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February 28, 2011

Ms. Alice Johnson
Courage Center and Courage Foundation, Inc.
3915 Golden Valley Road
Minneapolis, MN 55422

Dear Ms. Johnson:

In accordance with your request, we are attaching the accompanying PDF file, which contains an electronic final version of the consolidated financial statements of Courage Center and Courage Foundation, Inc. as of September 30, 2010. We understand that your request for the electronic copy has been made as a matter of convenience. You understand that electronic transmissions are not entirely secure and that it is possible for confidential financial information to be intercepted by others.

These financial statements and our report(s) on them are not to be modified in any manner. This final version supersedes all prior drafts. Any preliminary draft version of the consolidated financial statements previously provided to you in an electronic format should be deleted from your computer, and all printed copies of any superseded preliminary draft versions should likewise be destroyed.

Professional standards and our firm policies require that we perform certain additional procedures whenever our reports are included, or we are named as accountants, auditors or "experts," in a document used in a public or private offering of equity or debt securities. Accordingly, as provided for and agreed to in the terms of our arrangement letter, Courage Center and Courage Foundation, Inc. will not include our reports, or otherwise make reference to us, in any public or private securities offering without first obtaining our consent. Any request to consent is also a matter for which separate arrangements will be necessary. After obtaining our consent, Courage Center and Courage Foundation, Inc. also agree to provide us with printer's proofs or masters of such offering documents for our review and approval before printing, and with a copy of the final reproduced material for our approval before it is distributed. In the event our auditor/client relationship has been terminated when Courage Center and Courage Foundation, Inc. seek such consent, we will be under no obligation to grant such consent or approval.

Thank you for the opportunity to serve you.

Sincerely,

A handwritten signature in black ink that reads 'Dan Vandenberghe'.

Daniel A. Vandenberghe, Partner
612.376.9267

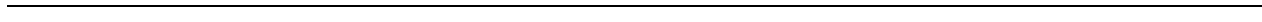
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Attachment



Courage Center and Courage Foundation, Inc.

*Consolidated Financial Statements
and Independent Auditor's Report*

Year Ended September 30, 2010



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Independent Auditor's Report

To the Board of Directors
Courage Center

We have audited the accompanying consolidated statements of financial position of Courage Center and Courage Foundation, Inc. (the Organization) as of September 30, 2010 and 2009, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Courage Center and Courage Foundation, Inc. as of September 30, 2010 and 2009, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Minneapolis, Minnesota
February 14, 2011

COURAGE CENTER AND COURAGE FOUNDATION, INC.

Consolidated Statements of Financial Position

September 30, 2010 and 2009

| Assets | Total | |
|---|---------------|---------------|
| | 2010 | 2009 |
| Cash and cash equivalents | \$ 104,301 | \$ 32,685 |
| Accounts receivable, less allowance for doubtful accounts of approximately \$302,000 in 2010 and \$276,000 in 2009 | 4,237,889 | 4,111,531 |
| Prepaid expenses | 333,407 | 470,253 |
| Assets limited as to use: | | |
| Cash, investments and contributions receivable restricted or designated: | | |
| Courage Foundation, Inc. | 57,785,754 | 56,174,202 |
| Courage Center | 272,993 | 736,076 |
| Value of future interest gifts | 357,117 | 380,503 |
| Beneficial interest in perpetual trusts | 2,182,191 | 2,206,240 |
| Other assets | 1,618,525 | 1,517,960 |
| Land, buildings, leasehold improvements and equipment, net of accumulated depreciation | 20,662,013 | 21,033,826 |
| Total assets | \$ 87,554,190 | \$ 86,663,276 |
| Liabilities and Net Assets | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | \$ 12,307,354 | \$ 10,837,419 |
| Line of credit | 5,096,454 | 4,384,829 |
| Industrial revenue bonds payable | 782,773 | 1,176,238 |
| Split-interest agreement obligations | 2,670,923 | 2,801,993 |
| Total liabilities | 20,857,504 | 19,200,479 |
| Net assets: | | |
| Unrestricted net assets: | | |
| Undesignated | (13,858,089) | (10,022,190) |
| Land, buildings and equipment | 21,263,634 | 21,713,846 |
| Courage Foundation | 52,337,142 | 49,208,462 |
| Total unrestricted net assets | 59,742,687 | 60,900,118 |
| Temporarily restricted net assets | 2,891,713 | 2,675,556 |
| Permanently restricted net assets | 4,062,286 | 3,887,123 |
| Total net assets | 66,696,686 | 67,462,797 |
| Total liabilities and net assets | \$ 87,554,190 | \$ 86,663,276 |

See accompanying notes to consolidated financial statements.

COURAGE CENTER AND COURAGE FOUNDATION, INC.

Consolidated Statement of Activities

For the Year Ended September 30, 2010

| | Current | | Unrestricted | | Total Unrestricted | Temporarily Restricted | Permanently Restricted | Total 2010 |
|---|--------------------|--------------------|-------------------------------|--------------------|--------------------|------------------------|------------------------|-------------------|
| | Courage Center | Courage Foundation | Land, Buildings and Equipment | Eliminations | | | | |
| Public support and revenues: | | | | | | | | |
| United Way allocations | \$ 1,019,645 | \$ - | \$ - | \$ - | \$ 1,019,645 | \$ 192,273 | \$ - | \$ 1,211,918 |
| Contributions | 5,936,793 | 242,939 | 247,567 | - | 6,427,299 | 449,212 | 120,491 | 6,997,002 |
| Bequests | 555,963 | 881,819 | - | - | 1,437,782 | - | - | 1,437,782 |
| Service fees | 29,428,682 | - | - | - | 29,428,682 | - | - | 29,428,682 |
| Sales, less cost of sales of \$369,563 | 935,275 | - | - | - | 935,275 | - | - | 935,275 |
| Investment return, net of expenses of \$55,602 | 539,988 | 5,526,201 | 9,505 | - | 6,075,694 | - | (24,049) | 6,051,645 |
| Change in value of split-interest agreements and beneficial trusts | - | (195,504) | - | - | (195,504) | 192,467 | 78,721 | 75,684 |
| Other | 892,158 | 1,239 | - | (621,000) | 272,397 | - | - | 272,397 |
| Support from the Foundation used to fund the Center operations | 2,639,436 | - | 2,270 | (2,662,897) | (21,191) | 21,191 | - | - |
| Net assets released from restriction: | | | | | | | | |
| Satisfaction of program restrictions | 542,355 | 45,047 | 51,584 | - | 638,986 | (638,986) | - | - |
| Total public support and revenues | 42,490,295 | 6,501,741 | 310,926 | (3,283,897) | 46,019,065 | 216,157 | 175,163 | 46,410,385 |
| Expenses: | | | | | | | | |
| Program services — related organizations | - | 2,662,897 | - | (2,662,897) | - | - | - | - |
| Program services — other | 36,918,077 | 32,400 | 509,794 | - | 37,460,271 | - | - | 37,460,271 |
| Supporting services | 8,548,457 | 677,764 | 251,344 | (621,000) | 8,856,565 | - | - | 8,856,565 |
| Total expenses | 45,466,534 | 3,373,061 | 761,138 | (3,283,897) | 46,316,836 | - | - | 46,316,836 |
| Excess (deficiency) of public support and revenues over expenses | (2,976,239) | 3,128,680 | (450,212) | - | (297,771) | 216,157 | 175,163 | 93,549 |
| Depreciation transferred | 2,038,360 | - | (2,038,360) | - | - | - | - | - |
| Unrestricted net assets transferred to fund capital additions | (2,038,360) | - | 2,038,360 | - | - | - | - | - |
| Increase (decrease) in net assets before other changes | (2,976,239) | 3,128,680 | (450,212) | - | (297,771) | 216,157 | 175,163 | 93,549 |
| Retiree benefit plan-related changes other than net periodic benefit cost | (859,660) | - | - | - | (859,660) | - | - | (859,660) |
| Change in interest in related organizations | 3,128,680 | - | - | (3,128,680) | - | - | - | - |
| Increase (decrease) in net assets | (707,219) | 3,128,680 | (450,212) | (3,128,680) | (1,157,431) | 216,157 | 175,163 | (766,111) |
| Net assets at beginning of year | 39,186,272 | 49,208,462 | 21,713,846 | (49,208,462) | 60,900,118 | 2,675,556 | 3,887,123 | 67,462,797 |
| Net assets at end of year | \$ 38,479,053 | \$ 52,337,142 | \$ 21,263,634 | \$ (52,337,142) | \$ 59,742,687 | \$ 2,891,713 | \$ 4,062,286 | \$ 66,696,686 |

See accompanying notes to consolidated financial statements.

COURAGE CENTER AND COURAGE FOUNDATION, INC.

Consolidated Statement of Activities

For the Year Ended September 30, 2009

| | Current | | Unrestricted | | Total Unrestricted | Temporarily Restricted | Permanently Restricted | Total 2009 |
|---|----------------------|----------------------|-------------------------------|------------------------|----------------------|------------------------|------------------------|----------------------|
| | Courage Center | Courage Foundation | Land, Buildings and Equipment | Eliminations | | | | |
| Public support and revenues: | | | | | | | | |
| United Way allocations | \$ 1,295,276 | \$ - | \$ - | \$ - | \$ 1,295,276 | \$ - | \$ - | \$ 1,295,276 |
| Contributions | 5,869,692 | 230,384 | 17,706 | - | 6,117,782 | 329,341 | 1,000 | 6,448,123 |
| Bequests | 1,218,809 | 81,242 | - | - | 1,300,051 | - | 922,486 | 2,222,537 |
| Service fees | 29,718,614 | - | - | - | 29,718,614 | - | - | 29,718,614 |
| Sales, less cost of sales of \$543,840 | 1,097,897 | - | - | - | 1,097,897 | - | - | 1,097,897 |
| Investment return, net of expenses of \$51,346 | 233,024 | 1,867,970 | 4,992 | - | 2,105,986 | - | (19,117) | 2,086,869 |
| Change in value of split-interest agreements and beneficial trusts | - | (194,622) | - | - | (194,622) | (129,426) | (9,599) | (333,647) |
| Other | 891,058 | 5,666 | - | (621,000) | 275,724 | - | - | 275,724 |
| Support from the Foundation used to fund the Center operations | 2,694,617 | - | 2,200 | (2,707,640) | (10,823) | 10,823 | - | - |
| Net assets released from restriction: | | | | | | | | |
| Satisfaction of program restrictions | 473,317 | 311,156 | 25,244 | - | 809,717 | (809,717) | - | - |
| Total public support and revenues | 43,492,304 | 2,301,796 | 50,142 | (3,328,640) | 42,515,602 | (598,979) | 894,770 | 42,811,393 |
| Expenses: | | | | | | | | |
| Program services — related organizations | - | 2,707,640 | - | (2,707,640) | - | - | - | - |
| Program services — other | 36,691,098 | 18,000 | 358,757 | - | 37,067,855 | - | - | 37,067,855 |
| Supporting services | 8,701,856 | 675,305 | 422,605 | (621,000) | 9,178,766 | - | - | 9,178,766 |
| Total expenses | 45,392,954 | 3,400,945 | 781,362 | (3,328,640) | 46,246,621 | - | - | 46,246,621 |
| Excess (deficiency) of public support and revenues over expenses | (1,900,650) | (1,099,149) | (731,220) | - | (3,731,019) | (598,979) | 894,770 | (3,435,228) |
| Depreciation transferred | 1,961,766 | - | (1,961,766) | - | - | - | - | - |
| Unrestricted net assets transferred to fund capital additions | (1,961,766) | - | 1,961,766 | - | - | - | - | - |
| Increase (decrease) in net assets before other changes | (1,900,650) | (1,099,149) | (731,220) | - | (3,731,019) | (598,979) | 894,770 | (3,435,228) |
| Retiree benefit plan-related changes other than net periodic benefit cost | (763,272) | - | - | - | (763,272) | - | - | (763,272) |
| Change in donor intent | - | (139,311) | - | - | (139,311) | - | 139,311 | - |
| Change in interest in related organizations | (1,238,460) | - | - | 1,238,460 | - | - | - | - |
| Increase (decrease) in net assets | (3,902,382) | (1,238,460) | (731,220) | 1,238,460 | (4,633,602) | (598,979) | 1,034,081 | (4,198,500) |
| Net assets at beginning of year | 43,088,654 | 50,446,922 | 22,445,066 | (50,446,922) | 65,533,720 | 3,274,535 | 2,853,042 | 71,661,297 |
| Net assets at end of year | \$ 39,186,272 | \$ 49,208,462 | \$ 21,713,846 | \$ (49,208,462) | \$ 60,900,118 | \$ 2,675,556 | \$ 3,887,123 | \$ 67,462,797 |

See accompanying notes to consolidated financial statements.

COURAGE CENTER AND COURAGE FOUNDATION, INC.

Consolidated Statement of Functional Expenses

For the Year Ended September 30, 2010

| | Program Services | | | | | | | | Supporting Services | | | Total 2010 |
|---|---------------------------|----------------------------------|--------------|----------------------|--------------------------------------|--------------------------|--------------|---------------|---------------------------|-----------------|--------------|---------------|
| | Medical Rehabilitation | Transitional Rehab Program | Camping | Courage St. Croix | Vocational and Community Based | Sports and Recreation | Other | Total | Management and General | Fund Raising | Total | |
| Salaries | \$ 10,854,411 | \$ 3,471,852 | \$ 921,114 | \$ 3,157,942 | \$ 2,482,096 | \$ 473,817 | \$ 401,261 | \$ 21,762,493 | \$ 2,340,012 | \$ 1,526,481 | \$ 3,866,493 | \$ 25,628,986 |
| Employee benefits | 1,514,596 | 483,685 | 123,124 | 442,003 | 346,343 | 66,718 | 47,941 | 3,024,410 | 395,741 | 213,341 | 609,082 | 3,633,492 |
| Payroll taxes | 977,676 | 326,739 | 78,090 | 290,518 | 222,416 | 40,267 | 28,176 | 1,963,882 | 188,669 | 121,376 | 310,045 | 2,273,927 |
| Total salaries and related expenses | 13,346,683 | 4,282,276 | 1,122,328 | 3,890,463 | 3,050,855 | 580,802 | 477,378 | 26,750,785 | 2,924,422 | 1,861,198 | 4,785,620 | 31,536,405 |
| Professional fees and contract services | 811,136 | 114,640 | 46,723 | 167,353 | 100,100 | 39,850 | 247,838 | 1,527,640 | 696,975 | 678,945 | 1,375,920 | 2,903,560 |
| Supplies | 1,097,795 | 604,182 | 262,323 | 181,797 | 50,297 | 203,228 | 53,425 | 2,453,047 | 253,134 | 169,172 | 422,306 | 2,875,353 |
| Telephone | 151,590 | 41,489 | 44,146 | 54,032 | 85,153 | 11,248 | 8,208 | 395,866 | 57,779 | 31,679 | 89,458 | 485,324 |
| Postage | 31,533 | 1,141 | 8,432 | 9,992 | 3,417 | 4,081 | 161,990 | 220,586 | 19,661 | 461,462 | 481,123 | 701,709 |
| Occupancy | 1,213,384 | 372,156 | 285,532 | 375,395 | 76,982 | 116,727 | 14,604 | 2,454,780 | 161,893 | 172,969 | 334,862 | 2,789,642 |
| Printing and publications | 38,679 | 5,081 | 23,515 | 4,095 | 3,212 | 4,849 | 111,301 | 190,732 | 87,513 | 105,397 | 192,910 | 383,642 |
| Transportation | 131,780 | 15,204 | 66,963 | 13,526 | 194,988 | 64,574 | 9,273 | 496,308 | 19,988 | 41,804 | 61,792 | 558,100 |
| Conferences, conventions and meetings | 76,849 | 7,698 | 3,346 | 19,783 | 12,205 | 4,276 | 1,575 | 125,732 | 30,539 | 3,538 | 34,077 | 159,809 |
| Membership dues | 17,756 | 22,073 | 6,175 | 6,511 | 6,189 | 9,677 | 3,274 | 71,655 | 12,270 | 1,429 | 13,699 | 85,354 |
| Bad-debt expense | 313,465 | 8,837 | 850 | 57,441 | 17,836 | - | - | 398,429 | - | - | - | 398,429 |
| Other | 300,494 | 143,719 | 59,322 | 74,825 | 6,805 | 8,026 | 96,473 | 689,664 | 293,040 | 418,445 | 711,485 | 1,401,149 |
| Total expenses before depreciation | 17,531,144 | 5,618,496 | 1,929,655 | 4,855,213 | 3,608,039 | 1,047,338 | 1,185,339 | 35,775,224 | 4,557,214 | 3,946,038 | 8,503,252 | 44,278,476 |
| Depreciation | 657,896 | 499,016 | 324,767 | 170,266 | 13,445 | 16,278 | 3,379 | 1,685,047 | 308,283 | 45,030 | 353,313 | 2,038,360 |
| Total expenses | \$ 18,189,040 | \$ 6,117,512 | \$ 2,254,422 | \$ 5,025,479 | \$ 3,621,484 | \$ 1,063,616 | \$ 1,188,718 | \$ 37,460,271 | \$ 4,865,497 | \$ 3,991,068 | \$ 8,856,565 | \$ 46,316,836 |

See accompanying notes to consolidated financial statements.

COURAGE CENTER AND COURAGE FOUNDATION, INC.

Consolidated Statement of Functional Expenses

For the Year Ended September 30, 2009

| | Program Services | | | | | | | | Supporting Services | | | Total 2009 |
|---|---------------------------|----------------------------------|--------------|----------------------|--------------------------------------|--------------------------|--------------|---------------|---------------------------|-----------------|--------------|---------------|
| | Medical Rehabilitation | Transitional Rehab Program | Camping | Courage St. Croix | Vocational and Community Based | Sports and Recreation | Other | Total | Management and General | Fund Raising | Total | |
| Salaries | \$ 10,642,171 | \$ 3,678,693 | \$ 939,939 | \$ 3,078,464 | \$ 2,239,961 | \$ 464,154 | \$ 428,386 | \$ 21,471,768 | \$ 2,126,582 | \$ 1,557,845 | \$ 3,684,427 | \$ 25,156,195 |
| Employee benefits | 1,750,582 | 600,447 | 150,921 | 505,825 | 370,403 | 77,766 | 68,105 | 3,524,049 | 528,147 | 260,075 | 788,222 | 4,312,271 |
| Payroll taxes | 909,274 | 342,528 | 82,374 | 269,073 | 197,258 | 37,037 | 31,751 | 1,869,295 | 163,319 | 117,070 | 280,389 | 2,149,684 |
| Total salaries and related expenses | 13,302,027 | 4,621,668 | 1,173,234 | 3,853,362 | 2,807,622 | 578,957 | 528,242 | 26,865,112 | 2,818,048 | 1,934,990 | 4,753,038 | 31,618,150 |
| Professional fees and contract services | 726,224 | 78,438 | 48,382 | 69,283 | 48,809 | 26,845 | 297,973 | 1,295,954 | 756,698 | 783,023 | 1,539,721 | 2,835,675 |
| Supplies | 985,661 | 646,841 | 298,972 | 252,197 | 107,624 | 129,760 | 44,946 | 2,466,001 | 380,307 | 187,461 | 567,768 | 3,033,769 |
| Telephone | 136,157 | 35,636 | 38,641 | 51,744 | 60,634 | 11,229 | 10,573 | 344,614 | 96,828 | 26,848 | 123,676 | 468,290 |
| Postage | 30,202 | 1,628 | 10,865 | 8,140 | 3,425 | 4,750 | 164,582 | 223,592 | 57,959 | 472,889 | 530,848 | 754,440 |
| Occupancy | 1,094,266 | 417,458 | 294,034 | 359,993 | 112,243 | 118,202 | 23,070 | 2,419,266 | 164,315 | 175,378 | 339,693 | 2,758,959 |
| Printing and publications | 40,550 | 1,341 | 9,787 | 942 | 2,207 | 5,649 | 101,782 | 162,258 | 122,142 | 93,427 | 215,569 | 377,827 |
| Transportation | 127,580 | 9,299 | 66,507 | 17,419 | 173,542 | 62,432 | 10,279 | 467,058 | 35,532 | 40,675 | 76,207 | 543,265 |
| Conferences, conventions and meetings | 60,081 | 9,055 | 1,781 | 16,211 | 12,539 | 7,122 | 3,262 | 110,051 | 48,797 | 3,000 | 51,797 | 161,848 |
| Membership dues | 9,672 | 16,247 | 4,793 | 4,478 | 3,381 | 7,221 | 4,648 | 50,440 | 7,433 | 589 | 8,022 | 58,462 |
| Bad-debt expense | 208,401 | 24,310 | - | 72,999 | 12,117 | - | - | 317,827 | - | - | - | 317,827 |
| Other | 337,994 | 149,728 | 30,540 | 73,122 | 12,118 | 9,141 | 84,515 | 697,158 | 210,506 | 448,679 | 659,185 | 1,356,343 |
| Total expenses before depreciation | 17,058,815 | 6,011,649 | 1,977,536 | 4,779,890 | 3,356,261 | 961,308 | 1,273,872 | 35,419,331 | 4,698,565 | 4,166,959 | 8,865,524 | 44,284,855 |
| Depreciation | 591,266 | 522,426 | 320,152 | 182,085 | 12,491 | 15,535 | 4,569 | 1,648,524 | 261,018 | 52,224 | 313,242 | 1,961,766 |
| Total expenses | \$ 17,650,081 | \$ 6,534,075 | \$ 2,297,688 | \$ 4,961,975 | \$ 3,368,752 | \$ 976,843 | \$ 1,278,441 | \$ 37,067,855 | \$ 4,959,583 | \$ 4,219,183 | \$ 9,178,766 | \$ 46,246,621 |

See accompanying notes to consolidated financial statements.

COURAGE CENTER AND COURAGE FOUNDATION, INC.

Consolidated Statements of Cash Flows

For the Years Ended September 20, 2010 and 2009

| | 2010 | 2009 |
|---|--------------|----------------|
| Cash flow from operating activities: | | |
| Decrease in net assets | \$ (766,111) | \$ (4,198,500) |
| Adjustments to reconcile decrease in net assets to net cash used in operating activities: | | |
| Decrease in split-interest gift arrangements | 23,386 | 428,866 |
| Permanently restricted contributions | (120,491) | (923,486) |
| Depreciation | 2,038,360 | 1,961,766 |
| Realized and unrealized investment gains | (4,584,270) | (154,979) |
| Decrease in beneficial interest in perpetual trusts | 24,049 | 19,117 |
| Joint venture investment gain | (131,129) | (45,698) |
| Change in operating assets and liabilities: | | |
| Accounts receivable | (126,358) | (52,395) |
| Prepaid expenses | 136,846 | (181,055) |
| Other assets | 30,564 | 244,493 |
| Accounts payable and accrued expenses | 1,469,935 | 1,155,071 |
| Net cash used in operating activities | (2,005,219) | (1,746,800) |
| Cash flow from investing activities: | | |
| Purchase of land, buildings and equipment | (1,666,547) | (1,215,023) |
| Purchase of investments | (7,716,377) | (12,934,870) |
| Proceeds from sale of investments | 11,152,178 | 12,003,742 |
| Net cash provided by (used in) investing activities | 1,769,254 | (2,146,151) |
| Cash flow from financing activities: | | |
| Net borrowing on line of credit | 711,625 | 3,327,376 |
| Payment of revenue bonds | (393,465) | (372,852) |
| Decrease in split-interest agreement obligations | (131,070) | (27,112) |
| Permanently restricted contributions | 120,491 | 923,486 |
| Net cash provided by financing activities | 307,581 | 3,850,898 |
| Net increase (decrease) in cash and cash equivalents | 71,616 | (42,053) |
| Cash and cash equivalents at beginning of year | 32,685 | 74,738 |
| Cash and cash equivalents at end of year | \$ 104,301 | \$ 32,685 |

See accompanying notes to consolidated financial statements.

Courage Center and Courage Foundation, Inc.

Notes to Consolidated Financial Statements

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of operations: Courage Center (the Center), established in 1928, is a not-for-profit, tax-exempt corporation, incorporated under the laws of the State of Minnesota. The mission of the Center is to empower people with disabilities to realize their full potential in every aspect of life. The purpose of the Center is to initiate and engage in activities which will improve the independence, health, welfare, education, rehabilitation, employment, recreation and socialization of people with disabilities; and to educate the public on the abilities of individuals with disabilities. The Center provides a comprehensive array of services to address the needs of people with disabilities. These services include residential rehabilitation, outpatient rehabilitation, community-based services, vocational services, camping, sports and recreation, advocacy and research. These services are provided at Golden Valley, Stillwater, Burnsville, Forest Lake and a variety of community settings, as well as camping programs at Camp Courage (305 acres) near Maple Lake and Courage North (99 acres) at Lake George. While the majority of services are provided in Minnesota and the surrounding four-state area, clients are also served from throughout the nation and the world. Services are funded by a variety of revenue sources, including fees from governmental agencies and private insurance companies, sale of products, and contributions from individuals, foundations, companies and United Way.

In 1978 the Board of Directors amended the articles and bylaws of the Center, changing the name Minnesota Society for Crippled Children and Adults, Inc. to Courage Center. A new not-for-profit corporation was formed to protect the former name of the Center.

Courage Foundation, Inc. (the Foundation), established on June 16, 1959, as a not-for-profit tax-exempt corporation, is organized and operated exclusively for charitable and educational purposes. The purpose of the Foundation is to receive gifts and to use the gifts exclusively for the benefit of Courage Center. Support from the Foundation has become essential to the Center, as third-party reimbursements often do not increase in relation to program cost increases. Gifts are encouraged through memorials and bequests, gifts of appreciated property, life-income gifts, life insurance, life-estate gifts, and other special giving.

Consolidation policy: In accordance with the accounting rules governing not-for-profit entities, the Center is permitted, but not required, to consolidate the Foundation due to its level of control and economic interest in this organization. Management has elected to present the financial information on a consolidated basis. The group is referred to within as the Organization. All significant intercompany items have been eliminated in consolidation. In addition, because the Center and the Foundation are financially interrelated organizations, the Center is required to recognize its interest in the net assets of the Foundation and adjust that interest for its share of the change in net assets of the Foundation.

Courage Center and Courage Foundation, Inc.

Notes to Consolidated Financial Statements

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

After intercompany eliminations, the assets, liabilities and net assets of each entity included in the consolidated amounts as of September 30, 2010, are as follows:

| | Courage Center | Courage Foundation, Inc. | Consolidated Total | |
|------------------------|-------------------|-----------------------------|--------------------|---------------|
| | | | 2010 | 2009 |
| Assets | \$ 29,492,343 | \$ 58,061,847 | \$ 87,554,190 | \$ 86,663,276 |
| Liabilities | \$ 18,179,108 | \$ 2,678,396 | \$ 20,857,504 | \$ 19,200,479 |
| Net assets: | | | | |
| Unrestricted | \$ 7,405,545 | \$ 52,337,142 | \$ 59,742,687 | \$ 60,900,118 |
| Temporarily restricted | 1,637,776 | 1,253,937 | 2,891,713 | 2,675,556 |
| Permanently restricted | 2,182,191 | 1,880,095 | 4,062,286 | 3,887,123 |
| Total net assets | \$ 11,225,512 | \$ 55,471,174 | \$ 66,696,686 | \$ 67,462,797 |

Basis of presentation: Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified into the following categories:

Unrestricted net assets: Unrestricted net assets represent the portion of expendable funds that are available for support of the operations of the Organization. Unrestricted net assets are available for those activities engaged in by the Organization in achieving the primary objectives for which it was established. Certain gifts received, where the donor has designated the funds but provides the Organization variance power, are recognized as unrestricted. Other unrestricted bequests which the Center receives are designated by the Board of Directors primarily for initiating and expanding service programs, capital additions and improvements, and deferred giving activities. The land, building and equipment net assets are used to account for the Center's assets and liabilities related to land, buildings, leasehold improvements and equipment activity.

Temporarily restricted net assets: Temporarily restricted net assets consist of contributions that have been restricted by the donor for specific purposes or are not available for use until a specific time and include the value of split-interest agreements related to charitable remainder trusts where the Organization is trustee.

Permanently restricted net assets: Permanently restricted net assets consist of beneficial interests the Organization has in certain perpetual trusts held by outside organizations and permanent endowment funds where the Organization holds the assets. For those assets held in trust by outside organizations, the trust documents allow the Organization to receive only the income from the trust.

Revenues are reported as increases in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Donor-restricted contributions whose restrictions are met in the same year as the gift is made are reported as unrestricted contributions in the current year. Satisfaction or expirations of temporary restrictions on net assets are reported as net assets released from restriction on the consolidated statements of activities.

Basis of accounting: The financial statements are prepared on the accrual basis of accounting.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Use of estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Functional allocation of expenses: Salaries and related expenses are allocated to the various programs and supporting services based on actual time employees spent on each function. The remaining expenses are specifically allocated whenever practical and, when this is impractical, are allocated on a time-unit basis.

Income taxes: The Organization qualifies as tax-exempt organizations under Section 501(c)(3) of the U.S. Internal Revenue Code and Section 290.05, Subdivision 2, of the Minnesota Statutes. They are classified as organizations that are not a private foundation under the Internal Revenue Code, the Center under Section 509(a)(2) and the Foundation under Section 509(a)(3). Charitable contributions by donors to the Organization are tax deductible.

Cash and cash equivalents: The Organization considers cash equivalents to be all highly liquid investments, that are not included in assets whose use is limited, with a maturity at date of purchase of three months or less. The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts.

Investment in joint venture: The Organization is accounting for its investment in AXIS Health Care, LLC (a Limited Liability Corporation) (AXIS), a 50 percent-owned affiliate, by the equity method of accounting. Under this method, the Organization's share of the net income or loss of the affiliate is recognized in the consolidated statement of activities and added to or subtracted from the investment account. Since inception of the joint venture, the Organization has contributed \$200,000. At September 30, 2010 and 2009, the net investment of \$808,102 and \$676,973, respectively, is reflected in other assets in the consolidated statements of financial position.

AXIS contracts with payors to coordinate health care services and support for persons with physical disabilities. AXIS provides health coordination, promotion and education services. The purpose of AXIS is to develop and demonstrate a model of managed care that will deliver the right service, at the right time, in a cost-effective manner and to bring the knowledge of disability to the application of managed health care.

Beneficial interest in perpetual trusts: Beneficial interest in perpetual trusts relates to perpetual trusts held by outside organizations in which the income earned on trust assets is distributed to the Organization in perpetuity. The assets are recorded at the fair value of the trust, which is based on the underlying value of the assets in the trust or the discounted cash flow of projected future receipts.

Land, buildings, leasehold improvements and equipment: The Organization follows the practice of capitalizing the cost of expenditures for land, buildings, leasehold improvements and equipment in excess of \$5,000. The fair value of donated land, buildings and equipment is similarly capitalized. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets: equipment and vehicles, three to 15 years; buildings and leasehold improvements, five to 50 years. When property and equipment are sold or retired, the basis and related accumulated depreciation are removed from the accounts.

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

Split-interest agreements: Values of split-interest gifts, where the Organization is trustee, are recorded as investments of the Foundation. A liability (split-interest agreement obligations) is recorded for agreements in which a specified amount is distributed to designated beneficiaries during their lifetime or a certain period of time. The liability is recorded at the present value using discount rates ranging from 3.2 percent to 10.2 percent of the estimated future payment to be distributed over the beneficiary's expected life or stated period of time.

Service fee revenue: Service fee revenue is recorded at the Organization's established rates when the service is provided, with contractual adjustments deducted to arrive at net service fee revenue. The Organization has agreements with third-party payors which provide for reimbursement to the Organization at amounts different from established rates.

Adjustments arising from reimbursement arrangements with third-party payors are accrued on an estimated basis in the period in which the services are rendered. Estimates for potential third-party payor settlements and contractual allowances can differ from actual reimbursement based on the results of subsequent reviews and payor audits.

Patient receivables, where a third-party payor is responsible for paying the amount, are carried at a net amount determined by the original charge for the services provided, less an estimate made for contractual adjustments or discounts provided to third-party payors. Patient receivables due directly from the patients are carried at the original charge for the services provided less amounts covered by third-party payors.

Management determines the allowance for doubtful accounts by considering the patient's financial history and credit history, current economic conditions, and by using historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of bad-debt expense when received.

Contributions: All unconditional contributions and bequests are recorded at their fair value when a pledge or gift is made and are considered to be available for unrestricted use unless specifically restricted by the donor. Bequests are only recognized once probate court has declared a will valid, no additional conditions are present, and the funds have been received. Conditional pledges are recorded as revenue when the condition has been satisfied. Volunteers have donated their time in the program services and fund-raising campaigns of the Organization. Amounts have not been reflected in the consolidated financial statements for these donated services, as such services do not create or enhance nonfinancial assets or require specialized skills, which are requirements for recognition in the consolidated financial statements. Materials and vehicles received as donations are recorded and reflected in the consolidated financial statements at their fair values at the date of receipt.

Recent accounting pronouncements: The Organization adopted ASC 740, *Income Taxes*, during the year ended September 30, 2010. ASC 740 clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements in accordance with the ASC and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740 is applicable for each tax year which is open to examination and assessment by taxing authorities, in accordance with statutes. At September 30, 2010, the federal and Minnesota tax returns for the Organization are open for examination by taxing authorities for the years 2007 to 2010. The adoption of ASC 740 had no effect on the Organization's consolidated financial statements.

Courage Center and Courage Foundation, Inc.

Notes to Consolidated Financial Statements

Note 1. Nature of Operations and Summary of Significant Accounting Policies (Continued)

New accounting pronouncement: The *Fair Value Measurements and Disclosures* (Topic 820), *Improving Disclosures about Fair Value Measurements* ASC requires new fair value measurement disclosures about transfers in and out of Levels 1 and 2, and activity in Level 3 fair value measurements (purchases, sales, issuances and settlements on a gross basis). The ASC also clarifies existing disclosures about the level of disaggregation and about inputs and valuation techniques. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years.

Subsequent events: In May 2009, the FASB issued ASC 855, *Subsequent Events*. The Organization has evaluated subsequent events through February 14, 2011, which is the date that the consolidated financial statements are available to be issued, in preparing the consolidated financial statements and notes thereto.

Note 2. Assets Limited as to Use — Cash, Investments, and Contributions Receivable Restricted or Designated

Assets limited as to use — cash and investments restricted or designated included the following as of September 30:

| | 2010 | 2009 |
|---|---------------|---------------|
| Investments restricted or designated for endowment or split-interest agreement obligations: | | |
| Cash and cash equivalents | \$ 351,298 | \$ 390,391 |
| Corporate bond obligations | 567,500 | 657,500 |
| Common stocks | 7,552,744 | 8,936,791 |
| Equity mutual funds | 12,823,669 | 16,565,000 |
| Debt mutual funds | 8,373,356 | 7,470,377 |
| International mutual funds | 13,379,430 | 12,627,271 |
| Government mortgage-backed securities | 774,829 | 703,954 |
| Fund of fund hedge funds | 9,540,356 | 4,071,404 |
| Real estate investment trust | 1,517,014 | 1,475,231 |
| International exchange-traded funds | 2,905,558 | 3,276,283 |
| | <hr/> | <hr/> |
| Total assets limited as to use — Courage Foundation, Inc. | \$ 57,785,754 | \$ 56,174,202 |

Courage Center and Courage Foundation, Inc.

Notes to Consolidated Financial Statements

Note 2. Assets Limited as to Use — Cash, Investments, and Contributions Receivable Restricted or Designated (Continued)

| | 2010 | 2009 |
|--|-------------------|-------------------|
| Assets designated for investment in land, buildings and equipment: | | |
| Cash and cash equivalents | \$ - | \$ 15,094 |
| Contributions receivable (Note 3) | 21,277 | 18,015 |
| Intercompany transfers | (510,233) | - |
| | <u>(488,956)</u> | <u>33,109</u> |
| Total | | |
| Assets restricted for future program use or investment in land, buildings and equipment: | | |
| Cash and cash equivalents | 442,871 | 292,573 |
| Contributions receivable (Note 3) | 319,078 | 410,394 |
| | <u>761,949</u> | <u>702,967</u> |
| Total | | |
| Total assets limited as to use — Courage Center | <u>\$ 272,993</u> | <u>\$ 736,076</u> |

Investments are stated at fair value. Investment income or loss (including gains and losses on investments, interest and dividends) is included in the consolidated statement of activities as increases or decreases in unrestricted net assets, unless income or loss is restricted by donor or law.

Following is a summary of the investment return (net of management fees) for the years ended September 30:

| | 2010 | 2009 |
|---|------------------|------------------|
| Dividends and interest (net of management fees) | \$ 1,336,246 | \$ 1,886,192 |
| Joint venture investment gain | 131,129 | 45,698 |
| Net realized gain | 341,260 | 1,084,706 |
| Unrealized gain and loss | 4,243,010 | (929,727) |
| | <u>6,051,645</u> | <u>2,086,869</u> |
| Total investment gain | | |

Courage Center and Courage Foundation, Inc.

Notes to Consolidated Financial Statements

Note 3. Contributions Receivable

Contributions receivable are recorded at their discounted present value. The net realizable value is computed using the estimated years before receipt and a discount rate applicable to the years in which the promises are given. The expected collection periods of the contributions receivable as of September 30 are as follows:

| | 2010 | 2009 |
|---|-------------|-------------|
| Due in: | | |
| 1 year or less | \$ 419,945 | \$ 529,223 |
| 1 to 5 years | 166,070 | 216,940 |
| | <hr/> | <hr/> |
| Total contributions receivable | 586,015 | 746,163 |
| | | |
| Less unamortized discounts | (35,914) | (37,155) |
| | <hr/> | <hr/> |
| Present value of contributions receivable | \$ 550,101 | \$ 709,008 |
| | <hr/> <hr/> | <hr/> <hr/> |

Contributions receivable are included in the following categories as of September 30:

| | 2010 | 2009 |
|--|-------------|-------------|
| Assets designated for investment in land, buildings and equipment (Note 2) | \$ 21,277 | \$ 18,015 |
| Assets restricted for future program support (Note 2) | 319,078 | 410,395 |
| Other assets (Note 4) | 209,746 | 280,598 |
| | <hr/> | <hr/> |
| Present value of contributions receivable | \$ 550,101 | \$ 709,008 |
| | <hr/> <hr/> | <hr/> <hr/> |

Note 4. Other Assets

Other assets included the following as of September 30:

| | 2010 | 2009 |
|--|--------------|--------------|
| Donated vehicles | \$ 118,612 | \$ 136,961 |
| Contributions receivable (Note 3) | 209,746 | 280,598 |
| Inventories | 363,260 | 308,616 |
| Cash value of life insurance, less policy loans of \$39,279 and \$44,890 | 103,378 | 95,636 |
| Investment in joint venture | 808,102 | 676,973 |
| Other assets | 15,427 | 19,176 |
| | <hr/> | <hr/> |
| Total other assets | \$ 1,618,525 | \$ 1,517,960 |
| | <hr/> <hr/> | <hr/> <hr/> |

Courage Center and Courage Foundation, Inc.

Notes to Consolidated Financial Statements

Note 5. Land, Buildings, Leasehold Improvements and Equipment

Land, buildings, leasehold improvements and equipment included the following as of September 30:

| | 2010 | 2009 |
|---|----------------------|----------------------|
| Land | \$ 1,411,424 | \$ 1,411,424 |
| Buildings and leasehold improvements: | | |
| Courage Center | 25,276,127 | 24,579,927 |
| Camp Courage | 7,037,724 | 6,865,139 |
| Courage North | 1,735,137 | 1,678,346 |
| Courage St. Croix | 4,907,318 | 4,907,318 |
| Equipment | 7,226,462 | 6,821,431 |
| Vehicles | 402,482 | 372,157 |
| | <hr/> | <hr/> |
| Total land, buildings, leasehold improvements and equipment | 47,996,674 | 46,635,742 |
| | <hr/> | <hr/> |
| Accumulated depreciation | (27,334,661) | (25,601,916) |
| | <hr/> | <hr/> |
| Net land, buildings, leasehold improvements and equipment | <u>\$ 20,662,013</u> | <u>\$ 21,033,826</u> |

Note 6. Concentration of Revenues and Accounts Receivable

The mix of fee revenues and net accounts receivable from consumers and third-party payors at September 30 was as follows:

| | <u>Revenues</u> | | <u>Accounts Receivable</u> | |
|--------------------------|-----------------|------|----------------------------|------|
| | 2010 | 2009 | 2010 | 2009 |
| Medicaid | 29% | 31% | 25% | 23% |
| Medicare | 12% | 12% | 16% | 17% |
| Blue Cross Blue Shield | 12% | 16% | 8% | 16% |
| Other third-party payors | 41% | 37% | 44% | 34% |
| Consumers | 6% | 4% | 7% | 10% |
| | <hr/> | | | |
| Total | 100% | 100% | 100% | 100% |

Note 7. Line of Credit

The Organization has a revolving line of credit of \$10,000,000 through May 31, 2011. This line of credit is secured by the Organization's investments and has an interest rate equal to 1.5 percent below the prime rate.

| | 2010 | 2009 |
|-------------------------------------|--------------|--------------|
| Interest rate at September 30 | 1.75% | 1.75% |
| Outstanding balance at September 30 | \$ 5,096,454 | \$ 4,384,829 |

Courage Center and Courage Foundation, Inc.

Notes to Consolidated Financial Statements

Note 8. Long-Term Debt

Long-term debt consists of the following at September 30:

| | 2010 | 2009 |
|---|-------------------|---------------------|
| Minneapolis Community Development Agency Revenue Bond (Courage Center project), Series 2006, due in varying monthly installments of approximately \$16,600 to \$17,500, to June 2013; average annual interest rate of 5.1%, collateralized by property | \$ 209,816 | \$ 409,220 |
| Minneapolis Community Development Agency Revenue Bond (Courage Center project), Series 2007, due in varying monthly installments of approximately \$16,000 to \$18,000, to June 2013; average annual interest rate of 4.8%, collateralized by property | 572,957 | 767,018 |
| Total | <u>\$ 782,773</u> | <u>\$ 1,176,238</u> |

Annual maturities of long-term debt for years ending September 30 are as follows:

| | |
|-------|-------------------|
| 2011 | \$ 411,476 |
| 2012 | 209,562 |
| 2013 | <u>161,735</u> |
| Total | <u>\$ 782,773</u> |

Note 9. Fair Value of Financial Instruments

Assets and liabilities recorded at fair value in the consolidated statements of financial position are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Input levels, as defined by ASC 820, *Fair Value Measurements and Disclosures*, are as follows:

Level 1: Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability through corroboration with market data at the measurement date.

Level 3: Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

Courage Center and Courage Foundation, Inc.

Notes to Consolidated Financial Statements

Note 9. Fair Value of Financial Instruments (Continued)

The following tables set forth the Organization's assets that are measured and recognized at fair value on a recurring basis as of September 30, 2010 and 2009, under the appropriate level of the fair value hierarchy. As required by ASC 820, financial instruments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

| | September 30, 2010 | | | |
|--|----------------------|---------------------|----------------------|----------------------|
| | Level 1 | Level 2 | Level 3 | Total Fair Value |
| Cash equivalents | \$ 351,298 | \$ - | \$ - | \$ 351,298 |
| Common stocks — domestic | 7,552,744 | - | - | 7,552,744 |
| U.S. government mortgage-backed securities | - | 774,829 | - | 774,829 |
| Corporate bonds and notes | - | 567,500 | - | 567,500 |
| Equity mutual funds | 12,823,669 | - | - | 12,823,669 |
| Debt mutual funds | 8,373,356 | - | - | 8,373,356 |
| International mutual funds | 13,379,430 | - | - | 13,379,430 |
| International exchange-traded funds | 2,905,558 | - | - | 2,905,558 |
| Fund of fund hedge funds | - | - | 9,540,356 | 9,540,356 |
| Real estate investment trust | - | - | 1,517,014 | 1,517,014 |
| Beneficial interest in perpetual trusts | - | - | 2,182,191 | 2,182,191 |
| Future interest gift | - | - | 357,117 | 357,117 |
| Total assets at fair value | \$ 45,386,055 | \$ 1,342,329 | \$ 13,596,678 | \$ 60,325,062 |

| | September 30, 2009 | | | |
|--|----------------------|---------------------|---------------------|----------------------|
| | Level 1 | Level 2 | Level 3 | Total Fair Value |
| Cash equivalents | \$ 390,391 | \$ - | \$ - | \$ 390,391 |
| Common stocks | 8,936,791 | - | - | 8,936,791 |
| U.S. government mortgage-backed securities | - | 703,954 | - | 703,954 |
| Corporate bonds and notes | - | 657,500 | - | 657,500 |
| Equity mutual funds | 16,565,000 | - | - | 16,565,000 |
| Debt mutual funds | 7,470,377 | - | - | 7,470,377 |
| International mutual funds | 12,627,271 | - | - | 12,627,271 |
| International exchange-traded funds | 3,276,283 | - | - | 3,276,283 |
| Fund of fund hedge funds | - | - | 4,071,404 | 4,071,404 |
| Real estate investment trust | - | - | 1,475,231 | 1,475,231 |
| Beneficial interest in perpetual trusts | - | - | 2,206,240 | 2,206,240 |
| Future interest gift | - | - | 380,503 | 380,503 |
| Total assets at fair value | \$ 49,266,113 | \$ 1,361,454 | \$ 8,133,378 | \$ 58,760,945 |

Fair value of actively traded fixed-income and equity securities is based on quoted market prices. Fair value of inactively traded fixed-income securities is based on quoted market prices of identical or similar securities based on observable inputs, like interest rates, using a market valuation approach and is generally classified as Level 2.

Courage Center and Courage Foundation, Inc.

Notes to Consolidated Financial Statements

Note 9. Fair Value of Financial Instruments (Continued)

The following table presents additional information about assets measured at fair value on a recurring basis for which the Organization has utilized Level 3 inputs to determine fair value:

| | Fund of Fund Hedge Funds | Real Estate Investment Trust | Beneficial Interest in Perpetual Trusts | Future Interest Gift | Total |
|---|--------------------------------|------------------------------------|---|----------------------------|---------------|
| Balance, October 1, 2008 | \$ 2,581,101 | \$ 1,307,000 | \$ 2,225,357 | \$ 809,368 | \$ 6,922,826 |
| Market gain (loss), included in change in net assets | 170,303 | (147,092) | 137,065 | (11,754) | 148,522 |
| Purchases | 1,320,000 | 315,323 | - | - | 1,635,323 |
| Distributions/sales | - | - | (156,182) | (417,111) | (573,293) |
| Balance, September 30, 2009 | 4,071,404 | 1,475,231 | 2,206,240 | 380,503 | 8,133,378 |
| Market gain (loss), included in change in net assets | 386,633 | 41,783 | 96,645 | 21,662 | 546,723 |
| Purchases | 6,265,813 | - | - | - | 6,265,813 |
| Distributions/sales | (1,183,494) | - | (120,694) | (45,048) | (1,349,236) |
| Balance, September 30, 2010 | \$ 9,540,356 | \$ 1,517,014 | \$ 2,182,191 | \$ 357,117 | \$ 13,596,678 |

The following table presents additional information about the redemption of the fund of fund hedge funds:

| | Fair Value | Redemption Frequency | Redemption Notice Period |
|--------------------------------|---------------------|-------------------------|-----------------------------|
| Protégé | \$ 1,215,140 | Annual | 100 days |
| Common Sense | 1,038,545 | Semiannual | 75 days |
| Conatus Capital Overseas Ltd. | 2,676,850 | Quarterly | 60 days |
| SCP Ocean Fund | 2,561,128 | Quarterly | 65 days |
| Siguler Guff | 856,011 | None | None |
| Northgate IV | 323,642 | None | None |
| Westport Capital Partners, LLC | 708,291 | None | None |
| St. Croix Valley | 160,749 | None | None |
| | <u>\$ 9,540,356</u> | | |

Note 10. Commitments and Contingencies

The Center is covered by professional liability insurance on a claims-made basis that provides coverage up to \$1,000,000, with an annual aggregate limit of \$3,000,000 through October 1, 2011. Management estimates that the insurance coverage is adequate to cover any anticipated losses from current claims. Should this claims-made policy not be renewed or replaced with equivalent insurance, claims based on incidents occurring during the term of this claims-made policy but reported in subsequent periods would be uninsured.

Courage Center and Courage Foundation, Inc.

Notes to Consolidated Financial Statements

Note 10. Commitments and Contingencies (Continued)

The Organization has entered into agreements committing to purchase alternative investment securities. As of September 30, 2010, the following are the unfunded commitments related to these investments:

| | Commitment | Unfunded Commitment |
|--------------------------------|---------------------|------------------------|
| Westport Capital Partners, LLC | \$ 2,500,000 | \$ 1,750,000 |
| Siguler Guff | 1,000,000 | 300,000 |
| Northgate IV | 1,000,000 | 626,000 |
| | <u>\$ 4,500,000</u> | <u>\$ 2,676,000</u> |

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. As a result of nationwide investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. The Organization expects that the level of review and audit to which it and other health care providers are subject will increase. There can be no assurance that regulatory authorities will not challenge the Organization's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Organization.

Note 11. Pension Plan and Other Postretirement Benefits

The Organization maintains a defined benefit pension plan covering substantially all employees. Plan benefits are determined based on years of service and employee compensation during employment. The plan is funded by contributions to a tax-exempt trust in an amount sufficient to provide assets to cover the plan's benefits. The minimum contribution in calendar year 2010 and 2009 was approximately \$340,000 and \$397,000, respectively. No plan assets are expected to be returned to the employer during the fiscal year ending September 30, 2011. Effective September 30, 2009, the Board of Directors voted to close the plan to new employees. In addition, benefit accruals ceased for all participants effective September 30, 2009, and participants who were not 100 percent vested at that time became 100 percent vested as of October 1, 2009.

Plan assets consist principally of investments in pooled stock and bond mutual funds. The Investment Policy states that assets are to be diversified in order to minimize risk of losses and sets a target of 60 percent equities and 40 percent fixed income, which is further subdivided between small cap, mid cap, large cap, and international equities. The plan's total return objective is to equal or exceed an average annual "real" rate of return by 3.75 percent. The real rate of return is a return above the rate of inflation as measured by the Consumer Price Index.

The Organization offers pre-65 postretirement medical and dental benefits for eligible employees who retire between the ages of 55 and 65 with 10 or more years of service. Retirees are required to contribute toward the cost of their coverage. Retirees contribute a fixed amount plus a percentage of the excess of the group premium over the fixed amount. The percentage is either 20 percent, 45 percent or 65 percent, depending on service at retirement.

Courage Center and Courage Foundation, Inc.

Notes to Consolidated Financial Statements

Note 11. Pension Plan and Other Postretirement Benefits (Continued)

The following is a summary of the estimated obligations, funded status and assumptions related to the defined benefit pension and postretirement health plans:

| | Pension Benefits | | Other Benefits | |
|---|------------------|----------------|----------------|--------------|
| | 2010 | 2009 | 2010 | 2009 |
| Benefit obligations and funded status: | | | | |
| Accumulated benefit obligation | \$ 22,695,477 | \$ 20,081,790 | \$ 509,958 | \$ 665,309 |
| Projected benefit obligation | \$ 22,695,477 | \$ 20,081,790 | \$ 509,958 | \$ 665,309 |
| Fair value of plan assets | 16,482,446 | 14,695,290 | - | - |
| Funded status | \$ (6,213,031) | \$ (5,386,500) | \$ (509,958) | \$ (665,309) |
| Employer contributions | \$ 397,330 | \$ 907,958 | \$ 314,280 | \$ 469,587 |
| Participant contributions | - | - | 50,994 | 45,445 |
| Benefit payments | 318,228 | 319,853 | 365,274 | 515,032 |
| Net expense recognized | 123,892 | 1,264,538 | 84,967 | 52,550 |
| One-time curtailment cost | - | 17,741 | - | - |
| Amounts recognized as other changes to net assets: | | | | |
| Net actuarial (gains) loss, net of reinsurance recoveries | 1,009,969 | 447,137 | (150,309) | 375,670 |
| Effect of change in measurement date | - | 316,135 | - | 10,510 |

Items not yet reflected in net periodic benefit cost:

| | Pension Benefits | | Other Benefits | |
|----------|------------------|--------------|----------------|------|
| | 2010 | 2009 | 2010 | 2009 |
| Net loss | \$ 4,349,877 | \$ 3,249,908 | \$ - | \$ - |

Estimated effect in next fiscal year for items not yet reflected in net periodic benefit cost:

| | Pension Benefits | | Other Benefits | |
|---------------------------------|------------------|---------|----------------|------------|
| | 2010 | 2009 | 2010 | 2009 |
| Net prior service cost (credit) | \$ - | \$ - | \$ (8,195) | \$ (8,195) |
| Net loss | - | 162,957 | 51,914 | 44,386 |

Amounts recognized in the statement of financial position consist of the following:

| | Pension Benefits | | Other Benefits | |
|----------------------|------------------|--------------|----------------|------------|
| | 2010 | 2009 | 2010 | 2009 |
| Accrued benefit cost | \$ 6,213,031 | \$ 5,386,500 | \$ 509,958 | \$ 665,309 |

Courage Center and Courage Foundation, Inc.

Notes to Consolidated Financial Statements

Note 11. Pension Plan and Other Postretirement Benefits (Continued)

Assumptions: Weighted-average assumptions used to determine benefit obligation and net periodic benefit cost are as follows:

| | Pension Benefits | | Other Benefits | |
|--|------------------|-------|----------------|-------|
| | 2010 | 2009 | 2010 | 2009 |
| Discount rate for benefit obligation | 5.30% | 5.75% | 4.30% | 4.80% |
| Discount rate for benefit cost | 5.75% | 6.36% | 4.80% | 5.59% |
| Expected long-term return on plan assets | 8.00% | 8.00% | N/A | N/A |
| Rate of compensation increase | 0.00% | 4.00% | N/A | N/A |

Estimated future benefit payments: The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

| | Pension Benefits | Other Benefits |
|-------------|------------------|----------------|
| 2011 | \$ 550,000 | \$ 123,341 |
| 2012 | 614,000 | 72,782 |
| 2013 | 722,000 | 50,627 |
| 2014 | 814,000 | 40,018 |
| 2015 | 882,000 | 25,055 |
| 2016 – 2020 | 6,136,000 | 143,421 |

Pension plan weighted-average asset allocations:

| Asset category: | Pension Benefits | |
|-------------------|------------------|------|
| | 2010 | 2009 |
| Equity securities | 60% | 64% |
| Debt securities | 39% | 34% |
| Other | 1% | 2% |
| Total | 100% | 100% |

Assumed health care cost trend rates:

| | Other Benefits | |
|---|----------------|------|
| | 2010 | 2009 |
| Health care cost trend rate assumed for next year | 7.5% | 7.3% |
| Rate to which the cost trend rate is assumed to decline | 4.3% | 4.8% |
| Year that the rate reaches the ultimate trend rate | 2021 | 2018 |

Courage Center and Courage Foundation, Inc.

Notes to Consolidated Financial Statements

Note 11. Pension Plan and Other Postretirement Benefits (Continued)

Fair market value of plan assets:

| | September 30, 2010 | | | |
|---------------------|--------------------|----------------------|-------------|----------------------|
| | Level 1 | Level 2 | Level 3 | Total Fair Value |
| Equity mutual funds | \$ - | \$ 9,874,349 | \$ - | \$ 9,874,349 |
| Debt mutual funds | - | 6,351,423 | - | 6,351,423 |
| General account | 256,674 | - | - | 256,674 |
| | <u>\$ 256,674</u> | <u>\$ 16,225,772</u> | <u>\$ -</u> | <u>\$ 16,482,446</u> |

| | September 30, 2009 | | | |
|---------------------|--------------------|----------------------|-------------|----------------------|
| | Level 1 | Level 2 | Level 3 | Total Fair Value |
| Equity mutual funds | \$ - | \$ 9,423,499 | \$ - | \$ 9,423,499 |
| Debt mutual funds | - | 4,982,944 | - | 4,982,944 |
| General account | 288,847 | - | - | 288,847 |
| | <u>\$ 288,847</u> | <u>\$ 14,406,443</u> | <u>\$ -</u> | <u>\$ 14,695,290</u> |

Note 12. Endowment and Temporarily and Permanently Restricted Net Assets

Temporarily and permanently restricted net assets are available for the following purposes or periods:

Subsequent-year support: Gifts restricted by donors for support of future-year operations.

Land, buildings and equipment: Gifts restricted by donors for purchasing specific capital assets.

Split-interest agreements: The Center is the beneficiary and trustee of a charitable remainder unitrust. The Foundation is the beneficiary and trustee of 10 charitable remainder unitrusts and three charitable remainder annuity trusts. These provide for the transfer of trust assets upon termination of the trust agreement resulting from the death of the income beneficiary.

Split-interest agreements managed by outside organizations: The Center has an irrevocable interest in the assets of these trusts. Trusts that are classified as temporarily restricted will be realized when the trusts terminate. Trusts classified as permanently restricted are perpetual trusts held for the benefit of the Center.

Courage Center and Courage Foundation, Inc.

Notes to Consolidated Financial Statements

Note 12. Endowment and Temporarily and Permanently Restricted Net Assets (Continued)

Endowment funds: The Foundation received funds that are permanently restricted by the donors for specific purposes for which only the income can be used for the Center's operations and specific programs.

Balances at September 30 were as follows:

| | <u>2010</u> | <u>2009</u> |
|--|---------------------|---------------------|
| Temporarily restricted: | | |
| Courage Center: | | |
| Subsequent-year support | \$ 989,430 | \$ 895,978 |
| Land, buildings and equipment | 252,240 | 276,955 |
| Split-interest agreements | 38,989 | 38,600 |
| Split-interest agreements managed by outsiders | <u>357,117</u> | <u>380,503</u> |
| Total | 1,637,776 | 1,592,036 |
| Courage Foundation, Inc.: | | |
| Split-interest agreements | <u>1,253,937</u> | <u>1,083,520</u> |
| Total temporarily restricted net assets | <u>\$ 2,891,713</u> | <u>\$ 2,675,556</u> |
| Permanently restricted: | | |
| Courage Center: | | |
| Split-interest agreements managed by outsiders | \$ 2,182,191 | \$ 2,206,240 |
| Courage Foundation, Inc.: | | |
| Endowment funds | <u>1,880,095</u> | <u>1,680,883</u> |
| Total permanently restricted net assets | <u>\$ 4,062,286</u> | <u>\$ 3,887,123</u> |

The Organization's donor-restricted endowment consists of nine individual funds established to support program activities and, as required by generally accepted accounting principles, net assets associated with those endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

When the Organization receives a gift where the donor designates the gift, but provides the Organization variance power, it recognizes these as unrestricted gifts. The Organization recognizes these, and certain other unrestricted gifts that are received, as Board-designated endowment funds.

Note 12. Endowment and Temporarily and Permanently Restricted Net Assets (Continued)

Interpretation of relevant law: The Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) does not establish a specific dollar value below which an endowment fund may not fall. Instead, UPMIFA requires that endowment fund investment and spending policies be designed with the aim of preserving that amount of each endowment fund which is prudent for the uses, benefits, purposes and duration for which each endowment fund was established. For accounting purposes only and without any implications for the Organization's legal obligations and without waiving or limiting the flexibility permitted under UPMIFA for administering and spending its endowment funds, the Organization has classified as permanently restricted net assets the following: (a) the original value of gifts donated to its endowment funds, (b) the original value of subsequent gifts to such endowment funds and (c) the value of accumulations to such endowment funds made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. Under certain circumstances and with careful attention to the standards set by UPMIFA, the Organization may make a decision to spend a portion of the endowment funds classified as "permanently restricted."

Investment objectives and risk parameters: The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for scholarships and programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold indefinitely or for a donor-specified period as well as Board-designated endowment funds. Under its investment policy, as approved by the Board of Directors, funds are to be invested in a diversified portfolio of equity and fixed-income securities in a way that maximizes value while avoiding undue risk concentration in any asset class or investment category. The Organization's current target asset allocation is expected to provide, over time, an average rate of return of approximately 9 percent per annum. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives: The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. Under this policy, approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce a real return, net of inflation and investment management costs, to provide growth over the long term. The Organization targets a diversified asset allocation that balances risk with rate of return.

Spending policy and how the investment objectives relate to the spending policy: In developing and applying its spending policy, the Organization considers certain of the following factors that it determines to be relevant:

1. The duration and preservation of the fund
2. The purposes of the Organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Organization
7. The investment policies of the Organization

Courage Center and Courage Foundation, Inc.

Notes to Consolidated Financial Statements

Note 12. Endowment and Temporarily and Permanently Restricted Net Assets (Continued)

The Organization has a policy of appropriating for distribution each year a percentage of the average endowment fund investment balance over the last five years. The percentage to be distributed was phased in over 10 years and decreases 0.1 percent each year. The distribution percentage for the years ended September 30, 2010 and 2009, was 5.0 percent and 5.1 percent, respectively. The Organization may also make special distributions as approved by the Board of Directors. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to grow. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity for a specific term as well as to provide additional real growth through new gifts and investment return. From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. There were no such deficiencies as of September 30, 2010 or 2009.

Changes in endowment net assets for the fiscal years ended September 30, 2010 and 2009, consisted of the following:

| | 2010 | 2009 |
|--|----------------------|----------------------|
| Permanently restricted: | | |
| Endowment net assets, beginning of year | \$ 1,680,883 | \$ 627,685 |
| Investment return, net | 163,265 | 29,900 |
| Contributions | 115,631 | 923,486 |
| Appropriation of endowment assets for expenditure | (79,684) | (39,499) |
| Other changes: | | |
| Transfer to create endowment funds due to change in donor intent | - | 139,311 |
| | <u>\$ 1,880,095</u> | <u>\$ 1,680,883</u> |
| Board-designated: | | |
| Endowment net assets, beginning of year | \$ 48,647,811 | \$ 49,840,426 |
| Investment return, net | 4,554,181 | 1,085,723 |
| Contributions | 819,145 | 222,120 |
| Appropriation of endowment assets for expenditure | (2,455,452) | (2,500,458) |
| | <u>\$ 51,565,685</u> | <u>\$ 48,647,811</u> |