

**GENESIS LEARNING CENTERS**  
**FINANCIAL STATEMENTS AND**  
**ACCOUNTANT'S REVIEW REPORT**  
**JUNE 30, 2017 AND 2016**

**GENESIS LEARNING CENTERS**  
**Financial Statements**  
**JUNE 30, 2017 AND 2016**

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## INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors  
Genesis Learning Centers  
Nashville, Tennessee

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, 2017 and 2016, and the related statements of activities and cash flows for the years 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 black ink that reads "Thomas Francis Resauer".

October 5, 2017

**GENESIS LEARNING CENTERS  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2017 AND 2016**

**ASSETS**

**Current Assets**

|                                 | <u><b>2017</b></u> | <u><b>2016</b></u> |
|---------------------------------|--------------------|--------------------|
| Cash and cash equivalents       | \$ 630,167         | \$ 615,432         |
| Grants and contracts receivable | 203,655            | 169,927            |
| Total current assets            | <u>833,822</u>     | <u>785,359</u>     |

**Property and Equipment** (net of  
accumulated depreciation of \$1,164,724  
and \$1,068,204)

|  |                |                |
|--|----------------|----------------|
|  | <u>303,089</u> | <u>312,801</u> |
|--|----------------|----------------|

**Other Assets**

|                       |                            |                            |
|-----------------------|----------------------------|----------------------------|
| Deposits              | 1,988                      | 1,988                      |
| Long-term investments | 221,619                    | 179,549                    |
| Total assets          | <u><u>\$ 1,360,518</u></u> | <u><u>\$ 1,279,697</u></u> |

**LIABILITIES AND NET ASSETS**

**Current Liabilities**

|                           |                |                |
|---------------------------|----------------|----------------|
| Notes payable             | \$ 45,608      | \$ 43,358      |
| Accounts payable          | 42,519         | 22,480         |
| Accrued expenses          | 25,358         | 37,926         |
| Total current liabilities | <u>113,485</u> | <u>103,764</u> |

**Notes payable**

|                   |                |                |
|-------------------|----------------|----------------|
|                   | <u>74,187</u>  | <u>119,796</u> |
| Total liabilities | <u>187,672</u> | <u>223,560</u> |

**Net Assets**

|                                  |                            |                            |
|----------------------------------|----------------------------|----------------------------|
| Unrestricted                     | 1,172,846                  | 1,056,137                  |
| Total liabilities and net assets | <u><u>\$ 1,360,518</u></u> | <u><u>\$ 1,279,697</u></u> |

See accompanying notes and independent accountant's review report.

**GENESIS LEARNING CENTERS  
STATEMENTS OF ACTIVITIES**

|                                   | <u>For The Year Ended June 30,</u> |                     |
|-----------------------------------|------------------------------------|---------------------|
|                                   | <u>2017</u>                        | <u>2016</u>         |
|                                   | <u>Unrestricted</u>                | <u>Unrestricted</u> |
| <b>Revenue and public support</b> |                                    |                     |
| Client fees                       | \$ 5,037,981                       | \$ 4,736,970        |
| Grant income                      | 6,127                              | 3,562               |
| Investment income                 | 5,559                              | 7,744               |
| Net gain (loss) on investments    | 18,510                             | (13,904)            |
| Gain on sale of assets            | -                                  | 10,700              |
| Total revenue and support         | <u>5,068,177</u>                   | <u>4,745,072</u>    |
| <b>Expenses</b>                   |                                    |                     |
| Salaries and wages                | 2,840,632                          | 2,595,397           |
| Employee benefits                 | 560,090                            | 533,793             |
| Depreciation                      | 96,519                             | 78,656              |
| Insurance                         | 44,606                             | 44,678              |
| Interest expense                  | 12,076                             | 15,457              |
| Investment expense                | 2,399                              | 2,073               |
| Postage                           | 3,924                              | 3,956               |
| Professional Fees                 | 72,011                             | 56,499              |
| Rent                              | 309,454                            | 309,804             |
| Repairs and maintenance           | 38,491                             | 63,361              |
| Services                          | 631,828                            | 561,028             |
| Staff travel                      | 3,696                              | 1,971               |
| Student recreation                | 45,670                             | 39,119              |
| Supplies                          | 65,605                             | 52,606              |
| Transportation                    | 45,523                             | 32,976              |
| Utilities                         | 115,373                            | 100,167             |
| Other expenses                    | 63,571                             | 46,718              |
| Total expenses                    | <u>4,951,468</u>                   | <u>4,538,259</u>    |
| <b>Change in net assets</b>       | 116,709                            | 206,813             |
| Net assets at beginning of year   | 1,056,137                          | 849,324             |
| <b>Net assets at end of year</b>  | <u>\$ 1,172,846</u>                | <u>\$ 1,056,137</u> |

See accompanying notes and independent accountant's review report.



**GENESIS LEARNING CENTERS  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

| <b>Cash Flows From Operating Activities</b>   | <b><u>2017</u></b> | <b><u>2016</u></b> |
|---|--------------------|--------------------|
| Change in net assets  | \$ 116,709         | \$ 206,813         |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: |                    |                    |
| Depreciation  | 96,519             | 78,656             |
| Gain on sale of equipment   | -                  | (10,700)           |
| Unrealized (gain) loss on investments   | (18,510)           | 13,904             |
| Changes in operating assets and liabilities:  |                    |                    |
| Grants and contracts receivable   | (33,728)           | 10,367             |
| Accounts payable  | 20,039             | 569                |
| Accrued expenses  | (12,568)           | 2,162              |
| Net cash provided by operating activities   | <u>168,461</u>     | <u>301,771</u>     |
| <b>Cash Flows From Investing Activities</b>   |                    |                    |
| Purchases of property and equipment   | (86,808)           | (72,341)           |
| Proceeds from sale of equipment   | -                  | 10,700             |
| Purchases of investments  | (23,559)           | -                  |
| Net proceeds from sale of investments   | -                  | 56,909             |
| Net cash used in investing activities   | <u>(110,367)</u>   | <u>(4,732)</u>     |
| <b>Cash Flows From Financing Activities</b>   |                    |                    |
| Payments on notes payable   | (43,359)           | (37,384)           |
| Proceeds from issuance of notes payable   | -                  | 33,194             |
| Net cash used in financing activities   | <u>(43,359)</u>    | <u>(4,190)</u>     |
| Net increase in cash and cash equivalents   | 14,735             | 292,849            |
| Cash at beginning of year   | 615,432            | 322,583            |
| Cash at end of year   | <u>\$ 630,167</u>  | <u>\$ 615,432</u>  |
| <b>Supplemental Disclosure of Cash Flow Information:</b>                                    |                    |                    |
| Cash paid during the year for interest  | <u>\$12,076</u>    | <u>\$15,457</u>    |

See accompanying notes and independent accountant's review report.

**GENESIS LEARNING CENTERS**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

**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, 2017 and 2016, 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, 2017 and June 30, 2016, the Organization had no cash equivalents.

**GENESIS LEARNING CENTERS**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

**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, 2017 and 2016**

**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, 2014 through June 30, 2017.

**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.

**GENESIS LEARNING CENTERS**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

**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:

|                   | Level 1          | 2017<br>Level 2 | Level 3       |                  |
|-------------------|------------------|-----------------|---------------|------------------|
|                   | <u>Inputs</u>    | <u>Inputs</u>   | <u>Inputs</u> | <u>Total</u>     |
| Investments:      |                  |                 |               |                  |
| Equity securities | \$106,748        | \$ -            | \$ -          | \$106,748        |
| Mutual funds      | <u>114,871</u>   | <u>-</u>        | <u>-</u>      | <u>114,871</u>   |
|                   | <u>\$221,619</u> | <u>-</u>        | <u>-</u>      | <u>\$221,619</u> |

**GENESIS LEARNING CENTERS**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

**NOTE 2 – FAIR VALUE MEASUREMENTS – continued**

|                   | Level 1          | 2016<br>Level 2 | Level 3       | Total            |
|-------------------|------------------|-----------------|---------------|------------------|
|                   | <u>Inputs</u>    | <u>Inputs</u>   | <u>Inputs</u> |                  |
| Investments:      |                  |                 |               |                  |
| Equity securities | \$ 68,277        | \$ -            | \$ -          | \$ 68,277        |
| Mutual funds      | <u>111,272</u>   | <u>-</u>        | <u>-</u>      | <u>111,272</u>   |
|                   | <u>\$179,549</u> | <u>-</u>        | <u>-</u>      | <u>\$179,549</u> |

**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 76% and 77% of the total revenue for the years ending June 30, 2017 and 2016, 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:

|   | <u>2017</u>      | <u>2016</u>      |
|---|------------------|------------------|
| Rutherford County Juvenile Court          | \$ 89,223        | \$ 70,321        |
| Davidson County School District           | 23,288           | 20,956           |
| Montgomery County Juvenile Court          | 77,135           | 75,820           |
| Various Tennessee County School Districts | <u>14,009</u>    | <u>2,830</u>     |
|   | <u>\$203,655</u> | <u>\$169,927</u> |

**NOTE 5 – INVESTMENTS**

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

|                   | <u>2017</u>      |                  | <u>2016</u>      |                  |
|-------------------|------------------|------------------|------------------|------------------|
|                   | <u>Cost</u>      | <u>Market</u>    | <u>Cost</u>      | <u>Market</u>    |
| Mutual funds      | \$109,643        | \$114,871        | \$108,001        | \$111,272        |
| Equity securities | <u>91,119</u>    | <u>106,748</u>   | <u>67,915</u>    | <u>68,277</u>    |
|                   | <u>\$200,762</u> | <u>\$221,619</u> | <u>\$175,916</u> | <u>\$179,549</u> |



**GENESIS LEARNING CENTERS**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

**NOTE 5 – INVESTMENTS- continued**

Interest and dividends earned from investments totaled \$5,559 and \$7,744 for the years ended June 30, 2017 and 2016, respectively. Investment fees totaled \$2,399 and \$2,073 for the years ended June 30, 2017 and 2016, respectively. Net unrealized and realized gain (loss) on investments amounted to \$18,510 and \$(13,904) for the years ended June 30, 2017 and 2016, respectively.

**NOTE 6 – PROPERTY AND EQUIPMENT**

Property and equipment consists of the following at June 30:

|                               | <u>2017</u>        | <u>2016</u>        |
|-------------------------------|--------------------|--------------------|
| Leasehold improvements        | \$ 915,766         | \$ 885,365         |
| Furniture and equipment       | 218,783            | 162,376            |
| Vehicles                      | <u>333,264</u>     | <u>333,264</u>     |
|                               | 1,467,813          | 1,381,005          |
| Less accumulated depreciation | <u>(1,164,724)</u> | <u>(1,068,204)</u> |
|                               | <u>\$ 303,089</u>  | <u>\$ 312,801</u>  |

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

**NOTE 7 – NOTES PAYABLE**

|   | <u>2017</u> | <u>2016</u> |
|---|-------------|-------------|
| Note payable to Insurors Bank bearing interest at 5.00%.<br>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. | \$ 94,657   | \$ 131,930  |

|  |                  |                  |
|--|------------------|------------------|
| Note payable to Insurors Bank bearing interest at 5.00%.<br>The note requires monthly payments of principal and interest in the amount of \$627. The note matures February 17, 2021. | 25,138           | 31,224           |
| Total maturities   | 119,795          | 163,154          |
| Less current maturities  | <u>(45,608)</u>  | <u>( 43,358)</u> |
|  | <u>\$ 74,187</u> | <u>\$119,796</u> |



**GENESIS LEARNING CENTERS**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

**NOTE 7 – NOTES PAYABLE-continued**

Maturities of debt are as follows:

|      |                  |
|------|------------------|
| 2017 | \$ 43,358        |
| 2018 | 45,608           |
| 2019 | 47,974           |
| 2020 | 21,291           |
| 2021 | <u>4,923</u>     |
|      | <u>\$163,154</u> |

**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, 2017 and 2016 totaled \$309,454 and \$309,804, respectively.

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

| <b>Rents</b> |                   |
|--------------|-------------------|
| 2018         | 214,996           |
| 2019         | 214,996           |
| 2020         | 140,000           |
| 2021         | 140,000           |
| 2022         | <u>140,000</u>    |
|              | <u>\$ 849,992</u> |

**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, 2017 and 2016, 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, 2017 and 2016 were \$20,888 and \$25,704, respectively.

**GENESIS LEARNING CENTERS**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

**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 4.82% 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, 2017. No borrowings were outstanding under the agreement at June 30, 2017 or 2016.

**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:

|                       | <u>2017</u>     | <u>2016</u>     |
|-----------------------|-----------------|-----------------|
| Student lunch revenue | \$111,940       | \$101,351       |
| Student lunch expense | (107,187)       | (95,621)        |
| Net income (loss)     | <u>\$ 4,753</u> | <u>\$ 5,730</u> |

**NOTE 12 – FUNCTIONAL EXPENSES**

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

|                | <u>2017</u>        |           | <u>2016</u>        |           |
|----------------|--------------------|-----------|--------------------|-----------|
| Program        | \$4,562,611        | 92%       | \$4,181,861        | 92%       |
| Administrative | <u>388,857</u>     | <u>8%</u> | <u>356,398</u>     | <u>8%</u> |
|                | <u>\$4,951,468</u> | 100%      | <u>\$4,538,259</u> | 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, 2017 and 2016, 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.

**GENESIS LEARNING CENTERS**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

**NOTE 14 – SUBSEQUENT EVENT**

The Organization evaluated subsequent events through October 5, 2017, the issuance of the Organization's financial statements.