

**GENESIS LEARNING CENTERS**  
**FINANCIAL STATEMENTS AND**  
**ACCOUNTANT'S REVIEW REPORT**  
**JUNE 30, 2011 AND 2010**

**GENESIS LEARNING CENTERS**  
**Financial Statements**  
**JUNE 30, 2011 AND 2010**

**Table of Contents**

	<b><u>Page</u></b>
<b>Independent Accountant's Review Report</b>	<b>1</b>
<b>Statement of Financial Position</b>	<b>2</b>
<b>Statement of Activities</b>	<b>3</b>
<b>Statement of Cash Flows</b>	<b>4</b>
<b>Notes to Financial Statements</b>	<b>5-13</b>



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  
Genesis Learning Centers

We have reviewed the accompanying statement of financial position of Genesis Learning Centers (a nonprofit organization) as of June 30, 2011, and the related statements of activities, and cash flows for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Organization 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 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 review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying June 30, 2011 financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements for the year ended June 30, 2010, were compiled by us. 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. Accordingly, we do not express an opinion or provide any assurance about whether these financial statements are in accordance with accounting principles generally accepted in the United States of America.

September 29, 2011

**GENESIS LEARNING CENTERS  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2011 AND 2010**

**ASSETS**

**Current Assets**

	<u><b>2011</b></u>	<u><b>2010</b></u>
Cash and cash equivalents	\$ 223,187	\$ 291,081
Grants and contracts receivable	234,826	238,146
Other receivable	16,368	-
Total current assets	<u>474,381</u>	<u>529,227</u>

**Property and Equipment** (net of  
accumulated depreciation of \$991,925  
and \$969,721)

	<u>170,835</u>	<u>152,067</u>
--	----------------	----------------

**Other Assets**

Deposits	1,988	1,988
Long-term investments	167,755	183,520
Total assets	<u><u>\$ 814,959</u></u>	<u><u>\$ 866,802</u></u>

**LIABILITIES AND NET ASSETS**

**Current Liabilities**

Notes payable	\$ 62,473	\$ 67,454
Accounts payable	25,304	14,205
Accrued expenses	31,604	29,949
Total current liabilities	<u>119,381</u>	<u>111,608</u>

<b>Notes payable</b>	<u>55,470</u>	<u>48,070</u>
Total liabilities	<u>174,851</u>	<u>159,678</u>

**Net Assets**

Unrestricted	640,108	707,124
Total liabilities and net assets	<u><u>\$ 814,959</u></u>	<u><u>\$ 866,802</u></u>

See Independent Accountant's Review Report

**GENESIS LEARNING CENTERS  
STATEMENTS OF ACTIVITIES**

	<u>For The Year Ended June 30,</u>	
	<u>2011</u>	<u>2010</u>
	<u>Unrestricted</u>	<u>Unrestricted</u>
<b>Revenue and public support</b>		
Client fees	\$ 3,663,091	\$ 3,982,394
Investment income	4,915	4,442
Net gain on investments	23,780	25,971
Gain on disposal of equipment	8,544	2,387
Other	7,055	9,706
Total revenue and support	<u>3,707,385</u>	<u>4,024,900</u>
<b>Expenses</b>		
Salaries and wages	2,207,241	2,335,107
Employee benefits	435,127	456,701
Depreciation	68,652	73,381
Insurance	42,527	46,578
Interest expense	13,139	17,829
Investment expense	1,605	1,643
Postage	4,260	4,456
Professional Fees	26,003	32,042
Rent	302,513	295,699
Repairs and maintenance	52,160	52,301
Services	377,912	378,384
Staff travel	2,289	1,814
Student recreation	22,328	22,353
Supplies	72,480	72,021
Transportation	30,140	36,707
Utilities	96,673	97,896
Other expenses	19,352	18,281
Total expenses	<u>3,774,401</u>	<u>3,943,193</u>
<b>Change in net assets</b>	(67,016)	81,707
Net assets at beginning of year	707,124	625,417
<b>Net assets at end of year</b>	<u>\$ 640,108</u>	<u>\$ 707,124</u>

See Independent Accountant's Review Report

**GENESIS LEARNING CENTERS  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

<b>Cash Flows From Operating Activities</b>	<b><u>2011</u></b>	<b><u>2010</u></b>
Change in net assets	\$ (67,016)	\$ 81,707
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	68,652	73,381
Unrealized gain on investments	(23,780)	(25,971)
Gain on disposal of equipment	(8,544)	(2,387)
Changes in operating assets and liabilities:		
Grants and contracts receivable	(3,320)	(141,326)
Other receivable	16,368	
Other assets	-	7,748
Accounts payable	11,099	(7,096)
Accrued expenses	1,655	591
Net cash used in operating activities	<u>(4,886)</u>	<u>(13,353)</u>
<b>Cash Flows From Investing Activities</b>		
Purchases of property and equipment	(108,554)	(47,868)
Proceeds from sale of equipment	2,400	
Proceeds from sale of investments	29,815	24,284
Net cash used in investing activities	<u>(76,339)</u>	<u>(23,584)</u>
<b>Cash Flows From Financing Activities</b>		
Payments on notes payable	(66,933)	(82,001)
Proceeds from issuance of notes payable	80,264	11,000
Net cash provided by (used in) financing activities	<u>13,331</u>	<u>(71,001)</u>
Net decrease in cash and cash equivalents	(67,894)	(107,938)
Cash at beginning of year	291,081	399,019
Cash at end of year	<u><u>\$ 223,187</u></u>	<u><u>\$ 291,081</u></u>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid during the year for interest	<u><u>\$13,139</u></u>	<u><u>\$17,829</u></u>

See Independent Accountant's Review Report

**GENESIS LEARNING CENTERS**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**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, 2011 and June 30, 2010, the Organization had no cash equivalents.

**GENESIS LEARNING CENTERS**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**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.



**GENESIS LEARNING CENTERS**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**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.

**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.

**GENESIS LEARNING CENTERS**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued**

**Financial Instruments - continued**

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 76% and 77% of the total revenue for the years ending June 30, 2011 and 2010, 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 3 – GRANTS AND CONTRACTS RECEIVABLE**

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

	<u>2011</u>	<u>2010</u>
Rutherford County Juvenile Court	\$ 59,495	\$ 82,333
Davidson County School District	87,063	86,253
Montgomery County Juvenile Court	72,600	40,539
Various Tennessee County School Districts	<u>15,668</u>	<u>29,021</u>
	<u><u>\$234,826</u></u>	<u><u>\$238,146</u></u>

**GENESIS LEARNING CENTERS**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**NOTE 4 – INVESTMENTS**

Investments consist of mutual funds at June 30:

	<u>2011</u>		<u>2010</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Mutual funds	\$152,816	\$167,755	\$183,232	\$183,520

During 2011 and 2010, interest and dividends earned from investments totaled \$4,915 and \$4,442 for the years ended June 30, 2011 and 2010, respectively. Investment fees totaled \$1,605 and \$1,643 for the years ended June 30, 2011 and 2108, respectively. Net unrealized and realized loss on investments amounted to \$23,780 and \$25,971 for the years ended June 30, 2011 and 2010, respectively.

**NOTE 5 – PROPERTY AND EQUIPMENT**

Property and equipment consists of the following at June 30:

	<u>2011</u>	<u>2010</u>
Leasehold improvements	\$ 625,456	\$ 552,467
Furniture and equipment	179,536	176,808
Vehicles	<u>357,768</u>	<u>392,513</u>
	1,162,760	1,121,788
Less accumulated depreciation	<u>(991,925)</u>	<u>(969,721)</u>
	<u>\$ 170,835</u>	<u>\$ 152,067</u>

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

**GENESIS LEARNING CENTERS**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**NOTE 6 – NOTES PAYABLE**

	<b><u>2011</u></b>	<b><u>2010</u></b>
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.	10,965	18,467
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	18,086
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	15,275
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	15,275
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	8,179
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.	80,264	8,179
Total maturities	117,943	115,524
Less current maturities	( 62,473)	( 67,454)
	<u>\$55,470</u>	<u>\$ 48,070</u>

**GENESIS LEARNING CENTERS**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**NOTE 6 – NOTES PAYABLE- continued**

Maturities of debt are as follows:

2012	62,473
2013	32,233
2014	<u>23,237</u>
	<u>\$117,943</u>

**NOTE 7 – COMMITMENTS AND CONTINGENCIES**

The Organization leases school and office facilities under three operating leases. Leases expire from June 15, 2012 to December 31, 2016. Rent expense for the years ended June 30, 2011 and 2010 totaled \$302,513 and \$295,699, respectively.

Future rental payments under noncancellable operating leases are as follows:

	<b>Rents</b>
2012	241,673
2013	166,200
2014	166,200
2015	166,200
2016	<u>166,200</u>
	<u>\$ 906,473</u>

**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, 2011 and 2010, 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, 2011 and 2010 were \$26,918 and \$25,219, respectively.

**GENESIS LEARNING CENTERS**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**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 October 31, 2010 with an increase in the credit line up to \$215,000 and has a maturity date of December 15, 2011. In addition, this renewed line of credit includes a quarterly borrowing base reporting requirement. No borrowings were outstanding under the agreement at June 30, 2011 or 2010.

**NOTE 10 – FUNCTIONAL EXPENSES**

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

	<u>2011</u>	<u>2010</u>
Program	\$3,450,539	\$3,611,914
Administrative	<u>323,862</u>	<u>331,279</u>
	<u>\$3,774,401</u>	<u>\$3,943,193</u>

**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 \$41,621 and \$41,635 in insurance premiums for the years ended June 30, 2011 and 2010, 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 \$133,641 and \$130,201 in rent for the years ended June 30, 2011 and 2010, 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, 2011 and 2010**

**NOTE 12 – SUBSEQUENT EVENT**

The Organization evaluated subsequent events through September 29, 2011, the issuance of the Organization's financial statements.