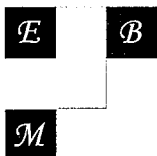


**PROJECT REFLECT, INC.
FINANCIAL STATEMENTS,
SUPPLEMENTAL SCHEDULES
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2008 AND 2007**

**PROJECT REFLECT, INC.
FINANCIAL STATEMENTS,
SUPPLEMENTAL SCHEDULES
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2008 AND 2007**

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS:	
Statements of Financial Position	2
Statements of Activities	3
Statements of Functional Expenses	4
Statements of Cash Flows	5
Notes to Financial Statements	6 – 10
SUPPLEMENTAL DATA:	
Schedule of Expenditures of Federal Awards and State Financial Assistance	11 – 12
Statements of Activities (Smithson-Craighead Academy)	13
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.	14 – 15



Edmondson, Betzler & Montgomery, PLLC

(Certified Public Accountants)

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Project Reflect, Inc.

We have audited the accompanying statement of financial position of Project Reflect, Inc. as of June 30, 2008, and the related statements of activities, functional expenses and cash flows for the year 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 audit. The financial statements of Project Reflect, Inc. as of June 30, 2007 were audited by other auditors, whose report dated January 22, 2008 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial statements 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 audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Project Reflect, Inc. as of June 30, 2008 and the changes in its net assets and its cash flows for the year 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 2, 2009, 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 audit was conducted for the purpose of forming an opinion on the basic financial statements of Project Reflect, Inc. taken as a whole. The accompanying schedule 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.

Edmondson, Betzler & Montgomery, PLLC

January 2, 2009

PROJECT REFLECT, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2008 AND 2007

	2008	2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 127,338	\$ 275,136
Grants receivable	-	39,305
Inventories	181	181
Prepaid expenses	5,987	-
	<hr/>	<hr/>
Total current assets	133,506	314,622
Property and equipment, net	<hr/> 1,416,006	<hr/> 1,480,878
	<hr/>	<hr/>
Total assets	<u>\$ 1,549,512</u>	<u>\$ 1,795,500</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 5,256	\$ 19,819
Payroll taxes payable	816	3,710
Line-of-credit	199,249	198,295
Current portion of long-term debt	44,381	44,381
	<hr/>	<hr/>
Total current liabilities	249,702	266,205
Long-term debt	<hr/> 244,797	<hr/> 293,080
	<hr/>	<hr/>
Total liabilities	494,499	559,285
Net assets:		
Unrestricted	1,055,013	1,134,067
Temporarily restricted	-	102,148
	<hr/>	<hr/>
Total net assets	1,055,013	1,236,215
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 1,549,512</u>	<u>\$ 1,795,500</u>

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

PROJECT REFLECT, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
Changes in unrestricted net assets		
Public support and revenue:		
Contributions	\$ 178,573	\$ 166,916
Government grants	72,000	158,250
Donated facilities, services and supplies	13,008	17,875
Product sales	3,360	6,131
Other	1,959	1,315
Total public support and revenue	<u>268,900</u>	<u>350,487</u>
Charter school division support and revenue		
Metro Nashville Public School funding Title I and IDEA	1,693,161	1,462,459
Contributions	-	2,552
Total charter school division support and revenue	<u>1,693,161</u>	<u>1,465,011</u>
Net assets released from restrictions	<u>102,148</u>	<u>-</u>
Total support and revenue	<u>2,064,209</u>	<u>1,815,498</u>
Expenses:		
Program services:		
Charter School (SCA)	1,648,970	1,388,269
PREP	195,343	193,789
Smithson-Berry	-	129,312
Total program services expense	<u>1,844,313</u>	<u>1,711,370</u>
Supporting services:		
Management and general	<u>298,950</u>	<u>287,538</u>
Total supporting services expense	<u>298,950</u>	<u>287,538</u>
Total expenses	<u>2,143,263</u>	<u>1,998,908</u>
Decrease in unrestricted net assets	<u>(79,054)</u>	<u>(183,410)</u>
Changes in temporarily restricted net assets		
Charter school (SCA)	-	99,263
PREP	-	2,885
Net assets released from temporarily restricted	<u>(102,148)</u>	<u>-</u>
Increase (decrease) in temporarily restricted net assets	<u>(102,148)</u>	<u>102,148</u>
Decrease in net assets	(181,202)	(81,262)
Net assets, beginning of year (as restated)	<u>1,236,215</u>	<u>1,317,477</u>
Net assets, end of year	<u>\$ 1,055,013</u>	<u>\$ 1,236,215</u>

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

PROJECT REFLECT, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2008 AND 2007

	<u>PROGRAM SERVICES</u>		<u>Management and General</u>	<u>Total 2008</u>	<u>Total 2007</u>
	<u>PREP</u>	<u>Charter School (SCA)</u>			
Salaries and related expenses	\$ 164,832	\$ 1,434,284	\$ 126,022	\$ 1,725,138	\$ 1,569,943
MNPS agent fee	-	77,412	-	77,412	44,958
Depreciation	-	-	71,012	71,012	71,782
Utilities	5,030	35,298	10,098	50,425	43,594
Insurance	2,695	26,178	9,624	38,497	43,862
Transportation	-	36,413	434	36,847	30,731
Interest	-	-	33,698	33,698	47,004
Legal and professional	-	1,200	20,186	21,386	50,650
Supplies and materials	3,129	11,465	4,515	19,109	13,870
Repairs and maintenance	1,285	15,242	1,836	18,364	12,943
Food and related supplies	12,684	-	2,368	15,052	20,548
Communications	1,355	5,420	2,259	9,034	8,894
Miscellaneous	45	597	6,190	6,832	4,654
Production expense	-	-	4,820	4,820	1,315
Scholarships	4,085	-	-	4,085	5,366
Security and monitoring	203	3,657	203	4,063	4,936
Marketing and advertising	-	-	2,296	2,296	4,768
Printing and Publications	-	1,071	552	1,623	4,139
Bank fees	-	-	1,376	1,376	2,033
Taxes, licenses and fees	-	159	898	1,057	687
Dues and subscriptions	-	574	-	574	1,657
Postage	-	-	313	313	4,352
Donations	-	-	250	250	6,222
	<u>\$ 195,343</u>	<u>\$ 1,648,970</u>	<u>\$ 298,950</u>	<u>\$ 2,143,263</u>	<u>\$ 1,998,908</u>

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

PROJECT REFLECT, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
Cash flows from operating activities:		
Decrease in net assets	\$ (181,202)	\$ (81,262)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	71,012	71,782
Donated equipment	(630)	-
(Increase) decrease in grant receivable	39,305	(8,779)
Decrease in other receivable	-	4,274
Increase in inventories	-	(181)
Increase in prepaid expenses	(5,987)	-
Decrease in accounts payable and accrued expenses	(14,563)	(5,490)
Decrease in payroll taxes payable	(2,894)	(2,568)
Net cash used in operating activities	<u>(94,959)</u>	<u>(22,224)</u>
Cash flows from investing activities		
Purchase of fixed assets	<u>(5,510)</u>	<u>(18,053)</u>
Net cash used in investing activities	<u>(5,510)</u>	<u>(18,053)</u>
Cash flows from financing activities		
Principal payments on long-term debt	(48,283)	(34,381)
Net proceeds from line-of-credit	<u>954</u>	<u>19,183</u>
Net cash used in financing activities	<u>(47,329)</u>	<u>(15,198)</u>
Decrease in cash and cash equivalents	(147,798)	(55,475)
Cash and cash equivalents, beginning of year	<u>275,136</u>	<u>330,611</u>
Cash and cash equivalents, end of year	<u><u>\$ 127,338</u></u>	<u><u>\$ 275,136</u></u>
Supplemental data:		
Interest paid	<u><u>\$ 33,698</u></u>	<u><u>\$ 47,004</u></u>

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

**PROJECT REFLECT, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2008 AND 2007**

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 Young Scholars

At risk children with high academic potential for college are identified and assisted in learning. Approximately one youth each year is selected for a partial high school scholarship.

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 teach 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, 2008 AND 2007**

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 of 2003, serving approximately 150 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, 2008 and 2007, 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, 2008 AND 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

PROJECT REFLECT, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2008 AND 2007

NOTE 3 - 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.

NOTE 4 - PROPERTY AND EQUIPMENT

A summary of property and equipment is as follows:

	2008	2007
Building and improvements	\$ 1,120,856	\$ 1,120,856
Land	305,000	305,000
Leasehold improvements	23,234	23,234
Equipment	278,954	278,324
Furniture and fixtures	53,794	53,794
Vehicles	90,655	85,145
Total property and equipment	1,872,493	1,866,353
Less accumulated depreciation and amortization	(456,487)	(385,475)
Net property and equipment	<u>\$ 1,416,006</u>	<u>\$ 1,480,878</u>

NOTE 5 - LINE-OF-CREDIT

A revolving line-of-credit (LOC) with a maximum amount of \$200,000 was provided to Project Reflect on August 22, 2003, which is secured by land and building. The LOC is due on demand with interest at the bank's prime rate. Interest is due monthly and the principal and any unpaid interest is due on August 22, 2009. The balance as of June 30, 2008 and 2007 was \$199,249 and \$198,295, respectively.

NOTE 6 - NOTE PAYABLE

Long-term debt consists of the following:

	2008	2007
Commercial loan	\$ 289,178	\$ 337,461
Less: current portion	<u>(44,381)</u>	<u>(44,381)</u>
Long-term debt	<u>\$ 244,797</u>	<u>\$ 293,080</u>

Project Reflect obtained a commercial loan in the amount of \$500,000 secured by land and property. The loan was obtained at the bank's prime interest. Principal installments of \$3,698, plus interest are due monthly and any unpaid balance will be due on July 17, 2009.

PROJECT REFLECT, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2008 AND 2007

NOTE 6 - NOTE PAYABLE (CONTINUED)

A summary of annual principal requirements follows:

2009	\$ 44,381
2010	44,381
2011	44,381
2012	44,381
2013	44,381
Thereafter	<u>111,653</u>
	<u>\$ 289,178</u>

NOTE 7 - CORRECTION OF PRIOR PERIOD ERROR

During the audit of the June 30, 2008 financial statements, it was discovered that an accounting error had occurred related to software development costs in the initial year and in the following years of its purchase. The effects of this error have resulted in an overstatement of previously reported software costs of \$535,755, an overstatement of program service expenses of \$178,585, an overstatement of previously reported decrease in net assets of \$178,585 and an overstatement of previously reported unrestricted net assets of \$535,755. As a result of this correction, the prior year financial statement amounts have been restated to reflect this correction. There is no significant difference in the reported change in net assets for the year ended June 30, 2008.

SUPPLEMENTAL SCHEDULES

PROJECT REFLECT, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2008

<u>Federal Grantor/Pass-Through Grantor</u>	<u>CFDA Number</u>	<u>Contract Number</u>	<u>Beginning (Accrued) Deferred</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Ending (Accrued) Deferred</u>
<u>Federal awards</u>						
TN Department of Education - 21st Century	(A) 84.287C	Z 07-034083	\$ (20,058)	\$ 20,058	\$ -	\$ -
Total federal awards			(20,058)	20,058	-	-
<u>State financial assistance</u>						
TN Department of Education - LEAPs	(B) N/A	Z 07-027743	(19,247)	19,247	-	-
TN Department of Education - LEAPs	(B) N/A	GR-08-23367-00	-	72,000	72,000	-
Total state awards			(19,247)	91,247	72,000	-
Total federal and state awards			\$ (39,305)	\$ 111,305	\$ 72,000	\$ -

(A) The 21st Century Community Learning Centers program provides support to develop partnerships between school personnel, community organizations, parents and students for the provision of extended learning opportunities that will impact student achievement and behavior.

(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.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2007

Federal Grantor/Pass-Through Grantor	CFDA Number	Contract Number	Beginning (Accrued) Deferred	Cash Receipts	Expenditures	Ending (Accrued) Deferred
<u>Federal awards</u>						
TN Department of Education - 21st Century	(A) 84.287C	Z 06-020799	\$ (26,845)	\$ 26,845	\$ -	\$ -
TN Department of Education - 21st Century	(A) 84.287C	Z 07-034083	-	84,942	105,000	(20,058)
Total federal awards			(26,845)	111,787	105,000	(20,058)
<u>State financial assistance</u>						
TN Department of Education - LEAPs	(B) N/A	Z 06-027743	(3,681)	3,681	-	-
TN Department of Education - LEAPs	(B) N/A	Z 07-027743	-	34,003	53,250	(19,247)
Total state awards			(3,681)	37,684	53,250	(19,247)
Total federal and state awards			\$ (30,526)	\$ 149,471	\$ 158,250	\$ (39,305)

(A) The 21st Century Community Learning Centers program provides support to develop partnerships between school personnel, community organizations, parents and students for the provision of extended learning opportunities that will impact student achievement and behavior.

(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
YEARS ENDED JUNE 30, 2008 AND 2007**

	2008	2007
Revenue and support:		
Metro Nashville Public School Funding, Title I and IDEA	\$ 1,693,161	\$ 1,462,459
Contributions	<u>-</u>	<u>2,552</u>
Total revenue and support	<u>1,693,161</u>	<u>1,465,011</u>
Expenses:		
Salaries and related expenses	1,434,284	1,215,072
MNPS Agent fee	77,412	44,958
Transportation	36,413	29,188
Utilities	35,298	32,224
Insurance	26,178	30,068
Repairs and Maintenance	15,242	9,415
Supplies and materials	11,465	6,603
Communications	5,420	4,365
Security and monitoring	3,657	4,403
Legal and professional	1,200	5,350
Printing and publications	1,071	2,713
Miscellaneous	597	1,127
Dues and subscriptions	574	315
Taxes, license and fees	159	111
Food and related supplies	-	2,354
Postage	<u>-</u>	<u>3</u>
Total expenses	<u>1,648,970</u>	<u>1,388,269</u>
Total increase in net assets	<u>\$ 44,191</u>	<u>\$ 76,742</u>