

GENESIS LEARNING CENTERS
FINANCIAL STATEMENTS AND
ACCOUNTANT'S REVIEW REPORT
JUNE 30, 2020

GENESIS LEARNING CENTERS
Financial Statements
JUNE 30, 2020

Table of Contents

	<u>Page</u>
Independent Accountant's Review Report	1
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6



CPA for the Not-For-Profit Sector

1009 Harding Trace Court Nashville, TN 37221
phone 615-673-7307 cell 615-479-4770 kim@thomasonfinancial.com

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors of
Genesis Learning Centers

We have reviewed the accompanying financial statements of Genesis Learning Centers (a nonprofit organization), which comprise the statements of financial position as of June 30, 2020, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink, appearing to read "Thomas Financial Resources", is written over a horizontal line.

November 10, 2020

GENESIS LEARNING CENTERS
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2020

ASSETS

Current Assets

Cash and cash equivalents	\$ 686,046
Grants and contracts receivable	276,357
Total current assets	<u>962,403</u>

Property and Equipment (net of
accumulated depreciation of \$1,331,479)

374,086

Other Assets

Deposits	1,988
Long-term investments	162,989
Total assets	<u><u>\$ 1,501,466</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities

Notes payable	\$ 337,037
Accounts payable	4,950
Accrued expenses	29,744
Total current liabilities	<u>371,731</u>

Notes payable

479,111

Total liabilities

850,842

Net Assets

Without donor restrictions	650,624
Total liabilities and net assets	<u><u>\$ 1,501,466</u></u>

See independent accountant's review report and accompanying notes to financial statements

**GENESIS LEARNING CENTERS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020**

Revenue and public support	<u>Without Donor Restrictions</u>
Client fees	\$ 4,512,390
District funding	142,760
Contributions	5,368
Investment income, net	5,352
Interest income	113
Gain on sale of assets	6,900
Total revenue and support	<u>4,672,883</u>
Expenses	
Program services	4,703,878
Supporting services:	
Management and general	491,529
Total supporting services	<u>491,529</u>
Total expenses	<u>5,195,407</u>
Change in net assets	<u>(522,524)</u>
Net assets at beginning of year	1,173,148
Net assets at end of year	<u><u>\$ 650,624</u></u>

See independent accountant's review report and accompanying notes to financial statements

**GENESIS LEARNING CENTERS
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020**

	<u>Program Services</u>	<u>Management and General</u>	<u>Total Expenses</u>
Salaries	\$ 2,718,091	\$ 328,316	\$ 3,046,407
Employee benefits	215,284	10,279	225,563
Payroll taxes	196,646	24,984	221,630
Total compensation	<u>3,130,021</u>	<u>363,579</u>	<u>3,493,600</u>
Depreciation	116,716	10,831	127,547
Insurance	29,984	43,341	73,325
Interest expense	7,287	443	7,730
Staff tuition reimbursement	15,263	-	15,263
Professional Fees	34,151	51,232	85,383
Rent	373,046	7,000	380,046
Repairs and maintenance	42,583	-	42,583
Services	670,200	-	670,200
Staff travel	2,938	2,532	5,470
Student recreation	36,810	-	36,810
Supplies	60,709	2,603	63,312
Transportation	16,187	122	16,309
Utilities	126,432	3,023	129,455
Other expenses	41,551	6,823	48,374
Total expenses by function	<u>\$ 4,703,878</u>	<u>\$ 491,529</u>	<u>\$ 5,195,407</u>
Current year's percentages	90.54%	9.46%	100.00%

See independent accountant's review report and accompanying notes to financial statements

**GENESIS LEARNING CENTERS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020**

Cash Flows From Operating Activities

Change in net assets	\$ (522,524)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	127,547
Investment income, net	(5,352)
Changes in operating assets and liabilities:	
Grants and contracts receivable	(78,855)
Accounts payable	(25,824)
Accrued expenses	(4,533)
Net cash used in operating activities	<u>(509,541)</u>

Cash Flows From Investing Activities

Purchases of property and equipment	(12,259)
Net proceeds from sale of investments	16,796
Net proceeds from sale of assets	6,900
Net cash provided by investing activities	<u>11,437</u>

Cash Flows From Financing Activities

Payments on notes payable	(66,258)
Proceeds from issuance of notes payable	636,600
Net cash provided by financing activities	<u>570,342</u>
Net increase in cash and cash equivalents	72,238
Cash at beginning of year	613,808
Cash at end of year	<u>\$ 686,046</u>

Supplemental Disclosure of Cash Flow Information:

Cash paid during the year for interest	<u>\$7,730</u>
--	----------------

See independent accountant's review report and accompanying notes to financial statements

GENESIS LEARNING CENTERS
Notes to Financial Statements
June 30, 2020

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:

Net assets without donor restrictions – Net assets without donor restrictions are resources available to support operations. The only limits on the use of these net assets are the broad limits resulting for the nature of the organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Net assets with donor restrictions – Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor’s instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the organization must continue to use the resources in accordance with the donor’s instructions.

GENESIS LEARNING CENTERS
Notes to Financial Statements
June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

Basis of Presentation-continued

Restrictions that are fulfilled in the same accounting period in which the contributions are received are reported in the statement of activities as net assets without donor restrictions. When a restriction expires in a period after the contributions are received, net assets with donor restrictions are reclassified to net assets without donor restrictions 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, 2020, there were no net assets with donor 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, 2020, the Organization had no cash equivalents.

Contributions

Contributions are recognized when received. All contributions are reported as increases in net assets without donor restrictions unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in net assets with donor restrictions.

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.

GENESIS LEARNING CENTERS
Notes to Financial Statements
June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

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.

Investments

Investments are stated at fair market value. Unrealized gains and losses, investment fees and interest and dividends are reflected in the statement of activities as investment income, net.

Income Taxes

The Organization is a nonprofit organization exempt from income taxes under Section 501 (c) (3) of the Internal Revenue Code (IRC), though it would be subject to tax on income unrelated to its exempt purpose (unless that income is otherwise excluded by the IRC). Contributions to the organization are tax deductible to donors under Section 170 of the IRC. The Organization is not classified as a private foundation.

Expense Recognition and Allocation

The costs of providing program services and supporting services have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Expenses that can be identified with program or support service are charged directly to program or support service. Costs common to multiple functions have been allocated among the various functions benefited using a reasonable allocation method that is consistently applied, as follows:

- Salaries and wages, benefits, and payroll taxes are allocated based on activity reports prepared by key personnel.

Management and general expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the organization.

GENESIS LEARNING CENTERS
Notes to Financial Statements
June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

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.

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.

GENESIS LEARNING CENTERS
Notes to Financial Statements
June 30, 2020

NOTE 2 – LIQUIDITY AND AVAILABILITY

The Organization has \$962,403 of financial assets available within 1 year of the balance sheet date to meet cash needs for general expenditure consisting of cash of \$686,046, and grants and contracts receivable of \$276,357. None of these financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date.

The Organization has a goal to maintain financial assets, which consist of cash and receivables on hand to meet 60 days of normal operating expenses. The Organization also has a policy to structure its financial assets to be available as its general expenditures, liabilities, and any other obligations come due. As a part of the Organization's liquidity management plan, the Organization invests cash in excess of daily requirements in investments (Note 6). The Organization also maintains a revolving line of credit of \$215,000 to cover short-term cash needs (Note 11).

NOTE 3 – 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, 2020:

	Level 1 <u>Inputs</u>	Level 2 <u>Inputs</u>	Level 3 <u>Inputs</u>	<u>Total</u>
Investments:				
Equity securities	\$ 67,747	\$ -	\$ -	\$ 67,747
Mutual funds	<u>95,242</u>	<u>-</u>	<u>-</u>	<u>95,242</u>
	<u>\$162,989</u>	<u>-</u>	<u>-</u>	<u>\$162,989</u>

NOTE 4 – 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 72% of the total revenue for the year ending June 30, 2020. A significant reduction in the level of this support, if this were to occur, could have an adverse impact on the Organization's programs and activities.

Amounts held in a financial institution occasionally are in excess of the Federal Deposit Insurance Corporation limit. The organization deposits its cash with a high quality financial institution, and management believes the organization is not exposed to significant credit risk on those amounts.

GENESIS LEARNING CENTERS
Notes to Financial Statements
June 30, 2020

NOTE 5 – GRANTS AND CONTRACTS RECEIVABLE

Grants and contracts receivable consist of the following at June 30, 2019:

Davidson County School District	\$124,733
Montgomery County Juvenile Court	88,724
Rutherford County Juvenile Court	52,773
Other	<u>10,127</u>
	<u>\$276,357</u>

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2020:

Leasehold improvements	\$1,107,191
Furniture and equipment	232,944
Vehicles	<u>365,430</u>
	1,705,565
Less accumulated depreciation	<u>(1,331,479)</u>
	<u>\$ 374,086</u>

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

NOTE 7 – 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, 2020. No borrowings were outstanding under the agreement at June 30, 2020.

GENESIS LEARNING CENTERS
Notes to Financial Statements
June 30, 2020

NOTE 8 – NOTES PAYABLE

On April 22, 2020, the Organization was granted a loan from Insurors Bank in the aggregate amount of \$636,600, pursuant to the Paycheck Protection Program (the “PPP”) under Division A, Title I of the Coronavirus Aid, Relief and Economic Security Act (“CARES”), which was enacted March 27, 2020. The loan may be prepaid by the Organization at any time prior to maturity with no prepayment penalties. Funds from the loan may only be used for payroll costs, costs used to continue group health care benefits, rent, and utilities. The Company intends to use the entire loan amount for qualifying expenses. Under the terms of the PPP, certain amounts of the loan may be forgiven if they are used for qualifying expenses as described in the CARES Act.

The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1% with a deferral of payments for the first six months. See inclusion of this loan below.

2020

Note payable to Insurors Bank bearing interest at 1.00%. The note requires monthly payments of \$35,812 beginning November 1, 2020. The note matures April 1, 2022.	\$636,600
---	-----------

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.	4,915
--	-------

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.	7,749
---	-------

Note payable to Wells Fargo Equipment Finance, Inc. bearing interest at 5.23%. The note requires monthly payments of principal and interest in the amount of \$3,881. The note matures December 31, 2024.	166,884
--	---------

Total maturities	816,148
Less current maturities	<u>(337,037)</u>
	<u>\$ 479,111</u>

GENESIS LEARNING CENTERS
Notes to Financial Statements
June 30, 2020

NOTE 8 – NOTES PAYABLE-continued

Maturities of debt are as follows:

2021	\$ 337,037
2022	402,995
2023	48,948
2024	<u>27,168</u>
	<u>\$ 816,148</u>

NOTE 9 – COMMITMENTS AND CONTINGENCIES

The Organization leases school and office facilities under three operating leases. Leases expire from June 30, 2024 to July 31, 2026. Rent expense for the year ended June 30, 2020 totaled \$354,543.

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

Rents

2021	318,064
2022	320,164
2023	330,164
2024	330,164
2025	<u>228,300</u>
	<u>\$ 1,526,856</u>

NOTE 10 – 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 fiscal year ended June 30, 2020, the rate of contribution is 100% of employee salary deferrals up to 2% of annual compensation. The amount charged to Organization retirement benefits expense and contributed to this plan for the year ended June 30, 2020 was \$22,446.

GENESIS LEARNING CENTERS
Notes to Financial Statements
June 30, 2020

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 for year ended June 30, 2020 are as follows:

Student lunch revenue	\$ 71,163
Student lunch expense	(88,192)
Net loss	<u>\$ (17,029)</u>

NOTE 12 – RELATED PARTY

Effective January 4, 2006, Terry Adams and Melissa Adams, Board President and former 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 \$147,479 in rent for the year ended June 30, 2020.

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 13 – RISKS AND UNCERTAINTIES

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Organization’s financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Organization cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time. If the pandemic continues, it may have an adverse effect on the Organization’s results of future operations, financial position, and liquidity in fiscal year 2021.

GENESIS LEARNING CENTERS
Notes to Financial Statements
June 30, 2020

NOTE 14 – SUBSEQUENT EVENTS

On September 3, 2020, the Organization was awarded a grant in the amount of \$313,500 through the Tennessee Community CARES Program. Such grant is administered by the United Way of Greater Nashville.

On October 29, 2020, the Organization acquired a loan for \$100,000 from Insuror's Bank. This loan bears interest at 4.75% interest and is due with the principal amount through a single pay installment on the loan's maturity date of January 29, 2021.

The Organization evaluated subsequent events through November 10, 2020, the issuance of the Organization's financial statements.