

GENESIS LEARNING CENTERS
FINANCIAL STATEMENTS AND
ACCOUNTANT'S REVIEW REPORT
JUNE 30, 2019

GENESIS LEARNING CENTERS
Financial Statements
JUNE 30, 2019

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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, 2019, 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 blue ink, appearing to read "Thomason Financial Resources", is written over the date.

August 11, 2019

GENESIS LEARNING CENTERS
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019

ASSETS

Current Assets

Cash and cash equivalents	\$ 613,808
Grants and contracts receivable	197,502
Total current assets	<u>811,310</u>

Property and Equipment (net of
accumulated depreciation of \$1,329,501)

489,374

Other Assets

Deposits	1,988
Long-term investments	181,332
Total assets	<u><u>\$ 1,484,004</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities

Notes payable	\$ 70,346
Accounts payable	30,774
Accrued expenses	34,277
Total current liabilities	<u>135,397</u>

Notes payable

175,459

Total liabilities

310,856

Net Assets

Without donor restrictions	1,173,148
Total liabilities and net assets	<u><u>\$ 1,484,004</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, 2019**

Revenue and public support	<u>Without Donor Restrictions</u>
Client fees	\$ 4,886,278
District funding	63,102
Grant income	8,771
Investment income	5,804
Net gain (loss) on investments	5,911
Miscellaneous income	2,343
Gain on sale of assets	2,000
Total revenue and support	<u>4,974,209</u>
Expenses	
Program services	4,539,497
Supporting services:	
Management and general	<u>431,005</u>
Total supporting services	<u>431,005</u>
Total expenses	<u>4,970,502</u>
Change in net assets	<u>3,707</u>
Net assets at beginning of year	<u>1,169,441</u>
Net assets at end of year	<u><u>\$ 1,173,148</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, 2019**

	<u>Program Services</u>	<u>Management and General</u>	<u>Total Expenses</u>
Salaries	\$ 2,541,336	\$ 285,018	\$ 2,826,354
Employee benefits	299,019	12,233	311,252
Payroll taxes	189,013	21,491	210,504
Total compensation	<u>3,029,368</u>	<u>318,742</u>	<u>3,348,110</u>
Depreciation	131,754	12,495	144,249
Insurance	9,145	29,073	38,218
Interest expense	5,862	795	6,657
Investment expense	2,109	-	2,109
Postage	3,774	-	3,774
Professional Fees	20,812	51,313	72,125
Rent	312,088	6,500	318,588
Repairs and maintenance	64,869	-	64,869
Services	680,584	122	680,706
Staff travel	4,719	-	4,719
Student recreation	41,896	-	41,896
Supplies	54,257	1,014	55,271
Transportation	22,765	2,355	25,120
Utilities	105,494	2,987	108,481
Other expenses	50,001	5,609	55,610
			\$ -
Total expenses by function	<u>\$ 4,539,497</u>	<u>\$ 431,005</u>	<u>\$ 4,970,502</u>
Current year's percentages	91.33%	8.67%	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, 2019**

Cash Flows From Operating Activities

Change in net assets	\$ 3,707
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	144,249
Unrealized gain on investments	(5,911)
Changes in operating assets and liabilities:	
Grants and contracts receivable	(38,854)
Accounts payable	(11,251)
Accrued expenses	(1,528)
Net cash provided by operating activities	<u>90,412</u>

Cash Flows From Investing Activities

Purchases of property and equipment	(316,293)
Purchases of investments	-
Net proceeds from sale of assets	2,000
Net cash used in investing activities	<u>(314,293)</u>

Cash Flows From Financing Activities

Payments on notes payable	(50,333)
Proceeds from issuance of notes payable	232,860
Net cash used in financing activities	<u>182,527</u>
Net decrease in cash and cash equivalents	(41,354)
Cash at beginning of year	655,162
Cash at end of year	<u><u>\$ 613,808</u></u>

Supplemental Disclosure of Cash Flow Information:

Cash paid during the year for interest	<u><u>\$6,657</u></u>
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See independent accountant's review report and accompanying notes to financial statements

GENESIS LEARNING CENTERS
Notes to Financial Statements
June 30, 2019

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 from 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, 2019

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, 2019, 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, 2019, 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, 2019

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 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 (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, 2019

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, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

Change in Accounting Principles

The Organization implemented FASB ASU No. 2016-14 in the current year, applying the changes retrospectively. The new standards change the following aspects of the financial statements:

- The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- Display amounts of expenses both by their natural classification and functional classification. This analysis of expenses is included as a separate statement, the Statement of Functional Expenses.
- The financial statements include a disclosure about liquidity and availability of resources (Note 2).

NOTE 2 – LIQUIDITY AND AVAILABILITY

The Organization has \$811,310 of financial assets available within 1 year of the balance sheet date to meet cash needs for general expenditure consisting of cash of \$613,808, and grants and contracts receivable of \$197,502. 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, which are, on average, approximately \$810,000. 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).

GENESIS LEARNING CENTERS
Notes to Financial Statements
June 30, 2019

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, 2019:

	Level 1 <u>Inputs</u>	Level 2 <u>Inputs</u>	Level 3 <u>Inputs</u>	<u>Total</u>
Investments:				
Equity securities	\$107,558	\$ -	\$ -	\$107,558
Mutual funds	<u>73,774</u>	<u>-</u>	<u>-</u>	<u>73,774</u>
	<u>\$181,332</u>	<u>-</u>	<u>-</u>	<u>\$181,332</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 76% of the total revenue for the year ending June 30, 2019. 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.

NOTE 5 – GRANTS AND CONTRACTS RECEIVABLE

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

Rutherford County Juvenile Court	\$ 73,093
Montgomery County Juvenile Court	76,081
Davidson County School District	46,525
Other	<u>1,803</u>
	<u>\$197,502</u>

GENESIS LEARNING CENTERS
Notes to Financial Statements
June 30, 2019

NOTE 6 – INVESTMENTS

Investments consist of mutual funds and equity securities at June 30, 2019 as follows:

	<u>Cost</u>	<u>Market</u>
Mutual funds	\$ 70,025	\$ 73,774
Equity securities	<u>91,825</u>	<u>107,558</u>
	<u>\$161,850</u>	<u>\$181,332</u>

Interest and dividends earned from investments totaled \$5,804 for the year ended June 30, 2019. Investment fees totaled \$2,109 for the year ended June 30, 2019. Net unrealized and realized gain on investments amounted to \$5,911 for the year ended June 30, 2019.

NOTE 7 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2019:

Leasehold improvements	\$1,098,691
Furniture and equipment	231,062
Vehicles	<u>489,122</u>
	1,818,875
Less accumulated depreciation	<u>(1,329,501)</u>
	<u>\$ 489,374</u>

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

NOTE 8 – 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, 2019. No borrowings were outstanding under the agreement at June 30, 2019.

GENESIS LEARNING CENTERS
Notes to Financial Statements
June 30, 2019

NOTE 9 – NOTES PAYABLE

	<u>2019</u>
Note payable to Insurors Bank bearing interest at 5.00%. 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.	\$ 14,209
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.	12,001
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.	10,021
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.	209,574
Total maturities	245,805
Less current maturities	(70,346)
	<u>\$ 175,459</u>
Maturities of debt are as follows:	
2020	\$ 70,346
2021	54,108
2022	49,329
2023	48,736
2024	<u>23,286</u>
	<u>\$245,805</u>

GENESIS LEARNING CENTERS
Notes to Financial Statements
June 30, 2019

NOTE 10 – 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 year ended June 30, 2019 totaled \$318,588.

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

Rents	
2020	298,064
2021	298,064
2022	299,814
2023	300,164
2024	<u>300,164</u>
	<u>\$ 1,496,270</u>

NOTE 11 – 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, 2019, 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, 2019 was \$24,639.

NOTE 12 – 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, 2019. No borrowings were outstanding under the agreement at June 30, 2019.

GENESIS LEARNING CENTERS
Notes to Financial Statements
June 30, 2019

NOTE 13 – 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, 2019 are as follows:

Student lunch revenue	\$ 86,001
Student lunch expense	(106,344)
Net loss	<u>\$ (20,343)</u>

NOTE 14 – 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 \$139,654 in rent for the year ended June 30, 2019.

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 15 – SUBSEQUENT EVENT

The Organization evaluated subsequent events through August 11, 2019, the issuance of the Organization's financial statements.