GENESIS LEARNING CENTERS

FINANCIAL STATEMENTS AND ACCOUNTANT'S REVIEW REPORT

JUNE 30, 2016 AND 2015

GENESIS LEARNING CENTERS
Financial Statements
JUNE 30, 2016 AND 2015

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors
Genesis Learning Centers
Nashville, Tennessee

Review of 2016 Financial Statements

We have reviewed the accompanying financial statements of Genesis Learning Centers (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities 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.

Compilation of 2015 Financial Statements

Management is responsible for the accompanying financial statements of Genesis Learning Centers, which comprise the statement of financial position as of June 30, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on the 2015 financial statements.

Thomason Frank Persons

August 28, 2016

GENESIS LEARNING CENTERS
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents	$ 615,432	$ 322,583
Grants and contracts receivable	169,927	180,294
Total current assets	785,359	502,877
Property and Equipment (net of accumulated depreciation of $1,068,204 and $1,046,954)	312,801	327,135
Other Assets		
Deposits	1,988	1,988
Long-term investments	179,549	242,344
Total assets	$ 1,279,697	$ 1,074,344
LIABILITIES AND NET ASSETS		
Current Liabilities		
Notes payable	$ 43,358	$ 35,415
Accounts payable	22,480	21,911
Accrued expenses	37,926	35,764
Total current liabilities	103,764	93,090
Notes payable	119,796	131,930
Total liabilities	223,560	225,020
Net Assets		
Unrestricted	1,056,137	849,324
Total liabilities and net assets	$ 1,279,697	$ 1,074,344

See accompanying notes and independent accountant's review report.

GENESIS LEARNING CENTERS
STATEMENTS OF ACTIVITIES

	For The Year Ended June 30, 2016 Unrestricted	2015 Unrestricted
Revenue and public support		
Client fees	$ 4,736,970	$ 4,236,717
Grant income	3,562	5,000
Investment income	7,744	8,462
Net loss on investments	(13,904)	(5,729)
Gain on sale of assets	10,700	-
Other	-	789
Total revenue and support	4,745,072	4,245,239
Expenses		
Salaries and wages	2,595,397	2,530,937
Employee benefits	533,793	542,263
Depreciation	78,656	52,415
Insurance	44,678	45,598
Interest expense	15,457	10,780
Investment expense	2,073	3,463
Postage	3,956	3,921
Professional Fees	56,499	56,071
Rent	309,804	309,454
Repairs and maintenance	63,361	43,749
Services	561,028	545,879
Staff travel	1,971	1,868
Student recreation	39,119	33,384
Supplies	52,606	57,288
Transportation	32,976	27,664
Utilities	100,167	108,594
Other expenses	46,718	42,912
Total expenses	4,538,259	4,416,240
Change in net assets	206,813	(171,001)
Net assets at beginning of year	849,324	1,020,325
Net assets at end of year	$ 1,056,137	$ 849,324

See accompanying notes and independent accountant's review report.

GENESIS LEARNING CENTERS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Cash Flows From Operating Activities		
Change in net assets	$ 206,813	$ (171,001)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	78,656	52,415
Gain on sale of equipment	(10,700)	-
Unrealized loss on investments	13,904	5,729
Changes in operating assets and liabilities:		
Grants and contracts receivable	10,367	(14,794)
Accounts payable	569	13,745
Accrued expenses	2,162	14,362
Net cash provided (used in) by operating activities	301,771	(99,544)
Cash Flows From Investing Activities		
Purchases of property and equipment	(72,341)	(261,820)
Proceeds from sale of equipment	10,700	-
Net proceeds from sale of investments	56,909	18,564
Net cash used in investing activities	(4,732)	(243,256)
Cash Flows From Financing Activities		
Payments on notes payable	(37,384)	(22,655)
Proceeds from issuance of notes payable	33,194	188,522
Net cash (used in) provided by financing activities	(4,190)	165,867
Net increase (decrease) in cash and cash equivalents	292,849	(176,933)
Cash at beginning of year	322,583	499,516
Cash at end of year	$ 615,432	$ 322,583

Supplemental Disclosure of Cash Flow Information:

Cash paid during the year for interest	$15,457	$10,755

See accompanying notes and independent accountant's review report.

GENESIS LEARNING CENTERS
Notes to Financial Statements
June 30, 2016 and 2015

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, 2016 and 2015, 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, 2016 and June 30, 2015, 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 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, 2013 through June 30, 2016.

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:

		2016		
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total
Investments:				
Equity securities	$ 68,277	$ -	$ -	$ 68,277
Mutual funds	111,272	-	-	111,272
	$179,549	-	-	$179,549

NOTE 2 – FAIR VALUE MEASUREMENTS – continued

		2015		
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total
Investments:				
Equity securities	$116,447	$ -	$ -	$116,447
Mutual funds	125,897	-	-	125,897
	$242,344	-	-	$242,344

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 77% and 71% of the total revenue for the years ending June 30, 2016 and 2015, 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:

	2015	2014
Rutherford County Juvenile Court	$ 70,321	$ 55,151
Davidson County School District	20,956	46,536
Montgomery County Juvenile Court	75,820	65,964
Various Tennessee County School Districts	2,830	12,643
	$169,927	$180,294

NOTE 5 – INVESTMENTS

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

	2016		2015	
	Cost	**Market**	**Cost**	**Market**
Mutual funds	$108,001	$111,272	$118,887	$125,897
Equity securities	67,915	68,277	105,210	116,447
	$175,916	$179,549	$224,097	$242,344

NOTE 5 – INVESTMENTS- continued

Interest and dividends earned from investments totaled $7,744 and $8,462 for the years ended June 30, 2016 and 2015, respectively. Investment fees totaled $2,073 and $3,463 for the years ended June 30, 2016 and 2015, respectively. Net unrealized and realized (loss) gain on investments amounted to $(13,904) and $(5,729) for the years ended June 30, 2016 and 2015, respectively.

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

	2016	2015
Leasehold improvements	$ 885,365	$ 872,982
Furniture and equipment	162,376	156,058
Vehicles	333,264	345,049
	1,381,005	1,374,089
Less accumulated depreciation	(1,068,204)	(1,046,954)
	$ 312,801	$ 327,135

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

NOTE 7 – NOTES PAYABLE

	2016	2015
Note payable to Insurors Bank bearing interest at 5.00%. The note was opened on June 19, 2014 and requires 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.	$ 131,930	$ 167,345
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.	31,224	-
Total maturities	163,154	167,345
Less current maturities	(43,358)	(35,415)
	$119,796	$131,930

NOTE 7 – NOTES PAYABLE-continued

Maturities of debt are as follows:

2017	$ 43,358
2018	45,608
2019	47,974
2020	21,291
2021	4,923
	$163,154

NOTE 8 – COMMITMENTS AND CONTINGENCIES

The Organization leases school and office facilities under three operating leases. Leases expire from August 1, 2016 to June 30, 2026. Rent expense for the years ended June 30, 2016 and 2015 totaled $309,804 and $309,454, respectively.

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

	Rents
2017	208,846
2018	214,996
2019	214,996
2020	140,000
2021	140,000
	$ 918,838

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, 2016 and 2015, 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, 2016 and 2015 were $26,327 and $25,200, 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 4.75% or more than the lesser of 21.00% or the maximum rate allowed by applicable law. The line is secured by 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, 2016. No borrowings were outstanding under the agreement at June 30, 2016 or 2015.

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:

	2016	2015
Student lunch revenue	$101,351	$84,212
Student lunch expense	(95,621)	(87,640)
Net income (loss)	$ 5,730	$ (3,428)

NOTE 12 – FUNCTIONAL EXPENSES

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

	2016		2015	
Program	$4,181,861	92%	$4,071,768	92%
Administrative	356,398	8%	344,472	8%
	$4,538,259	100%	$4,416,240	100%

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 $136,258 and $136,258 in rent for the years ended June 30, 2016 and 2015, 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 August 28, 2016, the issuance of the Organization's financial statements.