

PROJECT REFLECT, INC.

**FINANCIAL STATEMENTS AND
OTHER INFORMATION**

JUNE 30, 2014 AND 2013

PROJECT REFLECT, INC.

Table of Contents

	<u>Page</u>
INDEPENDENT AUDITOR’S REPORT.....	1 - 2
FINANCIAL STATEMENTS	
Statements of Financial Position.....	3
Statements of Activities.....	4
Statements of Functional Expenses.....	5 - 6
Statements of Cash Flows.....	7
Notes to Financial Statements.....	8 - 19
OTHER INFORMATION	
Schedule of expenditures of federal awards.....	20 - 21
Schedule of expenditures of state financial assistance.....	22
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	23 - 24
SUMMARY OF PRIOR YEAR AUDIT FINDINGS.....	25



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Project Reflect, Inc.
Nashville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Project Reflect, Inc., a nonprofit organization (the "Organization"), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



To the Board of Directors
Project Reflect, Inc.

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, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of expenditures of federal awards and of state financial assistance are presented for purposes of additional analysis as required by 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. Such information is the responsibility of management and was derived from and relates 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2014, on our consideration of the Organization'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* in considering the Organization's internal control over financial reporting and compliance.

Crosslin & Associates, P.C.

Nashville, Tennessee
November 3, 2014

PROJECT REFLECT, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014

	June 30,	
	2014	2013
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 196,402	\$ 242,195
Receivables	70,442	84,947
Prepaid expenses	-	2,289
	266,844	329,431
Total current assets		
Property and equipment, net	2,566,261	2,881,676
Real estate held for sale	2,196,298	2,263,689
	\$ 5,029,403	\$ 5,474,796
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 98,895	\$ 157,986
Payroll liabilities	82,392	183,724
Lines-of-credit	510,000	375,000
Current portion of long-term debt	88,650	84,511
	779,937	801,221
Total current liabilities		
Long-term debt, less current portion	2,163,882	2,250,961
	2,943,819	3,052,182
Total liabilities		
Net assets:		
Unrestricted	2,084,709	2,422,614
Restricted	875	-
Total net assets	2,085,584	2,422,614
	\$ 5,029,403	\$ 5,474,796
Total liabilities and net assets		

See accompanying notes to financial statements.

PROJECT REFLECT, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
<u>Unrestricted:</u>		
Support and revenue:		
Public support and revenue:		
Contributions	\$ 151,142	\$ 47,519
Government grants	161,000	82,478
Donated facilities, services and supplies	54,252	18,351
Other	153,244	6,822
Total public support and revenue	519,638	155,170
Charter school division support and revenue		
Metropolitan Nashville Public Schools		
Funding, Title I, and IDEA	2,497,419	2,456,938
Total support and revenue	3,017,057	2,612,108
Expenses:		
Program services:		
Charter School - Smithson Craighead Elementary	2,682,030	2,516,032
Other program services	-	4,080
Total program services expense	2,682,030	2,520,112
Supporting services:		
Management and general	468,709	547,301
Fundraising	121,603	-
Total expenses	3,272,342	3,067,413
Nonoperating activities:		
Loss on disposal of property and equipment	(82,620)	-
Decrease in unrestricted net assets from continuing activities	(337,905)	(455,305)
Change in unrestricted net assets from discontinued activities of Smithson Craighead Middle School (Note C)	-	(104,551)
Decrease in unrestricted net assets	(337,905)	(559,856)
<u>Temporarily restricted:</u>		
Contributions	875	-
Increase in temporary restricted net assets	875	-
Total decrease in net assets	(337,030)	(559,856)
Net assets, beginning of year	2,422,614	2,982,470
Net assets, end of year	\$ 2,085,584	\$ 2,422,614

See accompanying notes to financial statements.

PROJECT REFLECT, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2014

	Program Services Charter School - Smithson Craighead Elementary	Management and General	Fundraising	Total 2014
Salaries and related expenses	\$ 1,938,765	\$ 212,691	\$ 83,268	\$ 2,234,724
Depreciation	191,265	103,417	11,406	306,088
Food and related supplies	58,394	-	-	58,394
Repairs and maintenance	47,720	5,235	2,049	55,004
Supplies and materials	44,709	1,775	695	47,179
Utilities	85,624	9,393	3,678	98,695
Interest	87,583	43,815	5,085	136,483
Transportation	57,116	-	-	57,116
Insurance	53,945	5,918	2,317	62,180
Professional services	79,952	10,966	-	90,918
Communications	3,703	406	159	4,268
Marketing and advertising	6,044	-	8,489	14,533
Printing and production	12,156	1,334	1,418	14,908
Travel and conferences	1,709	-	-	1,709
Security and monitoring	5,057	555	217	5,829
Postage	3,890	427	167	4,484
Miscellaneous	2,385	2,784	4	5,173
Dues and subscriptions	2,013	540	-	2,553
Taxes, licenses and fees	-	62,864	2,651	65,515
Bank fees	-	6,589	-	6,589
	<u>\$ 2,682,030</u>	<u>\$ 468,709</u>	<u>\$ 121,603</u>	<u>\$ 3,272,342</u>

See accompanying notes to financial statements.

PROJECT REFLECT, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2013

	<u>Program Services</u>		Management and General	Total 2013
	<u>Other Program Services</u>	<u>Charter School - Smithson Craighead Elementary</u>		
Salaries and related expenses	\$ 1,850	\$ 2,015,393	\$ 204,848	\$ 2,222,091
Depreciation	2,230	99,137	226,468	327,835
Food and related supplies	-	17,544	507	18,051
Repairs and maintenance	-	59,116	-	59,116
Supplies and materials	-	7,143	-	7,143
Utilities	-	62,520	100	62,620
Interest	-	106,713	33,752	140,465
Transportation	-	56,112	383	56,495
Insurance	-	27,680	12,386	40,066
Professional services	-	44,067	43,164	87,231
Communications	-	-	8,711	8,711
Marketing and advertising	-	324	5,245	5,569
Printing and production	-	7,296	-	7,296
Travel and conferences	-	292	594	886
Security and monitoring	-	11,955	-	11,955
Postage	-	-	1,852	1,852
Miscellaneous	-	229	1,035	1,264
Dues and subscriptions	-	411	300	711
Taxes, licenses and fees	-	100	2,319	2,419
Bank fees	-	-	5,637	5,637
	<u>\$ 4,080</u>	<u>\$ 2,516,032</u>	<u>\$ 547,301</u>	<u>\$ 3,067,413</u>

See accompanying notes to financial statements.

PROJECT REFLECT, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
Cash flows from operating activities:		
Decrease in net assets	\$ (337,030)	\$ (559,856)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation	306,088	327,835
Loss on disposal of property and equipment	82,620	-
Change in:		
Receivables	14,505	3,351
Prepaid expenses	2,289	3,367
Accounts payable and accrued expenses	(59,091)	101,174
Payroll liabilities	(101,332)	(16,651)
	(91,951)	(140,780)
Cash flows from investing activities:		
Proceeds from sale of property and equipment	6,900	-
Purchases of property and equipment	(12,802)	(89,855)
	(5,902)	(89,855)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	-	1,950,000
Principal payments on long-term debt	(82,940)	(1,590,228)
Proceeds from note payable - related party	-	25,975
Proceeds (repayment) on lines-of-credit, net	135,000	(214,432)
	52,060	171,315
Decrease in cash and cash equivalents	(45,793)	(59,320)
Cash and cash equivalents, beginning of year	242,195	301,515
Cash and cash equivalents, end of year	\$ 196,402	\$ 242,195
Supplemental Information:		
Cash paid for interest	\$ 136,483	\$ 140,465

See accompanying notes to financial statements.

PROJECT REFLECT, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

A. NATURE OF THE ORGANIZATION

Project Reflect, Inc., (“Project Reflect”) was founded in 1992 to serve children living in poverty and to transform urban America through education and education reform to save every child. Under that mission, Project Reflect operates the following programs:

Smithson-Craighead Academy

In 2003, Project Reflect opened Smithson-Craighead Academy (“SCA”), the first charter school in Middle Tennessee. SCA serves approximately 270 children in grades K-4. SCA has an established history of serving at-risk children lagging academically but has also grown to provide intensive programs for on level and advanced students. SCA serves a student population in which over 96% of students qualify for free or reduced lunch. A household survey indicated that approximately 30% of SCA families had annual incomes of \$10,000 or less with another 25% living below the Davidson County poverty level. In a loving, family-like atmosphere, students achieve academically, socially, and emotionally. In 2013-14, SCA had a 24% increase in TCAP scores, including the highest jump in math scores of all the elementary schools in the District.

In 2008, Project Reflect was approved to open a second charter school, a middle school serving over 300 students in grades 5-8. In May 2013, SCA Middle School closed, and Project Reflect returned its focus to serving K-4 students. (See Note C).

PREP

PREP began as a summer tutoring program for students a grade level or more behind their peers, and the work of PREP has been at the heart of the Project Reflect mission since 1992. Today, PREP has many forms. Morning PREP offers tutoring from 6:30am to 7:30am, Monday through Friday, also creating a safe place for students who need to arrive at school early. Afternoon PREP is the last ninety minutes of the regular academic day, ensuring that the amount of math and reading a traditional school offers each day is doubled and ensuring all students get a substantial snack that may serve as a third meal of the day for food insecure students. Friday PREP offers focused enrichment classes such martial arts, journalism, Spanish, music, and more. Summer PREP is a day camp that includes tutoring and enrichment.

PROJECT REFLECT, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

A. NATURE OF THE ORGANIZATION - Continued

Family Programming

Project Reflect continues to expand programming to support the entire family and community collaboration. Mental Health Coop is onsite to provide counseling to students and case management for families. Collaboration with Belmont University provides additional social work support. Collaborations with Vanderbilt University enhance academic programs and intervention strategies. GED classes are provided through collaboration with Backfield in Motion, a local nonprofit sharing the campus for the first time in 2014-15. The Madison Tigers use the campus as well. Ruby's Closet, a local nonprofit, provides school uniform assistance onsite, and the Music City Youth Orchestra recently selected SCA as its partner for its pilot program of El Sistema. Computer, finance, ESL, and interview/resume classes are being developed now.

Smithson-Berry Publications

Smithson-Berry Publications, a social enterprise, produces books, software and other media to be used for teaching literacy, working with disadvantaged children, and understanding poverty. Under this umbrella, *Reading Success*, an innovative and proven literacy program for pre- and early readers was developed.

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.

PROJECT REFLECT, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 had \$875 of temporarily restricted net assets for program activities and no permanently restricted net assets at June 30, 2014. Project Reflect did not have any temporarily or permanently restricted net assets as of June 30, 2013.

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 possessing those skills, and would typically need to be purchased if not provided by donation. During the years ended June 30, 2014 and 2013, 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.

PROJECT REFLECT, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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. Effective for 2014, as fundraising became a material part of the Organization's operations, such costs have been allocated to fundraising within the 2014 statement of functional expenses.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the assets, which range from 5-15 years for equipment, furniture and fixtures, textbooks and improvements and 39 years for buildings. 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, generally exceeding \$1,000, 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
JUNE 30, 2014 AND 2013

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Impairment of Long-Lived Assets

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell, and depreciation ceases. The Organization did not have any impairment of long-lived assets for the years ended June 30, 2014 and 2013.

Use of Estimates

The preparation of financial statements in conformity with U.S. 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.

Reclassifications

Certain reclassifications have been made to the 2013 financial statements in order to conform to the presentation adopted for 2014.

C. DISCONTINUED ACTIVITIES - SMITHSON CRAIGHEAD
ACADEMY MIDDLE SCHOOL

In May 2013, Project Reflect closed the Smithson Craighead Academy Middle School. Accordingly, the activities of the Middle School have been presented separately in the accompanying 2013 statement of activities as discontinued activities.

PROJECT REFLECT, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

C. DISCONTINUED ACTIVITIES - SMITHSON CRAIGHEAD
ACADEMY MIDDLE SCHOOL - Continued

As the Middle School represents a program activity of the Organization, all assets and liabilities attributed to the Middle School have been retained by the Organization. Therefore, there are no material assets or liabilities from discontinued activities at June 30, 2013 or 2014. See also Note F.

As the Organization will retain the property and equipment and notes payable, certain expense, including depreciation and interest, have been included in change in net assets from continuing activities in the accompanying statements of activities. Such expenses, which were attributable to the Middle School activities during fiscal year 2013 have been retained by the Organization and are included in continuing activities.

Summarized financial information of the discontinued activities relating to the Middle School as of June 30, 2013, is presented below:

Total revenues	\$ 3,033,925
Total expenses	<u>3,138,476</u>
Change in net assets from discontinued activities	<u>\$(104,551)</u>

Effective July 1, 2013, the Organization entered into a lease agreement with a local charter school to occupy a portion of the land and building where the Middle School was operating. The lease was for one year. Rental income on the property was \$140,327 for the fiscal year ending June 30, 2014, and is included in other revenue in the accompanying statement of activities.

D. CONTINUING ACTIVITIES

The Organization is dependent on certain significant contracts and grants for its continued operations. These contracts and grants are from state, local and other sources and are subject to the Organization's ability to fulfill the contract and grant requirements. Additionally, the Organization's receipt of such contracts and grants may also be contingent upon its ability to maintain certain financial condition, cash flows, level of operations, payment of liabilities, and test scores and academic standards in the operation of SCA. If a grantor agency finds that the Organization is not meeting these requirements, the agency may not provide continuing funding, which would have a material adverse impact on the Organization's ability to continue its operations.

PROJECT REFLECT, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

E. RECEIVABLES

As of June 30, 2014 and 2013, receivables consisted of the following:

	<u>2014</u>	<u>2013</u>
MNPS district funding	\$47,886	\$ -
Grant funding	22,556	81,867
Other	<u>-</u>	<u>3,080</u>
Total receivables	<u>\$70,442</u>	<u>\$84,947</u>

F. PROPERTY AND EQUIPMENT AND REAL ESTATE HELD FOR SALE

A summary of property and equipment at June 30, 2014 and 2013, is as follows:

	<u>2014</u>	<u>2013</u>
Buildings and improvements	\$ 2,230,351	\$ 2,230,351
Land	300,000	300,000
Equipment	739,569	738,219
Furniture and fixtures	137,598	137,598
Textbooks	-	155,872
Vehicles	<u>96,810</u>	<u>182,990</u>
Total property and equipment	3,504,328	3,745,030
Less: Accumulated depreciation and amortization	<u>(938,067)</u>	<u>(863,354)</u>
Property and equipment, net	<u>\$ 2,566,261</u>	<u>\$ 2,881,676</u>

Real estate held for sale consists of a school building, land and improvements located in Nashville, Tennessee. The cost and accumulated depreciation were \$2,661,067 and \$464,769, respectively at June 30, 2014, and \$2,661,067 and \$397,378 respectively, at June 30, 2013.

At the conclusion of the 2013-2014 school year, the SCA Elementary School moved from its location on Brick Church Pike in Nashville, Tennessee to its location on Neelys Bend Road in Madison, Tennessee. The Brick Church campus was subsequently leased to another unaffiliated charter school in July 2014 for one year. Annual rental income on the property calls for \$1 in base rent plus a maximum of \$76,200 for capital repairs to be made by the tenant. In August 2014, the Organization entered into a contract with the charter school to sell the Nashville campus for \$2.2 million. The sale is subject to various conditions and due diligence by the purchaser. If all conditions are met, the closing is to occur within 30 days following a 90 day due diligence period from the contract date.

PROJECT REFLECT, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

F. PROPERTY AND EQUIPMENT AND REAL ESTATE HELD FOR SALE - Continued

In certain circumstances, grantor agencies may retain an interest in equipment purchased with grant funds. Management has worked with grantor agencies with respect to the equipment of the Middle School (See Note C) and obtained approval to retain and use for other operations, including the Elementary School. Accordingly, no provision was made in the financial statements for the return of equipment to grantor agencies.

G. LINES-OF-CREDIT

Project Reflect had a \$750,000 demand revolving line-of-credit, collateralized by land and property, with a variable interest rate at the bank's index rate plus 1.50% (4.75% at June 30, 2013). The line of credit expired in August 2013. The balance as of June 30, 2013 was \$375,000.

In September 2013, the Organization obtained a new demand line-of-credit agreement with an available limit of \$550,000, collateralized by land and property with a variable interest rate at the bank's prime rate plus 1.15% (4.40% at June 30, 2014). 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 were due in September 2014, which was extended after year-end to December 2014. The balance as of June 30, 2014 was \$510,000.

H. NOTES PAYABLE

As of June 30, 2014 and 2013, Project Reflect is obligated under a note payable with an outstanding principal balance of \$456,892 and \$476,980, respectively. The funds were used for capital improvements to facilities as well as to consolidate other debts. The promissory note is collateralized by 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 2017. The remaining principal and accrued interest on the note is due in full in January 2017.

In August 2012, the Organization refinanced a note payable used for capital improvements to facilities and to consolidate other debts totaling \$1,950,000. The note payable 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 in August 2017. The note is collateralized by land and buildings. The outstanding balance at June 30, 2014 and 2013 totaled \$1,795,640 and \$1,858,492, respectively.

PROJECT REFLECT, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

H. NOTES PAYABLE - Continued

During fiscal year 2013, Project Reflect entered into a funding arrangement with the interim executive director, totaling \$25,975. The arrangement was to fund development of future programs. The amount is included in accounts payable and accrued liabilities in the accompanying statement of financial position as of June 30, 2013. During fiscal year 2014, funding arrangement is included in contribution revenue.

A summary of anticipated annual principal requirements for notes payable as of June 30, 2014 follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 88,650
2016	92,991
2017	487,154
2018	<u>1,583,737</u>
	<u>\$2,252,532</u>

I. 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 Notes C and D).

Financial instruments which potentially subject 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.

PROJECT REFLECT, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

J. RETIREMENT PLANS

Certificated Employees Plan Description

The Organization, through the Elementary School, contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing, multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits to plan participants and their beneficiaries. Benefits are determined by a formula using the participant's high five-year average salary and years of service. Participants become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested participants who are at least 55 years of age or have 25 years of service. Disability benefits are available to active participants with five years of service and who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the participant was in the performance of duty.

Participants joining the plan on or after July 1, 1979, are vested after five years of service. Participants joining prior to July 1, 1979, are vested after four years of service. Benefit provisions are established in state statutes found in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Cost of living adjustments (COLA) are provided to retirees each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if CPI increases less than one-half percent. The annual COLA is capped at three percent.

TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the SETHEEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.tn.gov/treasury/tcrs/schools..

Funding Policy

Participants are required to contribute 5.00% of their salary to the plan. The employer contribution rate is based on the rate for Davidson County Schools, which is established at an actuarially determined rate. The employer rate for the year ended June 30, 2014, was 8.88% of annual covered payroll. The employer contribution rate requirement is established by and may be amended by the TCRS Board of Trustees.

PROJECT REFLECT, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

J. RETIREMENT PLANS - Continued

Non-Certificated Employees Plan Description

The School contributes to the Metropolitan Government of Nashville and Davidson County's Division B Pension Plan (Metro Plan), a defined benefit single-employer pension plan managed and administered by the Metropolitan Employee Benefit Board, an independent board created by the Metropolitan Charter. Benefits are determined by a formula using the participant's highest five-year average salary and years of service.

Participants become eligible to retire at the age of 60 once their age plus the completed years of service equal 85 or at age 65 with five years of service. A reduced retirement benefit is available to vested participants prior to the age of 60 or with less than an age plus years of service sum of 85. Reduced benefits are determined by reducing full benefits by 4% per year for each of the first five years by which the retirement date precedes the normal retirement age, and by 8% for each additional year beyond the first five years with a maximum reduction of 60%. Vesting occurs after 5 years for employees employed on or between October 1, 2001 and December 31, 2012, and after 10 years for employees employed on or after January 1, 2013.

The Metro Plan financial and required supplementary information is included in The Metropolitan Government of Nashville and Davidson County Comprehensive Annual Financial Report. That report may be obtained by writing to the Department of Finance, Division of Accounts, 1 Public Square, Suite 106, Nashville, TN 37201 or can be accessed at www.nashville.org/finance/financial_reports.asp.

Funding Policy

The Metro Plan requires no participant contribution. The employer contribution is established at an actuarially determined rate. The employer rate for the year ended June 30, 2014, was 17.117% of annual covered payroll.

The Organization's contributions for both teachers and non-teachers are not refundable to either the Organization or employee. The Organization's expense, related to both plans for the years ended June 30, 2014 and 2013 totaled \$215,444 and \$332,885, respectively.

PROJECT REFLECT, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

K. 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 may become 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.

L. SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 3, 2014, the date the financial statements were available for issuance. See subsequent event disclosures in Notes F and G.

OTHER INFORMATION

PROJECT REFLECT, INC.
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2014

<u>Program Name</u>	<u>CFDA Number</u>	<u>Contract/ Grant Number</u>	<u>Balance July 1, 2013 (Receivable) Payable</u>
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			
21 st Century Community Learning Centers (21 st CCLC)			
	84.287C	33109-02513	<u>-(81,867)</u>
			<u>\$(81,867)</u>

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 the State of Tennessee, Comptroller of the Treasury.

<u>Receipts</u>	<u>Expenditures</u>	Balance June 30, 2014 (Receivable) <u>Payable</u>
\$ 52,354	\$ 90,924	\$(38,570)
46,237	46,237	-
<u>179,311</u>	<u>120,000</u>	<u>(22,556)</u>
<u>\$277,902</u>	<u>\$257,161</u>	<u>\$(61,126)</u>

See independent auditor's report.

PROJECT REFLECT, INC.
 SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
 YEAR ENDED JUNE 30, 2014

<u>Grantor</u>	<u>State Contract Number</u>	Balance July 1, 2013 (Receivable) <u>Payable</u>	<u>Receipts</u>	<u>Expenditures</u>	Balance June 30, 2014 (Receivable) <u>Payable</u>
TENNESSEE DEPARTMENT OF EDUCATION:					
Basic Education Program	N/A	\$ -	\$ 41,000	\$ 41,000	\$ -
Passed through Metropolitan Nashville Public Schools Basic Education Program	N/A	<u>-</u>	<u>2,350,942</u>	<u>2,360,258</u>	<u>(9,316)</u>
		<u>\$ -</u>	<u>\$2,391,942</u>	<u>\$2,401,258</u>	<u>\$(9,316)</u>

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, Comptroller of the Treasury.

See independent auditor's report.



Independent Auditor's 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.
Nashville, Tennessee

We have audited, in accordance with the 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, the financial statements of Project Reflect, Inc. (the "Organization"), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 3, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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. *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.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



To the Board of Directors
Project Reflect, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crosslin & Associates, P.C.

Nashville, Tennessee

November 3, 2014

PROJECT REFLECT, INC.
STATUS OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2014

<u>Item #</u>	<u>Description of Condition</u>	<u>Status of Corrective Action</u>
2013-01	Segregation of Duties	This item has been resolved.