GENESIS LEARNING CENTERS

COMPILED FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

GENESIS LEARNING CENTERS
Financial Statements
JUNE 30, 2013 AND 2012

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THOMASON
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INDEPENDENT ACCOUNTANT'S COMPILATION REPORT

To the Board of Directors
Genesis Learning Centers
Nashville, Tennessee

We have compiled the accompanying statement of financial position of Genesis Learning Centers (a nonprofit organization) as of June 30, 2013, and the related statements of activities, and cash flows for the year then ended. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

The June 30, 2012 financial statements were audited by us and we expressed an unqualified opinion on them in our report dated October 5, 2012. We have not performed any audit procedures since that date.

Thomason Financial Resources

October 4, 2013

GENESIS LEARNING CENTERS
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012

ASSETS

	2013	2012
Current Assets		
Cash and cash equivalents	$ 583,177	$ 517,655
Grants and contracts receivable	165,397	112,747
Total current assets	748,574	630,402
Property and Equipment (net of accumulated depreciation of $966,353 and $934,928)	121,036	142,871
Other Assets		
Deposits	1,988	1,988
Long-term investments	137,083	152,501
Total assets	$ 1,008,681	$ 927,762

LIABILITIES AND NET ASSETS

	2013	2012
Current Liabilities		
Notes payable	$ 23,237	$ 32,233
Accounts payable	22,324	39,107
Accrued expenses	24,434	32,921
Total current liabilities	69,995	104,261
Notes payable	-	23,237
Total liabilities	69,995	127,498
Net Assets		
Unrestricted	938,686	800,264
Total liabilities and net assets	$ 1,008,681	$ 927,762

See accompanying notes and accountant's compilation report.

GENESIS LEARNING CENTERS
STATEMENTS OF ACTIVITIES

	For The Year Ended June 30,	
	2013	**2012**
	Unrestricted	**Unrestricted**
Revenue and public support		
Client fees	$ 3,952,459	$ 3,725,652
Grant income	15,660	20,750
Investment income	3,773	4,842
Net gain (loss) on investments	8,227	(11,735)
Gain on disposal of equipment	-	2,000
Other	-	3,483
Total revenue and support	3,980,119	3,744,992
Expenses		
Salaries and wages	2,237,538	2,041,718
Employee benefits	411,408	367,317
Depreciation	31,425	44,851
Insurance	39,939	40,191
Interest expense	3,515	9,469
Investment expense	1,415	1,510
Postage	4,312	3,716
Professional Fees	42,809	64,055
Rent	315,753	306,108
Repairs and maintenance	67,473	67,609
Services	411,296	391,504
Staff travel	1,701	2,338
Student recreation	25,479	20,907
Supplies	91,141	76,825
Transportation	39,672	35,713
Utilities	94,365	89,353
Other expenses	22,456	21,652
Total expenses	3,841,697	3,584,836
Change in net assets	138,422	160,156
Net assets at beginning of year	800,264	640,108
Net assets at end of year	$ 938,686	$ 800,264

See accompanying notes and accountant's compilation report.

GENESIS LEARNING CENTERS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Cash Flows From Operating Activities		
Change in net assets	$ 138,422	$ 160,156
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	31,425	44,851
Unrealized (gain) loss on investments	(8,227)	11,735
Gain on disposal of equipment	-	(2,000)
Changes in operating assets and liabilities:		
Grants and contracts receivable	(52,650)	122,079
Other receivable	-	16,368
Accounts payable	(16,783)	13,803
Accrued expenses	(8,487)	1,317
Net cash provided by operating activities	83,700	368,309
Cash Flows From Investing Activities		
Purchases of property and equipment	(9,590)	(16,887)
Proceeds from sale of equipment	-	2,000
Net proceeds from sale of investments	23,645	3,519
Net cash provided by (used in) investing activities	14,055	(11,368)
Cash Flows From Financing Activities		
Payments on notes payable	(32,233)	(62,473)
Net cash used in financing activities	(32,233)	(62,473)
Net increase in cash and cash equivalents	65,522	294,468
Cash at beginning of year	517,655	223,187
Cash at end of year	$ 583,177	$ 517,655

Supplemental Disclosure of Cash Flow Information:

Cash paid during the year for interest	$3,515	$9,469

See accompanying notes and accountant's compilation report.

GENESIS LEARNING CENTERS
Notes to Financial Statements
June 30, 2013 and 2012

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. There were no temporarily restricted net assets as of June 30, 2013.

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, 2013 and June 30, 2012, 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. Tax years that remain open to examination include years ended June 30, 2010 through June 30, 2013.

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.

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:

		2013		
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total
Investments:				
Equity securities	$ 62,137	$ -	$ -	$ 62,136
Mutual funds	74,946	-	-	74,946
	$137,083	-	-	$137,083

NOTE 2 – FAIR VALUE MEASUREMENTS – continued

	2012 Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total
Investments:				
Mutual funds	$152,501	$ -	$ -	$152,501
	$152,501	-	-	$152,501

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 69% and 67% of the total revenue for the years ending June 30, 2013 and 2012, 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:

	2013	2012
Rutherford County Juvenile Court	$ 66,880	$ 25,802
Davidson County School District	29,085	7,289
Montgomery County Juvenile Court	69,432	61,611
Various Tennessee County School Districts	-	18,045
	$165,397	$112,747

NOTE 5 – INVESTMENTS

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

	2013		2012	
	Cost	**Market**	**Cost**	**Market**
Mutual funds	$ 69,896	$74,946	$147,958	$152,501
Equity securities	60,826	62,137	-	-
	$130,722	$137,083	$147,958	$152,501

NOTE 5 – INVESTMENTS- continued

During 2013 and 2012, interest and dividends earned from investments totaled $3,773 and $4,842 for the years ended June 30, 2013 and 2012, respectively. Investment fees totaled $1,415 and $1,510 for the years ended June 30, 2013 and 2012, respectively. Net unrealized and realized loss (gain) on investments amounted to ($8,227) and $11,735 for the years ended June 30, 2013 and 2012, respectively.

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

	2013	2012
Leasehold improvements	$ 607,698	$ 602,348
Furniture and equipment	134,642	130,402
Vehicles	345,049	345,049
	1,087,389	1,077,799
Less accumulated depreciation	(966,353)	(934,928)
	$ 121,036	$ 142,871

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

NOTE 7 – NOTES PAYABLE

	2013	2012
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
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.	23,237	52,620
Total maturities	23,237	55,470
Less current maturities	(23,237)	(32,233)
	$ -	$ 23,237

NOTE 8 – 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, 2013 and 2012 totaled $315,753 and $306,108, respectively.

Future rental payments under noncancellable operating leases are as follows:

	Rents
2014	254,376
2015	254,376
2016	194,376
2017	88,176
	$ 791,304

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, 2013 and 2012, 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, 2013 and 2012 were $22,483 and $22,163, 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 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. 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, 2013. No borrowings were outstanding under the agreement at June 30, 2013 or 2012.

NOTE 11 – FUNCTIONAL EXPENSES

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

	2013		2012	
Program	$3,510,648	91%	$3,273,129	91%
Administrative	331,049	9%	311,707	9%
	$3,841,697	100%	$3,584,836	100%

NOTE 12 – 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 $39,033 and $38,954 in insurance premiums for the years ended June 30, 2013 and 2012, 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 $139,555 and $137,331 in rent for the years ended June 30, 2013 and 2012, 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.

GENESIS LEARNING CENTERS
Notes to Financial Statements
June 30, 2013 and 2012

NOTE 13 – SUBSEQUENT EVENT

The Organization evaluated subsequent events through October 4, 2013, the issuance of the Organization's financial statements.