**  
(SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION)

	<u>2004</u>	<u>2003</u>
<b>ADMINISTRATIVE</b>		
Personnel	\$ 983,277	\$ 1,181,498
Organization Operations	472,932	130,794
Communications	29,771	92,295
Professional Services	266,159	564,184
Building Operations	66,024	73,930
Trustee Expense	311,656	226,110
Taxes	148,078	74,427
Subtotal	<u>2,277,897</u>	<u>2,343,238</u>
Depreciation	212,828	275,046
Total Administrative	<u>\$ 2,490,725</u>	<u>\$ 2,618,284</u>

**CHARLES K. BLANDIN FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2004**

This is management's discussion and analysis of the Charles K. Blandin Foundation audited financial statements for the calendar year ended December 31, 2004. Please read it in conjunction with the auditor's report and audited financial statements, which are presented at the front of this report.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis introduces the Foundation's basic financial statements. The Foundation's basic financial statements are: (1) Statement of Financial Position; (2) Statement of Activities; (3) Statement of Cash Flow; and (4) Notes to the financial statements. Financial Accounting Standards Board Statement Number 117 requires that the financial statements focus on the entity as a whole, rather than reporting on separate fund groups.

The Statement of Financial Position (Balance Sheet) includes the Foundation's financial assets, liabilities, and net assets.

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

The Statement of Cash Flow reports where the Foundation cash came from and how the cash was used. There are three main sections in the Statement of Cash Flow: (1) cash flow from operating activities; (2) cash flow from investing activities; and (3) cash flow from financing activities.

A complete set of financial statements includes footnotes that provide further information to the reader about the Foundation's financial policies and procedures. Footnotes are required and provide a great source of information.

**ABOUT THE CHARLES K. BLANDIN FOUNDATION**

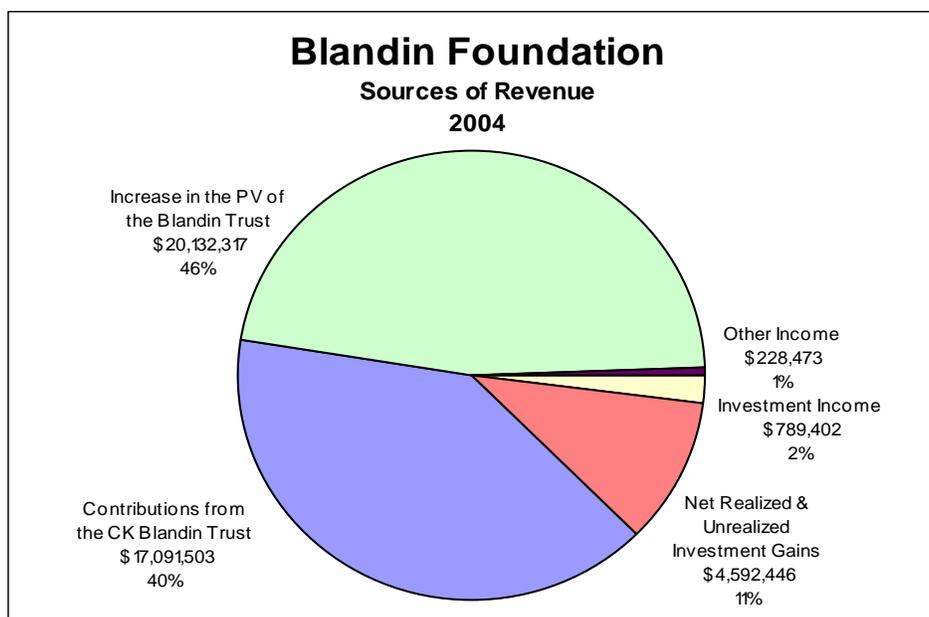
The Foundation's mission is to strengthen communities in rural Minnesota especially the Grand Rapids area. Our aim is for healthy communities grounded in strong economies where the burdens and benefits are widely shared. The Foundation's role is to infuse and energize rural community economies in Minnesota.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

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

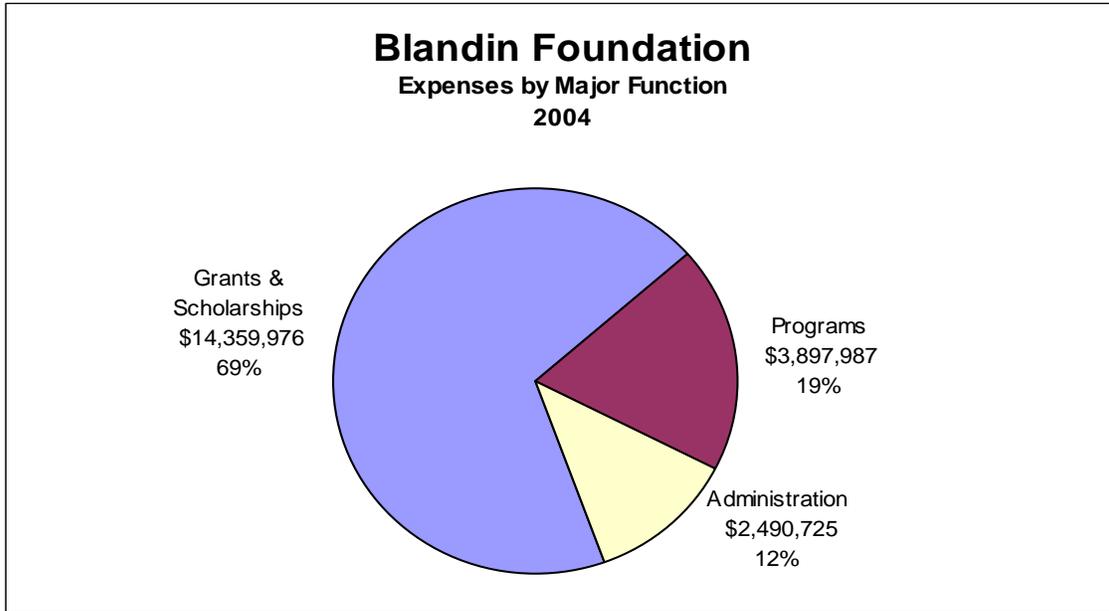
**CHARLES K. BLANDIN FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2004**

**FINANCIAL HIGHLIGHTS**

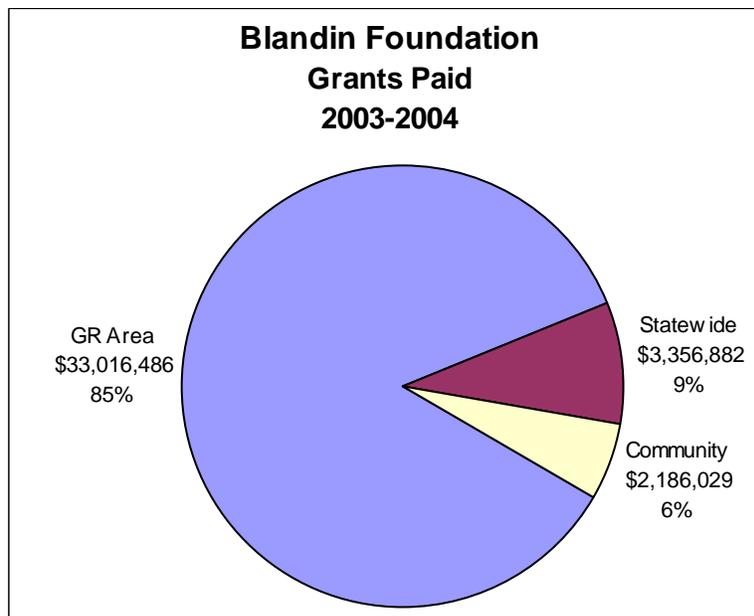
- Total revenues exceeded expenses by \$22 million of which \$1.9 million increased the Foundation's unrestricted net assets.
- Permanently restricted net assets of the Foundation increased from \$330 million at 2003 year end to \$350 million at 2004 year end.
- The Foundation received \$17 million in contributions from the Charles K. Blandin Trust for 2004.
- The Foundation issued \$19,980,000 in long-term fixed and variable rate debt in order to provide cash flow for the unusually large one-time capital grant of \$20 million to the Grand Rapids Clinic and Hospital. In addition, the Foundation bonds have a covenant which states the Foundation will at all times maintain unrestricted net assets in the amount at least equal to \$10,000,000.
- In 2004, the Foundation paid out grants totaling \$29,796,000 of which \$28,271,000 or 95% were for the local area.
- Of the total 2004 expenses of \$20,749,000 - grants and scholarships accounted for 69% of the total, operating programs accounted for 19%, and administration expenses 12%.



**CHARLES K. BLANDIN FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2004**



In December 2003, the Foundation's Board of Trustees approved a resolution, ratified by the Ramsey County District Court, to distribute an average of at least 55% of all paid grants to the Grand Rapids area over a six-year rolling period beginning with 2003. This action resulted from objections brought to the court's attention that questioned the Foundation's compliance with the founder's will. The following chart indicates the level of grants paid to the Grand Rapids area starting 2003 through 2004.



**CHARLES K. BLANDIN FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2004**

**PERSONNEL CHANGES**

The Foundation's activities are managed by a staff of approximately 25 employees. In 2003, Mr. Paul Olson retired after 25 years with the Foundation. Eugene Radecki assumed the role as interim President/CEO until June 7, 2004, when Jim Hoolihan was nominated and elected as President/CEO. Mr. Hoolihan is a native and long-time resident of Grand Rapids with a MBA from the University of Minnesota and JD from the William Mitchell College of Law. From 1981-2004 he was the President of Industrial Lubricants Company, an industrial supply company based in Grand Rapids.

In the summer of 2004, Kathryn Jensen, Senior Vice-President resigned to pursue other opportunities. The Foundation appointed Jim Krile as the interim Director of Leadership.

**REQUEST FOR INFORMATION**

This financial report provides a general overview of the Blandin Foundation finances. Questions about this report or requests for additional financial information should be addressed to the Controller at The Blandin Foundation, 100 North Pokegama Ave., Grand Rapids, MN, 55744. The annual audited financial report is also available on-line at [www.blandinfoundation.org](http://www.blandinfoundation.org).