Financial Statements

TRAILBLAZERS ACADEMY, INC.

Years Ended June 30, 2013 and 2012



DWORKEN, HILLMAN, LAMORTE & STERCZALA, P.C. Certified Public Accountants / Business Consultants

Years Ended June 30, 2013 and 2012

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Independent Auditors' Report

Board of Directors Trailblazers Academy, Inc. Stamford, Connecticut

Report on the Financial Statements

We have audited the accompanying financial statements of Trailblazers Academy, Inc. (the School), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The 2012 financial statements were audited by other auditors and their report thereon, dated November 5, 2012, expressed an unmodified audit opinion on those audited financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2013 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Dworken, Hillman, LaMorte & Sterczala, P.C.

December 2, 2013 Shelton, Connecticut

STATEMENTS OF FINANCIAL POSITION

	June 30,		
	2013	2012	
Assets			
Current assets:			
Cash and cash equivalents	\$369,910	\$281,595	
Accounts receivable	66,752	137,861	
Grants receivable	19,020	17,856	
Pledges receivable		245,863	
Prepaid expenses	21,219	19,182	
Due from affiliate (Note 2)	227,900	136,920	
Total current assets	704,801	839,277	
Property and equipment (Note 3)	19,044	30,478	
Total Assets	<u>\$723,845</u>	<u>\$869,755</u>	
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	\$ 54,743	\$ 32,613	
Accrued payroll and related expenses	169,744	123,500	
Total current liabilities	224,487	156,113	
Commitments (Note 6)			
Net assets:			
Unrestricted	474,218	418,812	
Temporarily restricted (Note 5)	25,140	294,830	
Total Net Assets	499,358	713,642	
Total Liabilities and Net Assets	<u>\$723,845</u>	<u>\$869,755</u>	

STATEMENTS OF ACTIVITIES

	Year Ended June 30, 2013		Year E	Inded June 30, 20)12	
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue, support and other changes:						
Governmental grants	\$ 2,491,700	\$ -	\$ 2,491,700	\$ 2,303,355	-	\$ 2,303,355
Donations in-kind	917,115	-	917,115	1,038,411	-	1,038,411
Contributions	530,073	-	530,073	404,530	36,719	441,249
Private foundation grants	111,158	23,500	134,658	272,976	25,500	298,476
Recovery of bad debt	-	-	-	90,772	-	90,772
Other income	67,252	-	67,252	50,694	-	50,694
Interest income	740	-	740	333	-	333
Net assets released from restrictions	293,190	(293,190)		244,528	(244,528)	-
Total revenue, support and other changes	4,411,228	(269,690)	4,141,538	4,405,599	(182,309)	4,223,290
Expenses:						
Program services	3,902,805	-	3,902,805	3,927,371	-	3,927,371
Managment and general	420,184	-	420,184	371,181	-	371,181
Development and fundraising	32,833		32,833	29,024		29,024
Total expenses	4,355,822	-	4,355,822	4,327,576		4,327,576
			-			
Change in net assets	55,406	(269,690)	(214,284)	78,023	(182,309)	(104,286)
Net assets, beginning	418,812	294,830	713,642	340,789	477,139	817,928
Net assets, ending	\$ 474,218	\$ 25,140	\$ 499,358	\$ 418,812	\$ 294,830	\$ 713,642

STATEMENTS OF CASH FLOWS

	Year Ended June 30,			
	_	2013	_	2012
Cash flows from operating activities:				
Change in net assets	(\$	214,284)	(\$	104,286)
Adjustments to reconcile changes in net assets to				
net cash provided by operating activities:				
Depreciation and amortization		11,434		19,580
Change in operating assets and liabilities:				
Accounts receivable		71,109	(126,300)
Grants receivable	(1,164)	(1,733)
Pledges receivable		245,863		217,983
Prepaid expenses	(2,037)		5,852
Due from affiliates	(90,980)		194,955
Accounts payable and accrued expenses		22,130	(20,175)
Accrued payroll and related expenses		46,244	(8,213)
Due to affiliate	_		(900)
Net cash provided by operating activities	_	88,315		176,763
Cash flows from investing activities:				
Purchase of property and equipment	_		(26,777)
Net cash used in investing activities	_		(26,777)
Net change in cash and cash equivalents		88,315		149,986
Cash and cash equivalents, beginning	_	281,595		131,609
Cash and cash equivalents, ending	<u>\$</u>	369,910	\$	281,595

STATEMENTS OF FUNCTIONAL EXPENSES

		Year Ended J	une 30, 2013			Year Ended J	une 30, 2012	
	Program	Management and General	Fund Raising	Total	Program	Management and General	Fund Raising	Total
Expenses								
Personnel costs	\$ 2,192,662	\$ 252,756	\$ 32,833	\$ 2,478,251	\$ 2,535,637	\$ 250,718	\$ 29,024	\$ 2,815,379
Facilities cost	1,024,655	116,373	-	1,141,028	993,788	104,021	-	1,097,809
Professional fees	308,882	35,081	-	343,963	32,542	3,181	-	35,723
Student support services	221,950	-	-	221,950	196,271	-	-	196,271
Insurance	84,916	9,644	-	94,560	84,124	8,224	-	92,348
Office expenses	45,469	5,164	-	50,633	43,958	3,293	-	47,251
Depreciation and amortization	10,268	1,166	-	11,434	17,835	1,744	-	19,579
Other program expenses	9,207	-	-	9,207	15,076	-	-	15,076
Transportation	4,796			4,796	8,140			8,140
Total Expenses	\$ 3,902,805	\$ 420,184	\$ 32,833	\$ 4,355,822	\$3,927,371	\$ 371,181	\$ 29,024	\$ 4,327,576

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2013 and 2012

1. Description of the School and summary of significant accounting policies:

Description of School:

Trailblazers Academy, Inc. (the School), 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. The School was granted a charter to operate a public school located in the City of Stamford through June 30, 2017. The mission of the School is to create a positive learning environment for students who have been unsuccessful in the traditional public school setting. The School 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.

The School shares corporate office space, and other general and administrative costs and services with Domus Kids, Inc. (formerly Domus Foundation, Inc.) and Stamford Academy, Inc., which are affiliated through common management but are governed by separate Boards of Directors.

Basis of accounting and presentation:

The School's 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 the School 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 the School to expend the income earned thereon. The School did not have any permanently restricted net assets as of June 30, 2013 and 2012.

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

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2013 and 2012

1. **Description of the School and summary of significant accounting policies** (continued):

primarily in determining the discount rate on pledges receivable and in valuing donations inkind. 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.

The School 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.

Accounts receivable:

The School continuously monitors the creditworthiness of debtors and establishes an allowance for doubtful accounts based on a review of specific accounts and general historical experience. Uncollectible account balances are written off when management determines the probability of collection is remote.

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, 2013 and 2012.

Pledges receivable:

Pledges receivable are from donors who have contributed to the School 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.

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

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2013 and 2012

1. **Description of the School and summary of significant accounting policies** (continued):

Property and equipment (continued):

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. The School 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 the School.

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 the School, 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 using reasonable ratios determined by

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2013 and 2012

1. **Description of the School and summary of significant accounting policies** (continued):

Functional expense allocation (continued):

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 the School.

Income tax status:

The School is exempt from federal income taxes under provisions of Internal Revenue Code Section 501(c)(3). The School's informational returns for the years ended June 30, 2010 through June 30, 2013 are subject to examination by the Internal Revenue Service and the State of Connecticut.

2. **Due from affiliates:**

The School had amounts due from its affiliates, Stamford Academy, Inc., of \$72,550 and \$71,272, respectively, and from Domus Kids, Inc., of \$155,350 and \$65,648, respectively for shared expenses as of June 30, 2013 and 2012. The outstanding balances were received subsequent to June 30, 2013 and 2012, respectively.

3. **Property and equipment:**

Property and equipment consist of the following as of June 30:

	2013	2012
Furniture and fixtures	\$ 51,894	\$ 51,894
Computer equipment	56,477	56,477
School bus and vehicles	55,908	55,908
Software	<u>57,527</u>	<u>57,527</u>
	221,806	221,806
Less: accumulated depreciation and amortization	202,762	191,328
	\$ 19,044	<u>\$ 30,478</u>

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2013 and 2012

4. **Donated property and service:**

The School has recorded the estimated fair value of donated property and services for the years ended June 30:

	2013	2012
Included in revenue and support:		
Donated school space	\$916,413	\$ 916,413
Donated program supplies	702	3,232
Donated special education services		118,766
Total Donated In-Kind Support	<u>\$917,115</u>	\$1,038,411
Included in functional expenses		
Facilities costs	916,413	916,413
Other program expenses	702	3,232
Personnel costs		118,766
Total Expenses	<u>\$917,115</u>	<u>\$1,038,411</u>

5. Temporarily restricted net assets:

Temporarily restricted net assets are subject to the following time or purpose restrictions at June 30:

	2013	<u>2012</u>
Funds available for use in future periods	\$ 23,500	\$ 25,500
Property and equipment	1,640	7,467
Restricted by passage of time		245,863
Literacy program		16,000
	<u>\$ 25,140</u>	<u>\$294,830</u>

Temporarily restricted net assets were released from restrictions by satisfying the following time and purpose restrictions for the years ended June 30:

	<u>2013</u>	2012
Released by passage of time	\$287,363	\$238,702
Property and equipment	5,827	5,826
Total Net Assets Released from Restrictions	<u>\$293,190</u>	<u>\$244,528</u>

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2013 and 2012

6. **Commitments:**

Domus Kids, Inc., and the City of Stamford have an agreement for the lease of a building in Stamford, Connecticut to host the School as well as corporate offices of Domus Kids, 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 Kids, Inc., and the School 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 the School for utility expenses for the portion of the building used by the City of Stamford. The City of Stamford owed the School \$18,044 and \$47,088 for utility expenses as of June 30, 2013 and 2012, respectively.

The School has noncancellable operating leases for copier equipment, which expire in January 2017, with aggregate lease payments of \$889 per month.

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

Year Ending June 30

2014	\$10,672
2015	10,672
2016	10,672
2017	6,225
Total	\$38,241

Expense under these operating leases totaled \$9,783 and \$9,767 for 2013 and 2012, respectively.

7. **Defined contribution retirement plan:**

The teachers who work for the School 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. The School has no obligation under this plan.

The School maintains a defined contribution retirement plan as defined under Section 403(b) of the Internal Revenue Code. All employees who work a minimum of 1,000 hours per year,

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2013 and 2012

7. **Defined contribution retirement plan** (continued):

become eligible to participate immediately upon hire. Employees may make optional contributions to the plan on a tax deferred basis up to the maximum amount allowed by the Internal Revenue Service. The School matches up to 4% of each eligible employee's compensation following one year of service for employees who contributed to the plan. The School's contributions to the plan were \$39,394 and \$30,448 for 2013 and 2012, respectively.

8. **Major contributors:**

The School received approximately 78% and 75% of its support from two granting agencies in 2013 and 2012, respectively.

9. **Subsequent events:**

Management has evaluated subsequent events through December 2, 2013, the date which the financial statements were available for issue.

