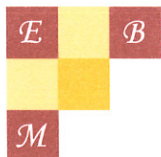


PROJECT REFLECT, INC.
FINANCIAL STATEMENTS,
SUPPLEMENTAL SCHEDULES
AND
INDEPENDENT AUDITORS' REPORTS
YEARS ENDED JUNE 30, 2011 AND 2010

**PROJECT REFLECT, INC.
FINANCIAL STATEMENTS,
SUPPLEMENTAL SCHEDULES
AND
INDEPENDENT AUDITORS' REPORTS
YEARS ENDED JUNE 30, 2011 AND 2010**

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Edmondson, Betzler & Montgomery, PLLC

(Certified Public Accountants)

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Project Reflect, Inc.

We have audited the accompanying statements of financial position of Project Reflect, Inc. as of June 30, 2011 and 2010, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Project Reflect, Inc. as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 17, 2012, on our consideration of Project Reflect, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of Project Reflect, Inc. taken as a whole. The statement of activities (Smithson Craighead Academy) is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Government Auditing Standards, and is also not a required part of the basic financial statements of the Organization. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Edmondson, Betzler & Montgomery, PLLC
January 17, 2012

PROJECT REFLECT, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2011 AND 2010

	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 123,331	\$ 252,669
Receivables	355,408	87,973
Inventories	181	181
Prepaid expenses	<u>2,168</u>	<u>10,838</u>
Total current assets	481,088	351,661
Property and equipment, net	<u>4,683,280</u>	<u>1,745,510</u>
Total assets	<u><u>\$ 5,164,368</u></u>	<u><u>\$ 2,097,171</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 229,658	\$ 1,394
Payroll liabilities	165,836	15,876
Lines-of-credit	382,549	173,390
Current portion of long-term debt	<u>11,915</u>	<u>19,649</u>
Total current liabilities	789,958	210,309
Long-term debt	<u>1,296,757</u>	<u>206,354</u>
Total liabilities	<u>2,086,715</u>	<u>416,663</u>
Net assets:		
Unrestricted	2,978,475	1,680,507
Temporarily restricted	<u>99,178</u>	<u>-</u>
Total net assets	<u>3,077,653</u>	<u>1,680,507</u>
Total liabilities and net assets	<u><u>\$ 5,164,368</u></u>	<u><u>\$ 2,097,170</u></u>

The accompanying notes are an integral part of these financial statements.

PROJECT REFLECT, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2011 AND 2010

	Unrestricted	Temporarily Restricted	Total 2011	Total 2010
Changes in unrestricted net assets				
Public support and revenue:				
Contributions	\$ 146,698	\$ 1,907,336	\$ 2,054,034	\$ 451,435
Government grants	365,395	-	365,395	455,000
Donated facilities, services and supplies	27,042	-	27,042	30,925
Other	422	-	422	300
Product sales	55	-	55	719
Total public support and revenue	<u>539,612</u>	<u>1,907,336</u>	<u>2,446,948</u>	<u>938,379</u>
Charter school division support and revenue				
Metro Nashville Public School funding				
Title I and IDEA	4,215,426	-	4,215,426	4,534,028
Net assets released from restrictions	<u>1,808,158</u>	<u>(1,808,158)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>6,563,196</u>	<u>99,178</u>	<u>6,662,374</u>	<u>5,472,407</u>
Expenses:				
Program services:				
Charter Schools (SCA)	4,624,750	-	4,624,750	4,388,552
After School PREP	269,774	-	269,774	386,717
Ninth Grade PREP	115,317	-	115,317	-
Total program services expense	<u>5,009,842</u>	<u>-</u>	<u>5,009,842</u>	<u>4,775,268</u>
Supporting services:				
Management and general	255,386	-	255,386	343,154
Total supporting services expense	<u>255,386</u>	<u>-</u>	<u>255,386</u>	<u>343,154</u>
Total expenses	<u>5,265,228</u>	<u>-</u>	<u>5,265,228</u>	<u>5,118,422</u>
Increase in net assets	1,297,968	99,178	1,397,146	353,985
Net assets, beginning of year	<u>1,680,507</u>	<u>-</u>	<u>1,680,507</u>	<u>1,326,522</u>
Net assets, end of year	<u>\$ 2,978,475</u>	<u>\$ 99,178</u>	<u>\$ 3,077,653</u>	<u>\$ 1,680,507</u>

The accompanying notes are an integral part of these financial statements.

PROJECT REFLECT, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2011 AND 2010

	PROGRAM SERVICES			Management and General	Total 2011	Total 2010
	After School PREP	Ninth Grade PREP	Charter Schools (SCA)			
Salaries and related expenses	\$ 211,131	\$ 80,286	\$ 4,044,882	\$ 143,227	\$ 4,479,526	\$ 4,314,667
Depreciation and amortization	-	1,833	141,270	3,294	146,397	114,574
Transportation	32,248	4,031	64,496	-	100,775	90,672
Rent	-	-	87,370	-	87,370	86,788
Supplies and materials	842	9,836	74,788	1,538	87,004	113,612
Insurance	4,959	3,542	49,588	12,751	70,840	60,876
Utilities	3,782	2,701	35,118	12,426	54,028	43,562
Repairs and maintenance	-	-	43,460	2,287	45,747	60,767
Interest	-	-	-	37,004	37,004	27,294
Food and related supplies	14,879	7,787	10,429	-	33,095	37,805
Communications	1,740	1,243	16,154	5,716	24,853	26,359
Professional services	-	-	-	17,187	17,187	19,728
Travel and conferences	-	3,300	12,205	600	16,105	17,397
Athletics	-	-	16,059	-	16,059	47,318
Printing and production	-	661	10,827	1,728	13,216	12,246
Marketing and advertising	-	-	-	12,038	12,038	2,675
Miscellaneous	194	97	6,426	97	6,814	9,523
MNPS agent fee	-	-	5,925	-	5,925	17,775
Postage	-	-	1,033	3,647	4,680	2,201
Security and monitoring	-	-	4,459	-	4,459	3,408
Bank fees	-	-	32	1,097	1,129	792
Taxes, licenses and fees	-	-	50	451	501	382
Dues and subscriptions	-	-	179	150	329	2,001
Donations	-	-	-	147	147	437
Scholarships	-	-	-	-	-	5,563
	<u>\$ 269,774</u>	<u>\$ 115,317</u>	<u>\$ 4,624,750</u>	<u>\$ 255,386</u>	<u>\$ 5,265,228</u>	<u>\$ 5,118,422</u>

The accompanying notes are an integral part of these financial statements.

PROJECT REFLECT, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Cash flows from operating activities:		
Increase in net assets	\$ 1,397,146	\$ 353,985
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	146,397	114,574
Gifts for property and equipment	(1,907,336)	-
Donated equipment	(350)	(350)
Increase in receivables	(267,435)	(62,368)
Decrease in other receivable	-	2,500
Decrease in prepaid expenses	8,670	-
Increase in accounts payable and accrued expenses	228,264	1,395
Increase in payroll liabilities	149,960	10,121
Net cash provided by (used in) operating activities	<u>(244,684)</u>	<u>419,857</u>
Cash flows from investing activities:		
Purchase of property and equipment	<u>(3,083,818)</u>	<u>(393,113)</u>
Net cash used in investing activities	<u>(3,083,818)</u>	<u>(393,113)</u>
Cash flows from financing activities:		
Gifts for property and equipment	1,907,336	-
Proceeds from construction loan	1,308,672	-
Principal payments on long-term debt	(226,003)	(14,600)
Proceeds (payments) on line-of-credit, net	<u>209,159</u>	<u>(26,859)</u>
Net cash provided by (used in) financing activities	<u>3,199,164</u>	<u>(41,459)</u>
Decrease in cash and cash equivalents	(129,338)	(14,715)
Cash and cash equivalents, beginning of year	<u>252,669</u>	<u>267,384</u>
Cash and cash equivalents, end of year	<u>\$ 123,331</u>	<u>\$ 252,669</u>
Supplemental data:		
Interest paid	<u>\$ 55,523</u>	<u>\$ 27,294</u>

The accompanying notes are an integral part of these financial statements.

**PROJECT REFLECT, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010**

NOTE 1 - NATURE OF ORGANIZATION

Project Reflect, Inc., was formed to address problems in poor and minority communities in areas that have had the greatest negative impact from faulty self and communal image, early school dropout, lack of access to economic resources, and escalating abandonment of Judeo-Christian ethic as well as the moral norm for human interaction and the resolution of social problems. For these challenges, Project Reflect offers the following programs:

Project Reflect Education Program (PREP) Summer School

This is a four-week program in June and July for children living in public housing. Students learn from certified teachers who are trained to motivate disadvantaged children at risk of failing. The PREP Reading Success curriculum includes language development, reading competency, math literacy, computer skills, music, dance, art, Tae Kwon Do, and civic and moral development.

PREP After School Program

After a regular school day, children who live in public housing come to PREP for tutoring and a Reading Success curriculum similar to the academic portion of the summer school program.

PREP Ninth Grade Academy

At risk children with high academic potential are identified and assisted in learning. Project Reflect, Inc. provides educational opportunities to a select few individuals to continue their high school level education with their program instead of being reintroduced into the public school environment.

Methods of Teaching Children at Risk of Failing School

For professional educators, this program offers instruction based on the Reading Success program developed especially for teaching disadvantaged children.

Spiritual Discernment and Mission

This ecumenical group promotes the great commandment to love God and neighbor. Participants seek to draw closer to God in the community, help individuals discover their uniqueness and divine call, and prepare to offer volunteer service to the poor and marginalized.

Smithson-Berry Publications

Smithson-Berry Publications produces books, software and other media to be used for teaching literacy, working with disadvantaged children, and understanding poverty.

PROJECT REFLECT, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 1 - NATURE OF ORGANIZATION (CONTINUED)

Smithson Craighead Academy

Project Reflect was approved to become one of the first charter public schools in the State of Tennessee. Under the new state law, the charter school formed by Project Reflect began operating in August 2003 with kindergarten through fourth grade classes serving approximately 220 at risk children.

Project Reflect was approved in November 2008 to begin operations of a charter school for students in grades five through eight beginning August 2009, serving approximately 300 at risk children.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Project Reflect have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities, in conformity with accounting principles generally accepted in the United States of America.

Basis of Presentation

Project Reflect is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted net assets.

Contributions

Contributions are recognized when the donor makes a promise to give to Project Reflect, that is, in substance, unconditional. 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.

Donated Services

Contributed services are recognized if the services received create or enhance long lived assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. During the year ended June 30, 2011 and 2010, Project Reflect received a significant amount of contributed time from unpaid volunteers who assist with programs and special projects that do not meet the recognition criteria described above. Accordingly, the value of the contributed time has not been determined and is not reflected in the accompanying financial statements.

PROJECT REFLECT, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government Grants and Contracts

Revenues from government grants and contracts are recognized when allowable expenditures are incurred under such agreements.

Cash and Cash Equivalents

For purposes of the statements of cash flows, Project Reflect considers all highly liquid assets available for current use with an initial maturity of three months or less to be cash equivalents.

Inventories

Inventories consist of educational materials held for sale and are stated at the lower of cost, determined on a first-in, first-out (FIFO) basis, or market (net realizable value).

Income Taxes

Project Reflect is exempt from federal taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code and is not a private foundation. Accordingly, no provision for income taxes is included in the accompanying financial statements.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services based on estimates by management.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are provided over the assets' estimated useful lives using the straight-line method. Donated assets are recognized at their estimated market value at the date of the gift. Assets acquired through capital lease are recorded at acquisition cost and amortized over the asset's useful life or the life the lease, whichever is shorter.

Expenditures for maintenance and repairs are expensed when incurred. Expenditures for renewals or betterments are capitalized. When property is retired or sold, the cost and the related accumulated depreciation or amortization are removed from the accounts, and the resulting gain or loss is included in operations.

**PROJECT REFLECT, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2011 AND 2010**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Prior Year Financial Statements

Certain reclassifications have been made to the prior year financial statements in order to conform to the current year presentation.

Events Occurring After Reporting Date

Project Reflect has evaluated events and transactions that occurred between June 30, 2011 and January 17, 2012, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 3 - RECEIVABLES

As of June 30, 2011 and 2010, receivables consisted of:

	2011	2010
District funding	\$ 341,493	\$ 27,503
Grant funding	13,415	60,470
Other	<u>500</u>	<u>-</u>
Total receivables	<u>\$ 355,408</u>	<u>\$ 87,973</u>

PROJECT REFLECT, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 4 - PROPERTY AND EQUIPMENT

A summary of property and equipment is as follows:

	2011	2010
Building and improvements	\$ 2,725,325	\$ 1,120,856
Land	605,000	305,000
Leasehold improvements	23,234	23,234
Equipment	519,641	500,285
Furniture and fixtures	118,258	118,258
Textbooks	155,872	122,339
Vehicles	182,805	182,805
Construction in progress	1,126,810	-
Total property and equipment	5,456,945	2,372,777
Less accumulated depreciation and amortization	(773,665)	(627,267)
Net property and equipment	<u>\$ 4,683,280</u>	<u>\$ 1,745,510</u>

Capitalized interest of \$13,760 was added to construction in progress in 2011.

NOTE 5 - LINES OF CREDIT

Project Reflect has a \$200,000 revolving line of credit secured by land and a school building that has a variable interest rate at the bank's index rate plus 1.50%. Interest is due monthly and the principal and any unpaid interest is due on July 14, 2013. The balance as of June 30, 2011 and 2010 was \$145,000 and \$173,390, respectively.

Project Reflect opened a \$250,000 revolving line of credit in September 2010 secured by land and a school building that has a variable interest rate at the bank's index rate minus 1.00%. Interest is due monthly and the principal and any unpaid interest is due on September 2, 2012. The balance as of June 30, 2011 was \$237,549.

NOTE 6 - NOTE PAYABLE

The outstanding debt consists of the following:

	2011	2010
Promissory note	\$ 1,308,672	\$ 226,003
Less: current portion	<u>(11,915)</u>	<u>(19,649)</u>
Long-term debt	<u>\$ 1,296,757</u>	<u>\$ 206,354</u>

PROJECT REFLECT, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 6 - NOTE PAYABLE (CONTINUED)

Project Reflect entered into a promissory note agreement with a local bank in the amount of \$1,500,000 on September 2, 2010. The funds are being used to construct an addition to its current elementary school location as well as consolidate other debts. The promissory note is secured by land and property. The note accrues interest at a rate of 5.75% fixed during the first five years of the loan including the construction period. Each five year period beginning September 2, 2010 has an adjustment date where the rate of interest will be adjusted to 1.0% below the bank's index rate. After the construction is complete, the loan is converted to a term note and shall be repaid in monthly installments over 25 years.

A summary of annual principal requirements follows:

2012	\$ 11,915
2013	24,881
2014	26,350
2015	27,905
2016	29,553
Thereafter	<u>1,188,068</u>
	<u>\$ 1,308,672</u>

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30 were restricted for the following purposes:

	2011	2010
Building fund – SCA Middle School	<u>\$ 99,177</u>	<u>\$ -</u>
Total temporarily restricted net assets	<u>\$ 99,177</u>	<u>\$ -</u>

NOTE 8 - CREDIT RISK AND OTHER CONCENTRATIONS

Project Reflect receives a substantial amount of its revenue from Metro Nashville Public Schools and government grants. A significant variance in this level of support, if this were to occur, may have an effect on the programs and activities of Project Reflect.

PROJECT REFLECT, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2011 AND 2010

NOTE 9 - COMMITMENT

Project Reflect Inc. has a contractual agreement with a company that provides general contractor services for construction of an addition to its current elementary school location. The total contract for providing these services is \$1,093,341. At June 30, 2011, Project Reflect Inc. has been billed \$1,090,308 for work completed on this agreement.

NOTE 10 - SUBSEQUENT EVENTS

Project Reflect entered into a contractual agreement in July 2011 with a company that provides general contractor services for renovations to the middle school facilities. The total contract for providing these services is \$665,662.

Project Reflect Inc. entered into a promissory note agreement with a bank in the amount of \$500,000 on July 13, 2011. The funds will be used to renovate its middle school facilities. The promissory note is secured by land and building of the middle school facilities. The note accrues interest at a fixed rate of 5.95%. Project Reflect, Inc. will pay interest only for the first six months of this agreement then begin principal and interest installments of \$3,568 over the next 59 months. The maturity date of this agreement is January 13, 2017.

Project Reflect, Inc. entered into a \$500,000 line of credit agreement with a bank on July 13, 2011. The line of credit is secured by land and building of the middle school facilities that has a variable interest rate at the bank's index rate plus 1.50%. Interest is due monthly and the principal and any unpaid interest is due on July 13, 2014.

SUPPLEMENTAL SCHEDULES

PROJECT REFLECT, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-Through Grantor	CFDA Number	Beginning (Accrued) Deferred	Cash Receipts	Expenditures	Ending (Accrued) Deferred
<u>Federal financial assistance</u>					
Tennessee Department of Education - No Child Left Behind	(A) 84.282A	\$ -	\$ 75,980	\$ 89,395	\$ (13,415)
Total federal financial assistance		-	75,980	89,395	(13,415)
<u>State financial assistance</u>					
Tennessee Department of Education - LEAPs	(B) N/A	(60,470)	260,470	200,000	-
Tennessee Department of Education - BEP Capital Allocation	(C) N/A	-	76,000	76,000	-
Total state financial assistance		(60,470)	336,470	276,000	-
Total federal and state financial assistance		\$ (60,470)	\$ 412,450	\$ 365,395	\$ (13,415)

(A) The No Child Left Behind program supports the planning, development, and initial implementation of charter schools and the dissemination of information on charter schools.

(B) The overall goal of Lottery for Education: Afterschool Programs (LEAPs) is to provide Tennessee students with academic enrichment opportunities that reinforce and complement the regular academic program for youth 5 - 18 years old, enrolled in elementary or secondary school.

(C) The BEP Capital Allocation program allocates funds to schools for capital outlay use.

PROJECT REFLECT, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2010

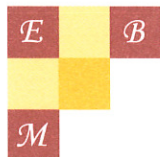
Federal Grantor/Pass-Through Grantor	CFDA Number	Beginning (Accrued) Deferred	Cash Receipts	Expenditures	Ending (Accrued) Deferred
<u>Federal financial assistance</u>					
Tennessee Department of Education - No Child Left Behind	(A) 84.282A	\$ 115,543	\$ 275,000	\$ 390,543	\$ -
Total federal financial assistance		115,543	275,000	390,543	-
<u>State financial assistance</u>					
Tennessee Department of Education - LEAPs	(B) N/A	(25,605)	145,135	180,000	(60,470)
Total state financial assistance		(25,605)	145,135	180,000	(60,470)
Total federal and state financial assistance		\$ 89,938	\$ 420,135	\$ 570,543	\$ (60,470)

(A) The No Child Left Behind program supports the planning, development, and initial implementation of charter schools and the dissemination of information on charter schools.

(B) The overall goal of Lottery for Education: Afterschool Programs (LEAPs) is to provide Tennessee students with academic enrichment opportunities that reinforce and complement the regular academic program for youth 5 - 18 years old, enrolled in elementary or secondary school.

**PROJECT REFLECT, INC.
SMITHSON CRAIGHEAD ACADEMY
STATEMENTS OF ACTIVITIES
YEAR ENDED JUNE 30, 2011**

	SCA MIDDLE SCHOOL	SCA ELEMENTARY SCHOOL	TOTAL
Revenue and support:			
MNPS Funding, Title I and IDEA	<u>\$ 2,070,777</u>	<u>\$ 2,144,649</u>	<u>\$ 4,215,426</u>
Total revenue and support	<u>2,070,777</u>	<u>2,144,649</u>	<u>4,215,426</u>
Expenses:			
Salaries and related expenses	2,028,751	2,016,131	4,044,882
Depreciation	77,311	63,959	141,270
Rent and occupancy	87,370	-	87,370
Supplies and materials	37,818	36,970	74,788
Transportation	32,248	32,248	64,496
Insurance	24,794	24,794	49,588
Repairs and Maintenance	9,920	33,540	43,460
Utilities	-	35,118	35,118
Communications	10,177	5,977	16,154
Athletics	16,059	-	16,059
Travel and conferences	9,269	2,936	12,205
Printing and production	3,789	7,038	10,827
Food and related supplies	7,530	2,899	10,429
Miscellaneous	5,629	797	6,426
MNPS Agent fee	-	5,925	5,925
Security and monitoring	-	4,459	4,459
Postage	671	362	1,033
Dues and subscriptions	-	179	179
Taxes, licenses and fees	-	50	50
Bank fees	<u>32</u>	<u>-</u>	<u>32</u>
Total expenses	<u>2,351,368</u>	<u>2,273,382</u>	<u>4,624,750</u>
Total decrease in net assets	<u>\$ (280,591)</u>	<u>\$ (128,733)</u>	<u>\$ (409,324)</u>



Edmondson, Betzler & Montgomery, PLLC
(Certified Public Accountants)

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Project Reflect, Inc.

We have audited the financial statements of Project Reflect, Inc. (a nonprofit organization) as of and for the year ended June 30, 2011, and have issued our report thereon dated January 17, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Project Reflect's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Project Reflect's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Project Reflect's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the entity's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS (CONTINUED)**

This report is intended solely for the information of the management, the Board of Directors, and supplemental lenders, and is not intended to be and should not be used by anyone other than these specified parties.

Edmondson, Betyler & Montgomery, PLLC

January 17, 2012