

MOUNTAIN BROOK CITY SCHOOLS FOUNDATION

FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
APRIL 30, 2010 AND 2009**

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Mountain Brook City Schools Foundation

We have audited the accompanying statements of financial position of the Mountain Brook City Schools Foundation as of April 30, 2010 and 2009 and the related statements of activities and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Mountain Brook City Schools Foundation'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 our audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mountain Brook City Schools Foundation as of April 30, 2010 and 2009, and its changes in net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

DiPiazza LaRocca Heeter & Co LLC

October 25, 2010

MOUNTAIN BROOK CITY SCHOOLS FOUNDATION
STATEMENTS OF FINANCIAL POSITION
APRIL 30, 2010 AND 2009

ASSETS	<u>2010</u>	<u>2009</u>
CURRENT ASSETS		
Cash	\$ 2,670,895	\$ 215,675
Investments	4,019,902	5,390,770
Pledge receivable	187,617	227,240
Prepaid expenses	<u>722</u>	<u>702</u>
Total Current Assets	6,879,136	5,834,387
Property, plant and equipment, net	278	487
Charitable remainder trust	51,340	39,801
Life insurance policy, cash surrender value	<u>19,659</u>	<u>18,976</u>
Total Other Assets	<u>71,277</u>	<u>59,264</u>
Total Assets	<u>\$ 6,950,413</u>	<u>\$ 5,893,651</u>
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 387,840	\$ 402,988
Accrued liabilities	<u>1,004</u>	<u>982</u>
Total Current Liabilities	388,844	403,970
NET ASSETS		
Unrestricted net assets	6,424,867	5,384,433
Temporarily restricted net assets	87,540	56,086
Permanently restricted net assets	<u>49,162</u>	<u>49,162</u>
Total Net Assets	<u>6,561,569</u>	<u>5,489,681</u>
Total Liabilities and Net Assets	<u>\$ 6,950,413</u>	<u>\$ 5,893,651</u>

The accompanying notes are an integral part of this statement.

**MOUNTAIN BROOK CITY SCHOOLS FOUNDATION
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED APRIL 30, 2010**

	Year Ended April 30, 2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE				
Contributions	\$ 119,045	\$ -	\$ -	\$ 119,045
Interest	21,279	-	-	21,279
Dividends	112,955	-	-	112,955
Capital gain distributions	21,620	-	-	21,620
Gain/(loss) on sale of securities	122,838	-	-	122,838
Other investment income	1,059	-	-	1,059
In kind contributions	17,588	-	-	17,588
Unrealized gain/(loss)	1,106,290	33,454	-	1,139,744
Net assets released from restrictions	2,000	(2,000)	-	-
Total Revenue	\$ 1,524,674	\$ 31,454	\$ -	\$ 1,556,128
EXPENSES				
Awards paid	\$ 1,200	\$ -	\$ -	\$ 1,200
Bank charges	150	-	-	150
Casual labor	1,077	-	-	1,077
Contributions paid	382,640	-	-	382,640
Depreciation	209	-	-	209
Insurance	1,218	-	-	1,218
Miscellaneous	1,196	-	-	1,196
Postage	1,044	-	-	1,044
Public relations	609	-	-	609
Professional services	11,849	-	-	11,849
Rent	10,539	-	-	10,539
Salaries and payroll taxes	47,366	-	-	47,366
Subscriptions	3,591	-	-	3,591
Supplies	1,960	-	-	1,960
Taxes	213	-	-	213
Telephone	1,511	-	-	1,511
Trust fees	10,423	-	-	10,423
Deductions related to portfolio income	7,445	-	-	7,445
Total Expenses	\$ 484,240	\$ -	\$ -	\$ 484,240
Changes in net assets	1,040,434	31,454	-	1,071,888
Net assets at beginning of year	5,384,433	56,086	49,162	5,489,681
Net assets at end of year	\$ 6,424,867	\$ 87,540	\$ 49,162	\$ 6,561,569

The accompanying notes are an integral part of this statement.

MOUNTAIN BROOK CITY SCHOOLS FOUNDATION
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED APRIL 30, 2009

	Year Ended April 30, 2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE				
Contributions	\$ 61,786	\$ -	\$ -	\$ 61,786
Interest	19,443	-	-	19,443
Dividends	168,677	-	-	168,677
Capital gain distributions	115,847	-	-	115,847
Gain/(loss) on sale of securities	(508,926)	-	-	(508,926)
Other investment income	668	-	-	668
In kind contributions	18,389	-	-	18,389
Unrealized gain/(loss)	(1,783,269)	(38,356)	-	(1,821,625)
Net assets released from restrictions	2,000	(2,000)	-	-
Total Revenue	\$ (1,905,385)	\$ (40,356)	\$ -	\$ (1,945,741)
EXPENSES				
Awards paid	\$ 2,000	\$ -	\$ -	\$ 2,000
Bank charges	137	-	-	137
Casual labor	200	-	-	200
Computer expenses	1,821	-	-	1,821
Contributions paid	398,988	-	-	398,988
Depreciation	783	-	-	783
Insurance	1,203	-	-	1,203
Miscellaneous	758	-	-	758
Postage	1,061	-	-	1,061
Professional fees	4,821	-	-	4,821
Professional services	23,352	-	-	23,352
Rent	10,415	-	-	10,415
Salaries and payroll taxes	43,931	-	-	43,931
Subscriptions	620	-	-	620
Supplies	4,772	-	-	4,772
Taxes	319	-	-	319
Telephone	1,656	-	-	1,656
Trust fees	27,964	-	-	27,964
Deductions related to portfolio income	6,581	-	-	6,581
Total Expenses	\$ 531,382	\$ -	\$ -	\$ 531,382
Changes in net assets	(2,436,767)	(40,356)	-	(2,477,123)
Net assets at beginning of year	7,821,200	96,442	49,162	7,966,804
Net assets at end of year	\$ 5,384,433	\$ 56,086	\$ 49,162	\$ 5,489,681

The accompanying notes are an integral part of this statement.

MOUNTAIN BROOK CITY SCHOOLS FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED APRIL 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,071,888	\$ (2,477,123)
Adjustments to reconcile change in net assets to net cash from operating activities:		
(Gains) losses on securities	(122,838)	508,926
Unrealized investment (gain)/loss	(1,139,744)	1,821,625
Depreciation	209	783
Changes in assets and liabilities:		
Prepaid expenses	(20)	-
Accounts receivable	39,623	163,536
Accounts payable and accrued liabilities	(15,126)	16,052
Life insurance policy, cash surrender value	(683)	(678)
Total adjustments	<u>(1,238,579)</u>	<u>2,510,244</u>
Net cash provided by (used in) operating activities	<u>(166,691)</u>	<u>33,121</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Net sale of investments	5,481,439	-
Net purchase of investments	<u>(2,859,528)</u>	<u>(1,006,796)</u>
Net cash provided by (used in) investing activities	<u>2,621,911</u>	<u>(1,006,796)</u>
 Net increase (decrease) in cash and cash equivalents	 2,455,220	 (973,675)
 Cash and cash equivalents - beginning of year	 <u>215,675</u>	 <u>1,189,350</u>
 Cash and cash equivalents - end of year	 <u>\$ 2,670,895</u>	 <u>\$ 215,675</u>

The accompanying notes are an integral part of this statement.

MOUNTAIN BROOK CITY SCHOOLS FOUNDATION

Notes to Financial Statements For the Years Ended April 30, 2010 and 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Mountain Brook City Schools Foundation (the "Foundation") was founded in 1992 and serves to mobilize community support for the school system and to secure resources from individuals, corporations, and other foundations. The primary focus of the Foundation has been in the areas of technology, professional development, and library enhancement.

Basis of Financial Statement Preparation and Use of Estimates

The Foundation records its activities on the accrual basis, recognizing contributions when received, grant revenue when earned, and expenses as incurred. The preparation of the financial statements in conformity with generally accepted accounting principles requires the use of estimates made by the management of the Foundation. These estimates affect the reported amounts of assets and liabilities at the reporting date and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Tax Status

The Foundation is exempt from federal income taxes under the provision of Section 501(c)(3) of the Internal Revenue Code.

Contributions

The Foundation records contributions received as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions.

MOUNTAIN BROOK CITY SCHOOLS FOUNDATION

Notes to Financial Statements - Continued For the Years Ended April 30, 2010 and 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Unconditional Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. It is reasonably possible that the estimated cash flows could change within the near-term. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue.

Investments

Under the Foundation's investment policy, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

Fair Values of Financial Instruments

The following methods and assumptions were used by the Foundation in estimating its fair value disclosures for financial instruments:

Cash, cash equivalents, and short-term unconditional promises to give: The carrying amounts reported in the statement of financial position approximate fair values because of the short term maturities of those instruments.

Property and Equipment

Furniture and equipment are recorded at cost or, if donated, at fair market value on the date of donation. Depreciation is provided on a declining balance basis over the estimated useful lives of the assets. The cost of assets sold or retired and the related accumulated depreciation are removed from the accounts and the gain or loss on such disposition is currently recognized.

MOUNTAIN BROOK CITY SCHOOLS FOUNDATION

Notes to Financial Statements - Continued For the Years Ended April 30, 2010 and 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Net Assets

The Foundation's assets and its revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions using the following classifications:

- Unrestricted net assets represent revenues and expenses related to the operation and management of the Foundation's primary programs and supporting services.
- Temporarily restricted net assets represent resources available for use, but expendable only for the purposes or during the time frame specifically stated by the donor.
- Permanently restricted net assets represent contributions and other inflows of assets whose use by the organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organization.

Subsequent Events

Subsequent events have been evaluated through October 25, 2010, which is the date the financial statements were available to be issued.

Uncertain Tax Positions

Effective January 1, 2009, the Foundation implemented the new accounting requirements associated with uncertainty in income taxes using the provisions of Financial Accounting Standards Board (FASB) ASC 740, *Income Taxes*. As of April 30, 2010, the Foundation had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

MOUNTAIN BROOK CITY SCHOOLS FOUNDATION

Notes to Financial Statements - Continued For the Years Ended April 30, 2010 and 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments

The Foundation adopted ASC 820, *Fair Value Measurements and Disclosures*. In accordance with ASC 820, fair value is defined as the price that the Foundation would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market of the investment. ASC 820 established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs, and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels listed below.

- Level 1 – quoted prices in active markets for identical investments
- Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 – significant unobservable inputs (including the Foundation's own assumptions in determining the fair value of investments)

See note 2, Investments, for a summary of the inputs used as of April 30, 2010 in determining the fair value of the Foundation's investments.

MOUNTAIN BROOK CITY SCHOOLS FOUNDATION

Notes to Financial Statements - Continued For the Years Ended April 30, 2010 and 2009

NOTE 2 - INVESTMENTS

Investments are stated at fair value and are summarized as follows as of April 30, 2010:

	<u>Fair Value</u>	<u>Cost</u>	<u>Unrealized Gain / (Loss)</u>
Investment in Partnerships	\$ 48,581	\$ 48,581	\$ -
Stocks	<u>3,971,321</u>	<u>4,070,645</u>	<u>(99,324)</u>
Total	<u>\$ 4,019,902</u>	<u>\$ 4,119,226</u>	<u>\$ (99,324)</u>

Investments are stated at fair value and are summarized as follows as of April 30, 2009:

	<u>Fair Value</u>	<u>Cost</u>	<u>Unrealized Gain / (Loss)</u>
U.S. Treasury securities	\$ 150,716	\$ 148,172	\$ 2,544
Investment in Partnerships	55,890	55,890	-
Stocks	<u>5,184,164</u>	<u>6,483,559</u>	<u>(1,299,395)</u>
Total	<u>\$ 5,390,770</u>	<u>\$ 6,687,621</u>	<u>\$ (1,296,851)</u>

MOUNTAIN BROOK CITY SCHOOLS FOUNDATION

**Notes to Financial Statements - Continued
For the Years Ended April 30, 2010 and 2009**

NOTE 2 – INVESTMENTS (Continued)

The following is a summary of the inputs used as of April 30, 2010 in valuing the Foundation’s investments carried at fair value:

	<u>April 30, 2010</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Investment in stocks:				
Equity securities	\$3,971,321	\$3,896,810	\$ -	\$ 74,511
Other investments	<u>48,581</u>	<u>-</u>	<u>-</u>	<u>48,581</u>
 Total investments	 <u>\$4,019,902</u>	 <u>\$3,896,810</u>	 <u>\$ -</u>	 <u>\$ 123,092</u>

The following reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value:

	<u>Other Investments</u>
Beginning balance	\$ 122,367
Total gains or (losses) (realized and unrealized)	725
Purchase, issuances, and settlements	<u>-</u>
Ending balance	<u>\$ 123,092</u>

MOUNTAIN BROOK CITY SCHOOLS FOUNDATION

Notes to Financial Statements - Continued For the Years Ended April 30, 2010 and 2009

NOTE 3 - UNCONDITIONAL PROMISES TO GIVE

The amounts due from unconditional promises to give at April 30, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Receivable in less than one year	\$ 95,595	\$ 140,558
Receivable in one to five years	130,968	126,025
Receivable in greater than five years	<u>11,400</u>	<u>6,450</u>
Total unconditional promises to give	237,963	273,033
Less discounts to net present value	<u>(50,346)</u>	<u>(45,793)</u>
Net unconditional promises to give	<u>\$ 187,617</u>	<u>\$ 227,240</u>

NOTE 4 - FIXED ASSETS

As of April 30, fixed assets were as follows:

	<u>2010</u>	<u>2009</u>
Computer equipment	\$ 13,996	\$ 13,996
Less: Accumulated depreciation	<u>(13,718)</u>	<u>(13,509)</u>
Total	<u>\$ 278</u>	<u>\$ 487</u>

These amounts are being depreciated using the straight-line method over estimated useful lives of five years for computer equipment. Depreciation expense recorded for the years ended April 30, 2010 and 2009 were \$209 and \$783, respectively.

MOUNTAIN BROOK CITY SCHOOLS FOUNDATION

Notes to Financial Statements - Continued For the Years Ended April 30, 2010 and 2009

NOTE 5 - CONTRIBUTED SERVICES, GOODS, AND USE OF FACILITY

A substantial number of unpaid volunteers have made significant contributions of their time to operate the programs of the Foundation. In addition, the Foundation received the following in-kind contributions for the years ended April 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Use of facility	\$ 10,539	\$ 10,037
Professional services	<u>7,049</u>	<u>8,352</u>
Total	<u>\$ 17,588</u>	<u>\$ 18,389</u>

NOTE 6 - NET ASSETS RELEASED FROM RESTRICTIONS

Donor-imposed program restrictions on temporarily restricted net assets were satisfied as follows:

	<u>2010</u>	<u>2009</u>
Purpose restricted contribution used for:		
Instructional Support	\$ 2,000	\$ 2,000

NOTE 7 - NATURE AND AMOUNT OF TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2010</u>	<u>2009</u>
Purpose restricted contribution used for:		
Instructional Support	\$ 87,540	\$ 56,086

MOUNTAIN BROOK CITY SCHOOLS FOUNDATION

Notes to Financial Statements - Continued For the Years Ended April 30, 2010 and 2009

NOTE 8 - NATURE AND AMOUNT OF PERMANENTLY RESTRICTED NET ASSETS

The income from permanently restricted net assets is restricted for the following purposes:

	<u>2010</u>	<u>2009</u>
Purpose restricted contribution used for:		
Instructional Support	\$ 49,162	\$ 49,162

NOTE 9 - CONCENTRATIONS OF CREDIT RISKS

The Foundation places its cash balances with financial institutions insured by the Federal Deposit Insurance Corporation. At times, cash investments may exceed the insured limits.

NOTE 10 - PRIOR PERIOD ADJUSTMENT

Net assets as of April 30, 2009, have been increased by \$39,801 to record a charitable remainder trust that was previously not recognized in the financial statements. The error increased beginning net assets by \$52,375 to initially record the trust and decreased the change in net assets by \$12,574 to account for the change in value of the trust for the year ended April 30, 2009.

The effect on the Company's previously issued 2009 financial statements are summarized as follows:

	<u>Previously Reported</u>	<u>Increase (Decrease)</u>	<u>Restated</u>
Total assets	\$ <u>5,853,850</u>	\$ <u>39,801</u>	\$ <u>5,893,651</u>
Total liabilities	\$ 403,970	\$ -	\$ 403,970
Total net assets	<u>5,449,880</u>	<u>39,801</u>	<u>5,489,681</u>
Total liabilities and net assets	\$ <u>5,853,850</u>	\$ <u>39,801</u>	\$ <u>5,893,651</u>
Change in net assets for 2009	\$ <u>(2,464,549)</u>	\$ <u>(12,574)</u>	\$ <u>(2,477,123)</u>