

TRAILBLAZERS ACADEMY, INC.

FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

TRAILBLAZERS ACADEMY, INC.

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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, 2011 and 2010, 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, 2011 and 2010, 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 22, 2011, 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 22, 2011

TRAILBLAZERS ACADEMY, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and cash equivalents	\$ 131,609	\$ 408,314
Accounts receivables, net	11,561	50,857
Grants receivable	16,123	59,354
Pledges receivable, net	463,846	665,785
Prepaid expenses	25,034	50,430
Due from affiliates	331,875	-
Property and equipment, net	<u>23,281</u>	<u>36,291</u>
Total Assets	\$ <u>1,003,329</u>	\$ <u>1,271,031</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 52,788	\$ 59,063
Accrued payroll and related expenses	131,713	72,306
Due to affiliate	900	122,198
Total liabilities	<u>185,401</u>	<u>253,567</u>
Net Assets		
Unrestricted	340,789	180,496
Temporarily restricted	477,139	836,968
Total net assets	<u>817,928</u>	<u>1,017,464</u>
Total Liabilities and Net Assets	\$ <u>1,003,329</u>	\$ <u>1,271,031</u>

The accompanying notes are an integral part of the financial statements

TRAILBLAZERS ACADEMY, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011			2010		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue, Support and Other Changes						
Governmental grants	\$ 2,284,384	\$ -	\$ 2,284,384	\$ 2,379,887	\$ -	\$ 2,379,887
Donations in-kind	1,089,003	-	1,089,003	1,125,917	-	1,125,917
Contributions	804,860	29,811	834,671	291,051	822,035	1,113,086
Private foundation grants	62,250	-	62,250	122,250	-	122,250
Other income	61,099	-	61,099	68,761	-	68,761
Interest income	536	-	536	1,853	-	1,853
Net assets released from restrictions	389,640	(389,640)	-	160,012	(160,012)	-
Total revenue, support and other changes	<u>4,691,772</u>	<u>(359,829)</u>	<u>4,331,943</u>	<u>4,149,731</u>	<u>662,023</u>	<u>4,811,754</u>
Expenses						
Program services	4,097,608	-	4,097,608	3,700,016	-	3,700,016
Management and general	388,457	-	388,457	366,968	-	366,968
Development and fundraising	45,414	-	45,414	17,470	-	17,470
Total expenses	<u>4,531,479</u>	<u>-</u>	<u>4,531,479</u>	<u>4,084,454</u>	<u>-</u>	<u>4,084,454</u>
Increase (Decrease) in Net Assets	160,293	(359,829)	(199,536)	65,277	662,023	727,300
Net Assets - Beginning of Year	<u>180,496</u>	<u>836,968</u>	<u>1,017,464</u>	<u>115,219</u>	<u>174,945</u>	<u>290,164</u>
Net Assets - End of Year	<u>\$ 340,789</u>	<u>\$ 477,139</u>	<u>\$ 817,928</u>	<u>\$ 180,496</u>	<u>\$ 836,968</u>	<u>\$ 1,017,464</u>

The accompanying notes are an integral part of the financial statements

TRAILBLAZERS ACADEMY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ (199,536)	\$ 727,300
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Bad debts	90,772	-
Depreciation and amortization	13,010	13,840
(Increase) decrease in operating assets:		
Accounts receivable	(51,476)	(50,857)
Grants receivable	43,231	(32,991)
Pledges receivable	201,939	(665,785)
Prepaid expenses	25,396	(29,149)
Due from affiliates	(331,875)	-
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(6,275)	3,786
Accrued payroll and related expenses	59,407	(96,947)
Due to affiliate	(121,298)	81,744
Net cash used in operating activities	(276,705)	(49,059)
Net Decrease in Cash and Cash Equivalents	(276,705)	(49,059)
Cash and Cash Equivalents - Beginning of Year	408,314	457,373
Cash and Cash Equivalents - End of Year	\$ 131,609	\$ 408,314

The accompanying notes are an integral part of the financial statements

TRAILBLAZERS ACADEMY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011				2010			
	Program Services	General and Administrative	Development and Fundraising	Total	Program Services	General and Administrative	Development and Fundraising	Total
Personnel costs	\$ 2,411,192	\$ 243,915	\$ 45,414	\$ 2,700,521	\$ 2,212,336	\$ 223,288	\$ 17,470	\$ 2,453,094
Facilities costs	1,116,403	110,901	-	1,227,304	1,127,462	112,930	-	1,240,392
Student support services	275,333	-	-	275,333	173,619	-	-	173,619
Insurance	98,354	9,766	-	108,120	80,923	8,105	-	89,028
Bad debt	90,772	-	-	90,772	-	-	-	-
Office	54,617	5,423	-	60,040	48,171	4,825	-	52,996
Professional fees	15,537	17,277	-	32,814	23,508	16,560	-	40,068
Depreciation and amortization	11,835	1,175	-	13,010	12,580	1,260	-	13,840
Transportation	12,565	-	-	12,565	7,056	-	-	7,056
Other program expenses	11,000	-	-	11,000	14,361	-	-	14,361
Total	\$ 4,097,608	\$ 388,457	\$ 45,414	\$ 4,531,479	\$ 3,700,016	\$ 366,968	\$ 17,470	\$ 4,084,454

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, 2011 and 2010.

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.

TRAILBLAZERS ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable, Net - Accounts receivable are presented net of allowance for doubtful accounts. Uncollectible account balances are written off when management determines the probability of collection is remote. Management maintains an allowance for doubtful accounts based on a review of specific accounts and general historical experience. Management has determined that an allowance for doubtful accounts of \$90,772 and \$-0- is necessary as of June 30, 2011 and 2010, respectively.

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, 2011 and 2010.

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 fixtures	5 years
Computer equipment	5 years
School bus	5 years
Software	3 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.

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.

TRAILBLAZERS ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 using reasonable ratios determined by management. 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.

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, 2008 through June 30, 2011 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 22, 2011, 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.

TRAILBLAZERS ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 4 - PLEDGES RECEIVABLE

Pledges receivable consist of the following as of June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Receivable in less than one year	\$ 238,702	\$ 231,750
Receivable in one to five years	245,863	484,565
	<u>484,565</u>	<u>716,315</u>
Less discount to net present value	(20,719)	(50,530)
	<u>(20,719)</u>	<u>(50,530)</u>
Pledges Receivable, Net	<u>\$ 463,846</u>	<u>\$ 665,785</u>

Pledges receivable that are receivable beyond one year are discounted at 4.50% at June 30, 2011.

NOTE 5 - DUE FROM AFFILIATES

Trailblazers had amounts due from its affiliates, Stamford Academy, Inc., of \$61,875 and \$-0-, respectively, for shared expenses and from Domus Foundation, Inc., of \$270,000 and \$-0-, respectively, for shared contributions as of June 30, 2011 and June 30, 2010.

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Furniture and fixtures	\$ 51,894	\$ 51,894
Computer equipment	56,477	56,477
School bus	29,131	29,131
Software	57,527	57,527
	<u>195,029</u>	<u>195,029</u>
Less accumulated depreciation and amortization	(171,748)	(158,738)
	<u>(171,748)</u>	<u>(158,738)</u>
Property and Equipment, Net	<u>\$ 23,281</u>	<u>\$ 36,291</u>

Depreciation and amortization expense was \$13,010 and \$13,840 for 2011 and 2010, respectively.

TRAILBLAZERS ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 7 - BANK LINE OF CREDIT

Domus Foundation, Inc., Trailblazers and Stamford Academy, Inc., have a \$300,000 bank line of credit with Bank of America, N.A. that expires on December 31, 2011. 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, 2011 and 2010. The 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, 2011 and 2010.

NOTE 8 - DUE TO AFFILIATE

Trailblazers owed its affiliate, Domus Foundation, Inc., \$900 and \$122,198 for shared expenses as of June 30, 2011 and 2010, respectively.

NOTE 9 - DONATED PROPERTY AND SERVICES

Trailblazers has recorded the estimated fair value of donated property and services for the years ended June 30, 2011 and 2010 as follows:

	<u>2011</u>	<u>2010</u>
Included in revenue and support:		
Donated school space	\$ 978,912	\$ 978,912
Donated special education services	109,081	140,971
Donated program supplies	<u>1,010</u>	<u>6,034</u>
Total Donated In-Kind Support	<u>\$ 1,089,003</u>	<u>\$ 1,125,917</u>
Included in functional expenses		
Facilities costs	\$ 978,912	\$ 978,912
Student support services	109,081	140,971
Other program expenses	<u>1,010</u>	<u>6,034</u>
Total Expenses	<u>\$ 1,089,003</u>	<u>\$ 1,125,917</u>

TRAILBLAZERS ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following as of June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Funds available for use in future periods	\$ -	\$ 156,250
Restricted by passage of time	463,846	665,785
Property and equipment	<u>13,293</u>	<u>14,933</u>
Total Temporarily Restricted Net Assets	<u>\$ 477,139</u>	<u>\$ 836,968</u>

NOTE 11 - 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, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Programs	\$ 156,250	\$ 150,000
Released by passage of time	231,750	-
Property and equipment	<u>1,640</u>	<u>10,012</u>
Total Net Assets Released from Restrictions	<u>\$ 389,640</u>	<u>\$ 160,012</u>

NOTE 12 - LEASE COMMITMENTS

Domus Foundation, Inc., and the City of Stamford have 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 in addition to paying for 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 \$90,772 and \$46,536 for utility expenses as of June 30, 2011 and 2010, respectively. Management has determined that an allowance for doubtful accounts of \$90,772 and \$-0- is necessary as of June 30, 2011 and 2010.

The estimated fair value of this lease has been recorded as facilities cost of \$978,912 along with the related in-kind donation of \$978,912 for 2011 and 2010, 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.

TRAILBLAZERS ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 12 - LEASE COMMITMENTS (Continued)

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

Year Ending June 30

2011	\$ 5,934
2012	<u>1,009</u>
Total	<u>\$ 6,943</u>

Rent expense under these operating leases totaled \$9,120 and \$8,360 for 2011 and 2010, respectively.

NOTE 13 - 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 4% of each eligible employee's compensation for employees who contributed to the plan. Trailblazers' contributions to the plan were \$25,624 and \$11,927 for 2011 and 2010, respectively.