

Cleveland Scholarship Programs, Inc.

YEARS ENDED JULY 31, 2010 AND 2009

CLEVELAND SCHOLARSHIP PROGRAMS, INC.

YEARS ENDED JULY 31, 2010 AND 2009

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Independent Auditors' Report

Board of Directors
Cleveland Scholarship Programs, Inc.
Cleveland, Ohio

We have audited the accompanying statements of financial position of Cleveland Scholarship Programs, Inc. (CSP) as of July 31, 2010 and 2009, and the related statements of activities and net assets and cash flows for the years then ended. These financial statements are the responsibility of CSP's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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 Cleveland Scholarship Programs, Inc. as of July 31, 2010 and 2009, and the changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



November 17, 2010

CLEVELAND SCHOLARSHIP PROGRAMS, INC.

STATEMENTS OF FINANCIAL POSITION

JULY 31, 2010 AND 2009

ASSETS

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 2,191,094	\$ 1,308,186
Investments	2,464,559	2,462,299
Unconditional promises to give	1,413,604	1,301,449
Prepaid expenses and other assets	206,646	375,388
Cash and cash equivalents restricted for permanent endowment	37,670	26,820
Investments restricted for permanent endowment	4,207,692	4,252,047
Unconditional promises to give restricted for permanent endowment		600
Property and equipment, net	<u>70,799</u>	<u>102,881</u>
Total assets	<u>\$ 10,592,064</u>	<u>\$ 9,829,670</u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 58,829	\$ 35,309
Scholarship awards payable	1,789,055	1,677,007
Accrued liabilities	367,631	149,252
Deferred revenue	<u>98,559</u>	
Total liabilities	<u>2,314,074</u>	<u>1,861,568</u>
Net assets:		
Unrestricted	(536,540)	(865,104)
Temporarily restricted	3,580,819	3,330,534
Permanently restricted	<u>5,233,711</u>	<u>5,502,672</u>
Total net assets	<u>8,277,990</u>	<u>7,968,102</u>
Total liabilities and net assets	<u>\$ 10,592,064</u>	<u>\$ 9,829,670</u>

The accompanying notes are an integral part of these financial statements.

CLEVELAND SCHOLARSHIP PROGRAMS, INC.

STATEMENT OF ACTIVITIES AND NET ASSETS

YEAR ENDED JULY 31, 2010

(with summarized financial information for the year ended July 31, 2009)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2010	2009
SUPPORT AND REVENUE:					
Support:					
Contributions	\$ 2,502,021	\$ 1,615,217	\$ 4,039	\$ 4,121,277	\$ 3,210,693
Government grants	742,692			742,692	915,069
Managed scholarships	69,993	228,550		298,543	332,199
Total support	3,314,706	1,843,767	4,039	5,162,512	4,457,961
Revenue:					
Reimbursements by schools	421,061			421,061	386,225
Administration fees	54,440			54,440	79,732
Interest and dividends	134,685			134,685	211,140
Net realized and unrealized gain (loss) on investments	610,712			610,712	(1,257,231)
Other	90			90	9,782
Net assets released from restrictions	1,593,482	(1,593,482)			
Total revenue	2,814,470	(1,593,482)		1,220,988	(570,352)
Total support and revenue	6,129,176	250,285	4,039	6,383,500	3,887,609

(Continued)

CLEVELAND SCHOLARSHIP PROGRAMS, INC.

STATEMENT OF ACTIVITIES AND NET ASSETS (CONTINUED)

YEAR ENDED JULY 31, 2010

(with summarized financial information for the year ended July 31, 2009)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2010	2009
Total support and revenue (from previous page)	6,129,176	250,285	4,039	6,383,500	3,887,609
EXPENSES:					
Program services:					
Financial Aid:					
Awards and fees	1,851,435			1,851,435	1,049,875
Other	492,542			492,542	645,772
Advisors:					
Awards and fees	45,649			45,649	44,180
Other	895,799			895,799	1,082,310
Early Awareness	72,500			72,500	74,535
Adult Learner:					
Awards and fees	498,315			498,315	435,575
Other	157,080			157,080	196,829
Resource Center	143,471			143,471	181,428
Managed Scholarships:					
Awards and fees	103,159			103,159	726,362
Other	85,952			85,952	125,228
Learn to Work					51,194
Assets for Independence	21,621			21,621	

(Continued)

CLEVELAND SCHOLARSHIP PROGRAMS, INC.

STATEMENT OF ACTIVITIES AND NET ASSETS (CONTINUED)

YEAR ENDED JULY 31, 2010

(with summarized financial information for the year ended July 31, 2009)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2010	2009
EXPENSES (continued):					
Program services (continued):					
TRIO	249,639			249,639	298,424
GEAR UP:					
Awards and fees	1,445			1,445	2,350
Other	470,580			470,580	508,145
Endowment:					
Awards and fees	217,635			217,635	237,863
Other	41,480			41,480	35,490
Total program services	5,348,302			5,348,302	5,695,560
Supporting services:					
Fundraising	336,597			336,597	260,547
General and administrative	388,713			388,713	305,561
Total supporting services	725,310			725,310	566,108
Total expenses	6,073,612			6,073,612	6,261,668
Increase (decrease) in net assets	55,564	250,285	4,039	309,888	(2,374,059)
Net assets, beginning of year	(865,104)	3,330,534	5,502,672	7,968,102	10,342,161
Net asset reclassifications (Note 7)	273,000		(273,000)		
Net assets, end of year	<u>\$ (536,540)</u>	<u>\$ 3,580,819</u>	<u>\$ 5,233,711</u>	<u>\$ 8,277,990</u>	<u>\$ 7,968,102</u>

The accompanying notes are an integral part of these financial statements.

CLEVELAND SCHOLARSHIP PROGRAMS, INC.

STATEMENT OF ACTIVITIES AND NET ASSETS

YEAR ENDED JULY 31, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE:				
Support:				
Contributions	\$ 1,893,649	\$ 1,316,974	\$ 70	\$ 3,210,693
Government grants	915,069			915,069
Managed scholarships	299,800	32,399		332,199
Total support	3,108,518	1,349,373	70	4,457,961
Revenue:				
Reimbursements by schools	386,225			386,225
Administration fees	79,732			79,732
Interest and dividends	211,140			211,140
Net realized and unrealized loss on investments	(1,257,231)			(1,257,231)
Other	9,782			9,782
Net assets released from restrictions	2,015,318	(2,015,318)		
Total revenue	1,444,966	(2,015,318)		(570,352)
Total support and revenue	4,553,484	(665,945)	70	3,887,609

(Continued)

CLEVELAND SCHOLARSHIP PROGRAMS, INC.

STATEMENT OF ACTIVITIES AND NET ASSETS (CONTINUED)

YEAR ENDED JULY 31, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Total support and revenue (from previous page)	<u>4,553,484</u>	<u>(665,945)</u>	<u>70</u>	<u>3,887,609</u>
EXPENSES:				
Program services:				
Financial Aid:				
Awards and fees	1,049,875			1,049,875
Other	645,772			645,772
Advisors:				
Awards and fees	44,180			44,180
Other	1,082,310			1,082,310
Early Awareness	74,535			74,535
Adult Learner:				
Awards and fees	435,575			435,575
Other	196,829			196,829
Resource Center	181,428			181,428
Managed Scholarships:				
Awards and fees	726,362			726,362
Other	125,228			125,228
Learn to Work:				
Awards and fees				
Other	51,194			51,194

(Continued)

CLEVELAND SCHOLARSHIP PROGRAMS, INC.

STATEMENT OF ACTIVITIES AND NET ASSETS (CONTINUED)

YEAR ENDED JULY 31, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
EXPENSES (continued):				
Program services (continued):				
TRIO	298,424			298,424
GEAR UP:				
Awards and fees	2,350			2,350
Other	508,145			508,145
Endowment:				
Awards and fees	237,863			237,863
Other	35,490			35,490
Total program services	5,695,560			5,695,560
Supporting services:				
Fundraising	260,547			260,547
General and administrative	305,561			305,561
Total supporting services	566,108			566,108
Total expenses	6,261,668			6,261,668
Increase (decrease) in net assets	(1,708,184)	(665,945)	70	(2,374,059)
Net assets, beginning of year	843,080	3,996,479	5,502,602	10,342,161
Net assets, end of year	\$ (865,104)	\$ 3,330,534	\$ 5,502,672	\$ 7,968,102

The accompanying notes are an integral part of these financial statements.

CLEVELAND SCHOLARSHIP PROGRAMS, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JULY 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 309,888	\$ (2,374,059)
Adjustments to reconcile increase (decrease) in net assets to net cash from operating activities:		
Depreciation and amortization	41,867	50,472
Net realized and unrealized losses (gains) on investments	(610,712)	1,257,231
Contributions restricted for permanent endowment	(4,039)	(70)
Changes in assets and liabilities:		
Decrease (increase) in unconditional promises to give	(112,155)	713,593
Decrease in prepaid expenses and other assets	168,742	83,982
Increase (decrease) in accounts payable	23,520	(15,961)
Increase (decrease) in scholarship awards payable	112,048	(230,451)
Increase in accrued liabilities	218,379	57,193
Increase in deferred revenue	<u>98,559</u>	
Net cash provided by (used in) operating activities	<u>246,097</u>	<u>(458,070)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(9,785)	(11,857)
Proceeds from sale of investments	781,933	47,560
Purchases of investments	(128,526)	(452,320)
Net decrease (increase) in cash and cash equivalents restricted for permanent endowment	<u>(10,850)</u>	<u>157,142</u>
Net cash provided by (used in) investing activities	<u>632,772</u>	<u>(259,475)</u>
Cash flows provided by financing activities; receipts from contributions restricted for permanent endowment	<u>4,039</u>	<u>70</u>
Net increase (decrease) in cash and cash equivalents	<u>882,908</u>	<u>(717,475)</u>
Cash and cash equivalents, beginning	<u>1,308,186</u>	<u>2,025,661</u>
Cash and cash equivalents, ending	<u><u>\$ 2,191,094</u></u>	<u><u>\$ 1,308,186</u></u>

The accompanying notes are an integral part of these financial statements.

CLEVELAND SCHOLARSHIP PROGRAMS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2010 AND 2009

1. Description of Organization and summary of significant accounting policies:

Nature of activities:

Cleveland Scholarship Programs, Inc. (CSP) provides educational opportunities and supports workforce development for Greater Cleveland through a broad range of financial aid and advisory programs. CSP provides services to certain middle school and high school students in the Cleveland Metropolitan School District and in many parochial and suburban high schools, and offers grants to qualified college students to supplement the difference between available student financial aid and actual college costs. Some of the services CSP provides to such students includes providing information about the post secondary process, help in researching post secondary options, and assistance in completing applications for admissions and financial aid. In addition, CSP obtains fee waivers and provides application and testing fees for students who cannot pay for such fees.

Other CSP services and programs include: administration of outside scholarship programs (Managed Scholarships) for which administration fees are charged; financial aid and post secondary admissions counseling for the general public; an educational talent search program (TRIO); an early awareness and readiness for an undergraduate program (GEAR UP) and a comprehensive financial aid and college admissions counseling program supported by scholarships for adult learners.

Basis of accounting:

The financial statements of CSP have been prepared on the accrual basis of accounting.

Basis of presentation:

Financial statement presentation follows the recommendations of generally accepted accounting principles, which require CSP to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

CLEVELAND SCHOLARSHIP PROGRAMS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JULY 31, 2010 AND 2009

1. **Summary of significant accounting policies (continued):**

Contributions:

CSP accounts for contributions in accordance with the recommendations of generally accepted accounting principles. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets.

Promises to give:

Unconditional promises to give are recognized as revenue or support in the period the promise is received. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give in subsequent years are recorded at their present value using an appropriate discount rate commensurate with the risks involved. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

In evaluating the collectability of amounts receivable, CSP considers a number of factors, including the age of the accounts, changes in collection patterns, terms of the grant or pledge and general industry conditions. An allowance for doubtful accounts is recorded based upon a consideration of the likelihood that amounts will not be collected in full. As specific accounts receivable are deemed uncollectible, they are written off against the allowance for doubtful accounts. No allowance was deemed necessary for the years ended July 31, 2010 and 2009.

Trusts and wills:

CSP, from time to time, is named as a beneficiary in certain conditional revocable wills and trusts. CSP does not hold the rights to the underlying assets of these wills and trusts and, accordingly, does not record their value in the statements of financial position and statements of activities.

CLEVELAND SCHOLARSHIP PROGRAMS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JULY 31, 2010 AND 2009

1. Summary of significant accounting policies (continued):

Trusts and wills (continued):

CSP is named the income beneficiary of a \$4.3 million permanent endowment fund maintained by The Cleveland Foundation. A percentage of the interest earned on these funds is available to CSP for scholarships and advisory services annually.

Donated property and equipment, materials and services:

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. No amounts have been reflected in the financial statements for donated services since the criteria for recognition of such volunteer effort under generally accepted accounting principles has not been satisfied.

Government grants and contracts:

CSP receives an Educational Talent Search grant (TRIO) from the United States Department of Education, a Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP), a grant from the Ohio Board of Regents (OBR) and a Community Development Block Grant (CDBG) from the City of Cleveland. Compliance with terms and conditions specified in the grant and contract agreements are subject to audit by the grantor and contract agencies. Government grants are reported as an increase in unrestricted or temporarily restricted net assets in the reporting period in which the terms and conditions specified in the grant agreement are satisfied.

Cash and cash equivalents:

For purposes of the statement of cash flows, CSP considers unrestricted or short-term temporarily restricted, highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash and cash equivalents designated for long-term purposes or received with donor imposed restrictions limiting their use to long-term purposes are not considered cash and cash equivalents for purposes of the statements of cash flows.

At July 31, 2010 and periodically throughout the year, CSP maintained balances in their accounts in excess of federally insured limits. CSP does not expect to incur any losses resulting from cash held in financial institutions.

CLEVELAND SCHOLARSHIP PROGRAMS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JULY 31, 2010 AND 2009

1. Summary of significant accounting policies (continued):

Investments:

In accordance with generally accepted accounting principles, investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statements of financial position. Investment income or loss (including gains and losses on investments, interest, and dividends) is included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

Additionally, CSP has alternative investments within their portfolio. The alternative investments, which are not readily marketable, are carried at estimated fair values as provided by the investment managers. CSP reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed. Alternative investments include off-shore investment funds. These financial instruments, which involve varying degrees of off-balance sheet risk, may result in loss due to changes in the market.

Property and equipment:

Property and equipment are recorded at cost or, if donated, at the approximate fair value at the date of donation. CSP depreciates such items over their estimated useful lives on a straight-line basis. Leasehold improvements are amortized over the lease term or the service lives of the improvements, whichever is shorter. Office furniture and equipment and computer equipment and software are depreciated over three to five years.

Income taxes:

CSP is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and consequently does not provide for Federal income taxes on related income. In addition, the Internal Revenue Service has determined that CSP is not a private foundation within the meaning of Section 509(a) of the Code.

CSP is no longer subject to Federal income tax examinations by tax authorities for years before 2006.

CLEVELAND SCHOLARSHIP PROGRAMS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JULY 31, 2010 AND 2009

1. Summary of significant accounting policies (continued):

Use of estimates:

The preparation of 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 amount 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 those estimates.

Subsequent events:

In preparing these financial statements, CSP has evaluated events and transactions for potential recognition or disclosure through the date of the auditors' report on these financial statements.

2. Cash and cash equivalents:

Cash and cash equivalents consisted of the following at July 31:

	<u>2010</u>	<u>2009</u>
Unrestricted	\$ 2,191,094	\$ 1,308,186
Restricted for permanent endowment	<u>37,670</u>	<u>26,820</u>
	<u>\$ 2,228,764</u>	<u>\$ 1,335,006</u>

CSP considers overnight repurchase agreements to be cash equivalents. At July 31, 2009, approximately \$1,061,600 was held under repurchase agreements which invested in mutual funds. These amounts are not insured by the FDIC and are subject to market risk.

Included in cash and cash equivalents at July 31, 2010 and 2009 are additional money market funds of approximately \$94,000 and \$91,000, respectively, which are not covered by FDIC insurance and are subject to market risk.

CLEVELAND SCHOLARSHIP PROGRAMS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JULY 31, 2010 AND 2009

3. Property and equipment, net:

Property and equipment consists of the following at July 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Leasehold improvements	\$ 101,310	\$ 101,310
Office furniture and equipment	162,431	152,646
Computer equipment and software	<u>392,878</u>	<u>392,878</u>
	656,619	646,834
Accumulated depreciation	<u>(585,820)</u>	<u>(543,953)</u>
Net property and equipment	<u>\$ 70,799</u>	<u>\$ 102,881</u>

4. Unconditional promises to give:

Unconditional promises to give are primarily made by foundations, corporations, and individuals in the greater Cleveland area. Unconditional promises to give restricted for permanent endowment were made in response to CSP's endowment campaign. Promises to give to be received after July 31, 2010 are discounted at rates varying from 1.5% to 3.0% based upon the time that the promise to give was made. Unconditional promises to give consisted of the following at July 31:

	<u>2010</u>	<u>2009</u>
Short-term purposes:		
Unrestricted and temporarily restricted – available for operating expenses	\$ 1,413,604	\$ 1,301,449
Long-term purposes:		
Restricted for permanent endowment	<u> </u>	<u>600</u>
	<u>\$ 1,413,604</u>	<u>\$ 1,302,049</u>

Unconditional promises to give are to be received by CSP as follows:

Receivable in less than one year	\$ 1,051,819
Receivable in one to five years	<u>375,255</u>
	1,427,074
Less discounts to net present value	<u>13,470</u>
Net unconditional promises to give	<u>\$ 1,413,604</u>

At July 31, 2010, approximately 81% of the gross amount of unconditional promises to give was due from three donors. At July 31, 2009, approximately 63% of the gross amount of unconditional promises to give was due from two donors.

CLEVELAND SCHOLARSHIP PROGRAMS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JULY 31, 2010 AND 2009

5. Fair value measurement:

The following table represents the financial instruments carried at fair value as of July 31, 2010, by the valuation hierarchy set forth by generally accepted accounting principles:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash equivalents		\$ 420,807	
Investments, equity funds	\$ 3,998,720		
Investments, fixed income		1,528,567	
Alternative investments			\$ 1,144,964

The following table represents the financial instruments carried at fair value as of July 31, 2009, by the valuation hierarchy set forth by generally accepted accounting principles:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash equivalents		\$ 1,166,457	
Investments, equity funds	\$ 4,553,898		
Investments, fixed income		1,201,022	
Alternative investments			\$ 959,426

The following is a description of CSP's valuation methodologies for assets and liabilities measured at fair value. Fair value for Level 1 is based upon quoted market prices for identical assets. Fair value for Level 2 is based on significant other observable inputs. Fair value for alternative investments is based on estimated values of comparable investments in active and inactive markets.

The following table is a reconciliation of the beginning and ending balances, separately for each major category of assets and liabilities, measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended July 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Alternative investments:		
Beginning balance	\$ 959,426	\$ 879,873
Unrealized gains (losses)	48,118	(90,445)
Purchases	<u>137,420</u>	<u>169,998</u>
Ending balance	<u>\$ 1,144,964</u>	<u>\$ 959,426</u>

CLEVELAND SCHOLARSHIP PROGRAMS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JULY 31, 2010 AND 2009

6. Investments:

Investments are presented in the financial statements at market value as follows:

	<u>2010</u>	<u>2009</u>
Unrestricted – available for operating expenses	\$ 2,464,559	\$ 2,462,299
Restricted for permanent endowment	<u>4,207,692</u>	<u>4,252,047</u>
	<u>\$ 6,672,251</u>	<u>\$ 6,714,346</u>

Investments consisted of the following at July 31:

	<u>2010</u>		<u>2009</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Fixed income funds, capital trust	\$ 1,531,949	\$ 1,528,567	\$ 1,315,498	\$ 1,201,022
Equity funds	4,547,856	3,998,720	5,814,755	4,553,898
Alternative investment funds:				
Private equity funds	422,773	412,179	293,140	265,020
Hedge funds	<u>800,000</u>	<u>732,785</u>	<u>800,000</u>	<u>694,406</u>
	<u>\$ 7,302,578</u>	<u>\$ 6,672,251</u>	<u>\$ 8,223,393</u>	<u>\$ 6,714,346</u>

CSP invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could have a material effect on CSP's statements of financial position, activities and net assets, and cash flows.

7. Restrictions on net assets:

Temporarily restricted net assets:

Temporarily restricted net assets are required to be used for the following purposes:

	<u>2010</u>	<u>2009</u>
Financial Aid	\$ 1,686,431	\$ 1,880,604
Resource Center	63,334	
Advisors	653,775	282,250
Managed Scholarships	386,289	207,704
General and Administrative	172,332	317,081
Adult Learner	<u>618,658</u>	<u>642,895</u>
	<u>\$ 3,580,819</u>	<u>\$ 3,330,534</u>

CLEVELAND SCHOLARSHIP PROGRAMS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JULY 31, 2010 AND 2009

7. Restrictions on net assets (continued):

Temporarily restricted net assets (continued):

Temporarily restricted net assets were released from restrictions during fiscal years 2010 and 2009 by incurring expenditures satisfying the purpose or time restrictions specified by donors as follows:

	<u>2010</u>	<u>2009</u>
Financial Aid	\$ 801,012	\$ 564,673
Resource Center		33,200
Advisors	272,250	520,450
Managed Scholarships	49,965	366,205
General and Administrative	157,949	278,996
Adult Learner	<u>312,306</u>	<u>251,794</u>
	<u>\$ 1,593,482</u>	<u>\$ 2,015,318</u>

Permanently restricted net assets:

Permanently restricted net assets at July 31, 2010 and 2009 totaling \$5,233,711 and \$5,502,672, respectively, consist of endowment fund assets to be held in perpetuity. The income from these assets may be used to primarily support financial aid activities of CSP. In accordance with generally accepted accounting principles, permanently restricted net assets have been recorded at historic dollar value and unrealized gains and losses on the underlying endowment investments have been reflected as an increase or decrease to unrestricted net assets. From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level the donor requires CSP to retain as a fund of perpetual duration. These deficits resulted from unfavorable market fluctuations and totaled approximately \$988,000 at July 31, 2010 and \$1,224,000 at July 31, 2009. Management has determined that \$273,000 previously classified as permanently restricted net assets should be reclassified to unrestricted net assets based on the intention of the donors. This reclassification is reflected in the 2010 statement of activities and net assets.

CLEVELAND SCHOLARSHIP PROGRAMS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JULY 31, 2010 AND 2009

7. Restrictions on net assets (continued):

Permanently restricted net assets (continued):

Changes in endowment net assets for fiscal year ended July 31, 2010 were as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	<u>\$ (1,223,805)</u>	<u>\$ 5,502,672</u>	<u>\$ 4,278,867</u>
Investment return:			
Investment income	81,450		81,450
Net appreciation/depreciation (realized and unrealized)	<u>381,368</u>		<u>381,368</u>
Total investment return	<u>462,818</u>		<u>462,818</u>
Appropriation of endowment assets for expenditure	(227,362)		(227,362)
Contributions		4,039	4,039
Net asset reclassification based on clarification of donor intent		(273,000)	(273,000)
Endowment net assets, end of year	<u>\$ (988,349)</u>	<u>\$ 5,233,711</u>	<u>\$ 4,245,362</u>

Changes in endowment net assets for fiscal year ended July 31, 2009 were as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	<u>\$ (515,205)</u>	<u>\$ 5,502,602</u>	<u>\$ 4,987,397</u>
Investment return:			
Investment income	128,283		128,283
Net appreciation/depreciation (realized and unrealized)	<u>(813,675)</u>		<u>(813,675)</u>
Total investment return	<u>(685,392)</u>		<u>(685,392)</u>
Appropriation of endowment assets for expenditure	(23,208)		(23,208)
Contributions		70	70
Endowment net assets, end of year	<u>\$ (1,223,805)</u>	<u>\$ 5,502,672</u>	<u>\$ 4,278,867</u>

CLEVELAND SCHOLARSHIP PROGRAMS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JULY 31, 2010 AND 2009

7. Restrictions on net assets (continued):

Permanently restricted net assets (continued):

CSP's Board has interpreted the State of Ohio's Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of the interpretation, CSP classifies as permanently restricted, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with UPMIFA, CSP considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) General economic conditions
- 2) The possible effect of inflation or deflation
- 3) The expected tax consequences, if any, of investment decisions or strategies
- 4) The role that each investment or course of action plays within the overall investment portfolio of the fund
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of CSP
- 7) The need of CSP and of the fund to make distributions and preserve capital
- 8) An assets special relationship or special value, if any, to the charitable purposes of CSP

CSP 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 the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that CSP must hold in perpetuity. Under this policy, as approved by CSP's Board, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of various market indices based on type of investments while assuming a moderate level of investment risk. Actual returns in any given year may vary from these indices.

To satisfy its long-term rate-of-return objectives, CSP relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). CSP targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

CLEVELAND SCHOLARSHIP PROGRAMS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JULY 31, 2010 AND 2009

8. Commitments and contingencies:

CSP leases its office facility and certain equipment under non-cancelable operating leases.

CSP entered into a rental agreement for office space commencing November 2002. The lease agreement calls for scheduled rent increases with monthly payments ranging from \$12,031 to \$13,781 through October 2012. The accompanying statements of activities reflect rent expense on a straight-line basis over the term of the office lease and, as a result, a deferred rental obligation is included in accrued liabilities in the accompanying statements of financial position as of July 31, 2010 and 2009.

Total rent expense for all leases, excluding utilities, was approximately \$179,000 in 2010 and \$179,300 in 2009.

Commitments for future rental payments under all operating leases are as follows:

Year ending July 31,

2011	\$ 183,481
2012	183,689
2013	47,664
2014	1,980
2015	<u>1,485</u>
	<u>\$ 418,299</u>

CSP could be subject to legal proceedings and claims that arise in the ordinary course of its business. As of July 31, 2010 and 2009, management was not aware of any pending litigation against CSP.

9. Line of credit:

In 2010, CSP entered into a line of credit agreement with a bank which provided for borrowings of up to \$500,000. Any borrowings against the line are collateralized by certain investments. Interest is payable quarterly at the bank's prime rate of interest (4.25% at July 31, 2010). There were no borrowings against the line as of July 31, 2010.

10. Retirement plan:

CSP administers a 401(k) retirement plan for all eligible employees. CSP is required to match up to a maximum of 5% of employee contributions. Matching contributions to the plan are on a graduated vesting schedule whereas contributions for employees with five years or more of service are 100% vested. For the years ended July 31, 2010 and 2009, CSP's aggregate contributions were approximately \$47,500 and \$51,400, respectively.

CLEVELAND SCHOLARSHIP PROGRAMS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JULY 31, 2010 AND 2009

10. General and professional liability insurance:

CSP has an agreement with a multi-provider risk retention group for its general and professional liability insurance. The risk retention group insurance coverage is an occurrence based policy. The policy includes a reimbursement provision of \$1,000,000 per each claim and \$2,000,000 in aggregate claims per the term of the policy. Based on internal and external evaluations of the merits of the individual claims, analysis of claim history and the estimated reserves assigned by CSP's third-party risk manager, CSP management has determined an accrual is not necessary at July 31, 2010 and 2009. Although CSP management believes an accrual for potential losses is not necessary at July 31, 2010 and 2009, a liability may result and it could be material.