PROJECT REFLECT, INC.

FINANCIAL STATEMENTS AND OTHER INFORMATION

JUNE 30, 2013 AND 2012

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CROSSLIN
& ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

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, 2013 and 2012, 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.

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

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, 2013 and 2012, 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.

Emphasis-of-Matter

As discussed in Note C to the financial statements, during November 2012, the Metropolitan Nashville Public Schools ("MNPS") Board of Education took action regarding the charter of Smithson Craighead Academy Middle School (the "Middle School"). The Middle School is one of two public charter schools operated by the Organization. In accordance with the MNPS action, the Middle School ceased operation in May 2013, at the end of the 2012-2013 school year. Our opinion is not modified with respect to this matter.

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 state financial assistance, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments*, a*nd Non-Profit Organizations,* and the State of Tennessee, are presented for purposes of additional analysis 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 September 30, 2013, 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
September 30, 2013

PROJECT REFLECT, INC.
STATEMENTS OF FINANCIAL POSITION

	June 30, 2013	June 30, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 242,195	$ 301,515
Receivables	84,947	88,298
Prepaid expenses	2,289	5,656
Total current assets	329,431	395,469
Property and equipment, net	5,145,365	5,383,345
Total assets	$ 5,474,796	$ 5,778,814
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 132,011	$ 30,837
Payroll liabilities	183,724	200,375
Lines-of-credit	375,000	589,432
Current portion of long-term debt	84,511	46,075
Note payable - related party	25,975	-
Total current liabilities	801,221	866,719
Long-term debt, less current portion	2,250,961	1,929,625
Total liabilities	3,052,182	2,796,344
Unrestricted net assets:	2,422,614	2,982,470
Total liabilities and net assets	$ 5,474,796	$ 5,778,814

See accompanying notes to financial statements.

PROJECT REFLECT, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012		
	Unrestricted	Unrestricted	Temporarily Restricted	Total
Support and revenue:				
Public support and revenue:				
Contributions	$ 47,519	$ 65,515	$ -	$ 65,515
Government grants	82,478	92,877	-	92,877
Donated facilities, services and supplies	18,351	33,094	-	33,094
Other	6,562	254	-	254
Product sales	260	1,441	-	1,441
Total public support and revenue	155,170	193,181	-	193,181
Charter school division support and revenue				
Metropolitan Nashville Public Schools Funding, Title I, and IDEA	2,456,938	2,225,833	-	2,225,833
Total support and revenue	2,612,108	2,419,014	-	2,419,014
Expenses:				
Program services:				
Charter School - Smithson Craighead Elementary	2,516,032	2,180,693	-	2,180,693
Other program services	4,080	20,367	-	20,367
Total program services expense	2,520,112	2,201,060	-	2,201,060
Supporting services:				
Management and general	547,301	457,047	-	457,047
Total expenses	3,067,413	2,658,107	-	2,658,107
Decrease in net assets from continuing activities	(455,305)	(239,093)	-	(239,093)
Change in net assets from discontinued activities of Smithson Craighead Middle School (Note C)	(104,551)	243,088	(99,178)	143,910
Total increase (decrease) in net assets	(559,856)	3,995	(99,178)	(95,183)
Net assets, beginning of year	2,982,470	2,978,475	99,178	3,077,653
Net assets, end of year	$ 2,422,614	$ 2,982,470	$ -	$ 2,982,470

See accompanying notes to financial statements.

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

	Program Services			
	Other Program Services	Charter School - Smithson Craighead Elementary	Management and General	Total 2013
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
	$ 4,080	$ 2,516,032	$ 547,301	$ 3,067,413

See accompanying notes to financial statements.

PROJECT REFLECT, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2012

	Program Services			
	Other Program Services	Charter School - Smithson Craighead Elementary	Management and General	Total 2012
Salaries and related expenses	$ 9,419	$ 1,682,598	$ 213,773	$ 1,905,790
Depreciation	2,200	93,924	146,489	242,613
Food and related supplies	-	37,955	115	38,070
Repairs and maintenance	-	56,152	-	56,152
Supplies and materials	8,748	20,948	1,718	31,414
Utilities	-	67,821	-	67,821
Interest	-	93,120	46,135	139,255
Transportation	-	57,305	-	57,305
Insurance	-	36,529	7,642	44,171
Professional services	-	12,265	23,527	35,792
Communications	-	8,015	2,620	10,635
Marketing and advertising	-	-	10,671	10,671
Printing and production	-	8,260	-	8,260
Travel and conferences	-	1,206	-	1,206
Security and monitoring	-	4,260	-	4,260
Postage	-	135	1,850	1,985
Miscellaneous	-	-	824	824
Dues and subscriptions	-	-	900	900
Taxes, licenses and fees	-	200	512	712
Bank fees	-	-	271	271
	$ 20,367	$ 2,180,693	$ 457,047	$ 2,658,107

See accompanying notes to financial statements.

PROJECT REFLECT, INC.
STATEMENTS OF CASH FLOWS

	Year Ended June 30, 2013	Year Ended June 30, 2012
Cash flows from operating activities:		
Decrease in net assets	$ (559,856)	$ (95,183)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation	327,835	242,613
Gifts for property and equipment	-	(303,715)
Donated equipment	-	(62,677)
Change in:		
Receivables	3,351	267,110
Prepaid expenses	3,367	(3,307)
Accounts payable and accrued expenses	101,174	(198,821)
Payroll liabilities	(16,651)	34,539
Net cash used in operating activities	(140,780)	(119,441)
Cash flows from investing activities:		
Purchases of properly and equipments	(89,855)	(880,001)
Net cash used in investing activities	(89,855)	(880,001)
Cash flows from financing activities:		
Gifts for property and equipment	-	303,715
Proceeds from issuance of long-term debt	1,950,000	685,995
Principal payments on long-term debt	(1,590,228)	(37,318)
Proceeds from note payable - related party	25,975	-
(Repayment) proceeds from lines-of-credit, net	(214,432)	225,234
Net cash provided by financing activities	171,315	1,177,626
(Decrease) increase in cash and cash equivalents	(59,320)	178,184
Cash and cash equivalents, beginning of year	301,515	123,331
Cash and cash equivalents, end of year	$ 242,195	$ 301,515
SUPPLEMENTAL INFORMATION:		
Cash paid for interest	$ 140,465	$ 139,255

See accompanying notes to financial statements.

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. Under that mission, Project Reflect operates the following programs:

Smithson-Craighead Academies

In 2003, Project Reflect opened Smithson-Craighead Academy (SCA), the first charter school in Middle Tennessee. SCA serves approximately 260 children in grades K-4, offering strong education with emphasis in math and literacy as well as specialized intervention and tutoring programs to help at-risk children overcome obstacles and achieve academic success. Shortly after opening, SCA was recognized as one of the top five elementary schools in Davidson County.

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).

In this same time period, SCA identified students who were planning to drop out of traditional school and intervened, taking on twenty (20) high school students in a non-traditional, homeschool setting. By August 2013, all those students had been able to transition to traditional schools where they will graduate high school in May 2014, a realized dream that would not have happened without the intervention and support of Project Reflect.

PREP

PREP is an afterschool and summer academy program offering specialized tutoring and support to those students identified as most at risk of school failure. In September 2013, PREP will expand to ALL students enrolled at SCA with intense remediation in math and literacy for students performing one or more grade levels behind and enrichment activities for students performing at or above grade level.

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.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that Project Reflect maintain them permanently. Generally, the donors of these assets permit Project Reflect to use all or part of the income earned on related investments for general or specific purposes.

The amount for each of these classes of net assets is presented in the statements of financial position and the amount of change in each class of net assets is displayed in the statements of activities. Project Reflect did not have any temporarily or permanently restricted net assets as of June 30, 2013 or 2012.

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.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Donated Services

Contributed services are recognized if the services received create or enhance long-lived assets or require specialized skills, are provided by individuals processing those skills, and would typically need to be purchased if not provided by donation. During the years ended June 30, 2013 and 2012, Project Reflect received a significant amount of contributed time from unpaid volunteers who assist with programs and special projects that do not meet the recognition criteria described above. Accordingly, the value of the contributed time has not been determined and is not reflected in the accompanying financial statements.

Government Grants and Contracts

Revenues from government grants and contracts are recognized when allowable expenditures are incurred under such agreements.

Cash and Cash Equivalents

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

Income Taxes

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

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.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 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 for renewals or betterments are capitalized. When property is retired or sold, the cost and the related accumulated depreciation or amortizations are removed from the accounts, and the resulting gain or loss is included in operations.

Use of Estimates

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

Prior Year Financial Statements

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

C. DISCONTINUED ACTIVITIES - SMITHSON CRAIGHEAD ACADEMY MIDDLE SCHOOL

During November 2012, the Metropolitan Nashville Public Schools Board of Education ("MNPS") voted to revoke the charter of the Smithson Craighead Academy Middle School (the "Middle School") effective at the end of the 2012-2013 school year. The Middle School received funding for 2012-2013 year based on a decreased student enrollment. As of June 30, 2013, the Middle School no longer has a charter to operate and had closed. Accordingly, the activities of the Middle School have been presented separately in the accompanying 2013 statement of activities as discontinued activities, with similar presentation for 2012. The MNPS decision did not affect the Smithson Craighead Academy Elementary School.

As the Middle School represents a program activity of the Organization, all assets and liabilities attributed to the Middle School will be retained by the Organization. Therefore, there are no material assets or liabilities from discontinued activities at June 30, 2013 or 2012. See also Note F. Assets and liabilities attributable to the Middle School, which will be retained by the Organization are as follows at June 30, 2013 and 2012:

	2013	2012
Total assets	$2,768,419	$3,087,258
Total liabilities	$1,071,508	$1,028,989

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 years 2013 and 2012, will be 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 and 2012, is presented below:

	2013	2012
Total revenues	$ 3,033,925	$3,144,804
Total expenses	3,138,476	3,000,894
Change in net assets from discontinued activities	$(104,551)	$ 143,910

Effective on 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 is for one year with the option to renew for six additional one-year terms. Annual rental income on the property is expected to be $140,328 for the fiscal year ending June 30, 2014. In September 2013, a lawsuit was filed stating that the lease agreement interferes with another lease previously entered into by the lessee. The lawsuit names the lessee and Project Reflect.

D. CONTINUING ACTIVITIES

The Organization is dependent on certain significant contracts and grants for its continued operations. These contracts and grants are from federal, state 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 is also contingent upon its ability to maintain certain financial condition, cash flows, level of operations, payment of liabilities, and changes in unrestricted net assets. If a grantor agency finds that the Center 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.

E. RECEIVABLES

As of June 30, 2013 and 2012, receivables consisted of the following:

	2013	2012
MNPS district funding	$ -	$75,086
Grant funding	81,867	12,237
Other	3,080	975
Total receivables	$84,947	$88,298

F. PROPERTY AND EQUIPMENT

A summary of property and equipment at June 30, 2013 and 2012, is as follows:

	2013	2012
Buildings and improvements	$ 4,586,418	$ 4,549,917
Land	605,000	605,000
Equipment	738,218	675,916
Furniture and fixtures	137,598	132,042
Textbooks	155,872	155,872
Vehicles	182,990	239,835
Construction in progress	-	36,502
Total property and equipment	6,406,096	6,395,084
Less: Accumulated depreciation and amortization	(1,260,731)	(1,011,739)
Property and equipment, net	$ 5,145,365	$ 5,383,345

F. PROPERTY AND EQUIPMENT - 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). Management believes that all such equipment will be retained and used for other operations, including the Elementary School. Accordingly, no provision has been in the financial statements for the return of equipment to grantor agencies.

G. LINES-OF-CREDIT

As of June 30, 2012, Project Reflect had a $200,000 revolving line-of-credit, bearing interest at a variable rate of the bank's index rate plus 1.50% (5.00% at June 30, 2012) The line-of-credit was collateralized by land and a school building. The balance as of June 30, 2012 was $181,649. This line-of-credit was refinanced during fiscal year 2013.

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

Project Reflect has a $750,000 demand revolving line-of-credit collateralized by land and property, that has a variable interest rate at the bank's index rate plus 1.50% (4.75% at June 30, 2013). Interest is due monthly and the principal is due in full upon the request of the lender. If no demand is made, any unpaid interest and principal are due in August 2013. The balance as of June 30, 2013 and 2012, was $375,000 and $170,234, respectively. The Organization received an extended due date from the lender through September 2013 and subsequently obtained a new demand line-of-credit agreement through September 2014. The new line-of-credit has an available limit of $550,000.

H. NOTES PAYABLE

As of June 30, 2013 and 2012, Project Reflect is obligated under a note payable with an outstanding principal balance of $476,980 and $494,668, respectively. The funds were used to construct an addition to the Middle School location as well as 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 on January 2017.

H. NOTES PAYABLE - Continued

As of June 30, 2012, Project Reflect was obligated under a note payable to a local bank with an outstanding principal balance of $1,481,032. The funds were used to construct an addition to the Elementary School location as well as consolidate other debts. The promissory note was collateralized by property. The note accrued interest at a rate of 5.75% fixed during the first five years of the loan including the construction period. This note was refinanced with a different financial institution in August 2013. The current note totaled $1,950,000, bears interest at 4.79%, and is due in monthly payments of principal and interest of $12,644. All unpaid principal and interest are due in August 2017. The note is collateralized by land and buildings. The outstanding balance at June 30, 2013 totaled $1,858,492.

During fiscal year 2013, Project Reflect entered into a note payable arrangement with the interim executive director, totaling $25,975. The note is to fund development of future programs. The note bears no interest and is payable on demand. The amount is included in note payable - related party in the accompanying statement of financial position.

A summary of anticipated annual principal requirements for notes payable as of June 30, 2013 follows:

Year Ending June 30,	Amount
2014	$ 110,486
2015	88,650
2016	92,991
2017	486,877
2018	1,582,443
	$2,361,447

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 Note C).

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

J. RETIREMENT PLANS

Teacher Plan Description

The Organization, through the Elementary School and Middle 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.treasury.state.tn.us.

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, 2013, was 8.88% of annual covered payroll.

J. RETIREMENT PLANS - Continued

Non-Teacher 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. No separate financial reports are issued for the Metro Plan. 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, 2013, was 15.938% 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, 2013 and 2012 totaled $332,885 and $383,226, respectively.

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. (See also Note F).

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 September 30, 2013, the date the financial statements were available for issuance. See subsequent event disclosures in Notes C and G.

OTHER INFORMATION

PROJECT REFLECT, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013

Program Name	CFDA Number	Contract/ Grant Number	Balance July 1, 2012 (Receivable) Payable
U.S. DEPARTMENT OF AGRICULTURE:			
Passed through Tennessee Department of Education			
Child Nutrition Cluster:			
National School Lunch Program	10.555	N/A	$ -
School Breakfast Program	10.553	N/A	-
U.S. DEPARTMENT OF EDUCATION:			
Passed through Tennessee Department of Education and Metropolitan Nashville Public Schools			
Title I, Part A Cluster			
Title I Grants to Local Educational Agencies	84.010	N/A	(33,336)
Special Education Cluster (IDEA)			
Special Education - Grants to States	84.027	N/A	(41,750)
Passed through Tennessee Department of Education			
21st Century Community Learning Centers (21st CCLC)	84.287C	33109-02513	-
Public Charter Schools Program (PLIMP)			
No Child Left Behind	84.282A	N/A	(12,237)
			$(87,323)

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

Receipts	Expenditures	Balance June 30, 2013 (Receivable) Payable
$110,301	$110,301	$ -
56,776	56,776	-
177,969	144,633	-
189,433	147,683	-
38,133	120,000	(81,867)
12,237	-	-
$584,849	$579,393	$(81,867)

See independent auditor’s report.

PROJECT REFLECT, INC.
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2013

Grantor	State Contract Number	Balance July 1, 2012 (Receivable) Payable	Receipts	Expenditures	Balance June 30, 2013 (Receivable) Payable
TENNESSEE DEPARTMENT OF EDUCATION:					
Basic Education Program	N/A	$ -	$ 81,000	$ 81,000	$ -
Passed through Metropolitan Nashville Public Schools Basic Education Program	N/A	-	4,802,324	4,682,842	119,482
		$ -	$4,883,324	$4,763,842	$119,482

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.

CROSSLIN & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

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, 2013, 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 September 30, 2013.

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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2013-01, that we consider to be a significant deficiency.

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 G*overnment Auditing Standards*.

The Organization's Response to Finding

The Organization's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

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
September 30, 2013

Independent Auditor's Report on Compliance For Each Major
Program and on Internal Control Over Compliance
Required by OMB Circular A-133

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

Report on Compliance for Each Major Federal Program

We have audited Project Reflect, Inc.'s (the "Organization") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2013. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Crosslin & Associates, P.C.

Nashville, Tennessee
September 30, 2013

SECTION I - SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	___yes _x_ no
Significant deficiency(ies) identified not considered to be material weaknesses?	_x_ yes ____ none reported
Noncompliance material to financial statements noted?	___yes _x_ no

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	___yes _x_ no
Significant deficiency(ies) identified not considered to be material weaknesses?	___yes _x_ none reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	___yes _x_ no

Identification of major programs:

CFDA Number	Name of Federal Program
84.010	Title I, Part A Cluster - Grants to Local Education Agencies
84.027	Special Education Cluster (IDEA) - Grants to States
84.287C	21st Century Community Learning Centers (21st CCLC)

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

Auditee qualified as low-risk auditee? ____yes _x_ no
(Section 530 of OMB Circular A-133)

SECTION II - FINANCIAL STATEMENT FINDINGS

2013-01 - Segregation of Duties

Condition, Criteria, Cause and Effect

While the Organization has implemented certain policies and procedures that help to reduce the risks associated with lack of segregation of duties, the Organization does not have segregation of duties over certain areas of the financial process. Segregation of duties controls are important as such controls reduce the risk of misappropriation of assets and errors. During the audit, we noted that the Organization utilizes a third-party accounting service to assist with the accounting function. This allows some financial tasks to be segregated. The Organization has made certain enhancements in the controls during fiscal year 2013 to mitigate risk.

Recommendation and Benefit

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

Management's Response

Project Reflect has worked to ensure proper financial safeguards, including segregation of duties. In August 2013, under new leadership, the organization began developing new financial policies and procedures that clearly segregate duties and provide multiple checks and balances as safeguards.

PROJECT REFLECT, INC.
SUMMARY OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2013

Item #	Description of Condition	Status of Corrective Action
2012-01	Segregation of Duties	This item has been repeated in the current year. See finding 2013-01.
2012-02	Bank Reconciliations	This item has been resolved.
2012-03	Recording of Accounts Payable	This item has been resolved.
2012-04	Cash Disbursements	This item has been resolved.