

PROJECT REFLECT, INC.
FINANCIAL STATEMENTS
JUNE 30, 2005

PROJECT REFLECT, INC.

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**J. D. Reed
Certified Public Accountant
6133 Jocelyn Hollow Road
Nashville, Tennessee 37205**

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees of
Project Reflect, Inc.

I have audited the accompanying statement of financial position of Project Reflect, Inc. as of June 30, 2005 and the related statement of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted the audit in accordance with auditing standards generally accepted 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 I 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 basic financial statements. An audit also includes assessing the accompanying principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Project Reflect, Inc. as of June 30, 2005, 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, I have also issued my report dated October 28, 2005, on my consideration of Project Reflect, Inc.'s internal control over financial reporting and the tests of its compliance with certain provisions of laws, regulations, contracts, and grants and a report dated October 28, 2005 on its compliance with laws and regulations.

My audit was made for the purpose of forming an opinion on the basic financial statements of Project Reflect, Inc. taken as a whole. The accompanying supplemental information for the year ended June 30, 2005, is presented for the purpose of additional analysis and not a required part of the basic financial statements of Project Reflect, Inc. Such information has been subjected to the procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

October 28, 2005



Member of the American Institute of Certified Public Accountants

PROJECT REFLECT

FINANCIAL STATEMENTS

JUNE 31, 2005

PROJECT REFLECT, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2005

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 336,803
Pledges Receivable	13,928
Prepaid Expenses	5,972
Inventories	<u>1,763</u>
Total Current Assets	358,466

Property and Equipment -Note 4	1,532,423
Software Development Costs -Note 5	<u>714,340</u>
Total Assets	<u>\$ 2,605,229</u>

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts Payable and Accrued Expenses	\$ 2,605
Payroll Taxes Payable	12,304
Line of Credit -Note 6	134,500
Note Payable, Current Portion -Note 7	<u>44,321</u>
Total Current Liabilities	193,730

Note Payable, Less Current Portion -Note 7	<u>338,206</u>
Total Liabilities	531,936

Net Assets:

Unrestricted	1,923,377
Temporarily Restricted	<u>149,916</u>
Total Net Assets	<u>2,073,293</u>

Total Liabilities and Net Assets	<u>\$ 2,605,229</u>
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**PROJECT REFLECT, INC.
STATEMENT OF ACTIVITIES
JUNE 30, 2005**

UNRESTRICTED NET ASSETS

PUBLIC SUPPORT AND REVENUE

Contributions	\$ 264,608
Donated Facilities, Services and Supplies	63,819
Government Grants	120,000
Program Service	2,987
Product Sales	7,846
Other	<u>6,838</u>
Total Public Support and Revenue	466,098

PUBLIC SUPPORT AND REVENUE

CHARTER SCHOOL DIVISION

Contributions	3,380
Government Grants	203,000
Metro Nashville Public School Funding And Title 1 – No Child Left Behind	990,572
Parent Fund	<u>1,374</u>
Total Public Support and Revenue Charter School Division	1,198,326
Net Assets Released From Restrictions: Program and Time Restrictions Satisfied	<u>38,502</u>
Total Support and Revenue	1,702,926

EXPENSES

PROGRAM SERVICES

PREP	222,254
Smithson-Berry	106,693
Reflect Mission Community	1,968
Charter School (SCA)	1,404,654

SUPPORTING SERVICES

Management and General	212,271
Development	<u>14,911</u>
Total Expenses	<u>1,962,751</u>
Decrease in Unrestricted Net Assets	<u>\$ -259,825</u>

See Accompanying Notes
(3)

PROJECT REFLECT, INC
STATEMENT OF ACTIVITIES (Continued)
JUNE 30, 2005

TEMPORARILY RESTRICTED NET ASSETS

SUPPORT

Charter School (SCA)	\$ 10,000
PREP	25,552
Net Assets Released from Restrictions	<u>(38,502)</u>
Decrease in Temporarily Restricted Net Assets-	<u>- 2,950</u>
Decrease in Net Assets	-262,775
Net Assets at Beginning of Year	<u>2,336,068</u>
Net Assets at End of Year	<u><u>\$ 2,073,293</u></u>

PROJECT REFLECT, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2005

PROGRAM SERVICES

PREP

Salaries and Related Expenses	\$ 118,698
Rent	19,760
Depreciation and Amortization	20,441
Utilities	1,402
Insurance	11,731
Food and Related Supplies	13,933
Supplies	1,968
Transportation	18,897
Scholarships	10,703
Miscellaneous	4,671
Repairs and Maintenance	50
TOTAL	<u>\$ 222,254</u>

SMITHSON-BERRY

Salaries and Related Expenses	\$ 71,108
Rent	4,680
Depreciation and Amortization	3,716
Legal and Professional	12,537
Utilities	3,691
Insurance	50
Supplies	1,318
Printing and Publications	183
Miscellaneous	1,515
Postage	1,710
Production Expense	4,235
Travel	1,950
TOTAL	<u>\$ 106,693</u>

REFLECT MISSION COMMUNITY

Utilities	\$ 889
Miscellaneous	974
Bank Fees	105
TOTAL	<u>\$ 1,968</u>

See Accompanying Notes

PROJECT REFLECT, INC.
STATEMENT OF FUNCTIONAL EXPENSES (Continued)
YEAR ENDED JUNE 30, 2005

PROGRAM SERVICES (Continued)

CHARTER SCHOOL (SCA)

Salaries and Related Expenses	\$ 1,163,067
Supplies and Materials	63,616
Depreciation and Amortization	26,015
Utilities	49,838
Insurance	23,951
Interest and Bank Charges	100
MNPS Agent Fee	42,364
Transportation	2,351
Miscellaneous	11,046
Repairs and Maintenance	12,742
Communications	7,237
Postage	865
Parent Fund	<u>1,462</u>
TOTAL	<u>\$ 1,404,654</u>

SUPPORTING SERVICES

	<u>MANAGEMENT AND GENERAL</u>	<u>DEVELOPMENT</u>	<u>TOTAL</u>
Salaries and Related Expenses	\$ 89,871	\$ 4,020	\$ 93,891
Rent	15,560		15,560
Depreciation and Amortization	39,952	2,788	42,740
Legal and Professional	10,130	131	10,261
Utilities	4,623		4,623
Insurance	5,464		5,464
Interest	17,286		17,286
Supplies	2,417	355	2,772
Printing and Publications		3,783	3,783
Miscellaneous	6,885	162	7,047
Repairs and Maintenance	1,300		1,300
Postage	2,253	3,672	5,925
Bank Fees	878		878
Transportation	12,210		12,210
Loss on Sale of Asset	71		71
Taxes, Licenses and Fees	<u>3,371</u>		<u>3,371</u>
TOTAL	<u>\$ 212,271</u>	<u>\$ 14,911</u>	<u>\$ 227,182</u>

See Accompanying Notes
(6)

PROJECT REFLECT, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2005

Cash Flows from Operating Activities:

Change in Net Assets	\$ -262,775
Adjustments to Reconcile Change in Net Assets	
To Cash Provided by Operating Activities:	

Depreciation	92,912
Donated Assets	-25,421
Pledges Receivable	25,929
Inventories	-1,723
Prepaid Expenses	33,065
Accounts Payable	-27,186
Payroll Taxes Payable	<u>12,304</u>
Net Cash Provided By Operating Activities	-152,895

Cash Flows from Investing Activities:

Purchases of Property and Equipment	-33,579
Increase in Non-Current Assets	-45,000
Proceeds from Property Sold	<u>199,234</u>
Net Cash Used by Investment Activities	120,655

Cash Flows from Financing Activities

Net Payments of Notes Payable	- 45,504
Net Cash Provided by Financing Activities	-45,504

Decrease in Cash and Cash Equivalents	-77,744
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Cash and Cash Equivalents at Beginning of Year	<u>414,547</u>
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Cash and Cash Equivalents at End of Year	\$ <u><u>336,803</u></u>
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PROJECT REFLECT, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 – NATURE OF OPERATIONS

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 their 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 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.

PROJECT REFLECT, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2005

NOTE 1- NATURE OF OPERATIONS (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.

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

Project Reflect maintains its financial records on the accrual basis of accounting. Support and related assets are recognized when earned. Expenses and related liabilities are recognized when obligations are incurred.

Project Reflect has adopted Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organization". Under SFAS No. 117, Project Reflect is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Project Reflect has adopted SFAS No. 116, "Accounting for Contributions Received and Contributions Made". In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence or nature of any restricted donations.

PROMISES TO GIVE

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.

PROJECT REFLECT, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2005

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CONTRIBUTED 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, 2005, 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.

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).

TAXATION

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.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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.

PROJECT REFLECT, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2005

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 of the lease, whichever is shorter.

Expenditures for maintenance and repairs are expenses 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.

NOTE 3- CREDIT RISK AND OTHER CONCENTRATIONS

Project Reflect generally maintains cash on deposit at banks in excess of federally insured amounts. However, Project Reflect has not experienced any losses in such accounts and management believes the organization is not exposed to any significant credit risk related to cash.

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 as of June 30, 2005 and 2004 is as follows:

	<u>2005</u>	<u>2004</u>
Buildings and Improvements	\$ 1,109,596	\$ 1,254,235
Land	305,000	360,500
Leasehold Improvements	23,234	29,703
Equipment	208,391	117,822
Furniture and Fixtures	53,794	51,670
Vehicles	78,845	76,630
	<u>1,778,860</u>	<u>1,890,560</u>
Accumulated Depreciation and Amortization	-246,437	- 182,175
Total Property and Equipment	<u>\$ 1,532,423</u>	<u>\$ 1,708,385</u>

PROJECT REFLECT, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2005

NOTE 5 – SOFTWARE DEVELOPMENT COSTS

Project Reflect entered into a contractual agreement with *Little Planet Learning* for the development of a computer based learning program designed for the *Reading Success* program. *Little Planet* performs services under the contract as an independent contractor. The software and product development costs have been capitalized and are reflected as non current assets in the Project Reflect financial statements. At June 30, 2005, Project Reflect has not fully marketed this product. In addition, Smithson –Berry made payments on the webification of software which is capitalized and treated as a non current asset for the year ended June 30, 2005. Management realizes that these assets have to be reclassified and marketability has to be established in the near term.

NOTE 6 – LINE OF CREDIT

A revolving line of credit (LOC) with a maximum amount of \$200,000 was provided Project Reflect on August 22, 2003, secured by land and building. The LOC is due on demand with interest at the bank's prime rate plus 0%. However, the rate is subject to change daily. Interest is due monthly and the principal and any unpaid interest is due on August 22, 2006.

NOTE 7 – NOTE PAYABLE

A note secured by land and property was obtained at the bank's prime interest rate. The note is paid monthly and is due as follows at \$ 3,698.43 per month:

<u>June 30th</u>	
2006	\$ 44,381
2007	44,381
2008	44,381
2009	44,381
Thereafter	<u>205,003</u>
Total	<u>\$ 382,527</u>

PROJECT REFLECT, INC.

SUPPLEMENTAL INFORMATION

JUNE 30, 2005

**PROJECT REFLECT, INC.
SCHEDULE OF GRANTS
JUNE 30, 2005**

	<u>A</u>	<u>B</u>
Grantor:	TN Department of Education	21st Century Community Learning Centers
RFS Number:	331. 035-041	331.095-307
Federal CFDA:	84.282A	84.287C
Project Period:	7-15-2004 thru 6-30-05	8-1-2004 thru 6-30-05
Award Amount:	\$ 203,000	\$ 120,000

A. The authority of this grant is provided by Title V, Part B, of the No Child Left Behind Act of 2001, through which the state is required to provide financial assistance for the planning, program design, and initial implementation of charter schools.

B. 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.

PROJECT REFLECT, INC.
COMPARATIVE STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2005, 2004

ASSETS

	<u>2005</u>	<u>2004</u>
Current Assets:		
Cash and Cash Equivalents	\$ 336,803	\$ 414,547
Pledges Receivable, Current	13,928	39,857
Inventories	1,763	
Prepaid Expenses	<u>5,972</u>	<u>39,037</u>
Total Current Assets	358,466	493,441
 Property and Equipment, Net	 1,532,423	 1,708,385
Software Development Costs	714,340	669,340
Pledges Receivable		12,903
Total Assets	<u>\$2,605,229</u>	<u>\$2,884,069</u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts Payable	\$ 2,605	\$ 29,791
Payroll Taxes	12,304	
Line of Credit	134,500	
Notes Payable, Current	<u>44,321</u>	<u>135,683</u>
Total Current Assets	193,730	165,474
 Note Payable, Excluding Current	 <u>338,206</u>	 <u>382,527</u>
Total Liabilities	531,936	548,001
 Net Assets:		
Unrestricted	1,923,377	2,147,650
Temporarily Restricted	<u>149,916</u>	<u>188,418</u>
Total Net Assets	<u>2,073,293</u>	<u>2,336,068</u>
 Total Liabilities and Net Assets	<u>\$2,605,229</u>	<u>\$2,884,069</u>

**Project Reflect, Inc.
Statement of Activities
June 30, 2005, 2004**

	<u>2005</u>	<u>2004</u>
Public Support and Revenue		
Contributions	\$ 264,608	\$ 109,918
Fundraising Revenue		22,695
Donated Facilities, Services, Supplies	63,819	107,555
Government Grants	120,000	168,118
United Way		20,280
Product Sales	7,846	7,669
Program Service Revenue	2,987	13,495
Other	6,838	9,133
Total Public Support and Revenue	466,098	458,863
Public Support and Revenue, Charter School		
Contributions	3,380	217,308
Government Grants	203,000	250,000
MNPS Funding	990,572	1,018,454
Donated		16,944
Parent Fund	1,374	
Total Public Support and Revenue		
Charter School Division	1,198,326	1,502,706
Net Assets Released From Restrictions:		
Program and Time Restrictions Satisfied	38,502	236,178
Total Public Support and Revenue	1,702,926	2,197,747
Expenses		
Program Services	1,735,569	1,874,812
Supporting Services	227,182	345,301
Total Expenses	1,962,751	2,220,113
Provision for Loss on Uncollectible Contributions		- 180,847
Increase/Decrease -Temporarily Restricted Net Assets	-2,950	95,638
Change in Net Assets	-262,775	-107,575
Net Assets, Beginning of Year	2,336,068	2,443,643
Net Assets, End of Year	<u>\$ 2,073,293</u>	<u>\$ 2,336,068</u>

PROJECT REFLECT

INTERNAL CONTROLS

JUNE 30, 2005

J. D. REED
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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Board of Trustees of
Project Reflect, Inc.

I have audited the financial statements of Project Reflect, Inc. as of and for the year ended June 30, 2005, and have issued my report thereon dated October 28, 2005. I conducted my 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.

COMPLIANCE

As part of obtaining reasonable assurance about whether Project Reflect, Inc.'s financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing my audit, I considered Project Reflect's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by members in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be reportable material weaknesses. However, other matters involving internal control over financial reporting were reported to the finance committee of Project Reflect in a separate letter dated October 28, 2005.

October 28, 2005



Member American Institute of Certified Public Accountants
(16)