GENESIS LEARNING CENTERS

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2012 AND 2011

GENESIS LEARNING CENTERS
Financial Statements
JUNE 30, 2012 AND 2011

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Genesis Learning Centers
Nashville, Tennessee

We have audited the accompanying statement of financial position of Genesis Learning Centers (a nonprofit organization) as of June 30, 2012, and the related statements of activities, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. 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. 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 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 audit provides 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 Genesis Learning Centers as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements for the year ended June 30, 2011 were reviewed by us and our report thereon, dated September 29, 2011, stated we were not aware of any material modifications that should be made to those statements for them to be in conformity with generally accepted accounting principles. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements taken as a whole.

Thomason Financial Resources

October 5, 2012

GENESIS LEARNING CENTERS
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011

ASSETS

	2012	2011
Current Assets		
Cash and cash equivalents	$ 517,655	$ 223,187
Grants and contracts receivable	112,747	234,826
Other receivable	-	16,368
Total current assets	630,402	474,381
Property and Equipment (net of accumulated depreciation of $934,928 and $991,925)	142,871	170,835
Other Assets		
Deposits	1,988	1,988
Long-term investments	152,501	167,755
Total assets	$ 927,762	$ 814,959

LIABILITIES AND NET ASSETS

	2012	2011
Current Liabilities		
Notes payable	$ 32,233	$ 62,473
Accounts payable	39,107	25,304
Accrued expenses	32,921	31,604
Total current liabilities	104,261	119,381
Notes payable	23,237	55,470
Total liabilities	127,498	174,851
Net Assets		
Unrestricted	800,264	640,108
Total liabilities and net assets	$ 927,762	$ 814,959

The accompanying notes are an integral part of these financial statements.

GENESIS LEARNING CENTERS
STATEMENTS OF ACTIVITIES

	For The Year Ended June 30, 2012 Unrestricted	2011 Unrestricted
Revenue and public support		
Client fees	$ 3,725,652	$ 3,663,091
Grant income	20,750	-
Investment income	4,842	4,915
Net (loss) gain on investments	(11,735)	23,780
Gain on disposal of equipment	2,000	8,544
Other	3,483	7,055
Total revenue and support	3,744,992	3,707,385
Expenses		
Salaries and wages	2,041,718	2,207,241
Employee benefits	367,317	435,127
Depreciation	44,851	68,652
Insurance	40,191	42,527
Interest expense	9,469	13,139
Investment expense	1,510	1,605
Postage	3,716	4,260
Professional Fees	64,055	26,003
Rent	306,108	302,513
Repairs and maintenance	67,609	52,160
Services	391,504	377,912
Staff travel	2,338	2,289
Student recreation	20,907	22,328
Supplies	76,825	72,480
Transportation	35,713	30,140
Utilities	89,353	96,673
Other expenses	21,652	19,352
Total expenses	3,584,836	3,774,401
Change in net assets	160,156	(67,016)
Net assets at beginning of year	640,108	707,124
Net assets at end of year	$ 800,264	$ 640,108

The accompanying notes are an integral part of these financial statements.

GENESIS LEARNING CENTERS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Cash Flows From Operating Activities		
Change in net assets	$ 160,156	$ (67,016)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	44,851	68,652
Unrealized loss (gain) on investments	11,735	(23,780)
Gain on disposal of equipment	(2,000)	(8,544)
Changes in operating assets and liabilities:		
Grants and contracts receivable	122,079	(3,320)
Other receivable	16,368	16,368
Accounts payable	13,803	11,099
Accrued expenses	1,317	1,655
Net cash provided by (used in) operating activities	368,309	(4,886)
Cash Flows From Investing Activities		
Purchases of property and equipment	(16,887)	(108,554)
Proceeds from sale of equipment	2,000	2,400
Net proceeds from sale of investments	3,519	29,815
Net cash used in investing activities	(11,368)	(76,339)
Cash Flows From Financing Activities		
Payments on notes payable	(62,473)	(66,933)
Proceeds from issuance of notes payable	-	80,264
Net cash (used in) provided by financing activities	(62,473)	13,331
Net increase (decrease) in cash and cash equivalents	294,468	(67,894)
Cash at beginning of year	223,187	291,081
Cash at end of year	$ 517,655	$ 223,187
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	$9,469	$13,139

The accompanying notes are an integral part of these financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Genesis Learning Centers (the "Organization"), a Tennessee not-for-profit corporation, provides services to children, adolescents and young adults with severe emotional, behavioral and learning problems through educational and homebound programs. The Organization strives to create for excellence that will allow each child, youth and adult they serve to reach their greatest human potential, to find success from within, and to actively participate in the community of humankind. The majority of the Organization's revenues are derived from contracts or grants through the Metropolitan Board of Education in Nashville and Davidson County and the Rutherford County Board of Education.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

> Unrestricted net assets – net assets that are not subject to donor-imposed stipulations.
>
> Temporarily restricted net assets – net assets subject to donor-imposed restrictions that may or will be met, either by actions of the Organization and/or the passage of time. Restrictions that are fulfilled in the same accounting period in which the contributions are received are reported in the statement of activities as unrestricted. When a restriction expires in a period after the contributions are received, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, the Organization considers all cash funds, cash bank accounts and highly liquid debt instruments, with an original maturity when purchased of three months or less, to be cash and cash equivalents. At June 30, 2012 and June 30, 2011, the Organization had no cash equivalents.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

Contributions

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. 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 recognized. 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, temporarily restricted net assets are reclassified to unrestricted net assets.

Grants and Contracts Receivable

The Organization considers grants and contracts receivable to be fully collectible at year-end. Accordingly, no allowance for doubtful accounts has been recorded.

Property and Equipment

Property and equipment are recorded at cost to the Organization, or if donated, at the estimated fair market value at the date of donation. All depreciation is computed using the straight-line method based on the estimated useful life of the asset. When property and equipment are sold or otherwise disposed, the asset and related accumulated depreciation are relieved, and any gain or loss is included in operations. Expenditures for repairs and maintenance are charged to operations when incurred.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

Investments

Investments are stated at fair market value. Unrealized gains and losses as well as appreciation or depreciation in market value are reflected in the accompanying financial statements.

Income Taxes

The Organization is a nonprofit organization exempt from income taxes under Section 501 (c) (3) of the Internal Revenue Code, and the Organization is classified as an organization that is not a private foundation as defined in Section 509(a) of the Internal Revenue Code. Therefore, no provision for federal income taxes is included in the accompanying financial statements.

The Organization accounts for the effect of any uncertain tax positions based on a *more likely than not* threshold to the recognition of the tax positions being sustained based on the technical merits of the position under examination by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a *cumulative probability assessment* that aggregates the estimated tax liability for all uncertain tax positions. Tax positions for the Organization include, but are not limited to, the tax exempt status and determination of whether income is subject to unrelated business income tax; however, the Organization has determined that such tax positions do not result in an uncertainty requiring recognition.

Financial Instruments

Financial accounting standards relating to fair value measurements establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 2 measurements). The three levels of the fair value hierarchy are described below:

> Level 1 – Values are unadjusted quoted prices for identical assets in active markets accessible at the measurement date.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

Financial Instruments - continued

Level 2 – Inputs include quoted prices for similar assets in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 – Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Organization's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

The Organization's financial instruments consist of grants receivable, prepaids, accounts payable and deferred revenue. The recorded values of all the Organization's financial instruments approximate their fair values based on their short-term nature. While the Organization believes its valuation methodologies are appropriate and consistent with that of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements at the reporting date.

NOTE 2 – CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of contract funds from the Metropolitan Board of Education in Nashville and Davidson County and the Rutherford County Board of Education. The contract funds represented 84% and 76% of the total revenue for the years ending June 30, 2012 and 2011, respectively. A significant reduction in the levels of this support, if this were to occur, could have an adverse impact on the Organization's programs and activities.

GENESIS LEARNING CENTERS
Notes to Financial Statements
June 30, 2012 and 2011

NOTE 3 – GRANTS AND CONTRACTS RECEIVABLE

Grants and contracts receivable consist of the following at June 30:

	2012	2011
Rutherford County Juvenile Court	$ 25,802	$ 59,495
Davidson County School District	7,289	87,063
Montgomery County Juvenile Court	61,611	72,600
Various Tennessee County School Districts	18,045	15,668
	$112,747	$234,826

NOTE 4 – INVESTMENTS

Investments consist of mutual funds at June 30:

	2012		2011	
	Cost	**Market**	**Cost**	**Market**
Mutual funds	$147,958	$152,501	$152,816	$167,755

During 2012 and 2011, interest and dividends earned from investments totaled $4,842 and $4,915 for the years ended June 30, 2012 and 2011, respectively. Investment fees totaled $1,510 and $1,605 for the years ended June 30, 2012 and 2011, respectively. Net unrealized and realized loss (gain) on investments amounted to $11,735 and ($23,780) for the years ended June 30, 2012 and 2011, respectively.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

	2012	**2011**
Leasehold improvements	$ 602,348	$ 625,456
Furniture and equipment	130,402	179,536
Vehicles	345,049	357,768
	1,077,799	1,162,760
Less accumulated depreciation	(934,928)	(991,925)
	$ 142,871	$ 170,835

Estimated useful lives are 5 years, 4-12 years, and 5 years for leasehold improvements, furniture and equipment, and vehicles, respectively.

NOTE 6 – NOTES PAYABLE

	2012	2011
Note payable to Mercedes Benz Financial bearing interest at 7.75%.The note requires monthly payments of principal and interest in the amount of $724. The note matures October 29, 2012.	2,850	10,965
Note payable to Insurors Bank bearing interest at 8.25%. The note requires monthly payments of principal and interest in the amount of $821. The note matures January 16, 2012.	-	9,415
Note payable to Insurors Bank bearing interest at 8.25%. The note requires monthly payments of principal and interest in the amount of $821. The note matures September 16, 2011.	-	6,362
Note payable to Insurors Bank bearing interest at 8.25%. The note requires monthly payments of principal and interest in the amount of $821. The note matures September 16, 2011.	-	6,362
Note payable to Insurors Bank bearing interest at 7.75%. The note requires monthly payments of principal and interest in the amount of $343. The note matures October 16, 2012.	-	4,575
Note payable to Insurors Bank bearing interest at 6.00%. The note requires monthly payments of principal and interest in the amount of $2,648. The note matures March 19, 2014.	52,620	80,264
Total maturities	55,470	117,943
Less current maturities	(32,233)	(62,473)
	$23,237	$ 55,470

NOTE 6 – NOTES PAYABLE- continued

Maturities of debt are as follows:

2013	32,233
2014	23,237
	$ 55,470

NOTE 7 – COMMITMENTS AND CONTINGENCIES

The Organization leases school and office facilities under three operating leases. Leases expire from August 1, 2016 to June 15, 2017. Rent expense for the years ended June 30, 2012 and 2011 totaled $306,108 and $302,513, respectively.

Future rental payments under noncancellable operating leases are as follows:

	Rents
2013	254,376
2014	254,376
2015	254,376
2016	194,376
2017	88,176
	$1,045,680

NOTE 8 – RETIREMENT PLAN

On July 1, 2005, the Organization adopted a 401(k) plan whereby practically all employees may elect to contribute a portion of their salaries up to the Internal Revenue Code maximum annual limit. To be an eligible employee to participate in the plan, the employee will need to complete a Year of Service by being credited at least 1,000 hours of service by the end of the employee's first twelve consecutive months of employment. The plan provides for the Organization to make discretionary contributions to the plan. For both fiscal years ended June 30, 2012 and 2011, the rate of contribution is 100% of employee salary deferrals up to 2% of annual compensation. The amounts charged to Organization retirement benefits expense and contributed to this plan for the years ended June 30, 2012 and 2011 were $22,163 and $26,918, respectively.

NOTE 9 – LINE OF CREDIT

On February 23, 2006, the Organization entered into a revolving line of credit agreement with a commercial bank. The agreement provides for a line of credit up to $100,000 and provides for interest to accrue at a variable rate based on the prime rate not to be less than 6% or more than the lesser of 21% or the maximum rate allowed by applicable law. The line is secured by equipment, accounts receivable, and investment securities of the Organization. The line of credit was renewed on December 14, 2011 with an increase in the credit line up to $215,000 and has a maturity date of December 15, 2012. In addition, this renewed line of credit includes a quarterly borrowing base reporting requirement. No borrowings were outstanding under the agreement at June 30, 2012 or 2011.

NOTE 10 – FUNCTIONAL EXPENSES

The Organization incurred functional expenses for the year ended June 30 as follows:

	2011	2011
Program	$3,273,129	$3,450,539
Administrative	311,707	323,862
	$3,584,836	$3,774,401

NOTE 11 – RELATED PARTY

A director of the board, Mr. Alex Wade, is Chief Executive Officer of a local insurance agency and handles the liability insurance policies for the Organization. The Organization paid his agency $38,954 and $41,621 in insurance premiums for the years ended June 30, 2012 and 2011, respectively.

Effective January 4, 2006, Terry Adams and Melissa Adams, Executive Director and Assistant Executive Director of Genesis Learning Centers, respectively, purchased the school facility in Nashville and leases back the facility to the Organization. The building will continue to be the school facility used in Nashville to provide services for its programs. The Organization paid Terry and Melissa Adams $137,331 and $133,641 in rent for the years ended June 30, 2012 and 2011, respectively.

Mr. Wade receives no compensation from the Organization as a director of the Organization's board. Both Terry and Melissa Adams receive compensation from the Organization for their services as Executive Director and Assistant Executive Director, respectively, to the Organization.

NOTE 12 – SUBSEQUENT EVENT

The Organization evaluated subsequent events through October 5, 2012, the issuance of the Organization's financial statements.