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

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the audited, or reviewed, 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 _____

THE ARROW PROJECT, INC.
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INDEPENDENT AUDITOR'S REPORT

May 5, 1999

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

Dear Ladies & Gentlemen:

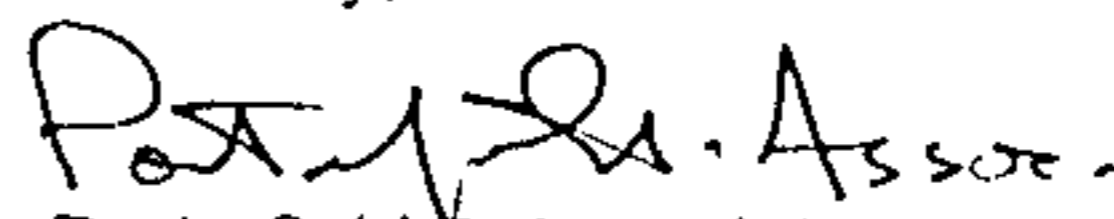
We have audited the accompanying statement of financial position of the Arrow Project, Inc. (a non-profit organization) as of December 31, 1998 and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the 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, 1998, and the changes in net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 15 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

PORTERFIELD AND ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS
910 CONGRESS AVENUE
AUSTIN, TEXAS 78701
512-479-7070 FAX 512-479-7370
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
STRUCTURE IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

May 5, 1999

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

Dear Ladies & Gentlemen:

We have audited the financial statements of the Arrow Project, Inc. (a non-profit organization) as of and for the year ended December 31, 1998 and have issued our report thereon dated May 5, 1999. 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 year ended December 31, 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, 1999

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, 1999

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, 1999

Dear Ladies & Gentlemen:

We have audited the financial statements of the Arrow Project, Inc. (a non-profit organization) as of and for the year ended December 31, 1998 and have issued our report thereon dated May 5, 1999. 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 are immaterial, have been reported to the management of Arrow Project in a separate letter dated May 5, 1999.

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

**THE ARROW PROJECT, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 1998**

| | | 1998 |
|---------------------------------------|----|-----------|
| ASSETS | | |
| Current Assets | | |
| Cash and Cash Equivalents | | |
| Cash | \$ | 307,545 |
| Petty Cash | | 10,191 |
| Total Cash and Cash Equivalents | | 317,736 |
| Accounts Receivable | | |
| Accounts Receivable-Employee | | 10,668 |
| Accounts Receivable - Foster Families | | 3,761 |
| Accounts Receivable-Counties | | 1,529,013 |
| Accounts Receivable-Other | | 15,887 |
| Total Accounts Receivable | | 1,559,329 |
| Total Current Assets | | 1,877,065 |
| Fixed Assets | | |
| Furniture and Equipment | | 430,490 |
| Leasehold Improvements | | 301,593 |
| Construction in Progress | | 14,248 |
| Buildings | | 211,891 |
| Land | | 180,731 |
| Less Accumulated Depreciation | | (217,514) |
| Total Fixed Assets | | 921,439 |
| Other Assets | | |
| Prepaid Expenses | | 42,284 |
| Deposits | | 122,240 |
| Organization Costs | | 19,386 |
| Less Accumulated Amortization | | (4,945) |
| Total Other Assets | | 178,965 |
| Total Assets | \$ | 2,977,469 |

**THE ARROW PROJECT, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 1998**

| | 1998 |
|---|--------------|
| LIABILITIES AND NET ASSETS | |
| Current Liabilities | |
| Accounts Payable | \$ 741,166 |
| Accrued Payroll and Payroll Taxes | 87,820 |
| Compensated Absences Payable | 78,752 |
| Current Portion - Long Term Debt | 140,069 |
| Total Current Liabilities | 1,047,807 |
| Long Term Liabilities | |
| Lease Payable - Harbor Leasing | 5,769 |
| Note Payable - Grace Apartments | 27,229 |
| Note Payable - CoAmerica Bank | 128,000 |
| Less: Current Portion - Long Term Debt | (140,069) |
| Total Long Term Liabilities | 20,929 |
| Total Liabilities | 1,068,736 |
| Net Assets | |
| Unrestricted Net Assets | |
| Unrestricted Net Assets | 1,561,165 |
| Investment in Property and Equipment | 359,488 |
| Less Current Year Depreciation | (21,111) |
| Investment in Property & Equipment - Net | 338,377 |
| Total Unrestricted Net Assets | 1,899,542 |
| Temporarily Restricted Net Assets | |
| Temporarily Restricted Net Assets, Scholarship Fund | 9,191 |
| Total Temporarily Restricted Net Assets | 9,191 |
| Total Net Assets | 1,908,733 |
| Total Liabilities and Net Assets | \$ 2,977,469 |

The accompanying notes are an integral part of these financial statement

THE ARROW PROJECT, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDING DECEMBER 31, 1998

1998

CHANGES IN UNRESTRICTED NET ASSETS:

Revenues

| | |
|--|---------------|
| Foster Care Payments | 10,473,869 |
| Department of Juvenile Justice - Foster Care | 23,061 |
| School Revenue | 1,530,381 |
| Related Services Revenue - School | 152,690 |
| Diagnostic Center Revenue | 1,482,523 |
| Department of Juvenile Justice - Diagnostic Center | 14,328 |
| Homemaker Services | 28,708 |
| Resource Center | 132,237 |
| Medicaid Billing | 1,617 |
| Donations | 121,372 |
| Donations In-Kind | 2,910 |
| Grants | 37,500 |
| Fundraising Revenue | 11,362 |
| Transitional Housing | 23,621 |
| Royalties | 247 |
| Interest Income | 20,626 |
| Total Unrestricted Revenue | \$ 14,057,052 |

Net Assets Released from Restrictions

| | |
|---|-------|
| Satisfaction of Restrictions | 2,742 |
| Total Net Assets Released from Restrictions | 2,742 |

Total Unrestricted Revenues and Other Support \$ 14,059,794

Expenses

| | |
|----------------------|-----------|
| Program Services | |
| Foster Care | 9,476,192 |
| Diagnostic Services | 1,290,147 |
| Transitional Housing | 234,630 |
| Resource Center | 119,908 |
| Homemaker Services | 38,871 |
| School | 1,267,053 |

Supporting Services

| | |
|---------------------------|-----------|
| Management and General | 1,759,841 |
| Fundraising & Development | 105,864 |
| Other Unallowable Costs | 9,091 |

TOTAL EXPENSES 14,301,597

Other Changes in Net Assets

| | |
|-----------------------------------|----------|
| Additions to Fixed Assets | 82,221 |
| Current Year Depreciation | (21,111) |
| TOTAL OTHER CHANGES IN NET ASSETS | 61,110 |

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

| | <u>1998</u> |
|--|---------------------|
| INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS | (183,435) |
| CHANGES IN TEMPORARILY RESTRICTED NET ASSETS: | |
| Scholarship Donations | 8,813 |
| Net Assets Released from Restrictions | <u>(2,742)</u> |
| INCREASE IN TEMPORARILY RESTRICTED NET ASSETS | <u>6,071</u> |
| INCREASE IN NET ASSETS | (177,364) |
| NET ASSETS AT BEGINNING OF YEAR | <u>2,086,097</u> |
| NET ASSETS AT END OF YEAR | <u>\$ 1,908,733</u> |

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, 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 | | | | |
| 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 | |

| | <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 |
| | | 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 | | 3,731 |
| | | 4,645 | | 3,681 | 8,863 |
| | | | | 3,473 | |

**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> |
|---|----------------------|---------------------|--|----------------------------|
| Depreciation | 41,162 | | 3,677 | |
| Amortization | | | | |
| Fundraising Expense | | | 2,949 | |
| Total Direct Expenses | 9,476,192 | 1,290,147 | 234,630 | 119,908 |
| Allocation of Management and General Expenses | 1,145,864 | 283,028 | 33,952 | 14,162 |
| Total Allowable Expenses Allocated to Programs | 10,622,056 | 1,573,175 | 268,582 | 134,070 |
| Allocation of Unallowable Expenses | 87,660 | 11,935 | 2,170 | 1,109 |
| Total Expenses Allocated to Programs | \$ 10,709,716 | \$ 1,585,110 | \$ 270,752 | \$ 135,179 |

The accompanying notes are an integral part of these financial statements

| <u>Homemaker</u> | <u>Special Education</u> | <u>Supporting Services</u> | <u>Unallowable</u> | | <u>Total</u> |
|------------------|--------------------------|---------------------------------|--------------------------------------|--------------------------|---------------|
| | <u>School</u> | <u>Management & General</u> | <u>Fundraising & Development</u> | <u>Other Unallowable</u> | |
| | | 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.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDING DECEMBER 31, 1998**

| | <u>1998</u> |
|---|--------------|
| Cash Flows From Operating Activities: | |
| Increase in Net Assets | \$ (177,364) |
| Adjustments to Reconcile Increase in Net Assets to Net Cash provided by Operating Activities: | |
| Depreciation | \$ 75,137 |
| Amortization | 3,457 |
| Donated Asset | (2,910) |
| (Increase) decrease in: Accounts Receivable | 65,380 |
| Prepaid Expenses | (4,195) |
| Deposits | (63,607) |
| Other Assets | (9,262) |
| Increase (decrease) in: Accounts Payables | 110,687 |
| Deferred Revenue | (280,274) |
| Total Adjustments | (105,587) |
| Net Cash Provided by Operating Activities | (282,951) |
| Cash Flows From Investing Activities: | |
| Purchase of equipment, excluding donated asset | (285,973) |
| Net Cash Used in Investing Activities | (285,973) |
| Cash Flows From Financing Activities: | |
| Proceeds Long-term Financing | 128,000 |
| Net repayments of long-term debt | (320,641) |
| Net Cash Provided by Financing Activities | (192,641) |
| Net Increase in Cash | \$ (761,565) |
| Cash at Beginning of Year | 1,079,301 |
| Cash at End of Year | \$ 317,736 |
| Supplemental disclosures of cash flow information: | |
| Cash paid during the year for: | |
| Interest | \$ 5,680 |
| Income Taxes | 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 YEAR ENDED DECEMBER 31, 1998**

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. 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 1998, the Arrow Project had 840 children in 274 foster homes in Texas.

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, Arrow had 10 children in 13 foster homes, 24 children residing in the twenty-four hour Diagnostic Center, and had 40 children attending the year round Arrow Center for Education day school.

The Texas Homemaker project received 54 referrals for services during 1998. The Louisiana Resource Center has been in operation since August, 1998 and is funded by a purchase of service contract with the Louisiana Office of Community Service. The transitional housing program had 174 residents on site during 1998 and is funded primarily by donations. The transitional housing program also offered 100 support groups that serviced 634 clients during 1998.

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.

THE ARROW PROJECT, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998

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 10, 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-Employee 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.

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. All accrued personal leave time will be paid 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 a minister 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 \$54,436 was paid to four employees, including the President of Arrow Project, during 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.

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.

THE ARROW PROJECT, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998

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 Project's tax-exempt purpose is 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.

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, 1998 consist of five checking accounts and nine 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. During 1997, the Arrow Project began investing in overnight government securities when the cash balance in the bank exceeds \$129,000, the average daily reinvestment amount requirement. The securities earn interest at the daily coupon rate, which during 1998 ranged from 5.5% to 8.0%.

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

NOTE 3: Accounts Receivable - Foster Families

Beginning in 1995, Arrow Project started making 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 be able 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, 1998 occupied approximately 22,984 square feet in its 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, as well. 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. Total future minimum lease payments are as follows as of December 31, 1998:

| Year Ending December 31, | Minimum Lease Rentals |
|-----------------------------|-----------------------------|
| 1999 | 432,934 |
| 2000 | 209,484 |
| 2001 | 102,474 |
| 2002 | 4,963 |
| 2003 and beyond | 0 |
| Total Minimum Lease Rentals | \$ 749,855 |

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.

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

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

| | |
|-------------------------|-------------|
| | <u>1998</u> |
| Furniture and Equipment | 112,720 |
| Less Accum Depreciation | (72,227) |
| | \$ 40,493 |

The following is a schedule by years of future minimum payments required under the leases together with their present value as of December 31, 1998:

| <u>Year Ending December 31:</u> | <u>Minimum Lease Payments</u> |
|-------------------------------------|---------------------------------------|
| 1999 | 4,426 |
| 2000 | 2,043 |
| 2001 | 0 |
| 2002 | 0 |
| 2003 and beyond | 0 |
| Total Minimum Lease Payments | 6,469 |
| Less Amount Representing Interest | (699) |
| Present Value of Minimum Leas | \$ 5,770 |

NOTE 6: Notes Payable

The organization has a revolving line of credit with NationsBank. The interest rate on this line of credit at year end was prime plus 1% for 1998. Interest is paid monthly. There was no outstanding balance on this line of credit at year end. The credit line is secured by substantially all of the assets of the organization. The Arrow Project paid \$102 of interest on the line of credit during 1998.

When Arrow merged with His Touch Ministries, it acquired the debt on the apartment building. The mortgage is with Harrisburg Bank. The original principal amount was \$51,000, the note originated in April, 1995. The note matures on March 1, 2002 and has an interest rate of 8%.

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 January 26, 1999.

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

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

| <u>Year Ending December 31:</u> | <u>Maturities</u> |
|-------------------------------------|-------------------|
| 1999 | 135,643 |
| 2000 | 8,278 |
| 2001 | 8,965 |
| 2002 | 2,343 |
| 2003 and beyond | 0 |
| Total Future Maturities | \$ 155,229 |

NOTE 7: Third Party Reimbursements

The Arrow Project, a child placing agency, receives about 98% 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 8: 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.

THE ARROW PROJECT, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998

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.

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 9: 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. All full-time employees who have worked one full year at Arrow were eligible to participate in the plan.

NOTE 10: 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.

NOTE 11: 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 \$1,543,515 at December 31, 1998. 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, 1998, Arrow had no significant concentration of credit risk.

NOTE 12: Concentrations of Credit Risk Arising from Cash Deposits in Excess of Insured Limits

The Organizations maintains cash balances in three financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$100,000. At December 31, 1998, the Organization's uninsured cash balances totaled \$257,349. During 1997, the Arrow Project began investing in overnight securities for the balance in the main operating account when

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

balances exceeded \$129,000, the average daily reinvestment amount requirement.

NOTE 13: 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.

The daughter of a board member worked for the Arrow Project as a Program Assistant and was paid \$3,405 in wages in 1998.

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.

NOTE 14: 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 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.

During the 1996 fiscal year there was a situation in a foster home resulting in the death of a foster child. There is litigation pending regarding this incident. It is the opinion of management that the issue will be settled and that there will be no adverse effect on the financial position of the Arrow Project. Therefore no accrual has been made in the financial statements for this unknown contingent liability.

NOTE 15: Business Combinations - Pooling of Interests

As disclosed on page 14, 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

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

assets in order to conform accounting practices.

| | 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 | 89,146 | 496,554 |
| Expenses | | |
| Program Expenses | 99,850 | 419,449 |
| Management and General | 10,681 | 87,241 |
| Total Expenses | 110,531 | 506,690 |
| Other Changes In Net Assets | | |
| Additions to Fixed Assets | | 27,426 |
| Current Year Depreciation | | (10,711) |
| Total Other Changes in Net Assets | 0 | 16,715 |
| Increase (Decrease) in Unrestricted Net Assets | (21,385) | 6,579 |
| Net Assets - Beginning | 199,705 | 324,611 |
| Net Assets - Ending | \$ 178,320 | \$ 331,190 |

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 | 1,398,552 |
| Expenses | |
| Program Expenses | 982,233 |
| Management and General | 194,381 |
| Total Expenses | 1,176,614 |

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

| | |
|--|----------------|
| Other Changes In Net Assets | |
| Additions to Fixed Assets | 40,724 |
| 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 |

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

| | |
|---|--------------|
| Combined Net Assets - Ending 12/31/97 | 524,316 |
| Arrow Project, Inc. - Net Assets - Ending 12/31/97 | 1,561,781 |
| Total All Entities - Net Assets - Ending 12/31/97 | \$ 2,086,097 |

NOTE 16: Subsequent Events

In 1999, the Arrow Project modified their personal leave policy to limit the maximum number of hours of personal leave time that an employee can accrue and carry over from 288 hours to 120 hours.

In January, 1999, the Arrow Project received a line of credit with CoAmerica bank in the amount of \$250,000 of which subsequent borrowings on the line of credit amounted to approximately \$170,000. The Arrow Project also had subsequent borrowings on its line of credit with NationsBank of approximately \$50,000.

Subsequent to year end, 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 has 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 in effect for the next four years.

The Arrow Project is actively working towards contracting with the state of Texas to provide adoption services. Texas requires all agencies to work with a licensed agency for one year prior to a contract being awarded. In September, 1998, the Arrow Project began working with Spalding for Children and in 1999 assisted with four 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.

Arrow Project has a contract to provide foster care services in Louisiana, however, as of the date of this report the Arrow Project is still waiting on a license to be issued by the state of Louisiana that will allow the Arrow Project to begin operating a foster care program.

In May, 1999, the Arrow Project closed its Homemaker program in South Texas due

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

to the inability to recover all program costs under the existing contract.

Arrow Project is working with the City of Houston to obtain a grant through the Housing Opportunities for Persons With Aids (HOPWA) program for the transitional living program. The grant funds would be used to acquire two homes, pay off the note on the apartment complex, renovate the properties, and provide one year of operating costs.



INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY INFORMATION

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

May 5, 1999

Dear Ladies & Gentlemen:

Our report on our audit of the basic financial statements of the Arrow Project, Inc. as of December 31, 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 27 through 31 and pages 47 through 51 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.

Due to the merger of the Arrow Project, Inc. and the Arrow Project of Maryland, Inc. as disclosed in Note 15, the six month period from July 1, 1997 through December 31, 1997 for the activity of the Arrow Project of Maryland, Inc., which had a fiscal year end of June 30, had not previously been audited. We have expanded our audit procedures to include this six month period of activity of the Arrow Project of Maryland, Inc. The supplementary information reported on pages 32 through 46 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, 1997 through June 30, 1998 is fairly presented in all material respects in relation to the basis financial statements from which it has been derived.

The year 2000 supplementary information on page 52 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary year 2000 information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that Arrow Project is or will become year 2000 compliant, that Arrow Project's year 2000 remediation efforts will be successful in whole or in part, or that parties with which Arrow Project does business are or will become year 2000 compliant.

Sincerely,

Porterfield & Associates
Certified Public Accountants

PORTERFIELD AND ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS
910 CONGRESS AVENUE
AUSTIN, TEXAS 78701
512-479-7070 FAX 512-479-7370
EMAIL: 76333.3122@compuserve.com

SUPPLEMENTARY INFORMATION

THE ARROW PROJECT INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

May 5, 1999

We have audited the financial statements of the Arrow Project, Inc. as of and for the year ended December 31, 1998 and have issued our report thereon dated May 5, 1999. 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, 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, 1999 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, 1998**

| | <u>Texas PRS Contract</u> | <u>Texas Juvenile Justc</u> | <u>Texas Priv Plcmt</u> |
|--|-------------------------------|---------------------------------|-----------------------------|
| Salaries and Wages | \$ 2,291,082 | \$ 3,105 | \$ 8,191 |
| Payroll Taxes | 191,401 | 259 | 684 |
| Fringe Benefits | 148,158 | 201 | 530 |
| Staff Development Costs | 4,076 | 6 | 15 |
| Contracted Services | 15,948 | 22 | 57 |
| Publicity | 43,164 | 58 | 154 |
| Therapy Expense | 312,461 | 423 | 1,117 |
| Program Related Services | 1,445 | 2 | 5 |
| Food & Food Prep | 404 | 1 | 1 |
| Treatment of Foster Care Payments | 4,965,178 | 6,729 | 17,751 |
| Respite | 179,245 | 243 | 641 |
| Clothing | 40,423 | 55 | 145 |
| Recreation/Special Events | 30,993 | 42 | 111 |
| Medical Expenses | 1,606 | 2 | 6 |
| Personal Needs and Allowances | 10,639 | 14 | 38 |
| Family Travel | 96,181 | 130 | 344 |
| Family Training | 20,665 | 28 | 74 |
| Staff Training | 25,739 | 35 | 92 |
| Rent | 257,803 | 349 | 922 |
| Utilities | | | |
| Repairs & Maintenance | 7,140 | 10 | 26 |
| Insurance and Taxes | 25,183 | 34 | 90 |
| Supplies | 37,872 | 51 | 135 |
| Equipment Rental & Repair | 39,976 | 54 | 143 |
| Printing & Copying | 14,601 | 20 | 52 |
| Telephone | 77,266 | 105 | 276 |
| Postage & Shipping | 24,836 | 34 | 89 |
| Membership & Subscriptions | 937 | 1 | 3 |
| Travel | 185,969 | 252 | 665 |
| Bank Charges | 219 | 0 | 1 |
| Facility Improvement | | | |
| Equipment | | | |
| Legal, Professional & Accounting Fees | 2,660 | 4 | 10 |
| Depreciation | 40,187 | 54 | 144 |
| Total Direct Expenses | 9,093,457 | 12,323 | 32,512 |
| Allocation of Management and General Expenses | 1,085,155 | 1,471 | 3,880 |

| <u>Total Texas Foster Care</u> | <u>Texas Pace Contract</u> | <u>Maryland Foster Care</u> | <u>Total Foster Care</u> |
|------------------------------------|--------------------------------|---------------------------------|------------------------------|
| \$ 2,302,378 | \$ 44,387 | \$ 50,455 | \$ 2,397,220 |
| 192,345 | 3,479 | 3,789 | 199,613 |
| 148,888 | 3,232 | 3,295 | 155,415 |
| 4,096 | 1,343 | 84 | 5,523 |
| 16,027 | 13 | 860 | 16,900 |
| 43,377 | 66 | | 43,443 |
| 314,002 | | 4,127 | 318,129 |
| 1,452 | | | 1,452 |
| 406 | | | 406 |
| 4,989,659 | 109,024 | 64,481 | 5,163,164 |
| 180,129 | 2,367 | 998 | 183,494 |
| 40,622 | 668 | | 41,290 |
| 31,146 | 1,949 | 1,444 | 34,539 |
| 1,614 | | 2 | 1,616 |
| 10,691 | 1,249 | | 11,940 |
| 96,655 | 2,337 | | 98,992 |
| 20,767 | 232 | 779 | 21,778 |
| 25,866 | 154 | 1,333 | 27,353 |
| 259,074 | 3,902 | 8,241 | 271,217 |
| 0 | | 1,629 | 1,629 |
| 7,175 | 1,010 | 1,135 | 9,320 |
| 25,307 | 124 | 921 | 26,352 |
| 38,059 | 661 | 2,386 | 41,106 |
| 40,173 | 1,186 | 175 | 41,534 |
| 14,673 | 16 | 180 | 14,869 |
| 77,647 | 2,394 | 934 | 80,975 |
| 24,958 | 459 | 51 | 25,468 |
| 942 | 30 | 398 | 1,370 |
| 186,886 | 3,819 | 3,239 | 193,944 |
| 220 | | | 220 |
| 0 | | 826 | 826 |
| 0 | | 1,259 | 1,259 |
| 2,673 | 1 | | 2,674 |
| 40,385 | 777 | | 41,162 |
| 9,138,292 | 184,879 | 153,021 | 9,476,192 |
| 1,090,506 | 22,062 | 33,296 | 1,145,864 |

**THE ARROW PROJECT, INC.
 FOSTER CARE PROGRAM DETAIL
 FOR THE YEAR ENDING DECEMBER 31, 1998**

| | <u>Texas PRS Contract</u> | <u>Texas Juvenile Justc</u> | <u>Texas Priv Plcmt</u> |
|---|-------------------------------|---------------------------------|-----------------------------|
| Total Allowable Expenses Allocated to Programs | <u>10,178,612</u> | <u>13,794</u> | <u>36,392</u> |
| Allocation of Unallowable Expenses | <u>84,119</u> | <u>114</u> | <u>301</u> |
| Total Expenses Allocated to Programs | \$ <u>10,262,731</u> | \$ <u>13,908</u> | \$ <u>36,693</u> |

See Accountant's Report on Supplementary Information

| <u>Total Texas Foster Care</u> | <u>Texas Pace Contract</u> | <u>Maryland Foster Care</u> | <u>Total Foster Care</u> |
|------------------------------------|--------------------------------|---------------------------------|------------------------------|
| <u>10,228,798</u> | <u>206,941</u> | <u>186,317</u> | <u>10,622,056</u> |
| <u>84,534</u> | <u>1,710</u> | <u>1,416</u> | <u>87,660</u> |
| <u>\$ 10,313,332</u> | <u>\$ 208,651</u> | <u>\$ 187,733</u> | <u>\$ 10,709,716</u> |

**THE ARROW PROJECT, INC.
SUMMARY OF EXPENSES
MARYLAND PROGRAM ACTIVITY
FOR THE CONTRACT PERIOD JULY 1, 1997 THROUGH JUNE 30, 1998**

| | <u>Basic Care</u> | | <u>Special Education</u> |
|-----------------------------------|--------------------|-------------------|------------------------------|
| | <u>Foster Care</u> | <u>Diagnostic</u> | <u>School</u> |
| Salaries and Wages | \$ 31,624 | \$ 624,097 | \$ 528,476 |
| Payroll Taxes | 2,931 | 52,303 | 45,612 |
| Fringe Benefits | 1,435 | 30,803 | 35,489 |
| Staff Development Costs | 42 | 1,879 | 1,287 |
| Contracted Services | 3,592 | 49,057 | 7,597 |
| Related Services | | | 127,601 |
| Publicity | | 563 | |
| Food & Food Prep | | 114,857 | 38,270 |
| Treatment of Foster Care Payments | 45,760 | | |
| Respite | 680 | | |
| Clothing | | 7,006 | |
| Recreation | 1,296 | 3,566 | 12,917 |
| Medical Expenses | | 8,286 | 1,711 |
| Personal Needs and Allowances | | 5,867 | |
| Laundry Fees | | 1,808 | |
| Family Training | 172 | | |
| Staff Training | 1,389 | 9,821 | 14,359 |
| Rent | 10,451 | 66,407 | 67,540 |
| Utilities | 1,842 | 14,002 | 12,002 |
| Repairs & Maintenance | 1,203 | 26,080 | 10,670 |
| Insurance and Taxes | 702 | 10,905 | 12,320 |
| Supplies | 2,179 | 25,398 | 84,902 |
| Equipment Rental & Repair | 48 | 9,120 | 7,941 |
| Printing & Copying | 111 | | 284 |
| Telephone | 701 | 10,824 | 8,657 |
| Postage & Shipping | 41 | 1,162 | 1,016 |
| Membership & Subscriptions | 290 | 4,124 | 2,097 |
| Travel | 3,080 | 2,846 | 1,345 |
| Bank Charges | | | |
| Security System | | 838 | |
| Facility Improvement | 1,050 | 17,428 | 28,112 |
| Equipment | 366 | 14,399 | 2,947 |
| Legal and Accounting Fees | | 1,477 | |
| Interest Expense | | | |
| Corporate Office Expenses | | | |
| Computer Support Costs | | | |
| Amortization | | | |
| Total Direct Expenses | 110,985 | 1,114,923 | 1,053,152 |

Supporting Services

| <u>Management & General</u> | <u>Unallowable</u> | <u>Total</u> |
|-------------------------------------|--------------------|--------------|
| \$ 107,834 | \$ | \$ 1,292,031 |
| 9,282 | | 110,128 |
| 5,958 | | 73,685 |
| 168 | | 3,376 |
| 2,948 | | 63,194 |
| | | 127,601 |
| 6,508 | | 7,071 |
| | | 153,127 |
| | | 45,760 |
| | | 680 |
| | | 7,006 |
| | | 17,779 |
| | | 9,997 |
| | | 5,867 |
| | | 1,808 |
| | | 172 |
| 504 | | 26,073 |
| 9,751 | | 154,149 |
| 2,034 | | 29,880 |
| 1,469 | | 39,422 |
| 3,461 | 4 | 27,392 |
| 23,858 | 197 | 136,534 |
| 588 | | 17,697 |
| | | 395 |
| 4,703 | | 24,885 |
| 1,778 | | 3,997 |
| 247 | | 6,758 |
| 27,101 | 355 | 34,727 |
| 390 | | 390 |
| | | 838 |
| 5,020 | | 51,610 |
| 980 | | 18,692 |
| 22,379 | | 23,856 |
| | 4,246 | 4,246 |
| 169,216 | | 169,216 |
| 48,176 | | 48,176 |
| | 2,025 | 2,025 |
| 454,353 | 6,827 | 2,740,240 |

THE ARROW PROJECT, INC.
SUMMARY OF EXPENSES
MARYLAND PROGRAM ACTIVITY
FOR THE CONTRACT PERIOD JULY 1, 1997 THROUGH JUNE 30, 1998

| | <u>Basic Care</u> | | <u>Special Education</u> |
|---|--------------------------|----------------------------|------------------------------|
| | <u>Foster Care</u> | <u>Diagnostic</u> | <u>School</u> |
| Allocation of Management and General Expenses | <u>22,126</u> | <u>222,271</u> | <u>209,956</u> |
| Total Allowable Expenses Allocated to Programs | <u>133,111</u> | <u>1,337,194</u> | <u>1,263,108</u> |
| Allocation of Unallowable Expenses | <u>332</u> | <u>3,340</u> | <u>3,155</u> |
| Total Expenses Allocated to Programs | \$ <u>133,443</u> | \$ <u>1,340,534</u> | \$ <u>1,266,263</u> |

See Accountant's Report on Supplementary Information

Supporting Services

| <u>Management & General</u> | <u>Unallowable</u> | <u>Total</u> |
|-------------------------------------|--------------------|--------------|
| (454,353) | | 0 |
| 0 | 6,827 | 2,740,240 |
| | (6,827) | 0 |
| \$ 0 | \$ 0 | \$ 2,740,240 |

THE ARROW PROJECT, INC.
COMPARISON OF BUDGETED EXPENSES TO ACTUAL EXPENSES
FOSTER CARE - MARYLAND
FOR THE CONTRACT PERIOD JULY 1, 1997 THROUGH JUNE 30, 1998

| | <u>Budget</u> | | <u>Actual</u> | | <u>Variance</u> |
|--|-------------------|----|----------------|----|-----------------|
| Salaries and Wages | \$ 166,875 | \$ | 31,624 | \$ | 135,251 |
| Payroll Taxes | 16,688 | | 2,931 | | 13,757 |
| Fringe Benefits | 16,687 | | 1,435 | | 15,252 |
| Staff Development Costs | 7,200 | | 42 | | 7,158 |
| Psychological Services | 2,400 | | 0 | | 2,400 |
| Contracted Services | 1,200 | | 3,592 | | (2,392) |
| Treatment of Foster Care Payments | 303,520 | | 45,760 | | 257,760 |
| Respite | 20,000 | | 680 | | 19,320 |
| Recreation | 0 | | 1,296 | | (1,296) |
| Family Training | 0 | | 172 | | (172) |
| Staff Training | 5,000 | | 1,389 | | 3,611 |
| Rent | 24,000 | | 10,451 | | 13,549 |
| Utilities | 0 | | 1,842 | | (1,842) |
| Repairs & Maintenance | 3,600 | | 1,203 | | 2,397 |
| Insurance and Taxes | 17,463 | | 702 | | 16,761 |
| Supplies | 6,000 | | 2,179 | | 3,821 |
| Equipment Rental & Repair | 14,844 | | 48 | | 14,796 |
| Printing & Copying | 7,200 | | 111 | | 7,089 |
| Telephone | 7,200 | | 701 | | 6,499 |
| Postage & Shipping | 4,800 | | 41 | | 4,759 |
| Membership & Subscriptions | 4,800 | | 290 | | 4,510 |
| Travel | 26,800 | | 3,080 | | 23,720 |
| Facility Improvement | 0 | | 1,050 | | (1,050) |
| Equipment | 0 | | 366 | | (366) |
| | <u>656,277</u> | | <u>110,985</u> | | <u>545,292</u> |
| Total Direct Expenses | | | | | |
| Allocation of Management and General Expenses | <u>99,650</u> | | <u>22,126</u> | | <u>77,524</u> |
| Total Allowable Expenses | <u>755,927</u> | | <u>133,111</u> | | <u>622,816</u> |
| Allocation of Unallowable Expenses | <u>0</u> | | <u>332</u> | | <u>(332)</u> |
| Total Expenses Allocated to Programs | \$ <u>755,927</u> | \$ | <u>133,443</u> | \$ | <u>622,484</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> |
|----|---|---|---|--------------|
| \$ | 712 | \$ 18,034 | \$ 12,878 | \$ 31,624 |
| | 66 | 1,671 | 1,194 | 2,931 |
| | 32 | 818 | 584 | 1,435 |
| | 1 | 24 | 17 | 42 |
| | 0 | 0 | 0 | 0 |
| | 81 | 2,048 | 1,463 | 3,592 |
| | 1,031 | 26,096 | 18,634 | 45,760 |
| | 15 | 388 | 277 | 680 |
| | 29 | 739 | 528 | 1,296 |
| | 4 | 98 | 70 | 172 |
| | 31 | 792 | 566 | 1,389 |
| | 235 | 5,960 | 4,256 | 10,451 |
| | 41 | 1,050 | 750 | 1,842 |
| | 27 | 686 | 490 | 1,203 |
| | 16 | 400 | 286 | 702 |
| | 49 | 1,243 | 887 | 2,179 |
| | 1 | 27 | 20 | 48 |
| | 3 | 63 | 45 | 111 |
| | 16 | 400 | 285 | 701 |
| | 1 | 23 | 17 | 41 |
| | 7 | 165 | 118 | 290 |
| | 69 | 1,756 | 1,254 | 3,080 |
| | 24 | 599 | 428 | 1,050 |
| | 8 | 209 | 149 | 366 |
| | 2,500 | 63,291 | 45,194 | 110,985 |
| | 498 | 12,618 | 9,010 | 22,126 |
| | 2,998 | 75,909 | 54,204 | 133,111 |
| | 7 | 189 | 135 | 332 |
| \$ | 3,005 | \$ 76,099 | \$ 54,339 | \$ 133,443 |

THE ARROW PROJECT, INC.
COMPARISON OF BUDGETED EXPENSES TO ACTUAL EXPENSES
SCHOOL - MARYLAND
FOR THE CONTRACT PERIOD JULY 1, 1997 THROUGH JUNE 30, 1998

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|--|---------------------|---------------------|---------------------|
| Salaries and Wages | \$ 510,310 | \$ 528,476 | \$ (18,166) |
| Payroll Taxes | 58,686 | 45,612 | 13,074 |
| Fringe Benefits | 76,547 | 35,489 | 41,058 |
| Staff Development Costs | 4,800 | 1,287 | 3,513 |
| Contracted Services | 1,200 | 7,597 | (6,397) |
| Related Services | 0 | 127,601 | (127,601) |
| Publicity | 4,800 | 0 | 4,800 |
| Food & Food Prep | 37,481 | 38,270 | (789) |
| Recreation | 5,000 | 12,917 | (7,917) |
| Medical Expenses | 0 | 1,711 | (1,711) |
| Staff Training | 0 | 14,359 | (14,359) |
| Rent | 85,500 | 67,540 | 17,960 |
| Utilities | 30,000 | 12,002 | 17,998 |
| Repairs & Maintenance | 6,180 | 10,670 | (4,490) |
| Insurance and Taxes | 8,895 | 12,320 | (3,425) |
| Supplies | 28,404 | 84,902 | (56,498) |
| Equipment Rental & Repair | 43,860 | 7,941 | 35,919 |
| Printing & Copying | 2,400 | 284 | 2,116 |
| Telephone | 4,800 | 8,657 | (3,857) |
| Postage & Shipping | 3,000 | 1,016 | 1,984 |
| Membership & Subscriptions | 2,500 | 2,097 | 403 |
| Conferences & Conventions | 6,000 | 1,345 | 4,655 |
| Travel | 5,000 | 0 | 5,000 |
| Security Service | 3,998 | 0 | 3,998 |
| Facility Improvement | 0 | 28,112 | (28,112) |
| Equipment | 0 | 2,947 | (2,947) |
| Total Direct Expenses | <u>929,361</u> | <u>1,053,152</u> | <u>(123,791)</u> |
| Allocation of Management and General Expenses | <u>178,665</u> | <u>209,956</u> | <u>(31,291)</u> |
| Total Allowable Expenses | <u>1,108,026</u> | <u>1,263,108</u> | <u>(155,082)</u> |
| Allocation of Unallowable Expenses | <u>0</u> | <u>3,155</u> | <u>(3,155)</u> |
| Total Expenses Allocated to Programs | <u>\$ 1,108,026</u> | <u>\$ 1,266,263</u> | <u>\$ (158,237)</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, 1997 THROUGH JUNE 30, 1998

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|--|---------------------|---------------------|-------------------|
| Salaries and Wages | \$ 695,885 | \$ 624,097 | \$ 71,788 |
| Payroll Taxes | 86,986 | 52,303 | 34,683 |
| Fringe Benefits | 104,383 | 30,803 | 73,580 |
| Staff Development Costs | 6,000 | 1,879 | 4,121 |
| Contracted Services | 106,040 | 49,057 | 56,983 |
| Publicity | 5,000 | 563 | 4,437 |
| Food & Food Prep | 151,423 | 114,857 | 36,566 |
| Clothing | 12,000 | 7,006 | 4,994 |
| Recreation | 5,600 | 3,566 | 2,034 |
| Medical Expenses | 0 | 8,286 | (8,286) |
| Personal Needs/Allow | 8,700 | 5,867 | 2,833 |
| Laundry Fees | 0 | 1,808 | (1,808) |
| Staff Training | 0 | 9,821 | (9,821) |
| Rent | 85,500 | 66,407 | 19,093 |
| Utilities | 33,600 | 14,002 | 19,598 |
| Repairs & Maintenance | 7,200 | 26,080 | (18,880) |
| Insurance and Taxes | 13,695 | 10,905 | 2,790 |
| Supplies | 18,000 | 25,398 | (7,398) |
| Equipment Rental & Repair | 36,924 | 9,120 | 27,804 |
| Printing & Copying | 2,400 | | 2,400 |
| Telephone | 12,000 | 10,824 | 1,176 |
| Postage & Shipping | 5,400 | 1,162 | 4,238 |
| Membership & Subscriptions | 5,500 | 4,124 | 1,376 |
| Conferences & Conventions | 10,500 | | 10,500 |
| Travel | 15,000 | 2,846 | 12,154 |
| Security Service | 37,856 | 838 | 37,018 |
| Legal Fees | 0 | 1,477 | (1,477) |
| Facility Improvement | 0 | 17,428 | (17,428) |
| Equipment | 0 | 14,399 | (14,399) |
| | ----- | ----- | ----- |
| Total Direct Expenses | <u>1,465,592</u> | <u>1,114,923</u> | <u>350,669</u> |
| Allocation of Management and General Expenses | <u>258,634</u> | <u>222,271</u> | <u>36,363</u> |
| Total Allowable Expenses | <u>1,724,226</u> | <u>1,337,194</u> | <u>387,032</u> |
| Allocation of Unallowable Expenses | <u>0</u> | <u>3,340</u> | <u>(3,340)</u> |
| Total Expenses Allocated to Programs | <u>\$ 1,724,226</u> | <u>\$ 1,340,534</u> | <u>\$ 383,692</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> |
|--|---------------------------------|--------------|
| \$ 611,615 | \$ 12,482 | \$ 624,097 |
| 51,257 | 1,046 | 52,303 |
| 30,187 | 616 | 30,803 |
| 1,841 | 38 | 1,879 |
| 48,076 | 981 | 49,057 |
| 552 | 11 | 563 |
| 112,560 | 2,297 | 114,857 |
| 6,866 | 140 | 7,006 |
| 3,495 | 71 | 3,566 |
| 8,120 | 166 | 8,286 |
| 5,750 | 117 | 5,867 |
| 1,772 | 36 | 1,808 |
| 9,625 | 196 | 9,821 |
| 65,079 | 1,328 | 66,407 |
| 13,722 | 280 | 14,002 |
| 25,558 | 522 | 26,080 |
| 10,687 | 218 | 10,905 |
| 24,890 | 508 | 25,398 |
| 8,938 | 182 | 9,120 |
| 0 | 0 | 0 |
| 10,608 | 216 | 10,824 |
| 1,139 | 23 | 1,162 |
| 4,042 | 82 | 4,124 |
| 0 | 0 | 0 |
| 2,789 | 57 | 2,846 |
| 821 | 17 | 838 |
| 1,447 | 30 | 1,477 |
| 17,079 | 349 | 17,428 |
| 14,111 | 288 | 14,399 |
| ----- | ----- | ----- |
| 1,092,625 | 22,298 | 1,114,923 |
| ----- | ----- | ----- |
| 217,826 | 4,445 | 222,271 |
| ----- | ----- | ----- |
| 1,310,450 | 26,744 | 1,337,194 |
| ----- | ----- | ----- |
| 3,273 | 67 | 3,340 |
| ----- | ----- | ----- |
| \$ 1,313,723 | \$ 26,811 | \$ 1,340,534 |

THE ARROW PROJECT, INC.
SCHEDULE OF FUNDING SOURCES
MARYLAND PROGRAMS
FOR THE CONTRACT PERIOD JULY 1, 1997 THROUGH JUNE 30, 1998

| | Period Ending June 30, 1998 |
|--|--------------------------------|
| Maryland Department of Human Resources - Foster Care | \$ 67,829 |
| Juvenile Justice Department - Foster Care | 44,525 |
| Maryland Department of Human Resources - Diagnostic | 1,279,059 |
| Juvenile Justice Department - Diagnostic | 31,680 |
| Maryland Department of Education - School | 1,395,441 |
| Related Services Revenue - School | 153,840 |
| Interest Income | 840 |
| Donations | 50 |
| Total Revenue | \$ 2,973,264 |

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, 1997 THROUGH JUNE 30, 1998**

| | Net Actual Allowable Costs | Total Days | Calculated Actual Per Diem Rate | Calculated Average Actual Monthly Cost * | Approved Per Diem Rate | Per Diem Variance |
|---|----------------------------------|---------------|---------------------------------------|--|------------------------------|-------------------------|
| MARYLAND PROGRAM ACTIVITY | | | | | | |
| DIAGNOSTIC | | | | | | |
| Department of Human Resources | | | | | | |
| Total Allocated Costs | 1,313,723 | | | | | |
| Less Donated Revenue | (49) | | | | | |
| Less Unallowable Costs | (3,273) | | | | | |
| Net Actual Allowable Costs | 1,310,401 | 6782 | 193.22 | 5,796.52 | 188.96 | (4.26) |
| Juvenile Justice Department | | | | | | |
| Total Allocated Costs | 26,811 | | | | | |
| Less Donated Revenue | (1) | | | | | |
| Less Unallowable Costs | (67) | | | | | |
| Net Actual Allowable Costs | 26,743 | 168 | 159.18 | 4,775.54 | 188.96 | 29.78 |
| Total Diagnostic - Net Actual Allowable Costs | 1,337,144 | 6950 | | | | |
| SCHOOL | | | | | | |
| Department of Education | | | | | | |
| Total Allocated Costs | 1,266,263 | | | | | |
| Less Related Service Reven | (153,840) | | | | | |
| Less Unallowable Costs | (3,155) | | | | | |
| Net Actual Allowable Costs | 1,109,268 | 7719 | 143.71 | 2,874.12 | 180.78 | 37.07 |
| FOSTER CARE | | | | | | |
| Department of Human Resources | | | | | | |
| Under 11 yrs | | | | | | |
| Total Allocated Costs | 3,005 | | | | | |
| Less Donated Revenue | 0 | | | | | |
| Less Unallowable Costs | (7) | | | | | |
| Net Actual Allowable Costs | 2,997 | 25 | 119.88 | 3,596.39 | 98.27 | (21.61) |
| Over 11 yrs | | | | | | |
| Total Allocated Costs | 76,099 | | | | | |
| Less Donated Revenue | 0 | | | | | |
| Less Unallowable Costs | (189) | | | | | |
| Net Actual Allowable Costs | 75,909 | 633 | 119.92 | 3,597.59 | 98.77 | (21.15) |
| Total Dpt of Human Resources - Net Actual Allowable Cost | 78,907 | 658 | | | | |

**THE ARROW PROJECT, INC.
 COMPUTATION OF RATE DETERMINATION
 FOR ACTUAL COST OF CARE PER MONTH
 MARYLAND PROGRAMS
 FOR THE CONTRACT PERIOD JULY 1, 1997 THROUGH JUNE 30, 1998**

| | <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 | 54,339 | | | | | |
| Less Donated Revenue | 0 | | | | | |
| Less Unallowable Costs | (135) | | | | | |
| Net Actual Allowable Costs | 54,204 | 452 | 119.92 | 3,597.59 | 98.77 | (21.15) |
| Total Juvenile Justice Dpt - Net Actual Allowable Costs | 54,204 | 452 | | | | |
| Total Foster Care - Net Actual Allowable Costs | 133,111 | 1110 | | | | |

*(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, 1997 THROUGH JUNE 30, 1998**

| | <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 | 5,796.52 | 5,747.00 | (49.52) |
| Juvenile Justice Department | 4,775.54 | 5,747.00 | 971.46 |
| SCHOOL | | | |
| Department of Education | 2,874.12 | 3,615.60 * | 741.48 |
| FOSTER CARE | | | |
| Department of Human Resources | | | |
| Under 11 yrs | 3,596.39 | 2,989.00 | (607.39) |
| Over 11 yrs | 3,597.59 | 3,004.00 | (593.59) |
| Juvenile Justice Department | | | |
| Under 11 yrs | 0.00 | 0.00 | 0.00 |
| Over 11 yrs | 3,597.59 | 3,004.00 | (593.59) |

* School Approved Per Diem Rate per Month is calculated at per diem rate of \$180.78/day times an average of 20 days per month, as there is not an approved monthly rate, only a per diem rate.

See Accountant's Report on Supplementary Information

**THE ARROW PROJECT, INC.
CALCULATION OF
OVERPAYMENT/(UNDERPAYMENT)
MARYLAND PROGRAMS
FOR THE CONTRACT PERIOD JULY 1, 1997 THROUGH JUNE 30, 1998**

| | <u>Total Net Actual Allowable Costs</u> | <u>Payment Received/ Billed</u> | <u>Overpayment/ (Underpayment)</u> |
|----------------------------------|---|---|--|
| MARYLAND PROGRAM ACTIVITY | | | |
| DIAGNOSTIC | \$ | \$ | \$ |
| Department of Human Resources | 1,310,401 | 1,279,059 | (31,342) |
| Juvenile Justice Department | <u>26,743</u> | <u>31,680</u> | <u>4,937</u> |
| Total Diagnostic | <u>1,337,144</u> | <u>1,310,739</u> | <u>(26,405)</u> |
| SCHOOL | | | |
| Department of Education | <u>1,109,268</u> | <u>1,395,441</u> | <u>286,173</u> |
| FOSTER CARE | | | |
| Department of Human Resources | 78,970 | 67,829 | (11,141) |
| Juvenile Justice Department | <u>54,204</u> | <u>44,525</u> | <u>(9,679)</u> |
| Total Foster Care | <u>133,174</u> | <u>112,354</u> | <u>(20,820)</u> |
| TOTAL ALL PROGRAMS | <u>\$ 2,579,586</u> | <u>\$ 2,818,534</u> | <u>\$ 238,948</u> |

See Accountant's Report on Supplementary Information

| Amount up to 10% Excess Allowed to <u>Retain</u> | Amounts Over 10% Subject to <u>Repayment</u> | Total <u>Overpayment</u> |
|---|---|-----------------------------|
| \$ 0 | \$ 0 | \$ 0 |
| 3,168 | 1,769 | 4,937 |
| 3,168 | 1,769 | 4,937 |
| 139,544 | 146,629 | 286,173 |
| 0 | 0 | 0 |
| 0 | 0 | 0 |
| 0 | 0 | 0 |
| \$ 142,712 | \$ 148,398 | \$ 291,110 |

THE ARROW PROJECT, INC.
COMPUTATION OF RATE DETERMINATION
FOR ACTUAL COST OF CARE PER MONTH
MARYLAND PROGRAMS
FOR THE PERIOD JANUARY 1, 1998 THROUGH DECEMBER 31, 1998

| | <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 | 1,569,259 | | | | | |
| Less Donated Revenue | (1,188) | | | | | |
| Less Unallowable Costs | (11,816) | | | | | |
| Net Actual Allowable Costs | 1,556,255 | 7862 | 197.95 | 5,938.39 | 188.96 | (8.99) |
| Juvenile Justice Department | | | | | | |
| Total Allocated Costs | 15,851 | | | | | |
| Less Donated Revenue | (12) | | | | | |
| Less Unallowable Costs | (119) | | | | | |
| Net Actual Allowable Costs | 15,720 | 76 | 206.84 | 6,205.16 | 188.96 | (17.88) |
| Total Diagnostic - Net Actual Allowable Costs | 1,571,975 | 7938 | | | | |
| SCHOOL | | | | | | |
| Department of Education | | | | | | |
| Total Allocated Costs | 1,557,045 | | | | | |
| Less Related Service Reven | (152,690) | | | | | |
| Less Unallowable Costs | (11,721) | | | | | |
| Net Actual Allowable Costs | 1,392,634 | 8466 | 164.50 | 3,289.95 | 180.78 | 16.28 |
| FOSTER CARE | | | | | | |
| Department of Human Resources | | | | | | |
| Under 11 yrs | | | | | | |
| Total Allocated Costs | 29,286 | | | | | |
| Less Donated Revenue | 0 | | | | | |
| Less Unallowable Costs | (221) | | | | | |
| Net Actual Allowable Costs | 29,064 | 251 | 115.79 | 3,473.78 | 98.27 | (17.52) |
| Over 11 yrs | | | | | | |
| Total Allocated Costs | 131,145 | | | | | |
| Less Donated Revenue | 0 | | | | | |
| Less Unallowable Costs | (989) | | | | | |
| Net Actual Allowable Costs | 130,156 | 1124 | 115.80 | 3,473.90 | 98.77 | (17.03) |
| Total Dpt of Human Resources - Net Actual Allowable Cost | 159,221 | 1375 | | | | |

**THE ARROW PROJECT, INC.
 COMPUTATION OF RATE DETERMINATION
 FOR ACTUAL COST OF CARE PER MONTH
 MARYLAND PROGRAMS
 FOR THE PERIOD JANUARY 1, 1998 THROUGH DECEMBER 31, 1998**

| | <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 | 27,302 | | | | | |
| Less Donated Revenue | 0 | | | | | |
| Less Unallowable Costs | (206) | | | | | |
| Net Actual Allowable Costs | 27,096 | 234 | 115.80 | 3,473.90 | 98.77 | (17.03) |
| Total Juvenile Justice Dpt - Net Actual Allowable Costs | 27,096 | 234 | | | | |
| Total Foster Care - Net Actual Allowable Costs | 186,317 | 1609 | | | | |

*(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 PERIOD JANUARY 1, 1998 THROUGH DECEMBER 31, 1998**

| | <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 | 5,838.39 | 5,747.00 | (91.39) |
| Juvenile Justice Department | 6,205.16 | 5,747.00 | (458.16) |
| SCHOOL | | | |
| Department of Education | 3,289.95 | 3,615.00 * | 325.05 |
| FOSTER CARE | | | |
| Department of Human Resources | | | |
| Under 11 yrs | 3,473.78 | 2,989.00 | (484.78) |
| Over 11 yrs | 3,473.90 | 3,004.00 | (469.90) |
| Juvenile Justice Department | | | |
| Under 11 yrs | 0.00 | 0.00 | 0.00 |
| Over 11 yrs | 3,473.90 | 3,004.00 | (469.90) |

* School Approved Per Diem Rate per Month is calculated at per diem rate of \$180.75/day times an average of 20 days per month, as there is not an approved monthly rate, only a per diem rate.

See Accountant's Report on Supplementary Information

**THE ARROW PROJECT, INC.
CALCULATION OF
OVERPAYMENT/(UNDERPAYMENT)
MARYLAND PROGRAMS
FOR THE PERIOD JANUARY 1, 1998 THROUGH DECEMBER 31, 1998**

| | <u>Total Net Actual Allowable Costs</u> | <u>Payment Received/ Billed</u> | <u>Overpayment/ (Underpayment)</u> |
|----------------------------------|---|---|--|
| MARYLAND PROGRAM ACTIVITY | | | |
| DIAGNOSTIC | \$ | \$ | \$ |
| Department of Human Resources | 1,556,255 | 1,482,523 | (73,732) |
| Juvenile Justice Department | <u>15,720</u> | <u>14,328</u> | <u>(1,392)</u> |
| Total Diagnostic | <u>1,571,975</u> | <u>1,496,851</u> | <u>(75,124)</u> |
| SCHOOL | | | |
| Department of Education | <u>1,392,634</u> | <u>1,530,380</u> | <u>137,746</u> |
| FOSTER CARE | | | |
| Department of Human Resources | 159,221 | 135,403 | (23,818) |
| Juvenile Justice Department | <u>27,096</u> | <u>23,061</u> | <u>(4,035)</u> |
| Total Foster Care | <u>186,317</u> | <u>158,464</u> | <u>(27,853)</u> |
| TOTAL ALL PROGRAMS | <u>\$ 3,150,926</u> | <u>\$ 3,185,695</u> | <u>\$ 34,769</u> |

See Accountant's Report on Supplementary Information

| Amounts up to 10% Excess Allowed to <u>Retain</u> | Amounts Over 10% Subject to <u>Repayment</u> | Total <u>Overpayment</u> |
|--|---|-----------------------------|
| \$ | \$ | \$ |
| 0 | 0 | 0 |
| 0 | 0 | 0 |
| 0 | 0 | 0 |
| 137,746 | 0 | 137,746 |
| 0 | 0 | 0 |
| 0 | 0 | 0 |
| 0 | 0 | 0 |
| \$ 137,746 | \$ 0 | \$ 137,746 |

**THE ARROW PROJECT, INC.
SUPPLEMENTARY INFORMATION
YEAR 2000 ISSUE
FOR THE YEAR ENDING DECEMBER 31, 1998**

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the organization's operations as early as 1999.

Arrow has completed an inventory of computer systems and other electronic equipment that may be affected by the year 2000 issue and that are necessary to conducting Arrow operations. Based on this inventory, Arrow is in the process of confirming that the systems will be year 2000 compliant. No significant resources have been committed as a result of this remediation effort other than \$37,150 has been approved and will be spent beginning in 1999 to replace 20 personal computers, upgrade 100 software programs and to install memory upgrades on 71 workstations due to the year 2000 issue.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the Arrow Project is or will be year 2000 ready, that Arrow's remediation efforts will be successful in whole or in part, or that parties with whom Arrow does business will be year 2000 ready.

See Accountant's report on Supplementary Information



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

May 5, 1999

Dear Ladies and Gentlemen:

We have examined the financial statements of the Arrow Project, Inc. for the year ended December 31, 1998, and have issued our report thereon dated May 5, 1999. 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, we noticed that it 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 -

While we have been attentive to acknowledge DHR and PRS support in our brochures, publications and advertisements, our web page is a new area that is still under "construction". The support acknowledgment will be added.

2) Insurance Coverage

Finding and Recommendation -

Our review of Arrow's insurance policies indicated that although Arrow's coverage complies with all contractual insurance requirements, there may be areas where additional coverage may be warranted. We recommend that Arrow conduct a comprehensive review of insurance policy coverage to ensure that the Organization will be adequately compensated in the event of a loss.

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The review should include, but not be limited to, the areas of off-site storage, valuable paper, business interruption, sexual harassment, special events, software and that there exists proper coverage for all locations and new programs.

Management's Response -

The Arrow Project has just completed a comprehensive review of its insurance coverage. In fact, the review has developed into an ongoing process of our insurance policies and coverage limits. Adjustments have been made in regard to the specific points that have been raised. Our most recent insurance renewal addresses coverage increases to include sexual harassment, computer software and hardware, and valuable papers. Additionally, whenever new programs and locations are added, the appropriate insurance coverages are "put in force" immediately.

3) Separation of Duties

Finding and Recommendation -

Although the small size of the Company's accounting staff limits the extent of separation of duties, we believe certain steps could be taken to separate incompatible duties. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction. In any organization, selected staff should be cross-trained on the most critical areas of operation.

One of the most critical areas of separation in the financial area is cash. We noticed that an Accounting Clerk II handles incoming checks, prepares the deposit, makes the bank deposit, prepares checks, disburses checks, enters payments by vendors in the accounting system and has custody of blank checks. We suggest that the receptionist open the mail and prepare a prelist of cash received and prepare the deposit slip. Also to accomplish the desired separation of duties, certain staff could be cross-trained and share certain aspects of each other's duties. For example, occasionally the Accounts Receivable clerk could process Accounts Payable while the Accounts Payable Clerk could prepare the billing statements. The result would be better controls, as well as the ability of the employees to temporarily assume some of the other's responsibilities in an emergency.

Management's Response -

We agree that certain duties should be separated. However, due to the small size of the Corporate office, the receptionist has already been assigned duties in the Human Resource area. Therefore, the President's Assistant will be assigned the duty of preparing and making the deposit for incoming checks.

4) Restricted Donations

Finding and Recommendation -

Charitable contributions that are designated by the donor for a specific program or purpose are restricted funds until the funds are spent in accordance with the donation per Statement on Financial Accounting Standards No. 116. These funds should be segregated from general purpose donations. In the course of our audit, we noted that restricted donations, such as for the

scholarship fund, of which approximately \$13,000 was received in 1998, were not separated in the general ledger from other unrestricted contributions. We did note that the donations were being tracked on a manual spreadsheet and reported on the manually produced financial statements. We recommend that Arrow implement a procedure that will separately account for any restricted donations within the organization's general ledger and not rely on separate external spreadsheets.

During our review of charitable contributions received, we noted some donors requested that Arrow return a letter of acknowledgment in accordance with Internal Revenue Service documentation requirements. Copies of all acknowledgments should be kept on file and include a standard response that meets the substantiation requirements for the Internal Revenue Service.

Management's Response -

The restricted donations were not separated on the MIP system, but they were tracked and reported separately on the consolidated statements to management. We will be more than happy to separate these donations out on MIP.

The Development Department has given assurances that all individual contributions of \$250 or more are acknowledged by the Arrow Project as well as others less than this amount are personally acknowledged by the President. However, it is the intent of the Arrow Project to acknowledge donations at the end of the year made by an individual or an organization during the year. 1998 was the first year that the Arrow Project has had to track numerous individual donations, with the merger of His Touch Ministries and other development activities, and so we are still setting up procedures and personnel to take care of these new tasks.

5) Accounting Controls

Finding and Recommendation -

Due to the rapid growth and expansion of the Company during 1998, Arrow's accounting staff has experienced a significant increase in their workload with no increase in staffing. We recommend that Arrow consider hiring additional staff to handle the increased workload and to review the current accounting policies and procedures for possible improvements.

Management's Response -

We have been discussing the need to add to the accounting staff due to increased workloads. However, it is simply not financially an option at this time.

6) Reconciliation of Reimbursement Reports to the Financial Statements

Finding and Recommendation -

Arrow currently has two purchase of service contracts that are on a cost reimbursement basis. Arrow submits monthly requests for reimbursement to the contractor. Often these cost reimbursement billings were prepared prior to Arrow's posting of final accruals and adjustments for the month. If the billings for reimbursement cannot be delayed until the month is closed, we

suggest that Arrow reconcile the cost reimbursement request reports to the actual final month end financial statements.

Management's Response -

The Controller produces the detailed general ledger for the specific contract and then the invoices are matched to that document. However, due to the fact that the submissions need to be made before the final general ledger is produced, adjusting amounts are often booked to the final general ledger that are not known at the time of the submission. Subsequent audits by individual contracting authorities have found no material misstatements in submissions.

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