PROJECT REFLECT, INC.

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

JUNE 30, 2012 AND 2011

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Project Reflect, Inc.

We have audited the accompanying statement of financial position of Project Reflect, Inc. (a nonprofit organization) (the "Organization") as of June 30, 2012, 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 prior year summarized comparative information has been derived from the Organization's 2011 financial statements. The financial statements of Project Reflect, Inc. as of June 30, 2011, were audited by other auditors whose report dated January 17, 2012, expressed an unqualified opinion on those statements.

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. 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 2012 financial statements referred to above present fairly, in all material respects, the financial position of Project Reflect, Inc. as of June 30, 2012, 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.

As discussed in Note I to the financial statements, during November 2012, the Metropolitan Nashville Public Schools ("MNPS") Board of Education took action regarding the charter of Smithson Craighead Academy Middle School. Smithson Craighead Academy Middle School is one of two public charter schools operated by the Organization. Management is currently developing plans with respect to the Middle School.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2013, on our consideration of the Organizations'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 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 should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Project Reflect Inc.'s financial statements as a whole. The accompanying schedules of expenditures of federal awards and state financial assistance are presented for purposes of additional analysis as required by the U.S. Office of management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and the State of Tennessee Comptroller of the Treasury's *Audit Manual for Local Governmental Units and Other Organizations* and are not a required part of the financial statements. The schedules of expenditures of federal awards and state financial assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Crosslin & Associates, P.C.

Nashville, Tennessee
January 31, 2013

PROJECT REFLECT, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011

	2012	2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 301,515	$ 123,331
Receivables	88,298	355,408
Prepaid expenses	5,656	2,349
Total current assets	395,469	481,088
Property and equipment, net	5,383,345	4,683,280
Total assets	$ 5,778,814	$ 5,164,368
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 30,837	$ 229,658
Payroll liabilities	200,375	165,836
Lines-of-credit	589,432	382,549
Current portion of long-term debt	46,075	11,915
Total current liabilities	866,719	789,958
Long-term debt	1,929,625	1,296,757
Total liabilities	2,796,344	2,086,715
Net assets:		
Unrestricted	2,982,470	2,978,475
Temporarily restricted	-	99,178
Total net assets	2,982,470	3,077,653
Total liabilities and net assets	$ 5,778,814	$ 5,164,368

See accompanying notes to financial statements.

PROJECT REFLECT, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2012 AND 2011

	Unrestricted	Temporarily Restricted	Total 2012	Total 2011
Support and revenue:				
Public support and revenue:				
Contributions	$ 93,238	$ 303,715	$ 396,953	$ 2,054,034
Government grants	340,332	-	340,332	365,395
Donated facilities, services and supplies	34,594	-	34,594	27,042
Other	91,457	-	91,457	422
Product sales	2,883	-	2,883	55
Total public support and revenue	562,504	303,715	866,219	2,446,948
Charter school division support and revenue				
Metropolitan Nashville Public Schools Funding, Title I, and IDEA	4,697,599	-	4,697,599	4,215,426
Net assets released from restrictions	402,893	(402,893)	-	-
Total support and revenue	5,662,996	(99,178)	5,563,818	6,662,374
Expenses:				
Program services:				
Charter Schools (SCA)	5,188,283	-	5,188,283	4,624,750
After School PREP	-	-	-	269,774
SCA High School PREP	20,367	-	20,367	115,318
Total program services expense	5,208,650	-	5,208,650	5,009,842
Supporting services:				
Management and general	450,351	-	450,351	255,386
Total supporting services expense	450,351	-	450,351	255,386
Total expenses	5,659,001	-	5,659,001	5,265,228
Increase (decrease) in net assets	3,995	(99,178)	(95,183)	1,397,146
Net assets, beginning of year	2,978,475	99,178	3,077,653	1,680,507
Net assets, end of year	$ 2,982,470	$ -	$ 2,982,470	$ 3,077,653

See accompanying notes to financial statements.

PROJECT REFLECT, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2012 AND 2011

	Program Services				
	Ninth Grade PREP	Charter Schools-SCA	Management and General	Total 2012	Total 2011
Salaries and related expenses	$ 9,419	$ 3,854,255	$ 399,611	$ 4,263,285	$ 4,479,526
Depreciation and amortization	2,200	240,413	-	242,613	146,397
Food and related supplies	-	180,673	115	180,788	33,095
Repairs and maintenance	-	155,205	-	155,205	45,747
Supplies and materials	8,748	139,209	1,718	149,675	87,004
Utilities	-	146,482	-	146,482	54,028
Interest	-	139,255	-	139,255	37,004
Transportation	-	127,601	-	127,601	100,775
Insurance	-	78,479	7,642	86,121	70,840
Professional services	-	27,054	23,527	50,581	17,187
Athletics	-	35,075	-	35,075	16,059
Communications	-	24,225	2,620	26,845	24,853
Marketing and advertising	-	5,005	10,761	15,766	12,038
Printing and production	-	14,414	-	14,414	13,216
Travel and conferences	-	9,887	-	9,887	16,105
Security and monitoring	-	9,338	-	9,338	4,459
Postage	-	729	1,850	2,579	4,680
Miscellaneous	-	508	824	1,332	6,814
Dues and subscriptions	-	99	900	999	329
Taxes, licenses and fees	-	377	512	889	501
Bank fees	-	-	271	271	1,129
Rent	-	-	-	-	87,370
MNPS agent fee	-	-	-	-	5,925
Donations	-	-	-	-	147
	$ 20,367	$ 5,188,283	$ 450,351	$ 5,659,001	$ 5,265,228

See accompanying notes to financial statements.

PROJECT REFLECT, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Cash flows from operating activities:		
(Decrease) increase in net assets	$ (95,183)	$ 1,397,146
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	242,613	146,397
Gifts for property and equipment	(303,715)	(1,907,336)
Donated equipment	(62,677)	(350)
Change in		
Receivables	267,110	(267,435)
Prepaid expenses	(3,307)	8,670
Accounts payable and accrued expenses	(198,821)	228,264
Payroll liabilities	34,539	149,960
Net cash used in operating activities	(119,441)	(244,684)
Cash flows from investing activities:		
Purchase of properly and equipment	(880,001)	(3,083,818)
Net cash used in investing activities	(880,001)	(3,083,818)
Cash flows from financing activities:		
Gifts for property and equipment	303,715	1,907,336
Proceeds from issuance of long-term debt	685,995	1,308,672
Principal payments on long-term debt	(37,318)	(226,003)
Proceeds from lines-of-credit, net	225,234	209,159
Net cash provided by financing activities	1,177,626	3,199,164
Increase (decrease) in cash and cash equivalents	178,184	(129,338)
Cash and cash equivalents, beginning of year	123,331	252,669
Cash and cash equivalents, end of year	$ 301,515	$ 123,331
SUPPLEMENTAL INFORMATION:		
Cash paid for interest	$ 139,255	$ 55,523

See accompanying notes to financial statements.

A. NATURE OF THE ORGANIZATION

Project Reflect, Inc., ("Project Reflect") 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 Judea-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:

Smithson Craighead Academy

Project Reflect was approved to become one of the first charter public schools in the State of Tennessee. Under state law, the charter school formed by Project Reflect, Smithson Craighead Elementary School, 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 Smithson Craighead Middle School, a charter school for students in grades five through eight, serving approximately 300 at-risk children.

As further described in Note I, the Metropolitan Nashville Public Schools Board of Education noted in November 2012 to revoke the charter of Smithson Craighead Middle School effective at the end of the 2012-2013 school year.

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.

Smithson Craighead Preparatory High School

At-risk children are identified and assisted in learning. Project Reflect 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.

A. NATURE OF THE ORGANIZATION - Continued

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.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of 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 classifies its revenues, expenses, gains, and losses into three classes of net assets based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of Project Reflect 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 stipulations that may or will be met either by actions of Project Reflect and/or the passage of time.
>
> Permanently restricted net assets - Net assets subject to donor-imposed stipulations that Project Reflect maintain them permanently. Generally, the donors of these assets permit Project Reflect to use all or part of the income earned on related investments for general or specific purposes.

The amount for each of these classes of net assets is presented in the statements of financial position and the amount of change in each class of net assets is displayed in the statements of activities. Project Reflect did not have any permanently restricted net assets as of June 30, 2012 or 2011.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Contributions

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

Management believes that Project Reflect is in compliance with all donor restrictions.

Donated Services

Contributed services are recognized if the services received create or enhance long-lived assets or require specialized skills, are provided by individuals processing those skills, and would typically need to be purchased if not provided by donation. During the years ended June 30, 2012 and 2011, 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.

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.

Income Taxes

Project Reflect is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code; accordingly, no provision for income taxes has been made in the accompanying financial statements. Project Reflect is not classified as a private foundation.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Project Reflect 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 Project Reflect include, but are not limited to, the tax-exempt status and determination of whether income is subject to unrelated business income tax; however, Project Reflect has determined that such tax positions do not result in an uncertainty requiring recognition.

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 fair 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 amortizations 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.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Prior Year Financial Statements

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

C. RECEIVABLES

As of June 30, 2012 and 2011, receivables consisted of the following:

	2012	2011
MNPS district funding	$75,086	$341,493
Grant funding	12,237	13,415
Other	975	500
Total receivables	$88,298	$355,408

D. PROPERTY AND EQUIPMENT

A summary of property and equipment at June 30, 2012 and 2011 is as follows:

	2012	2011
Buildings and improvements	$ 4,549,917	$ 2,748,559
Land	605,000	605,000
Equipment	675,916	519,641
Furniture and fixtures	132,042	118,258
Textbooks	155,872	155,872
Vehicles	239,835	182,805
Construction in progress	36,502	1,126,810
Total property and equipment	6,395,084	5,456,945
Less: Accumulated depreciation and amortization	(1,011,739)	(773,665)
Property and equipment, net	$ 5,383,345	$ 4,683,280

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

E. LINES OF CREDIT

Project Reflect has a $200,000 revolving line of credit, bearing interest at a variable rate of the bank's index rate plus 1.50% (5.00% at June 30, 2012) Interest is due monthly and the principal and any unpaid interest is due on July 14, 2013. The line of credit is collateralized by land and a school building. The balance as of June 30, 2012 and 2011 was $181,649 and $145,000, respectively.

Project Reflect has a $250,000 revolving line of credit collateralized by land and a school building that has a 5.75% interest rate. The balance as of June 30, 2012 and 2011 was $237,549. This line of credit was refinanced with a different financial institution during fiscal year 2013.

Project Reflect has a $500,000 demand revolving line of credit collateralized by land and a school building that has a variable interest rate at the bank's index rate plus 1.50% (4.75% at June 30, 2012). Interest is due monthly and the principal is due in full upon the request of the lender. If no demand is made, any unpaid interest and principal are due on July 13, 2014. The balance as of June 30, 2012 was $170,234. This note was amended subsequent to June 30, 2012 to increase the demand line-of-credit amount to $750,000.

F. NOTES PAYABLE

As of June 30, 2012, Project Reflect is obligated under a note payable to a local bank totaling $494,668. The funds were used to construct an addition to its middle school location as well as consolidate other debts. The promissory note is collateralized by land and property. The note bears interest at a rate of 4.79% per annum. Principal and interest are due in monthly installments of $3,568 through January 13, 2017. The remaining principal and accrued interest on the note is due in full on January 13, 2017.

As of June 30, 2012 and 2011, Project Reflect is obligated under a note payable to a local bank totaling $1,481,032 and $1,308,672, respectively. The funds were used to construct an addition to its current elementary school location as well as consolidate other debts. The promissory note is collateralized 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. This note was refinanced with a different financial institution during fiscal year 2013. The new note totals $1,950,000, bears interest at 4.79%, and is due in monthly payments of principal and interest of $12,644. All unpaid principal and interest are due on August 2, 2017. The new note is collateralized by land and buildings.

F. NOTES PAYABLE - Continued

A summary of annual principal requirements follows

Year Ending June 30,	Amount
2013	$ 46,075
2014	51,312
2015	54,082
2016	57,005
2017	450,307
Thereafter	1,316,919
	$1,975,700

G. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2011 totaled $99,178. The net assets were restricted for the Building Fund for Smithson Craighead Academy Middle School. The purpose restriction relating to these funds was accomplished during fiscal year 2012.

H. CREDIT RISK AND OTHER CONCENTRATIONS

Project Reflect receives a substantial amount of its revenue from the Metropolitan Nashville Public Schools and other government grants. A significant variance in this level of support, if this were to occur, would have an effect on the programs and activities of Project Reflect (See Note I).

Financial instruments which potentially subject the Project Reflect to concentrations of credit risk consist principally of cash and cash equivalents. Cash and cash equivalents carry credit risk to the extent they exceed federally insured limits from time to time. Credit risk also extends to receivables, all of which are uncollateralized.

I. OPERATIONS OF THE MIDDLE SCHOOL

During November 2012, the Metropolitan Nashville Public Schools Board of Education voted to revoke the charter of the Smithson Craighead Academy Middle School effective at the end of the 2012-2013 school year. Funding for the 2012-2013 school year will not be affected. However, at the end of the 2012-2013 school year, the school will not have a charter to operate. The decision does not affect the Smithson Craighead Academy Elementary School.

I. OPERATIONS OF THE MIDDLE SCHOOL - Continued

Summarized financial information of Smithson Craighead Academy Middle School as of June 30, 2012 and 2011, is presented below.

	2012	2011
Total Assets	$3,087,258	$2,421,979
Total Liabilities	1,028,989	319,213
Total Net Assets	$2,058,269	$2,102,766
Total Revenues	$ 3,144,804	$4,134,734
Total Expenses	3,189,301	2,459,639
Change in Net Assets	$(44,497)	$1,675,095

Management of Project Reflect and the Board of Directors are in the process of analyzing the situation and developing a budget and plans for future operations. Management's plans could include an appeal of the MNPS decision. However, if the charter is not reinstated, the School will be forced to close. Other plans could include sale or lease of the Middle School property or the development of other programs at the site. As of the issuance of these financial statements, management is also evaluating the impact of the Middle School's closure on Project Reflect. As management and the Board are currently evaluating the situation, no contingencies have been reflected in the accompanying financial statements.

J. COMMITMENTS AND CONTINGENCIES

Project Reflect has received federal and state grants for specific purposes that are subject to review and audit by grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants, management believes any required reimbursements would not be material to the financial statements.

Project Reflect is subject to various claims and legal actions, which arise in the ordinary course of business. In the opinion of management, in consultation with legal counsel, the ultimate resolution of such matters will not have a material adverse effect on Project Reflect's financial position or results of operations.

K. SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 31, 2013, the date the financial statements were available for issuance. See subsequent event disclosures in Notes E, F and I.

SUPPLEMENTARY INFORMATION

PROJECT REFLECT, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012

Program Name	CFDA Number	Contract/ Grant Number	Balance July 1, 2011 (Receivable) Payable
U.S. DEPARTMENT OF AGRICULTURE:			
Passed through Tennessee Department of Education			
Child Nutrition Cluster:			
National School Lunch Program	10.555	N/A	$ -
School Breakfast Program	10.553	N/A	-
U.S. DEPARTMENT OF EDUCATION:			
Passed through Tennessee Department of Education and Metropolitan Nashville Public Schools			
Title I, Part A Cluster			
Title I Grants to Local Educational Agencies	84.010	N/A	-
Special Education Cluster (IDEA)			
Special Education - Grants To States	84.027	N/A	-
Passed through Tennessee Department of Education			
Public Charter Schools Program (PLIMP) No Child Left Behind	84.282A	N/A	(13,415)
			$(13,415)

Note: The schedule of expenditures of federal awards includes the federal grant activity of the Organization. The information in this schedule is presented in accordance with the requirements of OMB A-133 and the State of Tennessee.

Receipts	Expenditures	Balance June 30, 2012 (Receivable) Payable
$ 96,506	$ 96,506	$ -
54,221	54,221	-
192,674	226,010	(33,336)
48,279	90,029	(41,750)
111,783	110,605	(12,237)
$503,463	$577,371	$(87,323)

See independent auditors' report.

PROJECT REFLECT, INC.
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2012

Grantor	State Contract Number	Balance July 1, 2011	Receipts	Expenditures	Balance June 30, 2012
TENNESSEE DEPARTMENT OF EDUCATION:					
Basic Education Program	N/A	$ -	$ 79,000	$ 79,000	$ -
Passed through MNPS					
Basic Education Program	N/A	-	4,381,560	4,381,560	-
		$ -	$4,460,560	$4,460,560	$ -

Note: The schedule of expenditures of state financial assistance includes the state grant activity of the Organization. The information in this schedule is presented in accordance with the requirements of the State of Tennessee.

See independent auditors' report.

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. (the "Organization") as of and for the year ended June 30, 2012, and have issued our report thereon dated January 31, 2013. 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

Management of the Organization is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Organization'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 Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 a 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 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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as items 2012-01 through 2012-04 that we consider to be significant deficiencies in internal control over financial reporting. 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 Organization'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 G*overnment Auditing Standards*.

This report is intended solely for the information and use of management, the Board Directors, others within the Organization, the U.S. Department of Education, pass-through entities, and the Comptroller of the Treasury, State of Tennessee, and is not intended to be and should not be used by anyone other than these specified parties.

Crosslin & Associates, P.C.

Nashville, Tennessee
January 31, 2013

CROSSLIN
&ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report on Compliance With Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Board of Directors
Project Reflect, Inc.

Compliance

We have audited the compliance of Project Reflect, Inc. (the "Organization") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2012. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Organization's compliance with those requirements.

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The Organization's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In the planning and performing our audit, we considered the Organization's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness on internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board Directors, others within the Organization, the U.S. Department of Education, pass-through entities, and the Comptroller of the Treasury, State of Tennessee, and is not intended to be and should not be used by anyone other than these specified parties.

Crosslin & Associates, P.C.

Nashville, Tennessee
January 31, 2013

SECTION I - SUMMARY OF INDEPENDENT AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:
Material weakness(es) identified? ___yes _x_ no
Significant deficiency(ies) identified not considered to be material weaknesses? _x yes ____ none reported

Noncompliance material to financial statements noted? ___yes _x_ no

Federal Awards

Internal control over major programs:
Material weakness(es) identified? ___yes _x_ no
Significant deficiency(ies) identified not considered to be material weaknesses? ___yes _x_ none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? __yes _x_ no

Identification of major programs:

CFDA Number	Name of Federal Program
84.010	Title I, Part Cluster – Grants to Local Education Agencies
Child Nutrition Cluster:	
10.555	National School Lunch Program
10.553	School Breakfast Program

Dollar threshold used to distinguish between Type A and Type B programs: $300,000

Auditee qualified as low-risk auditee? ____yes _X_ no

SECTION II - FINANCIAL STATEMENT FINDINGS

2012-01 – Segregation of Duties

Condition, Criteria, Cause and Effect:

While the Organization has implemented policies and procedures that help to reduce the risks associated with lack of segregation of duties, the Organization does not have segregation of duties over certain areas of the financial process. Segregation of duties controls are important as such controls reduce the risk of misappropriation of assets and errors. During the audit, we noted that the Organization utilizes a third-party accounting service to assist with the accounting function. This allows some financial tasks to be segregated.

Recommendation and Benefit:

We recommend that the Organization continue to review current practices, and when able, maintain proper segregation of duties. Additionally, when segregation of duties controls are not cost beneficial, we recommend that the Organization use review controls to help mitigate risk. These review controls should include active monitoring by supervisory management personnel and the finance committee of the Board of Directors.

2012-02 – Bank Reconciliations

Condition, Criteria, Cause and Effect:

During our audit procedures surrounding cash and cash equivalents, we noted several issues in the bank reconciliations. Specifically, in certain instances, the ending reconciled balances did not agree to the general ledger, voided checks were reissued and not cleared on the reconciliation, and certain journal entries affecting cash balances were not always considered in the reconciliation. As a result of the items identified, the cash and cash equivalents balance was overstated and required audit adjustment.

Recommendation and Benefit:

We recommend that the Organization examine internal controls over the cash reconciliation process, including verifying that the reconciled balance agrees to the general ledger, verifying the accuracy of reconciling items, and implementing a review process over the preparation of reconciliations. A thorough review of the monthly reconciliations should be performed by supervisory personnel who are independent of the preparation of the reconciliations. This will help to ensure that bank reconciliations are prepared accurately. Accurate bank reconciliations are a key internal control to help detect any irregularities in the bank accounts.

2012-03 – Recording of Accounts Payable

Condition, Criteria, Cause and Effect:

The Organization's historical practice has been to record expenses utilizing the cash basis of accounting. At year-end, a significant effort is required to determine and record the accounts payable amount within the general ledger and the financial statements. Accordingly, accounts payable are not being recorded within the financial records of the Organization throughout the year in accordance with U.S. Generally Accepted Accounting Principles. As a result, liabilities and expense of the Organization may be understated.

Recommendation and Benefit:

We recommend that the Organization consider recording accounts payable throughout the year. Additionally, the Organization should review all open / unpaid invoices at year-end for the expenses related to the fiscal year and make any entries necessary to record the payables and properly state liabilities and expenses. This will help to ensure accurate financial reports and will help to alleviate the significant year-end effort to record payables.

2012-04 – Cash Disbursements

Condition, Criteria, Cause and Effect:

During our testing of the cash disbursements process, we noted instances in which certain supporting documentation was not readily available. Specifically, certain disbursements did not have readily available information supporting approval of the purchase (i.e. purchase requisition) and / or support for the amount of the disbursement (i.e. invoice). Additionally, we noted two instances, out of 25, in which there was not a second signature on the check, as required by Organization policy.

Recommendation and Benefit:

As the internal controls surrounding cash disbursements are critical, we recommend that the Organization re-enforce its policies to maintain proper supporting documentation for all cash disbursements, including purchase requisitions, invoices and proper signatures on checks. The effectiveness of these controls should be reviewed periodically by someone independent of the people performing the controls. These controls will help to ensure that the financial statements reflect valid cash disbursement transactions.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported

PROJECT REFLECT, INC.
STATUS OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2012

Item #	Description of Condition	Status of Corrective Action
2011-01	Segregation of Duties	This item has been repeated in the current year. See finding 2012-01.