

**TRAILBLAZERS ACADEMY, INC.**

**FINANCIAL STATEMENTS**

**JUNE 30, 2010 AND 2009**

TRAILBLAZERS ACADEMY, INC.

CONTENTS

Independent Auditors' Report	1
Statements of Financial Position - June 30, 2010 and 2009	2
Statements of Activities for the Years Ended June 30, 2010 and 2009	3
Statements of Cash Flows for the Years Ended June 30, 2010 and 2009	4
Statements of Functional Expenses for the Years Ended June 30, 2010 and 2009	5
Notes to Financial Statements	6-11

# BlumShapiro

Accounting | Tax | Business Consulting

## Independent Auditors' Report

To the Board of Directors  
Trailblazers Academy, Inc.

We have audited the accompanying statements of financial position of Trailblazers Academy, Inc. (Trailblazers) as of June 30, 2010 and 2009, and the related statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of Trailblazers management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 Trailblazers' 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, 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 Trailblazers as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 21, 2010, on our consideration of Trailblazers' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

*Blum, Shapiro & Company, P.C.*

December 21, 2010

**TRAILBLAZERS ACADEMY, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 408,314	\$ 457,373
Grants receivable	59,354	26,363
Pledges receivable, net	665,785	-
Other receivables	50,857	-
Prepaid expenses	50,430	21,281
Property and equipment, net	25,895	38,068
Software, net	10,396	12,063
	<u>                    </u>	<u>                    </u>
<b>Total Assets</b>	<b>\$ <u>1,271,031</u></b>	<b>\$ <u>555,148</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 59,063	\$ 55,277
Accrued payroll and related expenses	72,306	169,253
Due to affiliate	122,198	40,454
Total liabilities	<u>253,567</u>	<u>264,984</u>
<b>Net Assets</b>		
Unrestricted	180,496	115,219
Temporarily restricted	836,968	174,945
Total net assets	<u>1,017,464</u>	<u>290,164</u>
	<u>                    </u>	<u>                    </u>
<b>Total Liabilities and Net Assets</b>	<b>\$ <u>1,271,031</u></b>	<b>\$ <u>555,148</u></b>

The accompanying notes are in integral part of the financial statements

**TRAILBLAZERS ACADEMY, INC.**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

	2010		2009		Total
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	
<b>Revenue, Support and Other Changes</b>					
Contributions	\$ 413,301	\$ 822,035	\$ 185,439	\$ 8,200	\$ 193,639
Governmental grants	2,379,887	-	2,333,563	-	2,333,563
Donations in-kind	1,125,917	-	464,824	-	464,824
Other income	68,761	-	997	-	997
Interest income	1,853	-	8,492	-	8,492
Net assets released from restrictions	160,012	(160,012)	204,186	(204,186)	-
Total revenue, support and other changes	4,149,731	662,023	3,197,501	(195,986)	3,001,515
<b>Expenses</b>					
Program services	3,700,016	-	2,994,983	-	2,994,983
Management and general	366,968	-	269,853	-	269,853
Development and fundraising	17,470	-	15,810	-	15,810
Total expenses	4,084,454	-	3,280,646	-	3,280,646
<b>Increase (Decrease) in Net Assets</b>	65,277	662,023	(83,145)	(195,986)	(279,131)
<b>Net Assets - Beginning of Year</b>	115,219	174,945	198,364	370,931	569,295
<b>Net Assets - End of Year</b>	\$ 180,496	\$ 836,968	\$ 115,219	\$ 174,945	\$ 290,164

The accompanying notes are in integral part of the financial statements

**TRAILBLAZERS ACADEMY, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>Cash Flows from Operating Activities</b>		
Increase (decrease) in net assets	\$ 727,300	\$ (279,131)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	13,840	15,257
(Increase) decrease in operating assets:		
Grants receivable	(32,991)	23,421
Pledges receivable	(665,785)	275,000
Other receivables	(50,857)	-
Prepaid expenses	(29,149)	6,327
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	3,786	(19,210)
Accrued payroll and related expenses	(96,947)	24,940
Due to affiliates	81,744	22,092
Net cash provided by (used in) operating activities	<u>(49,059)</u>	<u>68,696</u>
<b>Cash Flows from Investing Activities</b>		
Capital expenditures	<u>-</u>	<u>(23,233)</u>
Net cash used in investing activities	<u>-</u>	<u>(23,233)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(49,059)	45,463
<b>Cash and Cash Equivalents - Beginning of Year</b>	<u>457,373</u>	<u>411,910</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u>\$ 408,314</u>	<u>\$ 457,373</u>

The accompanying notes are in integral part of the financial statements

**TRAILBLAZERS ACADEMY, INC.**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

	2010			2009				
	Program Services	General and Administrative	Development and Fundraising	Total	Program Services	General and Administrative	Development and Fundraising	Total
<b>Functional Expenses</b>								
Personnel costs	\$ 2,212,336	\$ 223,288	\$ 17,470	\$ 2,453,094	\$ 2,261,982	\$ 218,288	\$ 2,480,270	\$ 2,496,080
Depreciation and amortization	12,580	1,260	-	13,840	13,923	1,334	15,257	15,257
Facilities costs	1,127,463	112,930	-	1,240,393	245,562	23,454	269,016	269,016
Insurance	80,923	8,105	-	89,028	94,299	9,037	103,336	103,336
Office	48,171	4,825	-	52,996	46,748	5,040	51,788	51,788
Other program expenses	14,361	-	-	14,361	14,727	-	14,727	14,727
Professional fees	23,508	16,560	-	40,068	109,453	12,700	122,153	122,153
Student support services	173,619	-	-	173,619	199,620	-	199,620	199,620
Transportation	7,055	-	-	7,055	8,669	-	8,669	8,669
<b>Total</b>	<b>\$ 3,700,016</b>	<b>\$ 366,968</b>	<b>\$ 17,470</b>	<b>\$ 4,084,454</b>	<b>\$ 2,994,983</b>	<b>\$ 269,853</b>	<b>\$ 3,280,646</b>	<b>\$ 3,280,646</b>

The accompanying notes are in integral part of the financial statements

**TRAILBLAZERS ACADEMY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - ORGANIZATION**

Trailblazers Academy, Inc. (Trailblazers), a not-for-profit organization, is recognized by the State of Connecticut as an independent charter school in accordance with the provisions of Section 10-66bb of the Connecticut General Statutes. Trailblazers was granted a charter to operate a public school located in the City of Stamford through June 30, 2012. The mission of Trailblazers is to create a positive learning environment for students who have been unsuccessful in the traditional public school setting. Trailblazers pursues this mission by, among other things, lowering class size, lengthening the school day, providing more structure and developing strong relationships with each student and family.

Trailblazers shares corporate office space, and other general and administrative costs and services with Domus Foundation, Inc., Passages, Inc., and Stamford Academy, Inc., which are affiliated through common management but are governed by separate Boards of Directors.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting and Presentation** - Trailblazers' financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, the accounts of Trailblazers are reported in the following net asset categories:

**Unrestricted Net Assets** - Unrestricted net assets represent available resources other than donor restricted contributions. These resources may be expended at the discretion of the Board of Directors.

**Temporarily Restricted Net Assets** - Temporarily restricted net assets represent contributions that are restricted by the donor as to purpose or time of expenditure.

**Permanently Restricted Net Assets** - Permanently restricted net assets represent resources that have donor-imposed restrictions that require that the principal be maintained in perpetuity but permit Trailblazers to expend the income earned thereon. Trailblazers did not have any permanently restricted net assets as of June 30, 2010 and 2009.

**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 certain reported amounts and disclosures in the financial statements. Accordingly, actual results could differ from those estimates. Management has used estimates primarily in determining the discount rate on pledges receivable and in valuing donations in-kind. It is management's opinion that the estimates applied in the accompanying financial statements are reasonable.

**Cash and Cash Equivalents** - Cash equivalents are defined as highly liquid investments with original maturities of 90 days or less.

**Grants Receivable** - Grants from federal, state and other sources are recognized as revenue when the related expenditures are incurred or revenue otherwise earned. Grants receivable represent unreimbursed expenses at June 30, 2010 and 2009.



**TRAILBLAZERS ACADEMY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Property and Equipment** - Property and equipment are recorded at cost or donated value. Depreciation is provided using the straight-line method based on the following estimated useful lives:

Furniture and equipment	5-7 years
School bus	5 years

Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. All capital items which have a cost greater than \$5,000 are capitalized and depreciated.

**Software** - Software is recorded at cost, net of previously recorded amortization, and is being amortized on a straight-line basis over its estimated useful life of three years. Accumulated amortization was \$47,131 and \$45,464 at June 30, 2010 and 2009, respectively. Amortization expense was \$1,667 and \$1,383 for 2010 and 2009, respectively.

**Contributions** - Unconditional contributions are recognized when pledged or received, as applicable, and are considered to be available for unrestricted use unless specifically restricted by the donor. Pledges receivable expected to be collected beyond one year are discounted to their present value. Trailblazers reports nongovernmental contributions and grants of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit their use. When a donor 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 and reported in the statements of activities as net assets released from restrictions. Contributions received whose restrictions are met in the same period are presented with unrestricted net assets. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

**Donated Property and Services** - Donated services are recognized as contributions if the services create or enhance nonfinancial assets or require specialized skills, are performed by people with those skills and would otherwise be purchased by Trailblazers.

Donated property and the use of equipment and facilities are recorded as support and expenses at fair market value when determinable, otherwise at values indicated by the donor.

While many individuals volunteer their time and perform a variety of tasks that assist Trailblazers, most amounts have not been recognized in the accompanying financial statements for such services because the criteria for recognition of such volunteer efforts have not been met.

**Functional Expense Allocation** - Expenses are charged directly to program services, development and fundraising, and management and general based on specific identification to the extent practicable. Expenses related to more than one function have been allocated based on periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with a specific function, but provide for the overall support and direction of Trailblazers.

**TRAILBLAZERS ACADEMY, INC.  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Advertising** - Trailblazers uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred. Advertising costs totaled \$25 and \$92 during 2010 and 2009, respectively.

**Income Tax Status** - Trailblazers is exempt from federal income taxes under provisions of Internal Revenue Code Section 501(c)(3). Trailblazers' informational returns for the years ended June 30, 2007 through June 30, 2010 are subject to examination by the Internal Revenue Service and the State of Connecticut.

**Subsequent Events** - In preparing these financial statements, management has evaluated subsequent events through December 21, 2010, which represents the date the financial statements were available to be issued.

**NOTE 3 - CONCENTRATIONS OF CREDIT RISK**

Trailblazers' financial instruments that are exposed to concentrations of credit risk consist of the following:

**Cash and Cash Equivalents** - Trailblazers places its cash deposits with high credit-quality institutions. Such deposits exceed federal depository insurance limits at times during the year. However, management believes that its deposits are not subject to significant credit risk.

**Pledges Receivable** - Pledges receivable are from donors who have contributed to Trailblazers in the past, and, therefore, management considers the pledges to represent minimal credit risk. An allowance for uncollectible pledges has been deemed unnecessary by management.

**Governmental Grants** - Trailblazers receives a significant portion of its revenue from the State of Connecticut and the City of Stamford. A significant reduction in the level of this support, if it were to occur, could have a significant effect on Trailblazers' programs.

**NOTE 4 - PLEDGES RECEIVABLE**

Pledges receivable consist of the following as of June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Receivable in less than one year	\$ 231,750	\$ -
Receivable in one to five years	484,565	-
	716,315	-
Less discount to net present value	<u>(50,530)</u>	<u>-</u>
Pledges Receivable, Net	<u>\$ 665,785</u>	<u>\$ -</u>

Pledges receivable that are receivable beyond one year are discounted at 4.50% at June 30, 2010.

**TRAILBLAZERS ACADEMY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 - PROPERTY AND EQUIPMENT**

Property and equipment consist of the following as of June 30, 2010 and 2009:

	<b>2010</b>	<b>2009</b>
Furniture and equipment	\$ 108,371	\$ 108,371
School bus	29,131	29,131
	137,502	137,502
Less accumulated depreciation	(111,607)	(99,434)
Property and Equipment, Net	\$ 25,895	\$ 38,068

Depreciation expense was \$12,173 and \$13,874 for 2010 and 2009, respectively.

**NOTE 6 - BANK LINE OF CREDIT**

Domus Foundation, Inc. entered into a \$300,000 bank line of credit with Bank of America, N.A. on June 5, 2008, which agreement was amended on January 5, 2009 to also include Trailblazers and Stamford Academy, Inc. as borrowers. This agreement expires on December 31, 2010. Borrowings are due on demand and are collateralized by substantially all of the assets of Domus Foundation, Inc., Trailblazers and Stamford Academy, Inc. Interest on the outstanding balance is due monthly at 1% above the bank's prime rate of 3.25% at June 30, 2010 and 2009. The amended agreement with Bank of America, N.A. also includes various restrictions and financial covenants. There were no outstanding borrowings on this line of credit as of June 30, 2010 and 2009.

**NOTE 7 - DUE TO AFFILIATE**

Trailblazers owed its affiliate, Domus Foundation, Inc., \$122,198 and \$40,454 for shared expenses as of June 30, 2010 and 2009, respectively.

**NOTE 8 - DONATED PROPERTY AND SERVICES**

Trailblazers has recorded the estimated fair market value of donated property and services for the years ended June 30, 2010 and 2009 as follows:

	<b>2010</b>	<b>2009</b>
Included in revenue and support:		
Donated school space	\$ 978,912	\$ 247,500
Donated special education services	140,971	136,888
Donated consulting services	-	80,436
Donated program supplies	6,034	-
Total Donated In-Kind Support	\$ 1,125,917	\$ 464,824

**TRAILBLAZERS ACADEMY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 - DONATED PROPERTY AND SERVICES (Continued)**

	2010	2009
Included in functional expenses		
Facilities costs	\$ 978,912	\$ 247,500
Student support services	140,971	136,888
Professional fees	-	80,436
Other program expenses	6,034	-
 Total Expenses	 \$ 1,125,917	 \$ 464,824

**NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consist of the following as of June 30, 2010 and 2009:

	2010	2009
Funds available for use in future periods	\$ 156,250	\$ 150,000
Restricted by time	665,785	-
Property and equipment, net	14,933	24,945
 Total Temporarily Restricted Net Assets	 \$ 836,968	 \$ 24,945

**NOTE 10 - NET ASSETS RELEASED FROM RESTRICTIONS**

Net assets were released from restrictions by incurring expenses satisfying the following purpose restrictions for the years ended June 30, 2010 and 2009:

	2010	2009
Reading specialists	\$ 150,000	\$ 200,000
Depreciation	10,012	4,186
 Total Net Assets Released from Restrictions	 \$ 160,012	 \$ 204,186

**NOTE 11 - LEASE COMMITMENTS**

Trailblazers maintained its teaching facility within a State of Connecticut Department of Education - owned facility located in Stamford under a two-year lease which ended on June 30, 2010. The lease allowed Trailblazers to use approximately 12,500 square feet of space in exchange for paying its share of the facility's utilities and an internet access fee. This lease agreement was terminated by the State of Connecticut upon the acceptance of a new facility lease from the City of Stamford.

**TRAILBLAZERS ACADEMY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 11 - LEASE COMMITMENTS (Continued)**

On July 1, 2009, Domus Foundation, Inc. and the City of Stamford entered into an agreement for the lease of a building in Stamford, Connecticut to host Trailblazers as well as corporate offices of Domus Foundation, Inc. The lease term is for a five-year period through June 30, 2014, with an option to renew for four consecutive five-year terms. The lease agreement allows Domus Foundation, Inc. and Trailblazers to use approximately 80,500 square feet of space for \$1 annually and for agreeing to pay utilities and repair and maintenance costs. This agreement requires the City of Stamford to reimburse Trailblazers for utility expenses for the portion of the building used by the City of Stamford. The City of Stamford owed Trailblazers \$46,536 for utility expenses as of June 30, 2010.

The estimated fair value of this lease has been recorded as facilities cost of \$978,912 and \$247,500 along with the related in-kind donation of \$978,912 and \$247,500 for 2010 and 2009, respectively.

Trailblazers has noncancellable operating leases for copier equipment, which expire from October 2011 through September 2012 with aggregate lease payments of \$760 per month.

Future minimum lease payments under these operating leases are as follows:

**Year Ending June 30**

2011	\$ 9,120
2012	5,941
2013	<u>1,008</u>
Total	<u>\$ 16,069</u>

Rent expense under these operating leases totaled \$8,360 and \$6,873 for 2010 and 2009, respectively.

**NOTE 12 - DEFINED CONTRIBUTION RETIREMENT PLAN**

The teachers who work for Trailblazers participate in the State of Connecticut - sponsored major employee retirement system, which is administered by the Teachers' Retirement Board. Teachers are required to contribute 7.25% of their annual salary, while the State of Connecticut is required to contribute at an actuarially determined rate, which may be reduced by an act of the State Legislature. Administrative costs of the plan are funded by the State of Connecticut. Trailblazers has no obligation under this plan.

Trailblazers maintains a defined contribution retirement plan as defined under Section 403(b) of the Internal Revenue Code. All full-time employees who work a minimum of 1,000 hours per year, become eligible to participate following one year of service. Employees may make optional contributions to the plan on a tax deferred basis up to the maximum amount allowed by the Internal Revenue Service. Trailblazers matches up to 2% of each eligible employee's compensation for employees who contributed to the plan. Trailblazers' contributions to the plan were \$11,927 and \$18,474 for 2010 and 2009, respectively.