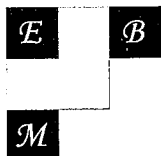


**PROJECT REFLECT, INC.  
FINANCIAL STATEMENTS,  
SUPPLEMENTAL SCHEDULES  
AND  
INDEPENDENT AUDITORS' REPORTS  
YEARS ENDED JUNE 30, 2010 AND 2009**

**PROJECT REFLECT, INC.  
FINANCIAL STATEMENTS,  
SUPPLEMENTAL SCHEDULES  
AND  
INDEPENDENT AUDITORS' REPORTS  
YEARS ENDED JUNE 30, 2010 AND 2009**

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# *Edmondson, Betzler & Montgomery, PLLC*

*(Certified Public Accountants)*

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Project Reflect, Inc.

We have audited the accompanying statements of financial position of Project Reflect, Inc. as of June 30, 2010 and 2009, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Project Reflect, Inc. as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 21, 2011, on our consideration of Project Reflect, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of Project Reflect, Inc. taken as a whole. The accompanying supplementary data on pages 11 to 13 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Government Auditing Standards, and is also not a required part of the basic financial statements of the organization. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Edmondson, Betzler & Montgomery, PLLC*

January 21, 2011

**PROJECT REFLECT, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2010 AND 2009**

	2010	2009
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 252,669	\$ 267,384
Grants receivable	87,973	25,605
Other receivable	-	2,500
Inventories	181	181
Prepaid expenses	<u>10,838</u>	<u>10,838</u>
Total current assets	351,661	306,508
Property and equipment, net	<u>1,745,510</u>	<u>1,466,621</u>
Total assets	<u><u>\$ 2,097,171</u></u>	<u><u>\$ 1,773,129</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 17,271	\$ 5,755
Line-of-credit	173,390	200,249
Current portion of long-term debt	<u>19,649</u>	<u>14,145</u>
Total current liabilities	210,310	220,149
Long-term debt	<u>206,354</u>	<u>226,458</u>
Total liabilities	<u>416,664</u>	<u>446,607</u>
Net assets:		
Unrestricted	1,680,507	1,210,979
Temporarily restricted	<u>-</u>	<u>115,543</u>
Total net assets	<u>1,680,507</u>	<u>1,326,522</u>
Total liabilities and net assets	<u><u>\$ 2,097,171</u></u>	<u><u>\$ 1,773,129</u></u>

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

**PROJECT REFLECT, INC.**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	Unrestricted	Temporarily Restricted	Total 2010	Total 2009
Changes in unrestricted net assets				
Public support and revenue:				
Government grants	\$ 180,000	\$ 275,000	\$ 455,000	\$ 325,000
Contributions	451,435	-	451,435	182,924
Donated facilities, services and supplies	30,925	-	30,925	26,652
Product sales	719	-	719	3,517
Other	300	-	300	398
Total public support and revenue	<u>663,379</u>	<u>275,000</u>	<u>938,379</u>	<u>538,491</u>
Charter school division support and revenue				
Metro Nashville Public School funding				
Title I and IDEA	4,534,028	-	4,534,028	1,882,386
Net assets released from restrictions	<u>390,543</u>	<u>(390,543)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>5,587,950</u>	<u>(115,543)</u>	<u>5,472,407</u>	<u>2,420,877</u>
Expenses:				
Program services:				
Charter Schools (SCA)	4,388,552	-	4,388,552	1,655,835
PREP	386,717	-	386,717	212,278
Total program services expense	<u>4,775,268</u>	<u>-</u>	<u>4,775,268</u>	<u>1,868,113</u>
Supporting services:				
Management and general	343,154	-	343,154	281,255
Total supporting services expense	<u>343,154</u>	<u>-</u>	<u>343,154</u>	<u>281,255</u>
Total expenses	<u>5,118,422</u>	<u>-</u>	<u>5,118,422</u>	<u>2,149,368</u>
Increase (decrease) in net assets	469,528	(115,543)	353,985	271,509
Net assets, beginning of year	<u>1,210,979</u>	<u>115,543</u>	<u>1,326,522</u>	<u>1,055,013</u>
Net assets, end of year	<u>\$ 1,680,507</u>	<u>\$ -</u>	<u>\$ 1,680,507</u>	<u>\$ 1,326,522</u>

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

**PROJECT REFLECT, INC.**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	<b>PROGRAM SERVICES</b>		<b>Management and General</b>	<b>Total 2010</b>	<b>Total 2009</b>
	<b>PREP</b>	<b>Charter Schools (SCA)</b>			
Salaries and related expenses	\$ 277,152	\$ 3,783,908	\$ 253,607	\$ 4,314,667	\$ 1,752,478
Depreciation and amortization	-	112,007	2,567	114,574	56,207
Supplies and materials	6,598	104,827	2,187	113,612	16,380
Transportation	45,336	45,336	-	90,672	38,958
Rent	-	86,788	-	86,788	-
Insurance	4,261	45,657	10,958	60,876	45,518
Repairs and maintenance	2,724	56,740	1,303	60,767	13,657
Athletics	-	47,318	-	47,318	-
Utilities	3,050	30,493	10,019	43,562	48,216
Food and related supplies	36,909	896	-	37,805	30,064
Interest	-	-	27,294	27,294	20,340
Communications	4,623	18,493	3,243	26,359	11,357
Legal and professional	-	750	18,978	19,728	22,155
MNPS agent fee	-	17,775	-	17,775	55,984
Travel and conferences	500	16,797	100	17,397	5,565
Production expense	-	10,082	2,164	12,246	5,301
Miscellaneous	-	6,927	2,596	9,523	7,663
Scholarships	5,563	-	-	5,563	5,682
Security and monitoring	-	3,408	-	3,408	5,709
Marketing and advertising	-	-	2,675	2,675	5,306
Postage	-	350	1,851	2,201	1,489
Dues and subscriptions	-	-	2,001	2,001	244
Bank fees	-	-	792	792	749
Donations	-	-	437	437	50
Taxes, licenses and fees	-	-	382	382	296
	<u>\$ 386,717</u>	<u>\$ 4,388,552</u>	<u>\$ 343,154</u>	<u>\$ 5,118,422</u>	<u>\$ 2,149,368</u>

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

**PROJECT REFLECT, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	2010	2009
Cash flows from operating activities:		
Increase in net assets	\$ 353,985	\$ 271,509
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	114,574	56,207
Donated equipment	(350)	-
Increase in grant receivable	(62,368)	(25,605)
(Increase) decrease in other receivable	2,500	(2,500)
Increase in prepaid expenses	-	(4,851)
Increase (decrease) in accounts payable and accrued expenses	<u>11,516</u>	<u>(317)</u>
Net cash provided by operating activities	<u>419,857</u>	<u>294,443</u>
Cash flows from investing activities:		
Purchase of fixed assets	<u>(393,113)</u>	<u>(106,822)</u>
Net cash used in investing activities	<u>(393,113)</u>	<u>(106,822)</u>
Cash flows from financing activities:		
Principal payments on long-term debt	(14,600)	(48,575)
Proceeds (payments) on line-of-credit, net	<u>(26,859)</u>	<u>1,000</u>
Net cash used in financing activities	<u>(41,459)</u>	<u>(47,575)</u>
Increase (decrease) in cash and cash equivalents	(14,715)	140,046
Cash and cash equivalents, beginning of year	<u>267,384</u>	<u>127,338</u>
Cash and cash equivalents, end of year	<u>\$ 252,669</u>	<u>\$ 267,384</u>
Supplemental data:		
Interest paid	<u>\$ 27,294</u>	<u>\$ 20,340</u>

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

**PROJECT REFLECT, INC.  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2010 AND 2009**

**NOTE 1 - NATURE OF ORGANIZATION**

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

Project Reflect Education Program (PREP) Summer School

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

PREP After School Program

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

PREP Young Scholars

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

Methods of Teaching Children at Risk of Failing School

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

Spiritual Discernment and Mission

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

Smithson-Berry Publications

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



**PROJECT REFLECT, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

**NOTE 1 - NATURE OF ORGANIZATION (CONTINUED)**

Smithson-Craighead Academy

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

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Accounting

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

Basis of Presentation

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

Contributions

Contributions are recognized when the donor makes a promise to give to Project Reflect, that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Donated Services

Contributed services are recognized if the services received create or enhance long lived assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. During the year ended June 30, 2010 and 2009, Project Reflect received a significant amount of contributed time from unpaid volunteers who assist with programs and special projects that do not meet the recognition criteria described above. Accordingly, the value of the contributed time has not been determined and is not reflected in the accompanying financial statements.

**PROJECT REFLECT, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED JUNE 30, 2010 AND 2009**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Cash and Cash Equivalents

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

Inventories

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

Income Taxes

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

Functional Allocation of Expenses

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

Property and Equipment

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

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

Use of Estimates

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

**PROJECT REFLECT, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED JUNE 30, 2010 AND 2009**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Events Occurring After Reporting Date

Project Reflect has evaluated events and transactions that occurred between June 30, 2010 and January 21, 2011, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

**NOTE 3 - CREDIT RISK AND OTHER CONCENTRATIONS**

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

**NOTE 4 - PROPERTY AND EQUIPMENT**

A summary of property and equipment is as follows:

	2010	2009
Building and improvements	\$ 1,120,856	\$ 1,120,856
Land	305,000	305,000
Leasehold improvements	23,234	23,234
Equipment	500,285	279,479
Furniture and fixtures	118,258	54,214
Textbooks	122,339	101,076
Vehicles	182,805	95,455
Total property and equipment	2,372,777	1,979,314
Less accumulated depreciation and amortization	(627,267)	(512,693)
Net property and equipment	<u>\$ 1,745,510</u>	<u>\$ 1,466,621</u>

**NOTE 5 - LINE-OF-CREDIT**

Project Reflect has a \$200,000 revolving line of credit secured by land and a school building that has a variable interest rate at the bank's index rate plus 1.75%. Interest is due monthly and the principal and any unpaid interest is due on July 14, 2013. The balance as of June 30, 2010 and 2009 was \$173,390 and \$200,249, respectively.

**PROJECT REFLECT, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

**NOTE 6 - NOTE PAYABLE**

Long-term debt consists of the following:

	2010	2009
Commercial loan	\$ 226,003	\$ 240,603
Less: current portion	<u>(19,649)</u>	<u>(14,145)</u>
Long-term debt	<u>\$ 206,354</u>	<u>\$ 226,458</u>

The commercial loan is secured by land and property. The loan was obtained at the bank's prime interest plus 2.3% with a minimum rate limitation of 4% and is payable in equal monthly principal and interest payments of \$2,632 through August 6, 2014.

A summary of annual principal requirements follows:

2011	\$ 19,649
2012	20,758
2013	21,928
2014	23,166
2015	<u>140,502</u>
	<u>\$ 226,003</u>

**NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS**

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

	2010	2009
Grant for SCA – Middle School	<u>\$ -</u>	<u>\$ 115,543</u>
Total temporarily restricted net assets	<u>\$ -</u>	<u>\$ 115,543</u>

**NOTE 8 - COMMITMENTS**

Project Reflect will lease facilities for Smithson-Craighead Academy Middle School beginning in July 2010 under an operating lease that expires in June 2011.

Future minimum rental payments required under all operating leases in effect at June 30, 2010 are as follows:

<u>Year Ending June 30,</u>	
2011	<u>\$ 87,370</u>

**PROJECT REFLECT, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
YEARS ENDED JUNE 30, 2010 AND 2009**

**NOTE 9 -      SUBSEQUENT EVENT**

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

## **SUPPLEMENTAL SCHEDULES**

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

Federal Grantor/Pass-Through Grantor	CFDA Number	Contract Number	Beginning (Accrued) Deferred	Cash Receipts	Expenditures	Ending (Accrued) Deferred
<u>Federal financial assistance</u>						
TN Department of Education - No Child Left Behind	(A) 84.282A	N/A	\$ 115,543	\$ 275,000	\$ 390,543	\$ -
Total federal financial assistance			115,543	275,000	390,543	-
<u>State financial assistance</u>						
TN Department of Education - LEAPs	(B) N/A	33119-02410	(25,605)	145,135	180,000	(60,470)
Total state financial assistance			(25,605)	145,135	180,000	(60,470)
Total federal and state financial assistance			\$ 89,938	\$ 420,135	\$ 570,543	\$ (60,470)

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

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

PROJECT REFLECT, INC.  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE  
YEAR ENDED JUNE 30, 2009

Federal Grantor/Pass-Through Grantor	CFDA Number	Contract Number	Beginning (Accrued) Deferred	Cash Receipts	Expenditures	Ending (Accrued) Deferred
<u>Federal awards</u>						
TN Department of Education - No Child Left B (A)	84.282A	N/A	\$ -	\$ 225,000	\$ 109,457	\$ 115,543
Total federal awards			-	225,000	109,457	115,543
<u>State financial assistance</u>						
TN Department of Education - LEAPs (B)	N/A	Z 09-212302	-	74,395	100,000	(25,605)
Total state awards			-	74,395	100,000	(25,605)
Total federal and state awards			\$ -	\$ 299,395	\$ 209,457	\$ 89,938

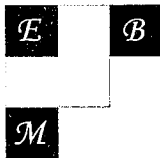
(A) The No Child Left Behind program supports the planning, development, and initial implementation of charter schools and the dissemination of information on charter schools.

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



**PROJECT REFLECT, INC.  
SMITHSON-CRAIGHEAD ACADEMY  
STATEMENTS OF ACTIVITIES  
YEAR ENDED JUNE 30, 2010**

	<b>SCA MIDDLE SCHOOL</b>	<b>SCA ELEMENTARY SCHOOL</b>	<b>TOTAL</b>
Revenue and support:			
Metro Nashville Public School Funding, Title I and IDEA	\$ 2,396,998	\$ 2,137,030	\$ 4,534,028
Total revenue and support	<u>2,396,998</u>	<u>2,137,030</u>	<u>4,534,028</u>
Expenses:			
Salaries and related expenses	2,032,796	1,751,112	3,783,908
Depreciation	61,097	50,910	112,007
Supplies and materials	70,956	33,871	104,827
Rent and occupancy	86,788	-	86,788
Repairs and Maintenance	17,142	39,598	56,740
Athletics	47,318	-	47,318
Insurance	22,829	22,828	45,657
Transportation	22,668	22,668	45,336
Utilities	-	30,494	30,494
Communications	9,428	9,065	18,493
MNPS Agent fee	-	17,775	17,775
Travel and conferences	7,253	9,544	16,797
Production expense	3,390	6,692	10,082
Miscellaneous	6,335	592	6,927
Security and monitoring	-	3,408	3,408
Food and related supplies	896	-	896
Legal and professional	750	-	750
Postage	350	-	350
Total expenses	<u>2,389,996</u>	<u>1,998,557</u>	<u>4,388,552</u>
Total increase (decrease) in net assets	<u>\$ 7,003</u>	<u>\$ 138,473</u>	<u>\$ 145,476</u>



# *Edmondson, Betzler & Montgomery, PLLC*

*(Certified Public Accountants)*

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

To the Board of Directors  
Project Reflect, Inc.

We have audited the financial statements of Project Reflect, Inc. (a nonprofit organization) as of and for the year ended June 30, 2010, and have issued our report thereon dated December 2, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in a separate letter, 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 entity's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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

*Edmondson, Betyler & Montgomery, PLLC*

January 21, 2011