GENESIS LEARNING CENTERS

COMPILED FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

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Compiled Financial Statements
JUNE 30, 2010 AND 2009

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ACCOUNTANT'S COMPILATION REPORT

To the Board of Directors
Genesis Learning Centers

We have compiled the accompanying statements of financial position of Genesis Learning Centers as of June 30, 2010 and 2009, and the related statements of activities and cash flows for the years then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Thomason Financial Resources

October 12, 2010

GENESIS LEARNING CENTERS
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2010 AND 2009

ASSETS

	2010	2009
Current Assets		
Cash and cash equivalents	$ 291,081	$ 399,019
Grants and contracts receivable	238,146	96,820
Total current assets	529,227	495,839
Property and Equipment (net of accumulated depreciation of $969,721 and $973,608)	152,067	177,579
Other Assets		
Prepaid Insurance	-	7,748
Deposits	1,988	1,988
Long-term investments	183,520	179,447
Total assets	$ 866,802	$ 862,601

LIABILITIES AND NET ASSETS

	2010	2009
Current Liabilities		
Notes payable	$ 67,454	$ 79,181
Accounts payable	14,205	21,301
Accrued expenses	29,949	29,358
Total current liabilities	111,608	129,840
Notes payable	48,070	107,344
Total liabilities	159,678	237,184
Net Assets		
Unrestricted	707,124	625,417
Total liabilities and net assets	$ 866,802	$ 862,601

See accountant's compilation report and accompanying notes to financial statements

GENESIS LEARNING CENTERS
STATEMENTS OF ACTIVITIES

	For The Year Ended June 30, 2010 Unrestricted	2009 Unrestricted
Revenue and public support		
Client fees	$ 3,982,394	$ 4,044,999
Investment income	4,442	6,997
Net gain (loss) on investments	25,971	(76,461)
Gain on disposal of equipment	2,387	
Gain on restructured loan	-	9,807
Other	9,706	5,271
Total revenue and support	4,024,900	3,990,613
Expenses		
Salaries and wages	2,335,107	2,457,925
Employee benefits	456,701	452,324
Advertising	-	2,330
Depreciation	73,381	94,757
Insurance	46,578	44,227
Interest expense	17,829	17,283
Investment expense	1,643	1,773
Postage	4,456	4,490
Professional Fees	32,042	25,142
Rent	295,699	326,252
Repairs and maintenance	52,301	65,146
Services	378,384	387,932
Staff recruitment and development	-	200
Staff travel	1,814	2,895
Student recreation	22,353	24,893
Supplies	72,021	78,642
Transportation	36,707	46,538
Utilities	97,896	99,759
Other expenses	18,281	13,380
Total expenses	3,943,193	4,145,888
Change in net assets	81,707	(155,275)
Net assets at beginning of year	625,417	780,692
Net assets at end of year	$ 707,124	$ 625,417

See accountant's compilation report and accompanying notes to financial statements

GENESIS LEARNING CENTERS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

Cash Flows From Operating Activities	**2010**	**2009**
Change in net assets	$ 81,707	$ (155,275)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	73,381	94,757
Unrealized gain (loss) on investments	(25,971)	76,461
Gain on disposal of equipment	(2,387)	
Gain on restructured loan	-	(9,807)
Changes in operating assets and liabilities:		
Grants and contracts receivable	(141,326)	35,772
Other assets	7,748	(504)
Accounts payable	(7,096)	(12,713)
Accrued expenses	591	3,128
Net cash (used in) provided by operating activities	(13,353)	31,819
Cash Flows From Investing Activities		
Purchases of property and equipment	(47,868)	(21,963)
Purchases of investments	-	-
Proceeds from sale of investments	24,284	23,256
Net cash (used in) provided by investing activities	(23,584)	1,293
Cash Flows From Financing Activities		
Payments on notes payable	(82,001)	(171,843)
Proceeds from issuance of notes payable	11,000	77,911
Net cash used in financing activities	(71,001)	(93,932)
Net decrease in cash and cash equivalents	(107,938)	(60,820)
Cash at beginning of year	399,019	459,839
Cash at end of year	$ 291,081	$ 399,019
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	$17,829	$17,283

See accountant's compilation report and accompanying notes to financial statements

GENESIS LEARNING CENTERS
Notes to Financial Statements
June 30, 2010 and 2009

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, 2010 and June 30, 2009, 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.

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 77% and 74% of the total revenue for the years ending June 30, 2010 and 2009, 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.

Cash is another financial instrument that potentially subjects the Organization to a concentration of credit risk. The Organization has cash deposits in financial institutions in excess of the amount insured by the Federal Depository Insurance Corporation in the amount of $36,332 and $138,482 at June 30, 2010 and June 30, 2009, respectively.

NOTE 3 – GRANTS AND CONTRACTS RECEIVABLE

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

	2010	2009
Rutherford County Juvenile Court	$ 82,333	$ 4,569
Davidson County School District	86,253	-
Montgomery County Juvenile Court	40,539	41,966
Various Tennessee County School Districts	29,021	50,285
	$238,146	$ 96,820

NOTE 4 – INVESTMENTS

Investments consist of mutual funds at June 30:

	2010		2009	
	Cost	Market	Cost	Market
Mutual funds	$183,232	$183,520	$227,183	$179,447

During 2010 and 2009, interest and dividends earned from investments totaled $4,442 and $6,997 for the years ended June 30, 2010 and 2009, respectively. Investment fees totaled $1,643 and $1,773 for the years ended June 30, 2010 and 2009, respectively. Net unrealized and realized gain and loss on investments amounted to $25,971 and $76,461 for the years ended June 30, 2010 and 2009, respectively.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

	2010	2009
Leasehold improvements	$ 552,467	$ 547,260
Furniture and equipment	176,808	225,651
Vehicles	392,513	378,276
	1,121,788	1,151,187
Less accumulated depreciation	(969,721)	(973,608)
	$ 152,067	$ 177,579

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

NOTE 6 – NOTES PAYABLE

	2010	2009
Note payable to Insurors Bank bearing interest at 6%. The note requires monthly payments of principal and interest in the amount of $592. The note matures November 16, 2009.	-	2,917
Note payable to Insurors Bank bearing interest at 6%. The note requires monthly payments of principal and interest in the amount of $592. The note matures November 16, 2009.	-	2,917
Note payable to Insurors Bank bearing interest at 6%. The note requires monthly payments of principal and interest in the amount of $578. The note matures September 16, 2009.	-	1,716
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.	18,467	25,402
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.	18,086	24,780
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.	18,086	24,780
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.	15,275	22,156

NOTE 6 – NOTES PAYABLE-continued

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.	15,275	22,156
Note payable to Insurors Bank bearing interest at 6.75%. The note requires monthly payments of principal and interest in the amount of $3,129. The note matures December 19, 2010.	18,403	53,380
Note payable to Insurors Bank bearing interest at 7.75%. The note requires monthly payments of principal and interest in the amount of $248. The note matures October 16, 2011.	3,753	6,321
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.	3,753	6,321
Total maturities	115,524	186,525
Less current maturities	(67,454)	(79,181)
	$ 48,070	$107,344

Maturities of debt are as follows:

2011	67,454
2012	44,540
2013	3,530
	$115,524

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, 2010 and 2009 totaled $295,699 and $326,252, respectively.

Future rental payments under noncancellable operating leases are as follows:

	Rents
2011	236,058
2012	241,673
2013	166,200
2014	166,200
2015	166,200
	$ 976,331

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, 2010 and 2009, 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, 2010 and 2009 were $25,219 and $23,801 respectively.

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 16, 2009 with an increase in the credit line up to $215,000 and has a maturity date of October 31, 2010. In addition, this renewed line of credit includes a quarterly borrowing base reporting requirement. No borrowings were outstanding under the agreement at June 30, 2010 or 2009.

NOTE 10 – FUNCTIONAL EXPENSES

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

	2010	2009
Program	$3,611,914	$3,755,091
Administrative	331,279	390,707
	$3,943,193	$4,145,888

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 $41,635 and $85,058 in insurance premiums for the years ended June 30, 2010 and 2009, respectively. Another director of the board, Mr. Barnett Williams, is President of a local web design agency and handles the development and maintenance of the Organization's website. The Organization paid his agency $4,800 for his services for the year ended June 30, 2010.

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 $130,201 and $126,504 in rent for the years ended June 30, 2010 and 2009, respectively.

Neither Mr. Wade nor Mr. Barnett receives 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.