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THE ARROW PROJECT, INC.
FINANCIAL STATEMENTS AND SUPPLEMENTARY
INFORMATION
FOR THE YEARS ENDED
DECEMBER 31, 1999 AND 1998

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date JUN 14 2000

THE ARROW PROJECT, INC.
INDEX TO THE FINANCIAL STATEMENTS

| | PAGE |
|---|------|
| Independent Auditor's Report | 1 |
| Independent Auditor's Report on Internal Control Structure | 2 |
| Independent Auditor's Report on Compliance with Laws, Regulations, Contracts and Grants | 4 |
| Statements of Financial Position | 5 |
| Statements of Activities | 7 |
| Statements of Functional Expenses | 9 |
| Statements of Cash Flows | 17 |
| Notes to the Financial Statements | 18 |
| Independent Auditor's Report on Supplementary Information | 31 |
| Supplementary Information: | |
| Schedule of Findings and Questioned Costs | 32 |
| Foster Care Program Detail | 33 |
| Summary of Expenses - Maryland Program Activity | 37 |
| Comparison of Budgeted Expenses to Actual Expenses - Maryland Programs for Contract Period Ending June 30, 1999 | 41 |
| Schedule of Funding Sources | 51 |
| Computation of Rate Determination for Actual Cost of Care per Month - Maryland Programs for Contract Period Ending June 30, 1999 | 52 |
| Comparison of Payment Rate to Actual Monthly Cost - Maryland Programs for Contract Period Ending June 30, 1999 | 54 |
| Calculation of Overpayment/(Underpayment) - Maryland Programs for Contract Period Ending June 30, 1999 | 55 |



INDEPENDENT AUDITOR'S REPORT

May 5, 2000

Board of Directors
The Arrow Project, Inc.
Porter, Texas

Dear Ladies & Gentlemen:

We have audited the accompanying statements of financial position of The Arrow Project, Inc. (a non-profit organization) as of December 31, 1999 and 1998 and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects the financial position of The Arrow Project, Inc., as of December 31, 1999 and 1998, and the changes in net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note 17 to the financial statements, the financial statements of The Arrow Project, Inc. include the activity of His Touch Ministries and The Arrow Project of Maryland, Inc. which were merged with The Arrow Project, Inc. during 1998.

Sincerely,

Porterfield & Associates
Certified Public Accountants



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
STRUCTURE IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

May 5, 2000

Board of Directors
The Arrow Project, Inc.
Porter, Texas

Dear Ladies & Gentlemen:

We have audited the financial statements of The Arrow Project, Inc. (a non-profit organization) as of and for the years ended December 31, 1999 and 1998 and have issued our report thereon dated May 5, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

The management of the Arrow Project is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, error or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of The Arrow Project for the years ended December 31, 1999 and 1998, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

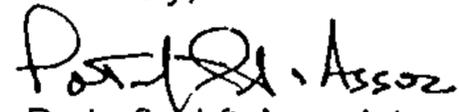
PORTERFIELD AND ASSOCIATES
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Page 2
The Arrow Project, Inc.
May 5, 2000

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Arrow Project in a separate letter dated May 5, 2000.

This report is intended for the information of the Board of Directors and management. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,



Porterfield & Associates
Certified Public Accountants



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS,
REGULATIONS, CONTRACT AND GRANTS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

May 5, 2000

Dear Ladies & Gentlemen:

We have audited the financial statements of The Arrow Project, Inc. (a non-profit organization) as of and for the years ended December 31, 1999 and 1998 and have issued our report thereon dated May 5, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

As part of obtaining reasonable assurance about whether Arrow Project's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted some matters involving compliance that, although immaterial, have been reported to the management of Arrow Project in a separate letter dated May 5, 2000.

This report is intended for the information of the Board of Directors and management. However this report is a matter of public record, and its distribution is not limited.

Sincerely,


Porterfield & Associates
Certified Public Accountants

PORTERFIELD AND ASSOCIATES
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THE ARROW PROJECT, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 1999 and 1998

| | 1999 | 1998 |
|---|--------------|--------------|
| ASSETS | | |
| Current Assets | | |
| Cash and Cash Equivalents | | |
| Cash | \$ 331,566 | \$ 307,545 |
| Petty Cash | 9,066 | 10,191 |
| Total Cash and Cash Equivalents | 340,632 | 317,736 |
| Accounts Receivable | | |
| Accounts Receivable - Employees | 20,614 | 10,668 |
| Accounts Receivable - Foster Families | 3,500 | 3,761 |
| Accounts Receivable - Counties | 1,139,181 | 1,529,013 |
| Accounts Receivable - Life Roads Foundation | 9,833 | 0 |
| Accounts Receivable - City of Houston | 89,466 | 0 |
| Accounts Receivable - Other | 5,277 | 15,887 |
| Total Accounts Receivable | 1,267,871 | 1,559,329 |
| Total Current Assets | 1,608,503 | 1,877,065 |
| Fixed Assets | | |
| Furniture and Equipment | 456,657 | 430,490 |
| Vehicles | 62,560 | 0 |
| Leasehold Improvements | 363,191 | 301,593 |
| Construction in Progress | 69,791 | 14,248 |
| Buildings | 978,182 | 211,891 |
| Land | 311,087 | 180,731 |
| Less Accumulated Depreciation | (321,851) | (217,514) |
| Total Fixed Assets | 1,919,617 | 921,439 |
| Other Assets | | |
| Prepaid Expenses | 31,336 | 42,284 |
| Deposits | 141,191 | 122,240 |
| Oil Well | 19,490 | 0 |
| Less Accumulated Depletion | (1,236) | 0 |
| Organization Costs | 19,386 | 19,386 |
| Less Accumulated Amortization | (8,822) | (4,945) |
| Total Other Assets | 201,345 | 178,965 |
| Total Assets | \$ 3,729,465 | \$ 2,977,469 |

**THE ARROW PROJECT, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 1999 and 1998**

| | 1999 | 1998 |
|---|--------------|--------------|
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities | | |
| Accounts Payable | \$ 673,782 | \$ 741,166 |
| Compensated Absences Payable | 115,234 | 166,572 |
| Current Portion - Long Term Debt | 418,325 | 140,069 |
| Total Current Liabilities | 1,207,341 | 1,047,807 |
| Long Term Liabilities | | |
| Lease Payable - Harbor Leasing | 1,962 | 5,769 |
| Note Payable - Harrisburg Bank | 0 | 27,229 |
| Note Payable - CoAmerica Bank | 128,000 | 128,000 |
| Note Payable - Nationwide Homes | 80,764 | 0 |
| Bank of America - Line of Credit | 250,000 | 0 |
| Note Payable - Austin County Bank | 524,834 | 0 |
| Note Payable - Soris Financing | 14,110 | 0 |
| Note Payable - Chase Bank | 39,510 | 0 |
| Note Payable - Volkswagen Credit | 14,999 | 0 |
| Less: Current Portion - Long Term Debt | (418,325) | (140,069) |
| Total Long Term Liabilities | 635,854 | 20,929 |
| Total Liabilities | 1,843,195 | 1,068,736 |
| Net Assets | | |
| Unrestricted Net Assets | | |
| Unrestricted Net Assets | 1,486,944 | 1,561,165 |
| Investment in Property and Equipment | 421,741 | 359,488 |
| Less Current Year Depreciation | (33,371) | (21,111) |
| Investment in Property & Equipment - Net | 388,370 | 338,377 |
| Total Unrestricted Net Assets | 1,875,314 | 1,899,542 |
| Temporarily Restricted Net Assets | | |
| Temporarily Restricted Net Assets, Scholarship Fund | 10,956 | 9,191 |
| Total Temporarily Restricted Net Assets | 10,956 | 9,191 |
| Total Net Assets | 1,886,270 | 1,908,733 |
| Total Liabilities and Net Assets | \$ 3,729,465 | \$ 2,977,469 |

The accompanying notes are an integral part of these financial statements

**THE ARROW PROJECT, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDING DECEMBER 31, 1999 AND 1998**

| | 1999 | 1998 |
|--|---------------|---------------|
| CHANGES IN UNRESTRICTED NET ASSETS: | | |
| Revenues | | |
| Foster Care Revenue | | |
| Foster Care Payments | 9,373,213 | 10,473,869 |
| Department of Juvenile Justice - Foster Care | 0 | 23,061 |
| Total Foster Care Revenue | 9,373,213 | 10,496,930 |
| Diagnostic Revenue | | |
| Diagnostic Center Revenue | 1,656,052 | 1,482,523 |
| Department of Juvenile Justice - Diagnostic Center | 32,888 | 14,328 |
| Total Diagnostic Revenue | 1,688,940 | 1,496,851 |
| School Revenue | | |
| School Revenue | 1,698,123 | 1,530,381 |
| Related Services Revenue - School | 134,550 | 152,690 |
| Total School Revenue | 1,832,673 | 1,683,071 |
| Homemaker Services | 34,190 | 28,708 |
| Resource Center | 69,822 | 132,237 |
| Adoption Income | 12,250 | 0 |
| Transitional Housing | 2,025 | 23,621 |
| Medicaid Billing | 119,012 | 1,617 |
| USDA Reimbursements | 14,456 | 0 |
| Donation Revenue | | |
| Donations | 115,980 | 121,372 |
| Donations In-Kind | 72,839 | 2,910 |
| Total Donations | 188,819 | 124,282 |
| Grants | 221,303 | 37,500 |
| Fundraising Revenue | 12,460 | 11,362 |
| Royalties | 8,152 | 247 |
| Interest Income | 96 | 20,626 |
| Total Unrestricted Revenue | \$ 13,577,411 | \$ 14,057,052 |
| Net Assets Released from Restrictions | | |
| Satisfaction of Restrictions | 0 | 2,742 |
| Total Net Assets Released from Restrictions | 0 | 2,742 |
| Total Unrestricted Revenues and Other Support | \$ 13,577,411 | \$ 14,059,794 |

**THE ARROW PROJECT, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDING DECEMBER 31, 1999 AND 1998**

| | 1999 | 1998 |
|---|---------------------|---------------------|
| Expenses | | |
| Program Services | | |
| Foster Care | 8,493,237 | 9,476,192 |
| Diagnostic Services | 1,344,696 | 1,290,147 |
| Transitional Housing | 320,863 | 234,630 |
| Resource Center | 138,556 | 119,908 |
| Homemaker Services | 50,158 | 38,871 |
| School | 1,488,309 | 1,267,053 |
| Adoption | 6,694 | 0 |
| Supporting Services | | |
| Management and General | 1,645,282 | 1,759,841 |
| Fundraising & Development | 124,349 | 105,864 |
| Other Unallowable Costs | 51,241 | 9,091 |
| TOTAL EXPENSES | 13,663,385 | 14,301,597 |
| Other Changes in Net Assets | | |
| Additions to Fixed Assets | 95,117 | 82,221 |
| Current Year Depreciation | (33,371) | (21,111) |
| TOTAL OTHER CHANGES IN NET ASSETS | 61,746 | 61,110 |
| INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS | (24,228) | (183,435) |
| CHANGES IN TEMPORARILY RESTRICTED NET ASSETS: | | |
| Scholarship Donations | 1,765 | 8,813 |
| Net Assets Released from Restrictions | 0 | (2,742) |
| INCREASE IN TEMPORARILY RESTRICTED NET ASSETS | 1,765 | 6,071 |
| INCREASE IN NET ASSETS | (22,463) | (177,364) |
| NET ASSETS AT BEGINNING OF YEAR | 1,908,733 | 2,086,097 |
| NET ASSETS AT END OF YEAR | \$ 1,886,270 | \$ 1,908,733 |

The accompanying notes are an integral part of these financial statements

**THE ARROW PROJECT, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDING DECEMBER 31, 1999**

| | <u>Foster Care</u> | <u>Diagnostic</u> | <u>Basic Care Transitional Housing</u> | <u>Resource Center</u> |
|-----------------------------------|--------------------|-------------------|--|----------------------------|
| Salaries and Wages | \$ 1,732,921 | \$ 788,596 | \$ 128,588 | \$ 55,353 |
| Payroll Taxes | 335,054 | 61,747 | 9,890 | 5,323 |
| Fringe Benefits | 156,391 | 59,568 | 16,335 | 5,056 |
| Staff Development Costs | 9,422 | 1,522 | 0 | 196 |
| Contracted Services | 18,090 | 61,299 | 1,726 | 0 |
| Publicity | 10,508 | 100 | 288 | 143 |
| Psychological Testing | 7,923 | 29,463 | 0 | 0 |
| Therapy Expense | 261,852 | 213 | 0 | 0 |
| Program Related Services | 1,955 | 9,210 | 0 | 0 |
| Food & Food Prep | 851 | 75,617 | 508 | 644 |
| Treatment of Foster Care Payments | 4,868,958 | 0 | 0 | 0 |
| Respite | 169,532 | 0 | 0 | 11,406 |
| Clothing | 45,627 | 10,947 | 0 | 0 |
| Recreation/Special Events | 31,727 | 11,218 | 266 | 2,078 |
| Medical Expenses | 758 | 5,400 | 0 | 0 |
| Personal Needs and Allowances | 22 | 0 | 0 | 0 |
| Laundry Fees | 0 | 3,914 | 0 | 0 |
| Family Travel | 96,850 | 0 | 0 | 0 |
| Family Training | 15,547 | 0 | 0 | 346 |
| Foster Family Recruitment | 8,097 | 0 | 0 | 0 |
| Staff Training | 8,985 | 3,786 | 712 | 422 |
| Rent | 248,065 | 88,346 | 14,621 | 4,725 |
| Utilities | 2,358 | 22,380 | 15,024 | 0 |
| Repairs & Maintenance | 14,215 | 31,476 | 9,650 | 1,342 |
| Insurance and Taxes | 20,061 | 14,596 | 19,804 | 4,033 |
| Supplies | 37,069 | 13,979 | 6,795 | 5,239 |
| Equipment Rental & Repair | 53,210 | 13,857 | 7,624 | 7,536 |
| Printing & Copying | 8,128 | 528 | 10,255 | 433 |
| Telephone | 90,691 | 11,722 | 15,539 | 5,286 |
| Postage & Shipping | 13,817 | 1,141 | 2,270 | 1,263 |
| Membership & Subscriptions | 2,072 | 4,494 | 208 | 45 |
| Travel | 176,937 | 9,366 | 29,143 | 3,931 |
| Bank Charges | 0 | 0 | 0 | 140 |
| Scholarships Awarded | 0 | 0 | 0 | 0 |
| Security System | 62 | 2,787 | 0 | 0 |
| Facility Improvement | 0 | 2,528 | 0 | 0 |
| Equipment | 84 | 4,562 | 0 | 0 |
| Contributions | 0 | 0 | 700 | 23,420 |

| | | <u>Special Education</u> | | <u>Supporting Services</u> | | <u>Unallowable</u> | | | | | | | |
|------------------|--|--------------------------|--|----------------------------|--|---------------------------------|--|--------------------------------------|--|-----------------------|--|--------------|--|
| <u>Homemaker</u> | | <u>School</u> | | <u>Adoption</u> | | <u>Management & General</u> | | <u>Fundraising & Development</u> | | <u>Other Unallow.</u> | | <u>Total</u> | |
| \$ | | \$ | | \$ | | \$ | | \$ | | \$ | | \$ | |
| 33,242 | | 806,645 | | 1,954 | | 763,918 | | 77,600 | | 0 | | 4,388,817 | |
| 2,726 | | 61,622 | | 267 | | 48,929 | | 5,936 | | 0 | | 531,494 | |
| 3,865 | | 60,180 | | 0 | | 43,032 | | 1,510 | | 0 | | 345,937 | |
| 25 | | 640 | | 0 | | 13,376 | | 5,959 | | 89 | | 31,229 | |
| 0 | | 27,172 | | 0 | | 48,623 | | 610 | | 0 | | 157,520 | |
| 0 | | 0 | | 0 | | 10,789 | | 0 | | 0 | | 21,828 | |
| 0 | | 0 | | 0 | | 0 | | 0 | | 0 | | 37,386 | |
| 0 | | 1,076 | | 0 | | 0 | | 0 | | 0 | | 263,141 | |
| 0 | | 136,176 | | 0 | | 0 | | 0 | | 0 | | 147,341 | |
| 0 | | 25,409 | | 0 | | 0 | | 0 | | 0 | | 103,029 | |
| 0 | | 0 | | 0 | | 0 | | 0 | | 0 | | 4,868,958 | |
| 0 | | 0 | | 0 | | 0 | | 0 | | 0 | | 180,938 | |
| 0 | | 0 | | 0 | | 0 | | 0 | | 0 | | 56,574 | |
| 0 | | 11,794 | | 0 | | 0 | | 0 | | 0 | | 57,083 | |
| 0 | | 3,447 | | 0 | | 0 | | 0 | | 0 | | 9,605 | |
| 0 | | 0 | | 0 | | 0 | | 0 | | 0 | | 22 | |
| 0 | | 0 | | 0 | | 0 | | 0 | | 0 | | 3,914 | |
| 0 | | 0 | | 0 | | 0 | | 0 | | 0 | | 96,850 | |
| 0 | | 0 | | 0 | | 0 | | 0 | | 0 | | 15,893 | |
| 0 | | 0 | | 0 | | 0 | | 0 | | 0 | | 8,097 | |
| 0 | | 15,268 | | 2,506 | | 0 | | 0 | | 0 | | 31,679 | |
| 0 | | 104,894 | | 100 | | 56,850 | | 2,132 | | 0 | | 519,733 | |
| 0 | | 18,261 | | 0 | | 6,078 | | 9 | | 0 | | 64,110 | |
| 0 | | 15,877 | | 0 | | 26,824 | | 325 | | 0 | | 99,709 | |
| 0 | | 19,564 | | 623 | | 118,241 | | 9,977 | | 0 | | 206,899 | |
| 119 | | 64,971 | | 0 | | 36,186 | | 839 | | 0 | | 165,197 | |
| 0 | | 12,660 | | 0 | | 79,138 | | 400 | | 0 | | 174,425 | |
| 0 | | 503 | | 0 | | 17,640 | | 1,661 | | 16 | | 39,164 | |
| 841 | | 9,872 | | 0 | | 77,682 | | 643 | | 0 | | 212,276 | |
| 25 | | 1,008 | | 0 | | 10,040 | | 2,107 | | 0 | | 31,671 | |
| 0 | | 4,364 | | 120 | | 11,576 | | 36 | | 0 | | 22,915 | |
| 9,315 | | 5,768 | | 924 | | 61,506 | | 1,698 | | 0 | | 298,588 | |
| 0 | | 0 | | 0 | | 3,808 | | 0 | | 0 | | 3,948 | |
| 0 | | 0 | | 0 | | 0 | | 0 | | 0 | | 0 | |
| 0 | | 1,279 | | 0 | | 627 | | 0 | | 0 | | 4,755 | |
| 0 | | 51,772 | | 0 | | 0 | | 0 | | 0 | | 54,300 | |
| 0 | | 27,803 | | 0 | | 701 | | 0 | | 0 | | 33,150 | |
| 0 | | 0 | | 0 | | 0 | | 0 | | 0 | | 24,120 | |

**THE ARROW PROJECT, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDING DECEMBER 31, 1999**

| | <u>Foster Care</u> | <u>Diagnostic</u> | <u>Basic Care Transitional Housing</u> | <u>Resource Center</u> |
|---|---------------------|---------------------|--|----------------------------|
| Legal, Professional & Accounting Fees | 25 | 0 | 21,193 | 70 |
| Conferences & Meetings | 0 | 0 | 0 | 0 |
| Interest Expense | 0 | 334 | 2,266 | 0 |
| Depreciation | 45,373 | 0 | 6,937 | 0 |
| Depletion | 0 | 0 | 0 | 0 |
| Amortization | 0 | 0 | 457 | 126 |
| Fundraising Expense | 0 | 0 | 64 | 0 |
| Total Direct Expenses | <u>8,493,237</u> | <u>1,344,696</u> | <u>320,863</u> | <u>138,556</u> |
| Allocation of Management and General Expenses | <u>1,179,967</u> | <u>186,819</u> | <u>44,578</u> | <u>19,250</u> |
| Total Allowable Expenses Allocated to Programs | <u>9,673,204</u> | <u>1,531,515</u> | <u>365,441</u> | <u>157,806</u> |
| Allocation of Unallowable Expenses | <u>125,930</u> | <u>19,938</u> | <u>4,757</u> | <u>2,054</u> |
| Total Expenses Allocated to Programs | <u>\$ 9,799,134</u> | <u>\$ 1,551,453</u> | <u>\$ 370,198</u> | <u>\$ 159,860</u> |

The accompanying notes are an integral part of these financial statements

| | <u>Special Education</u> | | <u>Supporting Services</u> | | <u>Unallowable</u> | |
|------------------|------------------------------|-----------------|-------------------------------------|--|---------------------------|----------------------|
| <u>Homemaker</u> | <u>School</u> | <u>Adoption</u> | <u>Management & General</u> | <u>Fundraising & Development</u> | <u>Other Unallow.</u> | <u>Total</u> |
| 0 | 0 | 200 | 143,000 | 2,820 | 14,416 | 181,724 |
| 0 | 0 | 0 | 0 | 0 | 2,569 | 2,569 |
| 0 | 284 | 0 | 31,761 | 0 | 34,151 | 68,796 |
| 0 | 0 | 0 | 30,426 | 0 | 0 | 82,736 |
| 0 | 0 | 0 | 1,236 | 0 | 0 | 1,236 |
| 0 | 0 | 0 | 3,295 | 0 | 0 | 3,878 |
| 0 | 0 | 0 | 0 | 10,087 | 0 | 10,151 |
| 50,158 | 1,488,309 | 6,694 | 1,645,282 | 124,349 | 51,241 | 13,663,385 |
| 6,968 | 206,771 | 930 | (1,645,282) | | | 0 |
| 57,126 | 1,695,080 | 7,624 | 0 | 124,349 | 51,241 | 13,663,385 |
| 744 | 22,067 | 99 | | (124,349) | (51,241) | 0 |
| <u>\$ 57,870</u> | <u>\$ 1,717,147</u> | <u>\$ 7,723</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 13,663,385</u> |

**THE ARROW PROJECT, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDING DECEMBER 31, 1998**

| | <u>Foster Care</u> | <u>Diagnostic</u> | <u>Basic Care Transitional Housing</u> | <u>Resource Center</u> |
|-----------------------------------|--------------------|-------------------|--|----------------------------|
| Salaries and Wages | \$ 2,397,220 | \$ 751,956 | \$ 110,007 | \$ 25,262 |
| Payroll Taxes | 199,613 | 65,419 | 6,721 | 2,890 |
| Fringe Benefits | 155,415 | 42,201 | 4,576 | 522 |
| Staff Development Costs | 5,523 | 1,365 | | 213 |
| Contracted Services | 16,900 | 75,837 | | 576 |
| Publicity | 43,443 | 421 | 1,143 | 1,811 |
| Psychological Testing | | 19,275 | | |
| Therapy Expense | 318,129 | 945 | | |
| Program Related Services | 1,452 | 71 | | |
| Food & Food Prep | 406 | 88,296 | 45 | |
| Treatment of Foster Care Payments | 5,163,164 | | | |
| Respite | 183,494 | | | 736 |
| Clothing | 41,290 | 11,425 | | |
| Recreation/Special Events | 34,539 | 5,749 | | 16 |
| Medical Expenses | 1,616 | 6,289 | | |
| Personal Needs and Allowances | 11,940 | 9,220 | | |
| Laundry Fees | | 3,249 | | |
| Family Travel | 98,992 | | | |
| Family Training | 21,778 | | | 107 |
| Staff Training | 27,353 | 10,367 | 558 | 2,005 |
| Rent | 271,217 | 69,851 | 9,624 | 4,775 |
| Utilities | 1,629 | 17,573 | 5,366 | |
| Repairs & Maintenance | 9,320 | 26,350 | 18,308 | 147 |
| Insurance and Taxes | 26,352 | 10,337 | 13,763 | 1,822 |
| Supplies | 41,106 | 21,978 | 13,993 | 7,264 |
| Equipment Rental & Repair | 41,534 | 10,795 | 987 | 5,931 |
| Printing & Copying | 14,869 | 142 | 684 | 3,905 |
| Telephone | 80,975 | 13,746 | 27,694 | 3,434 |
| Postage & Shipping | 25,468 | 1,277 | 159 | 925 |
| Membership & Subscriptions | 1,370 | 3,714 | 125 | 215 |
| Travel | 193,944 | 1,753 | 10,050 | 8,888 |
| Bank Charges | 220 | | | 113 |
| Scholarships Awarded | | | | |

| | <u>Special Education</u> | <u>Supporting Services</u> | <u>Unallowable</u> | | |
|------------------|--------------------------|---------------------------------|--------------------------------------|--------------------------|--------------|
| <u>Homemaker</u> | <u>School</u> | <u>Management & General</u> | <u>Fundraising & Development</u> | <u>Other Unallowable</u> | <u>Total</u> |
| \$ 28,583 | \$ 678,242 | \$ 871,565 | \$ 51,647 | \$ | \$ 4,914,482 |
| 2,562 | 53,789 | 65,006 | 3,426 | | 399,426 |
| 151 | 48,405 | 46,021 | 1,648 | | 298,939 |
| | 592 | 1,539 | 1,549 | | 10,781 |
| | 21,976 | 22,865 | | | 138,154 |
| | | 10,806 | 494 | | 58,118 |
| | 188 | | | | 19,463 |
| | 1,147 | | | | 320,221 |
| | 142,724 | | | | 144,247 |
| | 29,432 | | | | 118,179 |
| | | | | | 5,163,164 |
| | | | | | 184,230 |
| | | | | | 52,715 |
| | 17,532 | 418 | 7 | | 58,261 |
| | 2,615 | 8 | | | 10,528 |
| | | 240 | | | 21,400 |
| | | | | | 3,249 |
| | | | | | 98,992 |
| | | 164 | | | 22,049 |
| | 15,693 | 22,663 | 962 | | 79,601 |
| | 79,540 | 56,297 | 1,903 | | 493,207 |
| | 16,497 | 4,248 | | | 45,313 |
| | 16,839 | 46,026 | 28 | | 117,018 |
| | 14,146 | 124,394 | 1,985 | 4 | 192,803 |
| 164 | 86,447 | 43,903 | 58 | 237 | 215,150 |
| | 9,937 | 78,275 | 1,056 | | 148,515 |
| | 284 | 14,796 | 637 | | 35,317 |
| 269 | 11,400 | 88,123 | 1,290 | | 226,931 |
| | 964 | 11,350 | 112 | | 40,255 |
| | 3,258 | 11,116 | 2,279 | | 22,077 |
| 7,142 | 1,612 | 63,225 | 3,647 | 355 | 290,616 |
| | | 2,450 | 16 | | 2,799 |
| | | 2,742 | | | 2,742 |

**THE ARROW PROJECT, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDING DECEMBER 31, 1998**

| | <u>Foster Care</u> | <u>Diagnostic</u> | <u>Basic Care Transitional Housing</u> | <u>Resource Center</u> |
|---|----------------------|---------------------|--|----------------------------|
| Security System | | | | |
| Facility Improvement | 826 | 6,463 | | 3,490 |
| Equipment | 1,259 | 14,083 | | 35,670 |
| Contributions | | | 692 | |
| Legal, Professional & Accounting Fees | 2,674 | | 2,735 | 9,191 |
| Conferences & Meetings | | | 29 | |
| Interest Expense | | | 745 | |
| Depreciation | 41,162 | | 3,677 | |
| Amortization | | | | |
| Fundraising Expense | | | 2,949 | |
| Total Direct Expenses | <u>9,476,192</u> | <u>1,290,147</u> | <u>234,630</u> | <u>119,908</u> |
| Allocation of Management and General Expenses | <u>1,145,864</u> | <u>283,028</u> | <u>33,952</u> | <u>14,162</u> |
| Total Allowable Expenses Allocated to Programs | <u>10,622,056</u> | <u>1,573,175</u> | <u>268,582</u> | <u>134,070</u> |
| Allocation of Unallowable Expenses | <u>87,660</u> | <u>11,935</u> | <u>2,170</u> | <u>1,109</u> |
| Total Expenses Allocated to Programs | <u>\$ 10,709,716</u> | <u>\$ 1,585,110</u> | <u>\$ 270,752</u> | <u>\$ 135,179</u> |

The accompanying notes are an integral part of these financial statements

| <u>Homemaker</u> | <u>Special Education School</u> | <u>Supporting Services Management & General</u> | <u>Unallowable Fundraising & Development</u> | <u>Other Unallowable</u> | <u>Total</u> |
|------------------|---|---|--|------------------------------|---------------|
| | | 1,281 | | | 1,281 |
| | 7,979 | 7,628 | | | 26,386 |
| | 5,815 | 10,151 | | | 66,978 |
| | | | 200 | | 892 |
| | | 136,272 | 17,130 | | 168,002 |
| | | | 21 | 3,681 | 3,731 |
| | | 4,645 | | 3,473 | 8,863 |
| | | 8,587 | | 600 | 54,026 |
| | | 3,037 | | 420 | 3,457 |
| | | | 15,769 | 321 | 19,039 |
| 38,871 | 1,267,053 | 1,759,841 | 105,864 | 9,091 | 14,301,597 |
| 4,564 | 278,271 | (1,759,841) | | | 0 |
| 43,435 | 1,545,324 | (0) | 105,864 | 9,091 | 14,301,597 |
| 360 | 11,721 | | (105,864) | (9,091) | 0 |
| \$ 43,795 | \$ 1,557,045 | \$ (0) | \$ 0 | \$ 0 | \$ 14,301,597 |

THE ARROW PROJECT, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDING DECEMBER 31, 1999 AND 1998

| | <u>1999</u> | <u>1998</u> |
|---|--------------------|-------------------|
| Cash Flows From Operating Activities: | | |
| Increase in Net Assets | \$ (22,463) | \$ (177,364) |
| Adjustments to Reconcile Increase in Net Assets to Net Cash provided by Operating Activities: | | |
| Depreciation | \$ 116,107 | \$ 75,137 |
| Depletion | 1,236 | 0 |
| Amortization | 3,878 | 3,457 |
| Donated Asset | (58,000) | (2,910) |
| (Increase) decrease in: Accounts Receivable | 291,458 | 65,380 |
| Prepaid Expenses | 10,948 | (4,195) |
| Deposits | (18,951) | (63,607) |
| Other Assets | (19,490) | (9,262) |
| Increase (decrease) in: Accounts Payables | (118,722) | 110,687 |
| Deferred Revenue | 0 | (280,274) |
| Total Adjustments | <u>208,464</u> | <u>(105,587)</u> |
| Net Cash Provided by Operating Activities | 186,001 | (282,951) |
| Cash Flows From Investing Activities: | | |
| Purchase of equipment, excluding donated asset | <u>(1,055,984)</u> | <u>(285,973)</u> |
| Net Cash Used in Investing Activities | (1,055,984) | (285,973) |
| Cash Flows From Financing Activities: | | |
| Proceeds Long-term Financing | 1,188,699 | 128,000 |
| Net repayments of long-term debt | <u>(295,820)</u> | <u>(320,641)</u> |
| Net Cash Provided by Financing Activities | <u>892,879</u> | <u>(192,641)</u> |
| Net Increase in Cash | \$ 22,896 | \$ (761,565) |
| Cash at Beginning of Year | <u>317,736</u> | <u>1,079,301</u> |
| Cash at End of Year | <u>\$ 340,632</u> | <u>\$ 317,736</u> |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the year for: | | |
| Interest | \$ 68,796 | \$ 5,680 |
| Income Taxes | 0 | 0 |

Disclosure of accounting policy:

For purposes of the statement of cash flows, the company considers all highly liquid debt instruments purchased with a maturity date of three months or less to be cash equivalents.

The accompanying notes are an integral part of these financial statements

THE ARROW PROJECT, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

Summary of Arrow Project Programs and Activities

The Arrow Project, Inc. is a Christian non-profit organization which was created in 1992 to serve communities by promoting and enhancing the positive growth of children and families through preventive, supportive and therapeutic services. Arrow works to accomplish this mission through various programs. Arrow provides basic and therapeutic foster care in Texas. In 1998, Arrow merged with its related organization, The Arrow Project of Maryland, Inc., another Christian non-profit social services agency which provides Treatment Foster Care, the Arrow Diagnostic Center and the Arrow Center for Education in Maryland. During 1998, The Arrow Project also merged with His Touch Ministries to provide transitional housing to individuals, infected by the HIV virus, who are in transition and are unable to work. The Arrow Project of Maryland, Inc. and the His Touch Ministries mergers were accounted for as pooling of interest combinations. In 1998, The Arrow Project also expanded its Texas programs to include a Homemaker program in South Texas. The Homemaker program provides services to prevent the removal of a child or to facilitate reunification of families by improving the family functioning. A Resource Center that provides a variety of services through collaborative efforts with the community was opened in Louisiana during 1998. As a result of the mergers and program expansions, a central corporate office manages the operations of all Arrow Project offices and programs.

The Texas Foster Care program provides basic and therapeutic foster care to enhance a child's well-being in a family setting. Children in need of a foster home are referred to Arrow by the Texas Department of Protective and Regulatory Services (PRS) and other state and local agencies. Arrow receives foster care payments based on a per child per day per level of care basis from the state and local agencies. Arrow then pays the foster families on a per child per day per level of care basis. The rates for payments to the families are determined by The Arrow Project. The rate differential retained by Arrow Project is used to provide case management, therapy, respite care, training, and other services to the foster families. During the 1999 operating year, The Arrow Project had 937 children in 262 foster homes in Texas, and 840 children in 274 foster homes during 1998.

Children are referred to the Maryland programs by the Maryland Department of Human Resources, the Juvenile Justice Department and other state and local agencies. Arrow receives payment for services on a per child per day of care basis. During 1998, The Arrow Project had 10 children in 13 foster homes, 24 children residing in the twenty-four hour Diagnostic Center, and 40 children attending the year-round Arrow Center for Education day school. In 1999, The Arrow Project had 8 children in 7 foster homes, 28 children residing in the twenty-four hour Diagnostic Center, and had 54 children attending the year-round Arrow Center for Education day school.

The Texas Homemaker project received 54 referrals for services during 1998 and 29 referrals in 1999. However, the Homemaker project was terminated in May 1999 due to the inability to recover all program costs under the existing contract. The Louisiana Resource Center began operating in August 1998 and was funded by a purchase of service contract with the Louisiana Office of Community Service. However, the Louisiana program ceased operations in September, 1999 due to problems in obtaining timely licensing from the state. The transitional housing program had 14 residents on site during 1999, and is funded by donations and grants. The transitional housing program also offered 200 support groups that serviced 250 clients during

THE ARROW PROJECT, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

1999.

In September 1998, The Arrow Project began working with Spalding for Children, an adoption agency, and in 1999 assisted with 19 adoptions. The Arrow Project also entered into a contract with the Tri-County Mental Health Department to provide level 3 foster care to children in the Houston tri-county area.

In 1999, the Arrow Project received the recognition of being accredited for quality delivery of services by the Council on Accreditation. The Council on Accreditation is the largest, most comprehensive independent accreditor of social service and mental health agencies in the United States and Canada. Approximately 600 agencies, voluntary, public and proprietary, local and statewide, large and small have successfully sought accreditation through the Council's process. Accreditation decisions are made by a council of experienced professionals who review the ratings assigned by a peer review team and the agency's response to the team's accreditation report. The report is compiled from both self-reporting and on-site reviews. The reports and responses are reviewed by one of the Service Councils, which then recommends the appropriate action for ratification by the Council's Board of Trustees. This ratification of accreditation for the Arrow Project is effective for the next four years.

NOTE 1: Summary of Significant Accounting Policies

The Arrow Project financial statements are presented on the accrual basis of accounting. That is, revenues are recognized when earned and expenses are recognized when incurred.

Arrow follows Statement of Financial Accounting Standards (SFAS) 117, Financial Statements for Not-for-Profit Organizations. Under SFAS No. 117, the Arrow Project is required to report information regarding its financial position and activities to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As explained in Note 12, the Arrow Project began a scholarship fund during 1997 to assist foster children with their education. Donations received for the scholarship fund have been classified as temporarily restricted until scholarships are awarded.

Accounts Receivable - Counties represents amounts due from state and local agencies for services provided.

Accounts Receivable - Employees represents the amount owed to Arrow by employees for personal expenses paid by the company, as well as an amount owed to Arrow by the President for the balance due on a 1995 no-interest relocation loan from the company to the President. The President is repaying the company a minimum of \$250 per pay period. During 1998, \$5,261 net repayments were recorded and \$5,800 net repayments in 1999.

Effective for all employees as of January 1, 1998, all vacation leave, sick leave, personal days, emergency leave, and other accrued leave is combined into personal leave. Employees accrue personal leave according to a set schedule based on length of service. Employees are eligible to accrue a maximum of 288 hours of personal leave time. This was changed to 120 hours of accrued leave time in January 1999. All accrued personal leave time will be paid

THE ARROW PROJECT, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

to the employees in event of termination of employment. All amounts associated with this accrued personal leave as of the end of the year has been recorded in the financial statements.

During 1998, The Arrow Project implemented a policy of providing a ministerial housing and utility allowance for all professional staff who are considered ministers of the gospel in accordance with Internal Revenue Code Section 107 and who perform ministerial duties and provide spiritual counseling in the course of their duties as an employee of The Arrow Project. Housing allowances totaling \$84,168 were paid to four employees, including the President of Arrow Project, during 1999, and \$54,436 in 1998. Eligible employees are required to submit an analysis of their housing costs to ensure that the allowance is not in excess of their costs. In 1999, The Arrow Project also hired a caretaker for the Porter property with a condition of employment being that the caretaker is required to live on site in employer-provided housing.

No allowance for bad debts is recorded as revenue received is from third party reimbursements with state and local government agencies. Arrow Project bills the agencies for the number of days a child is receiving services and Arrow receives the reimbursement usually one month later.

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Company. The central corporate office expenses are allocated to the programs using various cost allocation methods such as time study evaluations, units of service and costs.

Fixed assets acquired with Maryland and Louisiana state funds are expensed at cost when purchased in accordance with state regulations. Fixed assets acquired with private funds and PRS (State of Texas) funds are reported at cost and are depreciated using the straight-line method with an estimated useful life of seven to twenty years for furniture and equipment, five to ten years for computer and telecommunication equipment, and thirty-one and a half to thirty-nine years for leasehold improvements. Vehicles are depreciated using the straight-line method over five years, with a 10% salvage value. PRS has a residual interest in any fixed asset acquired with PRS funds. Donated assets are recorded as support at their fair market value at the date of contribution, and are depreciated using the same straight-line method and recovery periods as purchased assets. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports the expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Depreciation on assets acquired with Maryland and Louisiana state funds is reported as a reservation of net assets, as these assets are expensed when acquired.

The Arrow Project is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Arrow

**THE ARROW PROJECT, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998**

Project's tax-exempt purpose can be subject to taxation as unrelated business income. In addition, the Arrow Project qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2). There is no federal income tax due for unrelated business income for 1998 and 1999.

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenue and expenses. Actual results could differ from those estimates.

NOTE 2: Other Cash and Cash Equivalents

Other Cash and Cash Equivalents as of December 31, 1999 consist of seven checking accounts and five petty cash checking accounts. Currently there are no other cash or cash equivalents which consist of debt instruments purchased with a maturity date of three months or less.

NOTE 3: Accounts Receivable - Foster Families

Beginning in 1995, Arrow Project started making small no-interest loans to foster families. The loan proceeds were used by the families for home improvements or for purchases of homes in order to enable the foster families to take in additional children. The loans are all short-term, unsecured loans to be repaid in one year or less. The loans will be repaid through reductions in the amount of the monthly foster care payments made to the families.

NOTE 4: Operating Leases

The Arrow Project leases its office space, and as of December 31, 1999 occupied approximately 20,721 square feet in its leased Texas offices, 1,350 square feet in its Louisiana offices, and 29,590 square feet in its Maryland offices. Arrow Project also leases some office equipment. The office space and equipment leases are strict operating leases that expire at the end of their lease term. The Arrow Project incurred \$579,342 of operating lease expense during fiscal year 1998, and \$669,316 in 1999. Total future minimum lease payments are as follows as of December 31, 1999:

| Year Ending December 31, | Minimum Lease Rentals |
|-----------------------------|-----------------------------|
| 2000 | 506,670 |
| 2001 | 294,786 |
| 2002 | 29,750 |
| 2003 | 0 |
| 2004 | 0 |
| 2005 and beyond | 0 |
| Total Minimum Lease Rentals | \$ <u>831,206</u> |

THE ARROW PROJECT, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

NOTE 5: Capital Leases

The Arrow Project leases some of its equipment under capital leases. The economic substance of the leases is that Arrow Project is financing the acquisition of the assets through the lease, and accordingly, the equipment is recorded in the company's assets and liabilities. The leases qualify as capital leases either through the inclusion of a bargain purchase option at the end of the lease term or due to the fact that the present value of the minimum lease payments equals or exceeds 90% of the assets' fair value. The Arrow Project reported \$3,093 of interest expense with these leases during 1998, and \$618 in 1999.

The following is an analysis of the leased assets included in Property and Equipment:

| | <u>1999</u> | <u>1998</u> |
|-------------------------|-------------|-------------|
| Furniture and Equipment | 123,663 | 123,663 |
| Less Accum Depreciation | (100,255) | (73,427) |
| | \$ 23,408 | \$ 50,236 |

The following is a schedule by years of future minimum payments required under the leases together with their present value as of December 31, 1999:

| <u>Year Ending</u> <u>December 31:</u> | <u>Minimum</u> <u>Lease</u> <u>Payments</u> |
|---|---|
| 2000 | 2,043 |
| 2001 | 0 |
| 2002 | 0 |
| 2003 | 0 |
| 2004 | 0 |
| 2005 and beyond | 0 |
| Total Minimum Lease Payments | 2,043 |
| Less Amount Representing Interest | (81) |
| Present Value of Minimum Lease Payments | \$ 1,962 |

NOTE 6: Notes Payable

The organization has a \$250,000 revolving line of credit with Bank of America, which was not in use at December 31, 1999. Bank advances on the line of credit are payable on demand and carry an interest rate of 1% over prime (9.25% at December 31, 1999). Interest is paid monthly. The credit line is unsecured. The Arrow Project paid \$102 of interest on the line of credit during 1998 and \$15,516 during 1999.

When Arrow merged with His Touch Ministries, it assumed the debt on the apartment building. The mortgage is with Harrisburg Bank. The original principal amount was \$51,000, and the note originated in April 1995. The note has an interest rate of 8%, and was paid off in

**THE ARROW PROJECT, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998**

December 1999, as part of the City of Houston grant funding. The Arrow Project paid \$1,902 of interest in 1999.

In August 1998, Arrow acquired 12.898 acres of land in Tomball, Texas. The land purchase was financed with a note from CoAmerica Bank for \$128,000 with an initial interest rate of 8.75%. Principal and accrued interest were due at the maturity date of November 26, 1998. The note was extended until June 27, 2000. The Arrow Project paid \$10,723 for interest on this loan in 1999.

In January 1999, Arrow obtained a line of credit from CoAmerica Bank for \$250,000, of which \$250,000 was unused at December 31, 1999. Bank advances on the credit line are payable on demand and carry an interest rate of 9.5%. The credit line is secured by Arrow's accounts receivables. The Arrow Project paid \$6,891 of interest on the line of credit during 1999.

In June 1999, Arrow purchased seventy-one acres in Porter, Texas to house the Houston operations and corporate offices. The acquisition was financed with a note for \$530,000 from Austin County Bank. The note is secured by the property and is payable monthly at an annual interest rate of 8.5%. The note matures June 25, 2004 with a balloon payment due of \$467,034. The Arrow Project paid \$22,434 of interest on this note during 1999.

For property maintenance of the 71 acres, the Arrow Project acquired a tractor in October 1999 for \$18,247. A down payment of \$3,500 was made at the time of purchase, the remaining balance of \$14,747 was financed for thirty-six months at an annual interest rate of 10%. The Arrow Project paid \$254 of interest on this note during 1999.

In October 1999, the Arrow Project also purchased a mobile home that was placed on the Porter property to house the caretaker for the property. The home was financed through Nationwide Homes for \$81,331 at an annual interest rate of 10.5%. The loan is secured by the home but was also personally guaranteed by the President of the Arrow Project. The note matures September 1, 2014. The Arrow Project paid \$2,130 of interest on this note during 1999.

The Arrow Project acquired two vehicles for employees in 1999. The vehicles are financed and each have a balloon payment due at maturity. One vehicle loan has an interest rate of 7.9% and a balloon payment of \$11,324 due on December 29, 2000. The second vehicle loan has an interest rate of 11.25% and a balloon payment of \$23,155 due on October 4, 2000. The value of the personal use of the vehicles was included on the employees' 1999 wage statements. Interest of \$6,059 was paid on the loans in 1999.

The future schedule of maturities of long-term debt are as follows:

| <u>Year Ending</u> <u>December 31:</u> | <u>Maturities</u> |
|---|-------------------|
| 2000 | 418,325 |
| 2001 | 25,764 |

**THE ARROW PROJECT, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998**

| | |
|-------------------------|---------------------|
| 2002 | 48,629 |
| 2003 | 17,512 |
| 2004 | 478,277 |
| 2005 and beyond | <u>65,672</u> |
| Total Future Maturities | \$ <u>1,054,179</u> |

NOTE 7: Property and Equipment

As stated previously, during 1999, the Arrow Project acquired property in Porter, Texas for the Houston operations and the corporate offices. The property consists of seventy-one acres and a building which was renovated for the offices as part of the acquisition. A mobile home was placed on the property to house the property caretaker. Also on the property is an oil well which generates some oil royalty income. The cost of the oil well is being recovered through percentage depletion. The costs of the Porter property have been capitalized and is detailed below:

| | \$ | <u>Cost</u> |
|-----------------------|----|----------------|
| Porter Building | \$ | 572,302 |
| Porter Land | | 78,105 |
| Porter Oil Well | | 19,490 |
| Mobile Home | | <u>112,091</u> |
| Total Porter Property | | <u>781,988</u> |

The Louisiana program was closed in May, 1999, and the net assets of \$23,420 that were acquired with contract funds remained with the contract to be utilized by the next contractor and the transfer has been reported as a contribution on the financial statements. The \$4,170 of net assets not acquired with Louisiana funds were transferred back to the Arrow Project and are in use by other programs.

His Touch Ministries was able to acquire additional property for its transitional housing program and pay off the loan for the existing apartment building with the Housing Opportunities for People With Aids (HOPWA) grant funds. The HOPWA construction grant is also providing funding for the renovation of the His Touch Ministries properties to ultimately provide thirty-four beds in fourteen units.

NOTE 8: Grants

In 1999, the Arrow Project received an operations grant from the Aids Foundation of Houston to provide funding assistance for the transitional living program. The grant is for \$114,320 for the period August 1, 1999 through July 31, 2000.

In 1999, the Arrow Project also received a grant with the City of Houston through the Housing Opportunities for Persons With Aids (HOPWA) program for the transitional living program. The grant funds are for acquisition of two homes on the His Touch campus, renovation of the properties and to provide one year of operating costs. The constructions/acquisition grant is for \$793,605

THE ARROW PROJECT, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

and is targeted to be completed in 2000. The operations grant is for \$385,120 and is scheduled to end November 15, 2000.

NOTE 9: Third Party Reimbursements

The Arrow Project, a child placing agency, receives more than 95% of its revenue from its agreement with state and local agencies such as the Maryland Department of Human Resources and the Texas Department of Protective and Regulatory Services (PRS). State and local agencies reimburse The Arrow Project for services provided in accordance with their contracts. There is very little likelihood that the states will terminate their agreements with The Arrow Project, and there are other private agencies who refer children for placement so there is no going concern issue.

NOTE 10: Description of Program and Supporting Services

The following program and supporting services are included in the accompanying financial statements:

Foster Care - Place children in need in approved foster homes. Provide basic and therapeutic foster care to enhance a child's well-being in a family setting.

Diagnostic - A 90-day residential care program for children ages 5-18 who are in need of a comprehensive, multidisciplinary assessment in order to assist future placement, treatment, and educational planning.

School - Provide special education Intensity V and related services. A year-round program for students ages 11-21 who are experiencing difficulties in life or learning. Focus is on preparing students for their eventual return to public school academics.

Transitional Housing - Provide housing to individuals, infected with the HIV virus, who are in transition and are unable to work.

Resource Center - Family development, training, crisis prevention and intervention, and respite services are provided to foster and adoptive children and families.

Homemaker Services - Supervision and care are given to children and families in their own home by trained homemakers. The program focuses on modeling and teaching home management and child care in the home.

Adoption - In conjunction with Spalding for Children, provide adoption placement.

Management and General - Includes the functions necessary to maintain an equitable employment program; ensure an adequate working environment; provide coordination and articulation of the Organization's program strategy through the Office of the President; secure proper administrative functioning of the Board of Directors; maintain competent legal services for the program administration of the Organization; and manage the financial and budgetary responsibilities of the Organization.

THE ARROW PROJECT, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

Development & Fundraising - Provides the structure necessary for expansion and growth of the organization in to new areas and programs. Encourages and secures private financial support from individuals, foundations, and corporations.

NOTE 11: Employee Benefit Plans

During the year ended December 31, 1995, the Organization entered into a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers full-time employees of the Organization. The Organization matches up to 4% of gross salaries for qualified employees participating in the plan. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code if they wish. The company contributed \$44,913 towards the plan for the year ended December 31, 1998 and \$41,316 in 1999. All full-time employees who have worked one full year at Arrow are eligible to participate in the plan.

NOTE 12: Scholarship Fund

During 1997, a scholarship fund was established to assist the foster children of The Arrow Project in pursuing further training and education. Four scholarships were awarded as of December 31, 1998, totaling \$2,742. The donations designated for the scholarship fund have been classified in the financial statements as temporarily restricted net assets. No scholarships were awarded in 1999.

NOTE 13: Concentrations of Credit Risk

Financial instruments that potentially subject the organization to concentrations of credit risk consist of accounts receivable for services provided, the Accounts Receivable - Counties had a balance of \$1,139,181 at December 31, 1999. Concentrations of credit risk with respect to the Accounts Receivable - Counties are limited due to the fact that Arrow receives its revenues from numerous state and local agencies. Arrow has no collateral with respect to these Accounts Receivable; however, the likelihood that any of these agencies would be unable to pay for services provided is very remote. As of December 31, 1999, Arrow had no significant concentration of credit risk.

NOTE 14: Concentrations of Credit Risk Arising from Cash Deposits in Excess of Insured Limits

The Organization maintains cash balances in two financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$100,000. At December 31, 1999, the Organization's uninsured cash balances totaled \$522,123, and \$257,349 at December 31, 1998.

NOTE 15: Related Party Transactions

During the year ending December 31, 1995, the Organization made a no-interest relocation loan to the Organization's President of \$27,800. The loan was to enable him to purchase a home because he was required to relocate for the company. During 1998, \$5,261 was repaid and \$5,800

THE ARROW PROJECT, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

was repaid in 1999.

The daughter of a board member worked for The Arrow Project as a Program Assistant and was paid \$3,405 in wages in 1998. She did not work for The Arrow Project in 1999.

As stated previously, during 1998, Arrow merged with its related organization, The Arrow Project of Maryland, Inc. Any intercompany debt and/or transactions were eliminated at the time of the merger.

As stated previously, The Arrow Project received a grant from HOPWA to renovate the properties at His Touch Ministries. Bids were solicited for the project and the contractor was approved by the City of Houston with the award of the grant. The contractor, Diamond Construction, is owned by the father-in-law of the President of The Arrow Project. The grant for the renovation of the properties is for \$793,605. Diamond Construction also performed the build-out of the Porter property and was paid \$200,000, which was financed and paid directly by the lender, Austin County Bank.

NOTE 16: Contingent Liabilities

In 1997, PRS completed an audit of The Arrow Project and in their report they found some questioned costs that could potentially be subject to recoupment. However, these costs were incurred prior to the new contract effective September 1, 1996. In accordance with the contract that was in effect prior to September 1, 1996, there was not a provision for recoupment by PRS for questioned costs. Per consultation with general counsel, The Arrow Project feels that these questioned costs prior to September 1, 1996 are not a liability of Arrow Project, since the contract in effect at the time the costs were incurred was silent on the issue of recoupment of unallowed costs. Therefore no liability has been recorded in the financial statement for these questioned costs.

NOTE 17: Business Combinations - Pooling of Interests

As disclosed on page 18, The Arrow Project, Inc. merged with His Touch Ministries and The Arrow Project of Maryland, Inc. during 1998. Included in the financial statements is the activity of His Touch Ministries from the beginning of the year, January 1998, through July 31, 1998, when the merger occurred. The merger was accounted for as a pooling of interest. Also included in the financial statements is the activity of The Arrow Project of Maryland, Inc. from the beginning of January 1998, through February 28, 1998 when the merger occurred. The merger with The Arrow Project of Maryland, Inc. was accounted for as a pooling of interest. The revenues, expenses, and changes in net assets for each of the acquired entities from the beginning of the period, January 1998, to the date of the combination is included below. As stated previously, all intercompany transactions were eliminated at the time of the combination. There were no changes in net assets in order to conform accounting practices.

**THE ARROW PROJECT, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998**

| | His Touch Ministries <u>1/1/98 - 7/31/98</u> | Arrow Project of Maryland, Inc. <u>1/1/98 - 2/28/98</u> |
|---|--|---|
| Revenues | | |
| Program Revenue | \$ 30,629 | \$ 496,504 |
| Donations | 58,517 | 50 |
| Total Revenue | <u>89,146</u> | <u>496,554</u> |
| Expenses | | |
| Program Expenses | 99,850 | 419,449 |
| Management and General | 10,681 | 87,241 |
| Total Expenses | <u>110,531</u> | <u>506,690</u> |
| Other Changes In Net Assets | | |
| Additions to Fixed Assets | | 27,426 |
| Current Year Depreciation | | <u>(10,711)</u> |
| Total Other Changes in Net Assets | 0 | 16,715 |
| Increase (Decrease) in Unrestricted Net Assets | (21,385) | 6,579 |
| Net Assets - Beginning | <u>199,705</u> | <u>324,611</u> |
| Net Assets - Ending | <u>\$ 178,320</u> | <u>\$ 331,190</u> |

The Arrow Project of Maryland, Inc. had a fiscal year end of June 30. Included below is a schedule of the revenues, expenses, and changes in net assets for the period July 1, 1997 through December 31, 1997, the period excluded from the combined amounts currently presented in the financial statements.

| | Arrow Project of Maryland, Inc. <u>7/1/97 - 12/31/97</u> |
|-----------------------------|--|
| Revenues | |
| Program Revenue | \$ 1,397,989 |
| Interest Income | 563 |
| Total Revenue | <u>1,398,552</u> |
| Expenses | |
| Program Expenses | 982,233 |
| Management and General | 194,381 |
| Total Expenses | <u>1,176,614</u> |
| Other Changes In Net Assets | |
| Additions to Fixed Assets | 40,724 |

**THE ARROW PROJECT, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998**

| | |
|---|------------|
| Current Year Depreciation | (5,457) |
| Total Other Changes in Net Assets | 35,267 |
| Increase (Decrease) in Unrestricted Net Assets | 257,205 |
| Net Assets - Beginning | 67,406 |
| Net Assets - Ending | \$ 324,611 |

In accordance with Statement on Auditing Standards No. 1, in the year a pooling of interest combination is consummated, the revenues, expenses, and changes in net assets of the constituent companies for the preceding year of the combination must be disclosed on a combined basis and is shown as follows:

| | His Touch Ministries <u>1/1/97 - 12/31/97</u> | Arrow Project of Maryland, Inc. <u>1/1/97 - 12/31/97</u> | Total Combined <u>1/1/97-12/31/97</u> |
|---|---|--|---|
| Revenues | | | |
| Program Revenue | \$ 53,337 | \$ 1,952,374 | \$ 2,005,711 |
| Interest Income | 0 | 563 | 563 |
| Donations | 118,907 | 0 | 118,907 |
| Total Revenue | 172,244 | 1,952,937 | 2,125,181 |
| Expenses | | | |
| Program Expenses | 140,576 | 1,613,765 | 1,754,341 |
| Management and General | 12,508 | 279,696 | 292,204 |
| Total Expenses | 153,084 | 1,893,461 | 2,046,545 |
| Other Changes In Net Assets | | | |
| Additions to Fixed Assets | | 241,989 | 241,989 |
| Current Year Depreciation | | (5,457) | (5,457) |
| Total Other Changes in Net Assets | 0 | 236,532 | 236,532 |
| Increase (Decrease) in Unrestricted Net Assets | 19,160 | 296,008 | 315,168 |
| Net Assets - Beginning | 180,545 | 28,603 | 209,148 |
| Net Assets - Ending | \$ 199,705 | \$ 324,611 | \$ 524,316 |
| Combined Net Assets - Ending 12/31/97 | 524,316 | | |

**THE ARROW PROJECT, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998**

| | |
|---------------------------|---------------------|
| Arrow Project, Inc. - Net | |
| Assets - Ending 12/31/97 | <u>1,561,781</u> |
| Total All Entities - Net | |
| Assets - Ending 12/31/97 | <u>\$ 2,086,097</u> |

NOTE 18: Subsequent Events

Subsequent to year end, the Maryland school began expansion plans to open a new school in Hartford County, Maryland. A lease has been signed effective July 1, 2000 that will accommodate six classrooms with a capacity of 40 to 50 students.

In March, 2000, the Arrow Project paid a 10% penalty for excess contributions to their retirement plan for the 1998 plan year. The penalty was in the amount of \$324.



INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY INFORMATION

Board of Directors
The Arrow Project, Inc.
Porter, Texas

May 5, 2000

Dear Ladies & Gentlemen:

Our report on our audit of the basic financial statements of The Arrow Project, Inc. as of December 31, 1999 and 1998 appears on page 1. The audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information on pages 32 through 36 are presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

The supplementary information reported on pages 37 through 55 are presented for purposes of additional analysis and are not a required part of the financial statements. In our opinion, the supplementary information for the Maryland program activity for the period July 1, 1998 through June 30, 1999 is fairly presented in all material respects in relation to the basis financial statements from which it has been derived.

Sincerely,

Porterfield & Associates
Certified Public Accountants

SUPPLEMENTARY INFORMATION

THE ARROW PROJECT INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

May 5, 2000

We have audited the financial statements of *The Arrow Project, Inc.* as of and for the years ended December 31, 1999 and 1998 and have issued our report thereon dated May 5, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our audit of the financial statements as of December 31, 1999 and 1998 resulted in an unqualified opinion.

Section I Summary of Auditor's Reports

a. Report on Internal Control

No material weaknesses or reportable conditions were noted.

b. Report on Compliance

No instances of material noncompliance were noted.

Section II Financial Statement Findings

None

Section III Management Letter

A management letter dated May 5, 2000 was issued.

Section IV Summary of Prior Year Audit Findings

None

Section V Management's Corrective Action Plan for Current Year Findings

N/A - no findings to correct

**THE ARROW PROJECT, INC.
FOSTER CARE PROGRAM DETAIL
FOR THE YEAR ENDING DECEMBER 31, 1999**

| | <u>Texas PRS Contract</u> | <u>Texas Tri-County MHMR</u> | <u>Texas Pace Contract</u> |
|-----------------------------------|-------------------------------|----------------------------------|--------------------------------|
| Salaries and Wages | \$ 1,438,086 | \$ 1,313 | \$ 222,118 |
| Payroll Taxes | 312,007 | 25 | 17,416 |
| Fringe Benefits | 129,840 | 232 | 21,855 |
| Staff Development Costs | 9,065 | | |
| Contracted Services | 11,201 | | 4,417 |
| Publicity | 9,920 | | 588 |
| Psychological Testing | 7,923 | | |
| Therapy Expense | 247,122 | | 8,279 |
| Program Related Services | 1,955 | | |
| Food & Food Prep | 851 | | |
| Treatment of Foster Care Payments | 4,092,070 | 13,552 | 648,216 |
| Respite | 148,917 | | 19,535 |
| Clothing | 40,785 | | 4,842 |
| Recreation/Special Events | 24,322 | | 5,967 |
| Medical Expenses | 758 | | |
| Personal Needs and Allowances | 18 | | 4 |
| Family Travel | 79,544 | | 17,306 |
| Family Training | 13,869 | | 1,421 |
| Foster Family Recruitment | 2,733 | | 4,251 |
| Staff Training | 8,149 | | 735 |
| Rent | 208,355 | | 27,459 |
| Utilities | 982 | | 13 |
| Repairs & Maintenance | 10,809 | | 2,429 |
| Insurance and Taxes | 17,669 | | 829 |
| Supplies | 29,876 | | 4,466 |
| Equipment Rental & Repair | 46,407 | | 6,322 |
| Printing & Copying | 7,009 | | 1,046 |
| Telephone | 76,047 | | 11,474 |
| Postage & Shipping | 12,277 | | 1,449 |
| Membership & Subscriptions | 1,334 | | 252 |
| Travel | 148,277 | | 22,604 |

| <u>Total Texas Foster Care</u> | <u>Louisiana Foster Care</u> | <u>Maryland Foster Care</u> | <u>Total Foster Care</u> |
|------------------------------------|----------------------------------|---------------------------------|------------------------------|
| \$ 1,661,517 | \$ 18,275 | \$ 53,129 | \$ 1,732,921 |
| 329,448 | 1,501 | 4,105 | 335,054 |
| 151,927 | 459 | 4,005 | 156,391 |
| 9,065 | | 357 | 9,422 |
| 15,618 | | 2,472 | 18,090 |
| 10,508 | | | 10,508 |
| 7,923 | | | 7,923 |
| 255,401 | | 6,451 | 261,852 |
| 1,955 | | | 1,955 |
| 851 | | | 851 |
| 4,753,838 | | 115,120 | 4,868,958 |
| 168,452 | | 1,080 | 169,532 |
| 45,627 | | | 45,627 |
| 30,289 | | 1,439 | 31,728 |
| 758 | | | 758 |
| 22 | | | 22 |
| 96,850 | | | 96,850 |
| 15,290 | 50 | 207 | 15,547 |
| 6,984 | 1,114 | | 8,098 |
| 8,884 | 26 | 75 | 8,985 |
| 235,814 | 6,389 | 5,862 | 248,065 |
| 995 | | 1,363 | 2,358 |
| 13,238 | | 977 | 14,215 |
| 18,498 | 158 | 1,405 | 20,061 |
| 34,342 | 1,982 | 746 | 37,070 |
| 52,729 | | 480 | 53,209 |
| 8,055 | | 72 | 8,127 |
| 87,521 | 2,002 | 1,167 | 90,690 |
| 13,726 | 21 | 70 | 13,817 |
| 1,586 | | 486 | 2,072 |
| 170,881 | 2,398 | 3,658 | 176,937 |

**THE ARROW PROJECT, INC.
FOSTER CARE PROGRAM DETAIL
FOR THE YEAR ENDING DECEMBER 31, 1999**

| | <u>Texas PRS Contract</u> | <u>Texas Tri-County MHMR</u> | <u>Texas Pace Contract</u> |
|--|-------------------------------|----------------------------------|--------------------------------|
| Bank Charges Security System | | | |
| Facility Improvement Equipment Legal, Professional & Accounting Fees | | | |
| Conferences & Meetings Interest Expense Depreciation | 45,373 | | |
| Depletion Amortization | | | |
| Total Direct Expenses | <u>7,183,550</u> | <u>15,121</u> | <u>1,055,294</u> |
| Allocation of Management and General Expenses | <u>998,012</u> | <u>2,101</u> | <u>146,612</u> |
| Total Allowable Expenses Allocated to Programs | <u>8,181,562</u> | <u>17,222</u> | <u>1,201,906</u> |
| Allocation of Unallowable Expenses | <u>106,511</u> | <u>224</u> | <u>15,647</u> |
| Total Expenses Allocated to Programs | <u>\$ 8,288,072</u> | <u>\$ 17,446</u> | <u>\$ 1,217,554</u> |

See Accountant's Report on Supplementary Information

| <u>Total Texas Foster Care</u> | <u>Louisiana Foster Care</u> | <u>Maryland Foster Care</u> | <u>Total Foster Care</u> |
|------------------------------------|----------------------------------|---------------------------------|------------------------------|
| 0 | | | 0 |
| 0 | | 62 | 62 |
| 0 | | | 0 |
| 0 | | 84 | 84 |
| 0 | 25 | | 25 |
| 0 | | | 0 |
| 0 | | | 0 |
| 45,373 | | | 45,373 |
| 0 | | | 0 |
| 0 | | | 0 |
| <hr/> | <hr/> | <hr/> | <hr/> |
| 8,253,965 | 34,400 | 204,872 | 8,493,237 |
| <hr/> | <hr/> | <hr/> | <hr/> |
| 1,146,725 | 4,779 | 28,463 | 1,179,967 |
| <hr/> | <hr/> | <hr/> | <hr/> |
| 9,400,690 | 39,179 | 233,335 | 9,673,204 |
| <hr/> | <hr/> | <hr/> | <hr/> |
| 122,382 | 510 | 3,038 | 125,930 |
| <hr/> | <hr/> | <hr/> | <hr/> |
| <u>\$ 9,523,072</u> | <u>\$ 39,688</u> | <u>\$ 236,373</u> | <u>\$ 9,799,134</u> |

**THE ARROW PROJECT, INC.
SUMMARY OF EXPENSES
MARYLAND PROGRAM ACTIVITY
FOR THE CONTRACT PERIOD JULY 1, 1998 THROUGH JUNE 30, 1999**

| | <u>Basic Care</u> | | <u>Special Education</u> |
|-----------------------------------|--------------------|-------------------|------------------------------|
| | <u>Foster Care</u> | <u>Diagnostic</u> | <u>School</u> |
| Salaries and Wages | \$ 64,781 | \$ 803,615 | \$ 854,309 |
| Payroll Taxes | 4,746 | 65,813 | 65,329 |
| Fringe Benefits | 4,716 | 56,847 | 53,300 |
| Staff Development Costs | 42 | 1,218 | 351 |
| Contracted Services | 8,087 | 92,021 | 29,422 |
| Related Services | 0 | 0 | 37,571 |
| Publicity | 133 | 320 | 320 |
| Food & Food Prep | 0 | 71,100 | 23,700 |
| Treatment of Foster Care Payments | 109,000 | 0 | |
| Respite | 1,398 | 0 | |
| Clothing | | 12,103 | |
| Recreation | 693 | 7,578 | 12,156 |
| Medical Expenses | 2 | 5,069 | 1,862 |
| Personal Needs and Allowances | 0 | 9,985 | |
| Laundry Fees | 0 | 5,287 | |
| Family Training | 875 | 0 | |
| Staff Training | 913 | 4,751 | 11,309 |
| Rent | 6,600 | 71,630 | 79,100 |
| Utilities | 1,229 | 18,303 | 16,929 |
| Repairs & Maintenance | 868 | 33,950 | 13,626 |
| Insurance and Taxes | 1,286 | 7,774 | 14,639 |
| Supplies | 1,602 | 14,944 | 64,332 |
| Equipment Rental & Repair | 452 | 18,427 | 14,794 |
| Printing & Copying | 0 | 0 | |
| Telephone | 1,165 | 13,809 | 12,007 |
| Postage & Shipping | 75 | 1,426 | 1,056 |
| Membership & Subscriptions | 400 | 3,696 | 5,528 |
| Travel | 3,386 | 1,514 | 3,891 |
| Bank Charges | 0 | 0 | |
| Recruitment | 300 | 0 | |
| Security System | 29 | 2,555 | 2,314 |

Supporting Services

| <u>Management</u> | | <u>Unallowable</u> | | <u>Total</u> |
|----------------------|---------|--------------------|--|--------------|
| <u>& General</u> | | | | |
| \$ | 247,420 | \$ | | \$ 1,970,125 |
| | 18,263 | | | 154,151 |
| | 14,664 | | | 129,527 |
| | 126 | | | 1,737 |
| | 12,415 | | | 141,945 |
| | | | | 37,571 |
| | 3,868 | | | 4,641 |
| | | | | 94,800 |
| | | | | 109,000 |
| | | | | 1,398 |
| | | | | 12,103 |
| | 213 | | | 20,640 |
| | 8 | | | 6,941 |
| | | | | 9,985 |
| | | | | 5,287 |
| | | | | 875 |
| | 235 | | | 17,208 |
| | 17,620 | | | 174,950 |
| | 4,501 | | | 40,962 |
| | 3,078 | | | 51,522 |
| | 5,692 | | | 29,391 |
| | 5,934 | 39 | | 86,851 |
| | 1,608 | | | 35,281 |
| | | | | 0 |
| | 3,986 | | | 30,967 |
| | 2,383 | | | 4,940 |
| | 514 | | | 10,138 |
| | 19,390 | | | 28,181 |
| | | | | 0 |
| | 665 | | | 965 |
| | 1,757 | | | 6,655 |

**THE ARROW PROJECT, INC.
SUMMARY OF EXPENSES
MARYLAND PROGRAM ACTIVITY
FOR THE CONTRACT PERIOD JULY 1, 1998 THROUGH JUNE 30, 1999**

| | <u>Basic Care</u> | | <u>Special Education</u> |
|---|--------------------|---------------------|------------------------------|
| | <u>Foster Care</u> | <u>Diagnostic</u> | <u>School</u> |
| Facility Improvement | 0 | 2,528 | 52,232 |
| Equipment | 1,315 | 7,525 | 17,428 |
| Legal and Accounting Fees | | 0 | |
| Interest Expense | 27 | 539 | 596 |
| Corporate Office Expenses | 0 | 0 | |
| Computer Support Costs | 210 | 1,044 | 2,085 |
| Amortization | | 0 | |
| Total Direct Expenses | <u>214,330</u> | <u>1,335,371</u> | <u>1,390,186</u> |
| Allocation of Management and General Expenses | <u>48,033</u> | <u>299,267</u> | <u>311,551</u> |
| Total Allowable Expenses Allocated to Programs | <u>262,363</u> | <u>1,634,638</u> | <u>1,701,737</u> |
| Allocation of Unallowable Expenses | <u>228</u> | <u>1,418</u> | <u>1,476</u> |
| Total Expenses Allocated to Programs | <u>\$ 262,591</u> | <u>\$ 1,636,056</u> | <u>\$ 1,703,213</u> |

See Accountant's Report on Supplementary Information

Supporting Services

| <u>Management & General</u> | <u>Unallowable</u> | <u>Total</u> |
|-------------------------------------|--------------------|--------------|
| 3,260 | | 58,020 |
| 10,110 | | 36,378 |
| 3,256 | | 3,256 |
| 844 | 45 | 2,051 |
| 242,067 | | 242,067 |
| 34,974 | | 38,313 |
| 0 | 3,038 | 3,038 |
| 658,851 | 3,122 | 3,601,860 |
| (658,851) | | (0) |
| 0 | 3,122 | 3,601,860 |
| | (3,122) | (0) |
| \$ 0 | \$ 0 | \$ 3,601,860 |

THE ARROW PROJECT, INC.
COMPARISON OF BUDGETED EXPENSES TO ACTUAL EXPENSES
FOSTER CARE - MARYLAND
FOR THE CONTRACT PERIOD JULY 1, 1998 THROUGH JUNE 30, 1999

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|-----------------------------------|----------------|----------------|-----------------|
| Salaries and Wages | \$ 134,730 | \$ 64,781 | \$ 69,949 |
| Payroll Taxes | 11,317 | 4,746 | 6,571 |
| Fringe Benefits | 16,168 | 4,716 | 11,452 |
| Staff Development Costs | 8,460 | 42 | 8,418 |
| Publicity | 7,400 | 133 | 7,267 |
| Contracted Services | 14,400 | 8,087 | 6,313 |
| Treatment of Foster Care Payments | 277,480 | 109,000 | 168,480 |
| Respite | 18,160 | 1,398 | 16,762 |
| Medical Expenses | 0 | 2 | (2) |
| Recreation | 0 | 693 | (693) |
| Family Training | 0 | 875 | (875) |
| Staff Training | 0 | 913 | (913) |
| Rent | 9,648 | 6,600 | 3,048 |
| Utilities | 2,352 | 1,229 | 1,123 |
| Repairs & Maintenance | 32,866 | 868 | 31,998 |
| Insurance and Taxes | 5,640 | 1,286 | 4,354 |
| Supplies | 5,400 | 1,602 | 3,798 |
| Equipment Rental & Repair | 6,000 | 452 | 5,548 |
| Printing & Copying | 1,200 | 0 | 1,200 |
| Telephone | 5,200 | 1,165 | 4,035 |
| Postage & Shipping | 4,180 | 75 | 4,105 |
| Membership & Subscriptions | 1,200 | 400 | 800 |
| Conferences and Conventions | 6,600 | 0 | 6,600 |
| Travel | 19,000 | 3,386 | 15,614 |
| Interest | 0 | 27 | (27) |
| Recruitment | 0 | 300 | (300) |
| Security Systems | 0 | 29 | (29) |
| Computer Support Costs | 0 | 210 | (210) |
| Facility Improvement | 0 | 0 | 0 |
| Equipment | 0 | 1,315 | (1,315) |
| Total Direct Expenses | <u>587,401</u> | <u>214,330</u> | <u>373,071</u> |

**Allocation of Actual Costs to
Funding Source Based on Days of Service**

| | <u>Department of Human Resource <11yrs</u> | <u>Department of Human Resource >11yrs</u> | <u>Juvenile Justice Dpt > 11 yrs</u> | <u>Total</u> |
|----|---|---|---|----------------|
| \$ | 11,013 | \$ 53,120 | \$ 648 | \$ 64,781 |
| | 807 | 3,892 | 47 | 4,746 |
| | 802 | 3,867 | 47 | 4,716 |
| | 7 | 34 | 0 | 42 |
| | 23 | 109 | 1 | 133 |
| | 1,375 | 6,631 | 81 | 8,087 |
| | 18,530 | 89,380 | 1,090 | 109,000 |
| | 238 | 1,146 | 14 | 1,398 |
| | 0 | 2 | 0 | 2 |
| | 118 | 568 | 7 | 693 |
| | 149 | 718 | 9 | 875 |
| | 155 | 749 | 9 | 913 |
| | 1,122 | 5,412 | 66 | 6,600 |
| | 209 | 1,008 | 12 | 1,229 |
| | 148 | 712 | 9 | 868 |
| | 219 | 1,055 | 13 | 1,286 |
| | 272 | 1,314 | 16 | 1,602 |
| | 77 | 371 | 5 | 452 |
| | 0 | 0 | 0 | 0 |
| | 198 | 955 | 12 | 1,165 |
| | 13 | 62 | 1 | 75 |
| | 68 | 328 | 4 | 400 |
| | 0 | 0 | 0 | 0 |
| | 576 | 2,777 | 34 | 3,386 |
| | 5 | 22 | 0 | 27 |
| | 51 | 246 | 3 | 300 |
| | 5 | 24 | 0 | 29 |
| | 36 | 172 | 2 | 210 |
| | 0 | 0 | 0 | 0 |
| | 224 | 1,078 | 13 | 1,315 |
| | <u>36,436</u> | <u>175,751</u> | <u>2,143</u> | <u>214,330</u> |

**THE ARROW PROJECT, INC.
 COMPARISON OF BUDGETED EXPENSES TO ACTUAL EXPENSES
 FOSTER CARE - MARYLAND
 FOR THE CONTRACT PERIOD JULY 1, 1998 THROUGH JUNE 30, 1999**

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|--|-------------------|-------------------|-------------------|
| Allocation of Management and General Expenses | <u>97,975</u> | <u>48,033</u> | <u>49,942</u> |
| Total Allowable Expenses | <u>685,376</u> | <u>262,363</u> | <u>423,013</u> |
| Allocation of Unallowable Expenses | <u>0</u> | <u>228</u> | <u>(228)</u> |
| Total Expenses Allocated to Programs | <u>\$ 685,376</u> | <u>\$ 262,591</u> | <u>\$ 422,785</u> |

See Accountant's Report on Supplementary Information

**Allocation of Actual Costs to
Funding Source Based on Days of Service**

| <u>Department of Human Resource <11yrs</u> | <u>Department of Human Resource >11yrs</u> | <u>Juvenile Justice Dpt > 11 yrs</u> | <u>Total</u> |
|---|---|---|--------------|
| 8,166 | 39,387 | 480 | 48,033 |
| 44,602 | 215,138 | 2,624 | 262,363 |
| 39 | 187 | 2 | 228 |
| \$ 44,640 | \$ 215,325 | \$ 2,626 | \$ 262,591 |

THE ARROW PROJECT, INC.
COMPARISON OF BUDGETED EXPENSES TO ACTUAL EXPENSES
SCHOOL - MARYLAND
FOR THE CONTRACT PERIOD JULY 1, 1998 THROUGH JUNE 30, 1999

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|--|-------------------------|-------------------------|-------------------------|
| Salaries and Wages | \$ 739,744 | \$ 854,309 | \$ (114,565) |
| Payroll Taxes | 73,235 | 65,329 | 7,906 |
| Fringe Benefits | 88,769 | 53,300 | 35,469 |
| Staff Development Costs | 10,800 | 351 | 10,449 |
| Contracted Services | 23,000 | 29,422 | (6,422) |
| Related Services | 0 | 37,571 | (37,571) |
| Publicity | 6,000 | 320 | 5,680 |
| Food & Food Prep | 47,295 | 23,700 | 23,595 |
| Recreation | 6,250 | 12,156 | (5,906) |
| Medical Expenses | 0 | 1,862 | (1,862) |
| Staff Training | 0 | 11,309 | (11,309) |
| Rent | 79,104 | 79,100 | 4 |
| Utilities | 21,600 | 16,929 | 4,671 |
| Repairs & Maintenance | 25,560 | 13,626 | 11,934 |
| Insurance and Taxes | 7,495 | 14,639 | (7,144) |
| Supplies | 43,404 | 64,332 | (20,928) |
| Equipment Rental & Repair | 74,220 | 14,794 | 59,426 |
| Printing & Copying | 2,400 | 0 | 2,400 |
| Telephone | 6,000 | 12,007 | (6,007) |
| Postage & Shipping | 3,000 | 1,056 | 1,944 |
| Membership & Subscriptions | 3,980 | 5,528 | (1,548) |
| Conferences & Conventions | 6,000 | 0 | 6,000 |
| Travel | 7,200 | 3,891 | 3,309 |
| Interest Expense | 0 | 596 | (596) |
| Computer Support Costs | 0 | 2,085 | (2,085) |
| Security Service | 0 | 2,314 | (2,314) |
| Facility Improvement | 0 | 52,232 | (52,232) |
| Equipment | 0 | 17,428 | (17,428) |
| Total Direct Expenses | <u>1,275,056</u> | <u>1,390,186</u> | <u>(115,130)</u> |
| Allocation of Management and General Expenses | <u>229,132</u> | <u>311,551</u> | <u>(82,419)</u> |

**THE ARROW PROJECT, INC.
 COMPARISON OF BUDGETED EXPENSES TO ACTUAL EXPENSES
 SCHOOL - MARYLAND
 FOR THE CONTRACT PERIOD JULY 1, 1998 THROUGH JUNE 30, 1999**

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|--------------------------------------|---------------------|---------------------|---------------------|
| Salaries and Wages | \$ 739,744 | \$ 854,309 | \$ (114,565) |
| Total Allowable Expenses | <u>1,504,188</u> | <u>1,701,737</u> | <u>(197,549)</u> |
| Allocation of Unallowable Expenses | <u>0</u> | <u>1,476</u> | <u>(1,476)</u> |
| Total Expenses Allocated to Programs | <u>\$ 1,504,188</u> | <u>\$ 1,703,213</u> | <u>\$ (199,025)</u> |

See Accountant's Report on Supplementary Information

THE ARROW PROJECT, INC.
COMPARISON OF BUDGETED EXPENSES TO ACTUAL EXPENSES
DIAGNOSTIC - MARYLAND
FOR THE CONTRACT PERIOD JULY 1, 1998 THROUGH JUNE 30, 1999

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|----------------------------|------------------|------------------|-----------------|
| Salaries and Wages | \$ 869,028 | \$ 803,615 | \$ 65,413 |
| Payroll Taxes | 86,034 | 65,813 | 20,221 |
| Fringe Benefits | 104,283 | 56,847 | 47,436 |
| Staff Development Costs | 6,000 | 1,218 | 4,782 |
| Contracted Services | 101,780 | 92,021 | 9,759 |
| Publicity | 4,992 | 320 | 4,672 |
| Food & Food Prep | 146,430 | 71,100 | 75,330 |
| Clothing | 17,820 | 12,103 | 5,717 |
| Recreation | 9,024 | 7,578 | 1,446 |
| Medical Expenses | 0 | 5,069 | (5,069) |
| Personal Needs/Allow | 10,212 | 9,985 | 227 |
| Laundry Fees | 0 | 5,287 | (5,287) |
| Staff Training | 0 | 4,751 | (4,751) |
| Rent | 64,740 | 71,630 | (6,890) |
| Utilities | 21,600 | 18,303 | 3,297 |
| Repairs & Maintenance | 32,844 | 33,950 | (1,106) |
| Insurance and Taxes | 7,495 | 7,774 | (279) |
| Supplies | 28,920 | 14,944 | 13,976 |
| Equipment Rental & Repair | 23,520 | 18,427 | 5,093 |
| Printing & Copying | 7,200 | 0 | 7,200 |
| Telephone | 9,600 | 13,809 | (4,209) |
| Postage & Shipping | 2,400 | 1,426 | 974 |
| Membership & Subscriptions | 5,500 | 3,696 | 1,804 |
| Conferences & Conventions | 10,500 | 0 | 10,500 |
| Travel | 15,000 | 1,514 | 13,486 |
| Security Service | 0 | 2,555 | (2,555) |
| Legal Fees | 0 | 0 | 0 |
| Interest Expense | 0 | 539 | (539) |
| Computer Support Costs | 0 | 1,044 | (1,044) |
| Facility Improvement | 0 | 2,528 | (2,528) |
| Equipment | 0 | 7,525 | (7,525) |
| Total Direct Expenses | <u>1,584,922</u> | <u>1,335,371</u> | <u>249,551</u> |

**Allocation of Actual Costs to
Funding Source Based on Days of Service**

| <u>Department of Human Resources</u> | <u>Juvenile Justice Dpt</u> | <u>Total</u> |
|--|---------------------------------|------------------|
| \$ 802,811 | \$ 804 | \$ 803,615 |
| 65,747 | 66 | 65,813 |
| 56,790 | 57 | 56,847 |
| 1,217 | 1 | 1,218 |
| 91,929 | 92 | 92,021 |
| 320 | 0 | 320 |
| 71,029 | 71 | 71,100 |
| 12,091 | 12 | 12,103 |
| 7,570 | 8 | 7,578 |
| 5,064 | 5 | 5,069 |
| 9,975 | 10 | 9,985 |
| 5,282 | 5 | 5,287 |
| 4,746 | 5 | 4,751 |
| 71,558 | 72 | 71,630 |
| 18,285 | 18 | 18,303 |
| 33,916 | 34 | 33,950 |
| 7,766 | 8 | 7,774 |
| 14,929 | 15 | 14,944 |
| 18,409 | 18 | 18,427 |
| 0 | 0 | 0 |
| 13,795 | 14 | 13,809 |
| 1,425 | 1 | 1,426 |
| 3,692 | 4 | 3,696 |
| 0 | 0 | 0 |
| 1,512 | 2 | 1,514 |
| 2,552 | 3 | 2,555 |
| 0 | 0 | 0 |
| 538 | 1 | 539 |
| 1,043 | 1 | 1,044 |
| 2,525 | 3 | 2,528 |
| 7,517 | 8 | 7,525 |
| <u>1,334,036</u> | <u>1,335</u> | <u>1,335,371</u> |

THE ARROW PROJECT, INC.
COMPARISON OF BUDGETED EXPENSES TO ACTUAL EXPENSES
DIAGNOSTIC - MARYLAND
FOR THE CONTRACT PERIOD JULY 1, 1998 THROUGH JUNE 30, 1999

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|--|-------------------------|-------------------------|-----------------------|
| Allocation of Management and General Expenses | <u>277,847</u> | <u>299,267</u> | <u>(21,420)</u> |
| Total Allowable Expenses | <u><u>1,862,769</u></u> | <u><u>1,634,638</u></u> | <u><u>228,131</u></u> |
| Allocation of Unallowable Expenses | <u>0</u> | <u>1,418</u> | <u>(1,418)</u> |
| Total Expenses Allocated to Programs | <u>\$ 1,862,769</u> | <u>\$ 1,636,056</u> | <u>\$ 226,713</u> |

See Accountant's Report on Supplementary Information

| Allocation of Actual Costs to Funding Source Based on Days of Service | | |
|---|--|--------------|
| <u>Department of Human Resources</u> | <u>Juvenile Justice Dpt</u> | <u>Total</u> |
| 298,968 | 299 | 299,267 |
| 1,633,003 | 1,635 | 1,634,638 |
| 1,417 | 1 | 1,418 |
| \$ 1,634,420 | \$ 1,636 | \$ 1,636,056 |

**THE ARROW PROJECT, INC.
SCHEDULE OF FUNDING SOURCES
MARYLAND PROGRAMS
FOR THE CONTRACT PERIOD JULY 1, 1998 THROUGH JUNE 30, 1999**

| | <u>Period Ending June 30, 1999</u> |
|--|--|
| Maryland Department of Human Resources - Foster Care | \$ 265,365 |
| Juvenile Justice Department - Foster Care | 5,868 |
| Maryland Department of Human Resources - Diagnostic | 1,579,297 |
| Juvenile Justice Department - Diagnostic | 1,323 |
| USDA Reimbursement - Diagnostic | 3,817 |
| Maryland Department of Education - School | 1,600,927 |
| Related Services Revenue - School | 130,130 |
| USDA Reimbursement - School | 529 |
| Interest Income | 0 |
| Donations | <u>1,550</u> |
| Total Revenue | <u>\$ 3,588,806</u> |

See Accountant's Report on Supplementary Information

**THE ARROW PROJECT, INC.
COMPUTATION OF RATE DETERMINATION
FOR ACTUAL COST OF CARE PER MONTH
MARYLAND PROGRAMS
FOR THE CONTRACT PERIOD JULY 1, 1998 THROUGH JUNE 30, 1999**

| | <u>Net Actual Allowable Costs</u> | <u>Total Days</u> | <u>Calculated Actual Per Diem Rate</u> | <u>Calculated Average Actual Monthly Cost *</u> | <u>Approved Per Diem Rate</u> | <u>Per Diem Variance</u> |
|---|---|-----------------------|--|---|---------------------------------------|----------------------------------|
| MARYLAND PROGRAM ACTIVITY | | | | | | |
| DIAGNOSTIC | | | | | | |
| Department of Human Resources | | | | | | |
| Total Allocated Costs | 1,634,420 | | | | | |
| Less Donated Revenue | (1,548) | | | | | |
| Less Unallowable Costs | (1,417) | | | | | |
| Net Actual Allowable Costs | 1,631,455 | 8341 | 195.59 | 5,867.84 | 188.96 | (6.63) |
| Juvenile Justice Department | | | | | | |
| Total Allocated Costs | 1,636 | | | | | |
| Less Donated Revenue | (2) | | | | | |
| Less Unallowable Costs | (1) | | | | | |
| Net Actual Allowable Costs | 1,633 | 7 | 233.30 | 6,998.95 | 188.96 | (44.34) |
| Total Diagnostic - Net Actual Allowable Costs | 1,633,088 | 8348 | | | | |
| SCHOOL | | | | | | |
| Department of Education | | | | | | |
| Total Allocated Costs | 1,703,213 | | | | | |
| Less Related Service Reven | (130,130) | | | | | |
| Less Unallowable Costs | (1,476) | | | | | |
| Net Actual Allowable Costs | 1,571,607 | 8857 | 177.44 | 3,548.85 | 180.75 | 3.31 |
| FOSTER CARE | | | | | | |
| Department of Human Resources | | | | | | |
| Under 11 yrs | | | | | | |
| Total Allocated Costs | 44,640 | | | | | |
| Less Donated Revenue | 0 | | | | | |
| Less Unallowable Costs | (39) | | | | | |
| Net Actual Allowable Costs | 44,600 | 424 | 105.19 | 3,155.66 | 98.28 | (6.91) |
| Over 11 yrs | | | | | | |
| Total Allocated Costs | 215,325 | | | | | |
| Less Donated Revenue | 0 | | | | | |
| Less Unallowable Costs | (187) | | | | | |
| Net Actual Allowable Costs | 215,138 | 2265 | 94.98 | 2,849.51 | 98.78 | 3.80 |
| Total Dpt of Human Resources - Net Actual Allowable Cost | 259,738 | 2689 | | | | |

**THE ARROW PROJECT, INC.
 COMPUTATION OF RATE DETERMINATION
 FOR ACTUAL COST OF CARE PER MONTH
 MARYLAND PROGRAMS
 FOR THE CONTRACT PERIOD JULY 1, 1998 THROUGH JUNE 30, 1999**

| | <u>Net Actual Allowable Costs</u> | <u>Total Days</u> | <u>Calculated Actual Per Diem Rate</u> | <u>Calculated Average Actual Monthly Cost *</u> | <u>Approved Per Diem Rate</u> | <u>Per Diem Variance</u> |
|--|---|-----------------------|--|---|---------------------------------------|----------------------------------|
| Juvenile Justice Department | | | | | | |
| Under 11 yrs | | | | | | |
| Total Allocated Costs | 0 | | | | | |
| Less Donated Revenue | 0 | | | | | |
| Less Unallowable Costs | 0 | | | | | |
| Net Actual Allowable Costs | 0 | 0 | | | | |
| Over 11 yrs | | | | | | |
| Total Allocated Costs | 2,626 | | | | | |
| Less Donated Revenue | 0 | | | | | |
| Less Unallowable Costs | (2) | | | | | |
| Net Actual Allowable Costs | 2,624 | 60 | 43.73 | 1,312.00 | 98.78 | 55.05 |
| Total Juvenile Justice Dpt - Net Actual Allowable Costs | 2,624 | 60 | | | | |
| Total Foster Care - Net Actual Allowable Costs | 262,362 | 2749 | | | | |

*(Assumes an average of 30 days/month except for the school, which has an average of 20 days/month.)

See Accountant's Report on Supplementary Information

**THE ARROW PROJECT, INC.
COMPARISON OF PAYMENT RATE
TO ACTUAL MONTHLY COST
MARYLAND PROGRAMS
FOR THE CONTRACT PERIOD JULY 1, 1998 THROUGH JUNE 30, 1999**

| | <u>Calculated Average Monthly Cost</u> | <u>Approved Per Diem Rate Per Month</u> | <u>Monthly Variance</u> |
|----------------------------------|--|---|-----------------------------|
| MARYLAND PROGRAM ACTIVITY | | | 0.00 |
| DIAGNOSTIC | | | |
| Department of Human Resources | 5,867.84 | 5,747.00 | (120.84) |
| Juvenile Justice Department | 6,998.95 | 5,747.00 | (1,251.95) |
| SCHOOL | | | |
| Department of Education | 3,548.85 | 3,299.00 | (249.85) |
| FOSTER CARE | | | |
| Department of Human Resources | | | |
| Under 11 yrs | 3,155.66 | 2,989.00 | (166.66) |
| Over 11 yrs | 2,849.51 | 3,004.00 | 154.49 |
| Juvenile Justice Department | | | |
| Under 11 yrs | 0.00 | 0.00 | 0.00 |
| Over 11 yrs | 1,312.00 | 3,004.00 | 1,692.00 |

See Accountant's Report on Supplementary Information

**THE ARROW PROJECT, INC.
CALCULATION OF
OVERPAYMENT/(UNDERPAYMENT)
MARYLAND PROGRAMS
FOR THE CONTRACT PERIOD JULY 1, 1998 THROUGH JUNE 30, 1999**

| | <u>Total Net Actual Allowable Costs</u> | <u>Payment Received/ Billed</u> | <u>Overpayment/ (Underpayment)</u> |
|----------------------------------|---|---|--|
| MARYLAND PROGRAM ACTIVITY | | | |
| DIAGNOSTIC | \$ | \$ | \$ |
| Department of Human Resources | 1,631,455 | 1,577,974 | (53,481) |
| Juvenile Justice Department | <u>1,633</u> | <u>1,323</u> | <u>(310)</u> |
| Total Diagnostic | <u>1,633,088</u> | <u>1,579,297</u> | <u>(53,791)</u> |
| SCHOOL | | | |
| Department of Education | <u>1,571,607</u> | <u>1,600,927</u> | <u>29,320</u> |
| FOSTER CARE | | | |
| Department of Human Resources | 259,738 | 265,365 | 5,627 |
| Juvenile Justice Department | <u>2,624</u> | <u>5,868</u> | <u>3,244</u> |
| Total Foster Care | <u>262,362</u> | <u>271,233</u> | <u>8,871</u> |
| TOTAL ALL PROGRAMS | \$ <u>3,467,057</u> | \$ <u>3,451,457</u> | \$ <u>(15,600)</u> |

See Accountant's Report on Supplementary Information



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Board of Directors
The Arrow Project, Inc.
Houston, Texas

May 5, 2000

Dear Ladies and Gentlemen:

We have examined the financial statements of the Arrow Project, Inc. for the year ended December 31, 1999, and have issued our report thereon dated May 5, 2000. As part of our examination, we studied the Corporation's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. As a result of this study, we noted several ways in which the internal controls of the Corporation could be strengthened and enhanced, or procedures streamlined.

We have discussed all of these recommendations with your staff and understand that they are presently under consideration.

Observations and Recommendations:

1) Publicity

Finding and Recommendation -

Pursuant to the purchase of care agreements with Maryland's Department of Human Resources (DHR) and the Texas Department of Protective & Regulatory Services (PRS), there are contract requirements that the provider shall acknowledge DHR and PRS support in all publications that promote contracted programs. During our review of the corporation's web page on the Internet and of the corporation's donation solicitations, we noted that they each did not contain a statement acknowledging support from DHR or PRS. We recommend that management notify all staff and/or contractors that deal with promotion of the organization of all contract publication requirements.

Management's Response -

We will again review the requirements relating to publications and forward those requirements to the communications department. The relevant disclosures will be consistently implemented in the future.

PORTERFIELD AND ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS
910 CONGRESS AVENUE
AUSTIN, TEXAS 78701
512-479-7070 FAX 512-479-7370

2) In-kind Donations

Finding and Recommendation -

While the Arrow Project has made substantial improvement in acknowledging all donations over \$250 pursuant to requirements of the Internal Revenue Service, we did notice several instances where acknowledgments of in-kind donations were sent but the donations were not recorded in the financial records. We recommend that the Arrow Project increase accounting controls to ensure that all in-kind donations are entered in the accounting system when received.

Management's Response -

This will be implemented for any calendar year 2000 in-kind donations and for all periods thereafter. The accounting and development departments will ensure compliance.

3) Staff Training

Finding and Recommendation -

During the course of our audit, it became apparent that some accounting staff have not been adequately trained on the accounting software. We noticed multiple instances where entries were made in the accounting system without the proper reference information, which made locating an invoice or receipt extremely difficult and time-consuming. We also noticed instances in accounts receivable where changes in the level of care were not properly reversed and reentered, which made analytical review of the data very difficult. We recommend that all accounting staff attend training on the MIP software program and that management oversight of accounting data be increased to ensure that all entries in the accounting program are according to company policies and procedures.

Management's Response -

These recommendations are procedurally in place, they are and have been applied consistently in the Maryland accounting department. The new Director of Finance will ensure compliance across all operations.

4) Medicaid Billing

Finding and Recommendation -

The Arrow Project began Medicaid billing in late 1998. For the current year audit, we reviewed the Medicaid billing documents and traced them to the accounting records. No unreconciled exceptions were noted during our sampling. We also reviewed the documentation in the client files for some of the Medicaid billings we sampled. During this sampling, we did notice some areas where improvements could be made. Medicaid documentation requirements state that each client for whom services are billed should have the following documentation included in their records: all entries are signed by the performing provider, notations of the beginning and ending session times, and all pertinent information regarding the patient's condition to substantiate the need for services. In the files we reviewed, the information to substantiate the need for services was present; however, the beginning and ending times of the sessions were not noted and the sheet was not always signed by the provider. We recommend that the Arrow Project develop a Medicaid reporting sheet for the client files and that a copy of the reporting sheet be filed with

the Medicaid billings so that the accounting department will know that the billing is in compliance with Medicaid requirements.

Management's Response -

These recommendations are procedurally in place, they are and have been applied consistently in the Maryland accounting department. The new Director of Finance will ensure compliance across all operations.

5) Cash Management

Finding and Recommendation -

When the Arrow Project changed banks in order to obtain better loan financing, management decided not to invest uninsured cash balances in overnight securities. However, on December 31, 1999, the Arrow Project had \$367,124 of uninsured cash balances in CoAmerica Bank and \$154,998 of uninsured cash balances at Bank of America for a total of \$522,122 of uninsured cash balances. We recommend that the Arrow Project reconsider the use of investing in overnight securities when bank balances exceed the average daily reinvestment amount requirement.

Management's Response -

The average daily bank balance is currently below the limit but the Director of Finance will closely monitor the situation and implement overnight investing if the average daily balances once again consistently exceed the federally insured amount.

6) Fixed Asset Inventory

Finding and Recommendation -

The Arrow Project's last formal fixed asset inventory was in 1997. We recommend that the Arrow Project perform a fixed asset inventory as soon as possible. We also recommend that all assets obtained with state funds be adequately labeled to distinguish from assets obtained with private funding.

Management's Response -

A formal fixed asset inventory by policy is conducted every three years. The next scheduled inventory will be in the fall of 2000 and labeling designation will be implemented where applicable.

7) Petty Cash Controls

Finding and Recommendation -

Each Arrow Project regional office maintains a petty cash account for small and immediate purchases. However, we noted a trend during 1999 where the offices are increasing the number and types of purchases in the petty cash accounts. These purchases can circumvent the purchasing policies and procedures in place in the corporate office. As it is often difficult to have an item returned after it has been purchased. We recommend that management review these petty cash purchases and implement the policies necessary to control the petty cash purchases in the

The Arrow Project, Inc.

May 5, 2000

Page 4

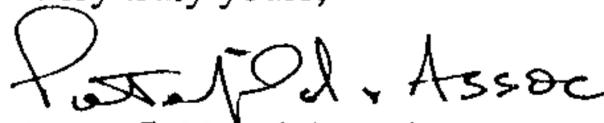
regional offices. We also noted an increase in the amount of expenses employees are submitting on their employee expense reports. These expenditures, while allowable and approved by supervisors, may not be in accordance with fiscal management policy. We recommend that management communicate with employees to clarify the company's expense reimbursement policies to ensure that all employees' expenditures are within departmental budgetary guidelines.

Management's Response -

This has been duly noted by management as well and has been implemented at the first of this year under the direction of the new Director of Finance.

If you have any comments or questions about the above suggestions, or you would like assistance in implementing them, please do not hesitate to contact us. We would like to thank the staff of the Arrow Project for their help and cooperation during the course of our audit.

Very truly yours,



Porterfield and Associates

Certified Public Accountants