

Arrow Child & Family Ministries

Consolidated Financial Statements
and Single Audit Reports
for the year ended June 30, 2021

Arrow Child & Family Ministries

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Blazek & Vetterling

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Directors of
Arrow Child & Family Ministries:

Report on the Financial Statements

We have audited the accompanying financial statements of Arrow Child & Family Ministries, which comprise the consolidated statements of financial position as of June 30, 2021 and 2020 and the related consolidated statements of activities, of functional expenses, and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Arrow Child & Family Ministries as of June 30, 2021 and 2020 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information included in the schedule of expenditures of federal awards for the year ended June 30, 2021 as required by Title 2 U. S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2021 on our consideration of Arrow Child & Family Ministries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Arrow Child & Family Ministries' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Arrow Child & Family Ministries' internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Blazek & Vetterling". The signature is written in a cursive, flowing style with a slight flourish at the end of "Vetterling".

November 15, 2021 except for our report on supplementary information for which the date is January 21, 2022

Arrow Child & Family Ministries

Consolidated Statements of Financial Position as of June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash	\$ 3,231,942	\$ 1,868,059
Program service receivables (<i>Note 7</i>)	5,687,323	4,423,830
Contributions and grants receivable	331,386	118,733
Other receivables	107,444	112,608
Prepaid expenses	341,898	315,309
Property, net (<i>Note 3</i>)	<u>11,016,227</u>	<u>11,075,022</u>
TOTAL ASSETS	<u>\$ 20,716,220</u>	<u>\$ 17,913,561</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Foster care family support payable	\$ 994,424	\$ 814,095
Accounts payable	1,588,810	994,073
Accrued salaries and related expenses	1,235,822	1,094,763
Refundable advance – Paycheck Protection Program		4,256,000
Notes payable, net (<i>Note 4</i>)	6,601,012	7,056,148
Interest rate swap agreement (<i>Notes 4 and 5</i>)	<u>127,242</u>	<u>192,009</u>
Total liabilities	<u>10,547,310</u>	<u>14,407,088</u>
Commitments and contingencies (<i>Note 9</i>)		
Net assets:		
Without donor restrictions	9,912,483	3,297,762
With donor restrictions (<i>Note 6</i>)	<u>256,427</u>	<u>208,711</u>
Total net assets	<u>10,168,910</u>	<u>3,506,473</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 20,716,220</u>	<u>\$ 17,913,561</u>

See accompanying notes to consolidated financial statements.

Arrow Child & Family Ministries

Consolidated Statement of Activities for the year ended June 30, 2021

	WITHOUT DONOR <u>RESTRICTIONS</u>	WITH DONOR <u>RESTRICTIONS</u>	<u>TOTAL</u>
REVENUE:			
Program service revenue (<i>Note 7</i>)	\$ 39,880,405		\$ 39,880,405
Contributions and grants:			
Government grants		\$ 6,923,389	6,923,389
Other	1,619,187	465,392	2,084,579
Other	<u>388,325</u>		<u>388,325</u>
Total revenue	41,887,917	7,388,781	49,276,698
Net assets released from restrictions:			
Program expenditures	7,318,065	(7,318,065)	
Capital expenditures	<u>23,000</u>	<u>(23,000)</u>	
Total	<u>49,228,982</u>	<u>47,716</u>	<u>49,276,698</u>
EXPENSES:			
Program services:			
Child and family	21,802,895		21,802,895
Specialized education	8,080,414		8,080,414
Residential	<u>8,056,859</u>		<u>8,056,859</u>
Total program services	37,940,168		37,940,168
Supporting services:			
Management and general	4,284,613		4,284,613
Fundraising	<u>454,247</u>		<u>454,247</u>
Total expenses	<u>42,679,028</u>		<u>42,679,028</u>
OTHER INCREASES (DECREASES):			
Gain on interest rate swap agreement (<i>Note 4</i>)	<u>64.767</u>		<u>64.767</u>
CHANGES IN NET ASSETS	6,614,721	47,716	6,662,437
Net assets, beginning of year	<u>3,297,762</u>	<u>208,711</u>	<u>3,506,473</u>
Net assets, end of year	<u>\$ 9,912,483</u>	<u>\$ 256,427</u>	<u>\$ 10,168,910</u>

See accompanying notes to consolidated financial statements.

Arrow Child & Family Ministries

Consolidated Statement of Activities for the year ended June 30, 2020

	WITHOUT DONOR <u>RESTRICTIONS</u>	WITH DONOR <u>RESTRICTIONS</u>	<u>TOTAL</u>
REVENUE:			
Program service revenue (<i>Note 7</i>)	\$ 36,401,052		\$ 36,401,052
Contributions and grants:			
Government grants		\$ 1,266,151	1,266,151
Other	299,772	1,016,582	1,316,354
Other	<u>244,841</u>		<u>244,841</u>
Total revenue	36,945,665	2,282,733	39,228,398
Net assets released from restrictions:			
Program expenditures	2,180,101	(2,180,101)	
Capital expenditures	<u>117,181</u>	<u>(117,181)</u>	
Total	<u>39,242,947</u>	<u>(14,549)</u>	<u>39,228,398</u>
EXPENSES:			
Program services:			
Child and family	19,794,189		19,794,189
Specialized education	7,977,812		7,977,812
Residential	<u>8,456,335</u>		<u>8,456,335</u>
Total program services	36,228,336		36,228,336
Supporting services:			
Management and general	3,507,433		3,507,433
Fundraising	<u>477,658</u>		<u>477,658</u>
Total expenses	<u>40,213,427</u>		<u>40,213,427</u>
OTHER INCREASES (DECREASES):			
Loss on interest rate swap agreement (<i>Note 4</i>)	<u>(9,757)</u>		<u>(9,757)</u>
CHANGES IN NET ASSETS	(980,237)	(14,549)	(994,786)
Net assets, beginning of year	<u>4,277,999</u>	<u>223,260</u>	<u>4,501,259</u>
Net assets, end of year	<u>\$ 3,297,762</u>	<u>\$ 208,711</u>	<u>\$ 3,506,473</u>

See accompanying notes to consolidated financial statements.

Arrow Child & Family Ministries

Consolidated Statement of Functional Expenses for the year ended June 30, 2021

	PROGRAM SERVICES				SUPPORTING SERVICES		
	CHILD AND FAMILY	SPECIALIZED EDUCATION	RESIDENTIAL	TOTAL	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries and benefits	\$ 8,325,238	\$ 5,310,714	\$ 5,160,207	\$ 18,796,159	\$ 2,312,307	\$ 356,526	\$ 21,464,992
Foster family reimbursements	10,144,488			10,144,488			10,144,488
Facilities maintenance and operations	1,000,695	1,226,818	991,030	3,218,543	930,954	25	4,149,522
Contract labor	185,673	456,004	314,777	956,454	204,795		1,161,249
Supplies	768,730	124,197	104,033	996,960	9,030	192	1,006,182
Insurance	233,312	262,983	340,140	836,435	81,605	457	918,497
Depreciation	58,813	92,907	319,851	471,571	331,891		803,462
Meetings, training, and travel	444,300	92,921	100,999	638,220	4,709	42	642,971
Food services	2,088	139,270	341,561	482,919			482,919
Information technology	110,579	67,183	63,600	241,362	184,839	6,007	432,208
Professional services and fees	147,631	170,350	109,514	427,495			427,495
Children's clothing and personal needs	237,658	81,115	95,598	414,371			414,371
Interest	3,905	9,448	70,597	83,950	217,034		300,984
Marketing and communications	37,045	28,129	23,365	88,539	1,342	54	89,935
Other	102,740	18,375	21,587	142,702	6,107	90,944	239,753
Total expenses	<u>\$ 21,802,895</u>	<u>\$ 8,080,414</u>	<u>\$ 8,056,859</u>	<u>\$ 37,940,168</u>	<u>\$ 4,284,613</u>	<u>\$ 454,247</u>	<u>\$ 42,679,028</u>

See accompanying notes to consolidated financial statements.

Arrow Child & Family Ministries

Consolidated Statement of Functional Expenses for the year ended June 30, 2020

	PROGRAM SERVICES				SUPPORTING SERVICES		
	CHILD AND FAMILY	SPECIALIZED EDUCATION	RESIDENTIAL	TOTAL	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries and benefits	\$ 7,398,170	\$ 5,236,126	\$ 5,348,841	\$ 17,983,137	\$ 2,482,120	\$ 355,307	\$ 20,820,564
Foster family reimbursements	9,568,021			9,568,021			9,568,021
Facilities maintenance and operations	862,207	1,067,318	862,789	2,792,314	205,113	529	2,997,956
Contract labor	193,423	509,350	439,653	1,142,426	83,693	949	1,227,068
Supplies	434,782	76,626	160,619	672,027	648	40	672,715
Insurance	216,929	278,184	362,364	857,477	14,942	412	872,831
Depreciation	18,220	66,407	307,204	391,831	331,045		722,876
Meetings, training, and travel	431,675	88,797	114,019	634,491	3,443	1,681	639,615
Food services	2,050	184,841	375,777	562,668			562,668
Information technology	140,557	101,050	142,040	383,647	23,786	6,096	413,529
Professional services and fees	324,402	208,054	133,084	665,540	64,516		730,056
Children's clothing and personal needs	99,999	62,065	99,625	261,689			261,689
Interest	37,462	52,509	72,058	162,029	273,455		435,484
Marketing and communications	30,429	21,274	19,445	71,148	391	3,126	74,665
Other	35,863	25,211	18,817	79,891	24,281	109,518	213,690
Total expenses	<u>\$ 19,794,189</u>	<u>\$ 7,977,812</u>	<u>\$ 8,456,335</u>	<u>\$ 36,228,336</u>	<u>\$ 3,507,433</u>	<u>\$ 477,658</u>	<u>\$ 40,213,427</u>

See accompanying notes to consolidated financial statements.

Arrow Child & Family Ministries

Consolidated Statements of Cash Flows for the years ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 6,662,437	\$ (994,786)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Contributed property	(383,503)	(6,099)
Depreciation and amortization	821,700	741,112
Loss on sale of property		3,642
(Gain) loss on interest rate swap agreement	(64,767)	9,757
Changes in operating assets and liabilities:		
Program service receivables	(1,263,493)	(792,045)
Contributions and grants receivable	(212,653)	(58,733)
Other receivables	5,164	386,647
Prepaid expenses	(26,589)	(99,504)
Payables and accrued expenses	916,125	(633,201)
Refundable advance – Paycheck Protection Program	(4,256,000)	4,256,000
Other refundable advances		<u>(129,375)</u>
Net cash provided by operating activities	<u>2,198,421</u>	<u>2,683,415</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of property		15,136
Purchases of property	<u>(265,413)</u>	<u>(282,343)</u>
Net cash used by investing activities	<u>(265,413)</u>	<u>(267,207)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Advances on lines of credit		3,975,000
Payments on lines of credit		(4,905,000)
Payments on notes payable	<u>(569,125)</u>	<u>(783,946)</u>
Net cash used by financing activities	<u>(569,125)</u>	<u>(1,713,946)</u>
NET CHANGE IN CASH		
	1,363,883	702,262
Cash, beginning of year	<u>1,868,059</u>	<u>1,165,797</u>
Cash, end of year	<u>\$ 3,231,942</u>	<u>\$ 1,868,059</u>

Supplemental disclosure of cash flow information:

Interest paid	\$266,800	\$417,245
Property financed by notes payable	\$95,750	\$386,469

See accompanying notes to consolidated financial statements.

Arrow Child & Family Ministries

Notes to Consolidated Financial Statements for the years ended June 30, 2021 and 2020

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Arrow Child & Family Ministries provides services that advance the well-being of children and families by promoting safety and stability through building trust-based relationships.

The following program services are provided by Arrow Child & Family Ministries:

- Child and Family Services
 - Foster Care
 - Public Adoption
 - Community-Based Services
 - Durable Medical Equipment and Supplies
- Residential Programs
 - Freedom Place – Recovery from Child Sex Trafficking
 - Diagnostic Center – 90-day diagnostic evaluation program and day school to develop a comprehensive assessment to assist with future placement
 - Crossroads Transitional Living – Independence living for older female youth
 - Ascension Place – High intensity group home treating children ages 12 through 17
- Specialized, Non-Public Education Services
 - Arrow Center for Education – Riverside Campus – 4th through 12th Grade
 - Arrow Center for Education – Tangram Campus – Children with Autism
 - Arrow Center for Education – Cromwell Bridge Campus – 6th through 12th Grade

Basis of consolidation – The consolidated financial statements include the assets, liabilities, net assets and activities of the following entities: Arrow Child & Family Ministries (Arrow), Arrow Child & Family Ministries of Texas (Arrow Texas), Arrow Child & Family Ministries of Maryland, Inc. (Arrow Maryland), and Arrow Health Solutions, LLC (AHS). These organizations are collectively referred to as Arrow Child & Family Ministries. Balances and transactions between consolidated entities have been eliminated.

Federal income tax status – Arrow, Arrow Texas, and Arrow Maryland are exempt from federal income taxes under §501(c)(3) of the Internal Revenue Code and are classified as public charities under §509(a)(2) and §170(b)(1)(A). AHS is a disregarded entity for federal income tax purposes as a single-member limited liability company.

Cash consists primarily of demand deposits held with several financial institutions. At times, balances exceed the federally insured limit per depositor per institution.

Property is reported at cost, if purchased, or at fair value at the date of gift, if donated. Arrow Child & Family Ministries capitalizes property additions with a cost or fair value of \$5,000 or greater and an estimated useful life of more than one year. Arrow Child & Family Ministries provides for depreciation using the straight-line method over the estimated useful lives of the assets, which range from 3 to 10 years for furniture, equipment, and vehicles, and 15 to 39 years for buildings and improvements.

Interest rate swap agreement – Arrow Maryland utilizes an interest rate swap agreement to hedge interest rate exposure on specific debt. The agreement is reported at fair value in the statement of financial position and changes in the fair value of the agreement are recognized in the statement of activities.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.

- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both. Contributions of long-lived assets and of assets restricted for acquisition of long-lived assets are released when those assets are placed in service.

Program service revenue and receivables arise from contracts with government child welfare and Medicaid agencies in the States of Texas and Maryland for Arrow Child & Family Ministries to provide support and services for children in protective custody. Revenue is recognized in the month support and services are provided in an amount that reflects the consideration Arrow Child & Family Ministries expects to be entitled to receive based on level of care and placement authorization. Subsequent changes to estimated revenue are recorded to program service revenue when they are identified. Management does not believe the effect of unidentified adjustments would be material to revenue recognized.

Program service receivables reflect the amounts Arrow Child & Family Ministries expects to receive for support and services already provided. Amounts are generally collected one to two months after support and services are provided. Receivables are due from state agencies in Texas and Maryland and from Medicaid. Management believes balances will be fully collected and no allowance has been provided.

Contributions and grants revenue and receivable – Nonreciprocal promises to transfer cash or other assets are recognized as contributions and grants revenue at fair value when an unconditional commitment is received from the donor. Conditional contributions and grants are subject to one or more barriers that must be overcome before Arrow Child & Family Ministries is entitled to receive or retain funding. Conditional contributions and grants are recognized when the conditions are met. Funding received before conditions are met is reported as refundable advances.

Contributions and grants receivable are unconditional commitments expected to be collected in future years. Amounts expected to be collected within one year are reported at net realizable value. Amounts expected to be collected in more than one year are discounted, if material, to the present value of their future cash flows. Management believes balances will be fully collected and no allowance has been provided. Contributions and grants receivable at June 30, 2021 are due within one year.

Contributions of services are recognized at fair value when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. A substantial number of volunteers have contributed significant amounts of time in connection with programs, administration, and fundraising for which no amount has been recognized in the financial statements because the services did not meet the criteria for recognition under generally accepted accounting principles.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include solicitation of contributions of money, securities, materials, facilities, other assets, and volunteer time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted using an appropriate methodology based on activity, square footage of facilities used, or time and effort based on salary or on full-time equivalent counts. Allocations are reviewed annually as part of the annual budget cycle and adjusted as needed during the year for major changes in activities.

Recent financial accounting pronouncement – Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, will require lessees to recognize a lease asset representing its right to use the underlying asset and a lease liability representing its obligation for the term of the lease for both finance and operating leases in the statement of financial position. Arrow Child & Family Ministries is required to adopt this ASU in its fiscal year ending June 30, 2023. Upon adoption, management expects to recognize lease commitments as both a right of use asset and a lease liability in the statement of financial position for commitments that are currently only disclosed in the financial statements.

NOTE 2 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Arrow Child & Family Ministries regularly monitors liquidity required to meet its operating needs and other contractual commitments. Arrow Child & Family Ministries has various sources of liquidity at its disposal including cash and credit facilities. To help manage unanticipated liquidity needs, Arrow Child & Family Ministries has a committed available line of credit of \$3.5 million at June 30, 2021.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, Arrow Child & Family Ministries considers all expenditures related to its ongoing program activities of child and family service, residential programs, and specialized education programs, as well as the activities undertaken to support those programs, to be general expenditures.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of June 30 comprise the following:

	<u>2021</u>	<u>2020</u>
Financial assets:		
Cash	\$ 3,231,942	\$ 1,868,059
Program service receivables	5,687,323	4,423,830
Contributions and grants receivable	331,386	118,733
Other receivables	<u>107,444</u>	<u>112,608</u>
Total financial assets	<u>\$ 9,358,095</u>	<u>\$ 6,523,230</u>

NOTE 3 – PROPERTY

Property consists of the following:

	<u>2021</u>	<u>2020</u>
Land	\$ 1,614,802	\$ 1,623,007
Buildings and improvements	14,856,703	14,817,202
Furniture, equipment, and vehicles	2,480,572	1,941,177
Construction in progress	<u>73,759</u>	<u>6,118</u>
Total property	19,025,836	18,387,504
Accumulated depreciation	<u>(8,009,609)</u>	<u>(7,312,482)</u>
Property, net	<u>\$ 11,016,227</u>	<u>\$ 11,075,022</u>

NOTE 4 – LINE OF CREDIT AND NOTES PAYABLE

Line of credit – Arrow Child & Family Ministries maintains a revolving line of credit with a bank to access up to \$3.5 million of short-term liquidity as needed. Outstanding balances bear interest at the U. S. prime rate published in *The Wall Street Journal* plus 1.25% (4.50% at June 30, 2021). The line matures June 30, 2022. There was no outstanding balance at June 30, 2021.

Notes payable – Notes payable consist of the following:

	<u>2021</u>	<u>2020</u>
Note payable to a bank bearing variable interest, which is adjusted monthly (2.34% at June 30, 2021). Principal and interest due monthly through maturity in May 2028, net of unamortized debt issuance costs of \$57,400 at June 30, 2021 and \$65,700 at June 30, 2020.	\$ 2,660,273	\$ 2,747,600

Note payable to a bank bearing variable interest, which is adjusted monthly (2.34% at June 30, 2021). Principal and interest due monthly through maturity in November 2027, net of unamortized debt issuance costs of \$55,560 at June 30, 2021 and \$64,219 at June 30, 2020.	2,322,424	2,409,388
Note payable to a bank bearing underlying variable interest fixed at 7.80% by interest rate swap agreement. Principal and interest due monthly through maturity in April 2026, net of unamortized debt issuance costs of \$4,265 at June 30, 2021 and \$5,544 at June 30, 2020.	925,090	1,059,308
Various vehicle, furniture, and equipment notes bearing interest from 2.19% to 6.70%. Principal and interest due monthly through November 2023.	368,225	398,557
Note payable to a bank bearing variable interest at LIBOR plus 3.00% (3.09% at June 30, 2021). Principal and interest due monthly through maturity in September 2024.	325,000	425,000
Note payable to landowner bearing interest at 6.00%. Principal and interest due monthly through July 2020.		<u>16,295</u>
Notes payable, net of unamortized debt issuance costs	<u>\$ 6,601,012</u>	<u>\$ 7,056,148</u>
Substantially all of Arrow Child & Family Ministries' property is pledged as collateral for notes payable.		
Notes payable mature as follows:		
2022	\$ 647,840	
2023	485,126	
2024	494,193	
2025	438,196	
2026	442,782	
Thereafter	<u>4,210,100</u>	
Total notes payable	<u>\$ 6,718,237</u>	

Interest rate swap agreement – Arrow Maryland is party to an interest rate swap agreement with a bank that effectively converts a variable rate note to a fixed rate. The swap agreement has a notional amount of \$915,231 at June 30, 2021 and extends through April 15, 2026. Under the terms of the agreement, Arrow Maryland pays an effective interest rate of 7.80% on the notional amount. The change in fair value of the derivative agreement resulted in a gain of \$64,767 during 2021 and a loss of \$9,757 during 2020.

NOTE 5 – FAIR VALUE MEASUREMENTS

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity's assumptions about the inputs market participants would use in pricing the asset or liability.

Liabilities measured at fair value are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Interest rate swap agreement at June 30, 2021	\$ 0	\$ 127,242	\$ 0	\$ 127,242
Interest rate swap agreement at June 30, 2020	\$ 0	\$ 192,009	\$ 0	\$ 192,009

Interest rate swap agreement is valued using valuation models created by the issuer which include cash inflow analysis, credit spread and benchmark rate curves. This valuation method may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Arrow Child & Family Ministries believes its valuation method is appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

NOTE 6 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2021</u>	<u>2020</u>
Programs	\$ 256,427	\$ 185,711
Capital projects		<u>23,000</u>
Total net assets with donor restrictions	<u>\$ 256,427</u>	<u>\$ 208,711</u>

NOTE 7 – PROGRAM SERVICE REVENUE AND RECEIVABLES

Program service revenue was recognized as follows during the year ended June 30, 2021:

	<u>ARROW TEXAS</u>	<u>ARROW MARYLAND</u>	<u>AHS</u>	<u>TOTAL</u>
Child and family	\$ 17,843,447	\$ 2,726,766		\$ 20,570,213
Specialized education		10,363,262		10,363,262
Residential	1,586,647	5,090,775		6,677,422
Medicaid	<u>594,988</u>	<u>456,507</u>	<u>\$ 1,218,013</u>	<u>2,269,508</u>
Total program service revenue	<u>\$ 20,025,082</u>	<u>\$ 18,637,310</u>	<u>\$ 1,218,013</u>	<u>\$ 39,880,405</u>

Program service revenue was recognized as follows during the year ended June 30, 2020:

	<u>ARROW TEXAS</u>	<u>ARROW MARYLAND</u>	<u>AHS</u>	<u>TOTAL</u>
Child and family	\$ 16,358,212	\$ 3,196,025		\$ 19,554,237
Specialized education		9,017,969		9,017,969
Residential	1,490,374	5,222,317		6,712,691
Medicaid	<u>52,988</u>	<u>437,695</u>	<u>\$ 625,472</u>	<u>1,116,155</u>
Total program service revenue	<u>\$ 17,901,574</u>	<u>\$ 17,874,006</u>	<u>\$ 625,472</u>	<u>\$ 36,401,052</u>

Program service receivables at June 30 were due as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
State of Maryland child welfare and education agencies	\$ 2,833,085	\$ 2,297,888	\$ 2,055,829
State of Texas child welfare agencies	2,748,561	1,955,795	1,511,927
Medicaid	<u>105,677</u>	<u>170,147</u>	<u>64,029</u>
Total program service receivables	<u>\$ 5,687,323</u>	<u>\$ 4,423,830</u>	<u>\$ 3,631,785</u>

NOTE 8 – CONDITIONAL CONTRIBUTIONS AND GRANTS

Contributions and grants include revenue from cost-reimbursable federal and state grants which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when expenditures are incurred in compliance with specific contract or grant provisions. Arrow Child & Family Ministries has been awarded federal and state grants of approximately \$820,000 at June 30, 2021 which have not yet been recognized because qualifying expenditures have not yet been incurred.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Leases – Arrow Child & Family Ministries leases office space, office equipment, and vehicles. The office space and equipment are under non-cancellable operating leases. Future minimum lease payments are due as follows:

2022	\$ 1,559,706
2023	797,863
2024	522,660
2025	320,338
2026	<u>15,623</u>
Total	<u>\$ 3,216,190</u>

Lease expense of approximately \$1,488,600 was recognized in 2021 and \$1,436,370 in 2020.

Contract compliance – Arrow Child & Family Ministries is party to vendor contracts and other agreements with federal, state and local governmental agencies and with private agencies which require fulfillment of certain provisions and are subject to review and audit by those agencies. Such reviews and audits could result in the discovery of unallowable activities and unallowable costs. Consequently, any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds in the event of noncompliance by Arrow Child & Family Ministries. Management believes such disallowances, if any, would not be material to Arrow Child & Family Ministries' financial position or changes in net assets.

NOTE 10 – EMPLOYEE BENEFIT PLANS

Retirement benefits – Arrow Child & Family Ministries maintains a tax-deferred retirement plan (the Plan) qualified under §403(b) of the Internal Revenue Code. The Plan covers full-time and part-time employees of Arrow Child & Family Ministries. Employees, at their sole discretion, may make contributions to the Plan up to the maximum amount allowed by the Internal Revenue Service. Arrow Child & Family Ministries may make discretionary contributions to the Plan. Currently, Arrow Child & Family Ministries matches 50% of employee contributions to the Plan up to 3%. New hires after July 1, 2016 are automatically enrolled at a 1% contribution rate. Arrow Child & Family Ministries contributed \$126,467 to the Plan in 2021 and \$73,544 in 2020.

Health benefits – Arrow Child & Family Ministries has a self-funded health benefit plan, which is administered by a third party. Arrow Child & Family Ministries is primarily self-insured up to \$75,000 per employee for health benefits with additional third-party coverage provided by an aggregate stop-loss policy, which limits the maximum individual and aggregate losses. Self-insurance costs are accrued based upon the aggregate of the liability for reported claims and an estimated liability for claims incurred but not yet reported and are reported on an undiscounted basis.

NOTE 11 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 15, 2021, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

Arrow Child & Family Ministries

Schedule of Expenditures of Federal Awards for the year ended June 30, 2021

<u>FEDERAL GRANTOR</u>	<u>Assistance Listing Number</u>	<u>Contract Number or Pass-through Grantor Number</u>	<u>Federal Expenditures</u>
<u>Pass-through Grantor</u>			
<u>Program Title & Period</u>			
 U. S. DEPARTMENT OF JUSTICE			
Passed through Texas Office of the Governor – Criminal Justice Division:			
#1 Crime Victim Assistance			
Freedom Place			
VA18 PY20 Residential and Community-Based Services for Victims of Commercial Sexual Exploitation of Children			
10/01/19 – 09/30/21	16.575	2648306	\$ 1,007,624
#2 Crime Victim Assistance			
Foster Care and Community Therapeutic Services – Amarillo			
VA19 PY20 General Direct Services			
10/01/20 – 09/30/21	16.575	2549707	270,062
#3 Crime Victim Assistance			
Foster Care and Community Therapeutic Services – Amarillo			
VA18-PY19 Victim Assistance, General Direct Services			
10/01/18 – 09/30/20	16.575	2549706	<u>101,254</u>
Total assistance listing number 16.575			1,378,940
Passed through Maryland Department of Juvenile Services:			
#4 COVID-19 – Coronavirus Emergency Supplemental Funding Program			
COVID Assistance			
03/01/20 – 12/31/20	16.034	N/A	<u>20,812</u>
Total U. S. Department of Justice			<u>1,399,752</u>
 U. S. DEPARTMENT OF THE TREASURY			
Passed through Maryland Department of Human Services:			
#5 COVID-19 – Coronavirus Relief Fund			
COVID-19 Supplemental Funds – Children's Cabinet			
07/01/20 – 12/31/20	21.019	SSA/CSVUP-21-002	122,688
#6 COVID-19 – Coronavirus Relief Fund			
COVID-19 Supplemental Funds – Children's Cabinet			
03/16/20 – 06/16/20	21.019	SSA/CSVUP-20-002	107,678
Passed through Maryland Department of Housing and Community Development:			
#7 COVID-19 – Coronavirus Relief Fund			
BHA and DDA Maryland Nonprofit Recovery Initiative (NORI)			
03/01/20 – 02/26/21	21.019	N/A	75,000
Passed through Texas Center for Child and Family Studies:			
#8 COVID-19 – Coronavirus Relief Fund			
09/01/20 – 12/01/20	21.019	N/A	<u>16,700</u>
Total U. S. Department of the Treasury			<u>322,066</u>

(continued)

Arrow Child & Family Ministries

Schedule of Expenditures of Federal Awards for the year ended June 30, 2021

(continued)

<u>FEDERAL GRANTOR</u>	<u>Assistance Listing Number</u>	<u>Contract Number or Pass-through Grantor Number</u>	<u>Federal Expenditures</u>
<u>Pass-through Grantor</u>			
<u>Program Title & Period</u>			
U. S. DEPARTMENT OF EDUCATION			
Passed through Maryland State Department of Education:			
Education Stabilization Fund			
#9	Coronavirus Response and Relief Supplemental Appropriations Act, 2021 – Emergency Assistance for Non-Public Schools (CRRSA EANS)	84.425R	N/A
	03/13/20 – 02/26/21		55,856
Passed through Baltimore County Public Schools, Maryland State Department of Education:			
Education Stabilization Fund			
#10	Governor's Emergency Education Relief Fund (GEERS)	84.425C	N/A
	03/13/20 – 02/26/22		653
Passed through Baltimore County Public Schools, Maryland State Department of Education:			
Education Stabilization Fund			
#11	Elementary and Secondary School Relief Fund (ESSER)	84.425D	N/A
	03/13/20 – 09/30/22		12,024
Total U. S. Department of Education			
TOTAL FEDERAL AWARDS			
			\$ 1,790,351

See accompanying note to schedule of expenditures of federal awards.

Arrow Child & Family Ministries

Note to Schedule of Expenditures of Federal Awards for the year ended June 30, 2021

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – The schedule of expenditures of federal awards (the schedule) is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U. S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because this schedule presents only a selected portion of the operations of Arrow Child & Family Ministries, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Arrow Child & Family Ministries.

Federal expenditures include allowable costs funded by federal grants. Allowable costs are subject to the cost principles of the Uniform Guidance and U. S. Department of the Treasury guidelines and include costs recognized in Arrow Child & Family Ministries' financial statements in conformity with generally accepted accounting principles. Arrow Child & Family Ministries utilizes the 10% de minimus cost rate for indirect costs and does not have any subrecipients.

Blazek & Vetterling

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To the Board of Directors of
Arrow Child & Family Ministries:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Arrow Child & Family Ministries, which comprise the consolidated statement of financial position as of June 30, 2021 and the related consolidated statements of activities, of functional expenses, and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 15, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Arrow Child & Family Ministries' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Arrow Child & Family Ministries' internal control. Accordingly, we do not express an opinion on the effectiveness of Arrow Child & Family Ministries' internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Arrow Child & Family Ministries' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Blazek & Vetterling

November 15, 2021

Independent Auditors' Report on Compliance for Each Major Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

To the Board of Directors of
Arrow Child & Family Ministries:

Report on Compliance for Each Major Federal Program

We have audited Arrow Child & Family Ministries' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Arrow Child & Family Ministries' major federal program for the year ended June 30, 2021. Arrow Child & Family Ministries' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Arrow Child & Family Ministries' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U. S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Arrow Child & Family Ministries' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Arrow Child & Family Ministries' compliance.

Opinion on Each Major Federal Program

In our opinion, Arrow Child & Family Ministries complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control Over Compliance

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

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

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

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

Blazek & Vetterling

January 21, 2022

Arrow Child & Family Ministries

Schedule of Findings and Questioned Costs for the year ended June 30, 2021

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: unmodified qualified adverse disclaimer

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Noncompliance material to the financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Type of auditors’ report issued on compliance for major programs: unmodified qualified adverse disclaimer

Any audit findings disclosed that are required to be reported in accordance with 2 CFR §200.516(a)? yes no

Identification of major programs:

<u>Assistance Listing Number</u>	<u>Name of Program or Cluster</u>
----------------------------------	-----------------------------------

16.575	Crime Victim Assistance
21.019	Coronavirus Relief Fund

Dollar threshold used to distinguish between Type A and Type B federal programs: \$750,000

Auditee qualified as a low-risk auditee? yes no

Section II – Financial Statement Findings

There were no findings related to the financial statements which are required to be reported in accordance with *Government Auditing Standards*.

Section III – Federal Award Findings and Questioned Costs

There were no findings for federal awards required to be reported in accordance with 2 CFR §200.516(a).

EXECUTIVE LEADERSHIP

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JAY PRUETT
DEBI TENGLER
PAULA WEGER

BOARD OF DIRECTORS

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DEBORAH RIDDLE
COLE STANLEY
TAMIKA WILLIAMS



Summary Schedule of Prior Audit Findings

The following audit finding for the year ended June 30, 2020 is required to be reported in accordance with 2 CFR §200.511.

Finding #2020-001 – Significant Deficiency and Other Noncompliance

Applicable federal program:

U. S. Department of Justice

Passed through Texas Office of the Governor – Criminal Justice Division, CFDA #16.575

Crime Victim Assistance

Grant numbers: 2648305 10/01/17 – 09/30/19

2648306 10/01/19 – 09/30/21

2549706 10/01/18 – 09/30/20

Condition and context: An Excel worksheet used to accumulate costs for grant billing is manually input from source documents. Grant transactions are not recorded separately from nongrant expenses in the general ledger or other tracking system so there is no independent source against which to compare the grant billing worksheet to ensure accuracy. During our testing of payroll costs, we noted that February 2020 payroll costs were input to the grant billing worksheet based on the date paid rather than on the date services were performed. This error was identified in May 2020 and corrected. However, an input error to the correction worksheet resulted in a \$500 overbilling for one transaction in our sample of 40 payroll transactions.

Recommendation: Implement a system to timely review information input into the billing worksheets and to periodically reconcile billing worksheets to payroll system and general ledger information to ensure accuracy and completeness.

Planned corrective action: Arrow will continue to use source documents to enter grant expenses into the general ledger. Arrow will continue to prepare grant billing monthly. Arrow will continue to conduct internal reviews to identify errors in preparation of grant billing. Arrow will continue to use source documents recorded in the general ledger to prepare the grant billing worksheet. The preparer will continue to review source documents and will prepare reclassifying entries as appropriate in the general ledger. The preparer will continue entering data from source documents into the billing worksheet. The reviewer will continue to verify and research discrepancies between amounts and dates in source documents, calculations, general ledger transactions, and submissions for reimbursement.

Management's 2021 follow-up response: Grant billing is reconciled to the general ledger and payroll system.

NATIONAL HEADQUARTERS

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