

GENESIS LEARNING CENTERS
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2018 AND 2017

GENESIS LEARNING CENTERS
Financial Statements
JUNE 30, 2018 AND 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of Genesis Learning Centers

We have audited the accompanying statement of financial position of Genesis Learning Centers as of June 30, 2018, and the related statement 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.

Auditor's 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. 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 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 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 consolidated 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 Genesis Learning Centers as of June 30, 2018, 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.

To the Board of Directors
of Genesis Learning Centers

Opinion-continued

The accompanying financial statements for the year ended June 30, 2017 were reviewed by us and our report thereon, dated October 5, 2017, 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.

Thomas Financial Resource

Nashville, Tennessee

September 9, 2018

**GENESIS LEARNING CENTERS
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017**

ASSETS

Current Assets	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 655,162	\$ 630,167
Grants and contracts receivable	158,648	203,655
Total current assets	<u>813,810</u>	<u>833,822</u>
Property and Equipment (net of accumulated depreciation of \$1,225,252 and \$1,164,724)	<u>325,971</u>	<u>303,089</u>
Other Assets		
Deposits	1,988	1,988
Long-term investments	192,066	221,619
Total assets	<u><u>\$ 1,333,835</u></u>	<u><u>\$ 1,360,518</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities		
Notes payable	\$ 50,332	\$ 45,608
Accounts payable	42,025	42,519
Accrued expenses	35,805	25,358
Total current liabilities	<u>128,162</u>	<u>113,485</u>
Notes payable	<u>36,232</u>	<u>74,187</u>
Total liabilities	<u>164,394</u>	<u>187,672</u>
Net Assets		
Unrestricted	1,169,441	1,172,846
Total liabilities and net assets	<u><u>\$ 1,333,835</u></u>	<u><u>\$ 1,360,518</u></u>

The accompanying notes are an integral part of these financial statements

**GENESIS LEARNING CENTERS
STATEMENTS OF ACTIVITIES**

	<u>For The Year Ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
	<u>Unrestricted</u>	<u>Unrestricted</u>
Revenue and public support		
Client fees	\$ 4,920,546	\$ 5,037,981
Grant income	12,587	6,127
Investment income	5,590	5,559
Net gain (loss) on investments	10,534	18,510
Gain on sale of assets	1,000	-
Total revenue and support	<u>4,950,257</u>	<u>5,068,177</u>
Expenses		
Salaries and wages	2,838,284	2,840,632
Employee benefits	567,673	560,090
Depreciation	110,479	96,519
Insurance	48,776	44,606
Interest expense	10,469	12,076
Investment expense	2,669	2,399
Postage	3,282	3,924
Professional Fees	63,077	72,011
Rent	319,349	309,454
Repairs and maintenance	45,657	38,491
Services	656,471	631,828
Staff travel	5,946	3,696
Student recreation	38,459	45,670
Supplies	49,698	65,605
Transportation	25,342	45,523
Utilities	121,232	115,373
Other expenses	46,799	63,571
Total expenses	<u>4,953,662</u>	<u>4,951,468</u>
Change in net assets	(3,405)	116,709
Net assets at beginning of year	1,172,846	1,056,137
Net assets at end of year	<u>\$ 1,169,441</u>	<u>\$ 1,172,846</u>

The accompanying notes are an integral part of these financial statements

**GENESIS LEARNING CENTERS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

Cash Flows From Operating Activities	<u>2018</u>	<u>2017</u>
Change in net assets	\$ (3,405)	\$ 116,709
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	110,479	96,519
Gain on sale of equipment	(1,000)	-
Unrealized gain on investments	(10,534)	(18,510)
Changes in operating assets and liabilities:		
Grants and contracts receivable	45,007	(33,728)
Accounts payable	(424)	20,039
Accrued expenses	10,447	(12,568)
Net cash provided by operating activities	<u>150,570</u>	<u>168,461</u>
Cash Flows From Investing Activities		
Purchases of property and equipment	(133,361)	(86,808)
Purchases of investments	-	(23,559)
Net proceeds from sale of investments	41,017	-
Net cash used in investing activities	<u>(92,344)</u>	<u>(110,367)</u>
Cash Flows From Financing Activities		
Payments on notes payable	(46,180)	(43,359)
Proceeds from issuance of notes payable	12,949	-
Net cash used in financing activities	<u>(33,231)</u>	<u>(43,359)</u>
Net increase in cash and cash equivalents	24,995	14,735
Cash at beginning of year	630,167	615,432
Cash at end of year	<u>\$ 655,162</u>	<u>\$ 630,167</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	<u>\$10,469</u>	<u>\$12,076</u>

The accompanying notes are an integral part of these financial statements

GENESIS LEARNING CENTERS
Notes to Financial Statements
June 30, 2018 and 2017

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 programs of 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.

The amount for each of these classes of net assets is displayed in the statement of financial position and the amount of change in each class of net assets is displayed in the statement of activities. As of June 30, 2018 and 2017, there were no temporarily restricted net assets.

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, 2018 and June 30, 2017, the Organization had no cash equivalents.

GENESIS LEARNING CENTERS
Notes to Financial Statements
June 30, 2018 and 2017

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.

Client Fees

Client fees are recognized when the qualifying costs are incurred for cost-reimbursement grants or contracts. Majority of grants and contracts reimburse the Organization for a daily cost per student served during the year the services are rendered, which generally runs from August to June.

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.

GENESIS LEARNING CENTERS
Notes to Financial Statements
June 30, 2018 and 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

Investments

Investments are stated at fair market value. Unrealized gains and losses and interest and dividends 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. Tax years that remain open to examination include years ended June 30, 2015 through June 30, 2018.

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.

GENESIS LEARNING CENTERS
Notes to Financial Statements
June 30, 2018 and 2017

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.

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis:

Investments – Equity securities and mutual funds are valued at the closing price reported on the active market which they are traded, and are classified within level 1 of the valuation hierarchy.

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 – FAIR VALUE MEASUREMENTS

The following table sets forth the Organization's major categories of assets measured at fair value on a recurring basis, by level within the fair value hierarchy, as of June 30:

	Level 1	2018 Level 2	Level 3	
	<u>Inputs</u>	<u>Inputs</u>	<u>Inputs</u>	<u>Total</u>
Investments:				
Equity securities	\$109,689	\$ -	\$ -	\$109,689
Mutual funds	<u>82,377</u>	<u>-</u>	<u>-</u>	<u>82,377</u>
	<u>\$192,066</u>	<u>-</u>	<u>-</u>	<u>\$192,066</u>

GENESIS LEARNING CENTERS
Notes to Financial Statements
June 30, 2018 and 2017

NOTE 2 – FAIR VALUE MEASUREMENTS – continued

	Level 1	2017 Level 2	Level 3	Total
	<u>Inputs</u>	<u>Inputs</u>	<u>Inputs</u>	
Investments:				
Equity securities	\$106,748	\$ -	\$ -	\$106,748
Mutual funds	<u>114,871</u>	<u>-</u>	<u>-</u>	<u>114,871</u>
	<u>\$221,619</u>	<u>-</u>	<u>-</u>	<u>\$221,619</u>

NOTE 3 – 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 78% and 76% of the total revenue for the years ending June 30, 2018 and 2017, 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.

NOTE 4 – GRANTS AND CONTRACTS RECEIVABLE

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

	<u>2018</u>	<u>2017</u>
Rutherford County Juvenile Court	\$ 60,538	\$ 89,223
Davidson County School District	17,692	23,288
Montgomery County Juvenile Court	59,928	77,135
Various Tennessee County School Districts	<u>20,490</u>	<u>14,009</u>
	<u>\$158,648</u>	<u>\$203,655</u>

NOTE 5 – INVESTMENTS

Investments consist of mutual funds and equity securities at June 30:

	<u>2018</u>		<u>2017</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Mutual funds	\$ 78,280	\$ 82,377	\$109,643	\$114,871
Equity securities	<u>88,535</u>	<u>109,689</u>	<u>91,119</u>	<u>106,748</u>
	<u>\$166,815</u>	<u>\$192,066</u>	<u>\$200,762</u>	<u>\$221,619</u>

GENESIS LEARNING CENTERS
Notes to Financial Statements
June 30, 2018 and 2017

NOTE 5 – INVESTMENTS- continued

Interest and dividends earned from investments totaled \$5,590 and \$5,559 for the years ended June 30, 2018 and 2017, respectively. Investment fees totaled \$2,669 and \$2,399 for the years ended June 30, 2018 and 2017, respectively. Net unrealized and realized gain on investments amounted to \$10,534 and \$18,510 for the years ended June 30, 2018 and 2017, respectively.

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

	<u>2018</u>	<u>2017</u>
Leasehold improvements	\$1,028,465	\$ 915,766
Furniture and equipment	226,496	218,783
Vehicles	<u>296,262</u>	<u>333,264</u>
	1,551,223	1,467,813
Less accumulated depreciation	<u>(1,225,252)</u>	<u>(1,164,724)</u>
	<u>\$ 325,971</u>	<u>\$ 303,089</u>

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

NOTE 7 – NOTES PAYABLE

	<u>2018</u>	<u>2017</u>
Note payable to Insurors Bank bearing interest at 5.00%.	\$ 55,450	\$ 94,657
The note was opened on June 19, 2014 and required a principal amount of \$190,000 to be drawn down over four months with only interest being paid over the first four months. Beginning December 2, 2014, the note requires monthly payments of principal and interest in the amount of \$3,592. The note matures November 2, 2019.		

Note payable to Insurors Bank bearing interest at 5.00%.		
The note requires monthly payments of principal and interest in the amount of \$627. The note matures February 17, 2021.	18,736	25,138

Note payable to TD Auto Finance, LLC bearing interest at 5.23%. The note requires monthly payments of principal and interest in the amount of \$246. The note matures March 1, 2023.	<u>12,378</u>	=
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GENESIS LEARNING CENTERS
Notes to Financial Statements
June 30, 2018 and 2017

NOTE 7 – NOTES PAYABLE-continued

Total maturities	86,564	119,795
Less current maturities	(50,332)	(45,608)
	<u>\$ 36,232</u>	<u>\$ 74,187</u>

Maturities of debt are as follows:

2019	\$ 50,332
2020	23,774
2021	7,537
2022	2,757
2023	<u>2,164</u>
	<u>\$ 86,564</u>

NOTE 8 – COMMITMENTS AND CONTINGENCIES

The Organization leases school and office facilities under three operating leases. Leases expire from August 1, 2014 to July 31, 2026. Rent expense for the years ended June 30, 2018 and 2017 totaled \$319,349 and \$309,804, respectively.

Future minimum rental payments under noncancellable operating leases are as follows:

Rents

2019	261,196
2020	186,200
2021	186,200
2022	187,950
2023	<u>188,300</u>
	<u>\$ 1,009,846</u>

GENESIS LEARNING CENTERS
Notes to Financial Statements
June 30, 2018 and 2017

NOTE 9 – 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, 2018 and 2017, 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, 2018 and 2017 were \$26,218 and \$20,888, respectively.

NOTE 10 – LINE OF CREDIT

The Organization has a \$215,000 revolving line of credit requiring monthly interest payments on the outstanding principal balance at a variable rate based on the prime rate not to be less than 4.82% or more than the lesser of 21.29% or the maximum rate allowed by applicable law. The line is secured by accounts receivable, equipment and investment securities of the Organization. In addition, this renewed line of credit includes a quarterly borrowing base reporting requirement. The terms of the line of credit require all unpaid principal and interest to be paid on December 15, 2018. No borrowings were outstanding under the agreement at June 30, 2018 or 2017.

NOTE 11 – LUNCH PROGRAM

Client fees in the Statement of Activities include student lunch program revenue and related expense for the Organization. Results of the student lunch program are as follows:

	<u>2018</u>	<u>2017</u>
Student lunch revenue	\$110,742	\$111,940
Student lunch expense	(134,041)	(107,187)
Net income (loss)	<u>\$ (23,299)</u>	<u>\$ 4,753</u>

NOTE 12 – FUNCTIONAL EXPENSES

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

	<u>2018</u>		<u>2017</u>	
Program	\$4,553,310	92%	\$4,562,611	92%
Administrative	<u>400,352</u>	<u>8%</u>	<u>388,857</u>	<u>8%</u>
	<u>\$4,953,662</u>	100%	<u>\$4,951,468</u>	100%

GENESIS LEARNING CENTERS
Notes to Financial Statements
June 30, 2018 and 2017

NOTE 13 – RELATED PARTY

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 \$146,153 and \$136,258 in rent for the years ended June 30, 2018 and 2017, respectively.

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 14 – SUBSEQUENT EVENT

The Organization evaluated subsequent events through September 9, 2018, the issuance of the Organization's financial statements.