

Trailblazers Academy, Inc.

Financial Statements

June 30, 2014 and 2013

INDEPENDENT AUDITORS' REPORT

**To the Board of Directors of
Trailblazers Academy, Inc.**

We have audited the accompanying financial statements of Trailblazers Academy, Inc., which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses and cash flows 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 audit. 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 of 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 auditors' 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 entity'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 entity'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 Trailblazers Academy, Inc. as of June 30, 2014, 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.

Prior Period Financial Statements

The financial statements of Trailblazers Academy, Inc. as of and for the year ended June 30, 2013 were audited by other auditors whose report dated December 2, 2013 expressed an unmodified opinion on those financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2014, on our consideration of Trailblazers Academy, Inc.'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 Trailblazers Academy, Inc.'s internal control over financial reporting and compliance.

O'Connor Davies, LLP

Stamford, Connecticut
November 21, 2014

Trailblazers Academy, Inc.

Statements of Financial Position

	June 30,	
	2014	2013
ASSETS		
Cash	\$ 341,989	\$ 369,910
Accounts and grants receivable	106,915	85,772
Due from affiliates, net	300,588	227,901
Prepaid expenses	27,023	21,218
Property and equipment, net	<u>12,050</u>	<u>19,044</u>
	<u>\$ 788,565</u>	<u>\$ 723,845</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 53,008	\$ 54,743
Accrued payroll and related expenses	<u>204,670</u>	<u>169,744</u>
Total Liabilities	<u>257,678</u>	<u>224,487</u>
Net Assets		
Unrestricted	495,387	474,218
Temporarily restricted	<u>35,500</u>	<u>25,140</u>
Total Net Assets	<u>530,887</u>	<u>499,358</u>
	<u>\$ 788,565</u>	<u>\$ 723,845</u>

See notes to financial statements

Trailblazers Academy, Inc.

Statements of Activities

	For the Year Ended June 30, 2014			For the Year Ended June 30, 2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT						
Government grants	\$ 2,440,843	\$ -	\$ 2,440,843	\$ 2,491,700	\$ -	\$ 2,491,700
Donations, in-kind	917,212	-	917,212	917,115	-	917,115
Contributions	715,233	-	715,233	530,073	-	530,073
Foundation grants	182,750	35,500	218,250	111,158	23,500	134,658
Other income	79,558	-	79,558	67,252	-	67,252
Interest income	183	-	183	740	-	740
Net assets released from restrictions	25,140	(25,140)	-	293,190	(293,190)	-
Total Revenue and Support	<u>4,360,919</u>	<u>10,360</u>	<u>4,371,279</u>	<u>4,411,228</u>	<u>(269,690)</u>	<u>4,141,538</u>
EXPENSES						
Program services	3,842,565	-	3,842,565	3,902,805	-	3,902,805
Management and general	460,518	-	460,518	420,184	-	420,184
Fundraising	36,667	-	36,667	32,833	-	32,833
Total Expenses	<u>4,339,750</u>	<u>-</u>	<u>4,339,750</u>	<u>4,355,822</u>	<u>-</u>	<u>4,355,822</u>
Change in Net Assets	21,169	10,360	31,529	55,406	(269,690)	(214,284)
NET ASSETS						
Beginning of year	<u>474,218</u>	<u>25,140</u>	<u>499,358</u>	<u>418,812</u>	<u>294,830</u>	<u>713,642</u>
End of year	<u>\$ 495,387</u>	<u>\$ 35,500</u>	<u>\$ 530,887</u>	<u>\$ 474,218</u>	<u>\$ 25,140</u>	<u>\$ 499,358</u>

See notes to financial statements

Trailblazers Academy, Inc.

Statements of Functional Expenses

	For the Year Ended June 30, 2014				For the Year Ended June 30, 2013			
	Program Services	Management and General	Fundraising	Total Expenses	Program Services	Management and General	Fundraising	Total Expenses
Personnel costs	\$ 2,030,046	\$ 258,984	\$ 36,667	\$ 2,325,697	\$ 2,192,662	\$ 252,756	\$ 32,833	\$ 2,478,251
Facilities costs	1,126,558	141,172	-	1,267,730	1,024,655	116,373	-	1,141,028
Professional fees	348,050	43,615	-	391,665	308,882	35,081	-	343,963
Student support services	197,797	-	-	197,797	221,950	-	-	221,950
Insurance expense	73,684	9,233	-	82,917	84,916	9,644	-	94,560
Office expenses	53,742	6,735	-	60,477	45,469	5,164	-	50,633
Depreciation expense	6,215	779	-	6,994	10,268	1,166	-	11,434
Transportation expense	4,336	-	-	4,336	4,796	-	-	4,796
Other program expenses	2,137	-	-	2,137	9,207	-	-	9,207
Total Expenses	<u>\$ 3,842,565</u>	<u>\$ 460,518</u>	<u>\$ 36,667</u>	<u>\$ 4,339,750</u>	<u>\$ 3,902,805</u>	<u>\$ 420,184</u>	<u>\$ 32,833</u>	<u>\$ 4,355,822</u>

Trailblazers Academy, Inc.

Statements of Cash Flows

	Year Ended June 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 31,529	\$ (214,284)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	6,994	11,434
Changes in operating assets and liabilities		
Accounts and grants receivable	(21,143)	69,945
Pledges receivable	-	245,863
Prepaid expenses	(5,805)	(2,037)
Due from affiliates	(72,687)	(90,980)
Accounts payable and accrued expenses	(1,735)	22,130
Accrued payroll and related expenses	<u>34,926</u>	<u>46,244</u>
Net Cash from Operating Activities	(27,921)	88,315
CASH		
Beginning of year	<u>369,910</u>	<u>281,595</u>
End of year	<u>\$ 341,989</u>	<u>\$ 369,910</u>

See notes to financial statements

Trailblazers Academy, Inc.

Notes to Financial Statements
June 30, 2014 and 2013

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, 2017. 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 Kids, Inc. ("Domus Kids") and Stamford Academy, Inc. ("Stamford Academy"), which are affiliated through common management but are each governed by a separate Board of Directors.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates. Some of the more significant estimates required to be made by management include the allowance for uncollectible receivables and allocation of certain functional expenses.

Net assets are classified as unrestricted, temporarily restricted or permanently restricted based upon the existence or absence of donor-imposed restrictions limiting the use of the contributed assets as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed restrictions.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed restrictions that either expire by the passage of time or can be fulfilled or otherwise removed by actions of Trailblazers.

Permanently Restricted Net Assets - Net assets subject to donor-imposed restrictions that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of Trailblazers.

Trailblazers did not have any permanently restricted net assets at June 30, 2014 and 2013.

Trailblazers Academy, Inc.

Notes to Financial Statements
June 30, 2014 and 2013

2. Summary of Significant Accounting Policies (continued)

Reclassifications

Certain reclassifications were made to the June 30, 2013 financial statements to conform with the June 30, 2014 presentation. Such reclassifications had no effect on the June 30, 2013 net assets of Trailblazers.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date the financial statements were available to be issued, which date is November 21, 2014.

Allowance for Uncollectible Receivables

An allowance for uncollectible receivables is estimated based on a combination of write-off history, aging analysis and any specifically known troubled accounts. Management has concluded that an allowance is not required at June 30, 2014 and 2013.

Property and Equipment

Property and equipment is stated at cost, or, if donated, at fair value at the date of donation. Depreciation of property and equipment is provided using the straight-line method over the estimated useful lives, which are generally between three and seven years. Purchases or donations of property and equipment of less than \$5,000 are generally expensed.

Contributions

Contributions are recognized when the donor makes a promise to give to Trailblazers that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are received. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires or is otherwise satisfied, temporarily restricted net assets are reclassified to unrestricted net assets.

Revenue Recognition

Trailblazers recognizes revenue from government grants, which are treated as exchange transactions, in the period in which the services are provided.

Contributed Goods and Services

Donated goods and services are recognized as contributions if the services either: a) create or enhance non-financial assets, or b) require specialized skills, are performed by people with those skills and would otherwise be purchased by Trailblazers if not donated. Numerous volunteers have donated time to Trailblazers' programs. However, the general volunteer services did not meet the criteria for recognition in the financial statements for the years ended June 30, 2014 and 2013.

Trailblazers Academy, Inc.

Notes to Financial Statements
June 30, 2014 and 2013

2. Summary of Significant Accounting Policies (continued)

Impairment or Disposal of Long-lived Assets

U.S. GAAP requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived assets is measured by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. No impairment losses have been recorded to date.

Functional Expenses

Trailblazers allocates its expenses on a functional basis among its program, management and general and fundraising activities. Expenses that can be specifically identified with a program or support service are allocated directly according to their natural classifications. Other expenses that are common to several functions are allocated based on estimates made by management. Trailblazers has adopted and follows a cost allocation plan in accordance with Connecticut state regulations.

Accounting for Uncertainty in Income Taxes

Trailblazers is generally exempt from income tax under 501(c)(3) of the U.S. Internal Revenue Code. Trailblazers recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that Trailblazers had no uncertain tax positions that would require financial statement recognition or disclosure. Trailblazers is no longer subject to examinations by the applicable taxing jurisdictions for periods prior to July 1, 2011.

3. Concentration of Risk

Financial instruments that potentially subject Trailblazers to significant concentrations of credit risk consist principally of cash. At times, cash balances held at financial institutions may be in excess of federally insured limits. Trailblazers has not experienced any losses in its cash deposits.

A significant portion of Trailblazers' support and revenue is from government agencies. As with all government funding, these grants may be subject to reduction or termination in future years. Any significant reduction in these grants could have a negative impact on Trailblazers' program services.

Trailblazers received approximately 72% and 78% of its revenue and support from government agencies for the years ended June 30, 2014 and 2013.

Trailblazers Academy, Inc.

Notes to Financial Statements
June 30, 2014 and 2013

4. Due From Affiliates

Due from affiliates consisted of the following at June 30:

	2014	2013
Grant due from Domus Kids	\$ 310,000	\$ -
Due (to) from Domus Kids for shared services	(104,966)	155,350
Due from Stamford Academy for shared services	<u>95,554</u>	<u>72,551</u>
Due from Affiliates, net	<u>\$ 300,588</u>	<u>\$ 227,901</u>

During the years ended June 30, 2014 and 2013 Domus Kids granted Trailblazers Academy \$310,000 and \$395,000, which is included in contribution revenue in the accompanying statements of activities. The grant due from Domus Kids was received subsequent to June 30, 2014.

The amounts due to and due from Domus Kids for shared services were paid and received subsequent to June 30, 2014 and 2013. The amounts due from Stamford Academy for shared services were received subsequent to June 30, 2014 and 2013.

5. Property and Equipment

Property and equipment consisted of the following at June 30:

	2014	2013
Furniture and fixtures	\$ 51,894	\$ 51,894
Computer equipment	56,477	56,477
School bus	55,908	55,908
Software	<u>57,527</u>	<u>57,527</u>
	221,806	221,806
Less accumulated depreciation	<u>(209,756)</u>	<u>(202,762)</u>
Property and Equipment, net	<u>\$ 12,050</u>	<u>\$ 19,044</u>

Trailblazers Academy, Inc.

Notes to Financial Statements
June 30, 2014 and 2013

6. Lease Commitments

Domus Kids 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 Kids, Inc. The lease term was for a five year period through June 30, 2014, with an option to renew for four consecutive five-year terms. Domus Kids is in the process of renewing the lease agreement for the first of the four five-year lease terms with the City of Stamford. The lease agreement allows Domus Kids 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 \$22,363 and \$18,044 for utility expenses as of June 30, 2014 and 2013, which are included in accounts and grants receivable in the accompanying statements of financial position.

Trailblazers has non cancellable operating leases for office 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 for the years ending June 30:

2015	\$	10,672
2016		10,672
2017		<u>6,225</u>
Total	\$	<u>27,569</u>

7. Donated Property and Program Supplies

Donated property and program supplies was as follows for the years ended June 30:

	<u>2014</u>	<u>2013</u>
Included in Revenue and Support:		
Donated school space	\$ 916,413	\$ 916,413
Donated program supplies	<u>799</u>	<u>702</u>
Total Donated In-Kind Support	<u>\$ 917,212</u>	<u>\$ 917,115</u>
Included in Functional Expenses:		
Facilities costs	\$ 916,413	\$ 916,413
Other program expenses	<u>799</u>	<u>702</u>
Total Expenses	<u>\$ 917,212</u>	<u>\$ 917,115</u>

Trailblazers Academy, Inc.

Notes to Financial Statements
June 30, 2014 and 2013

8. Temporarily Restricted Net Assets

Temporarily restricted net assets released from restrictions consisted of the following during the years ended June 30:

	<u>2014</u>	<u>2013</u>
School programs	\$ 23,500	\$ 287,363
Property and equipment	<u>1,640</u>	<u>5,827</u>
	<u>\$ 25,140</u>	<u>\$ 293,190</u>

Temporarily restricted net assets consisted of the following at June 30:

	<u>2014</u>	<u>2013</u>
School programs	\$ 35,500	\$ 23,500
Property and equipment	<u>-</u>	<u>1,640</u>
	<u>\$ 35,500</u>	<u>\$ 25,140</u>

9. 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 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 employees over 21 years of age who work a minimum of 1,000 hours per year 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. Trailblazers matches up to 4% of each eligible employee's compensation following one year of service for employees who contributed to the plan. Trailblazers' contributions to the plan were \$38,669 and \$39,390 for the years ended June 30, 2014 and 2013.
