

**Arrow Leadership International Ministries**

**Financial Statements**

and

Report Of Independent Certified Public Accountants

**June 30, 2007 and 2006**

DRAFT

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## **Report Of Independent Certified Public Accountants**

To the Board of Directors  
Arrow Leadership International Ministries

We have audited the accompanying combined statements of financial position of Arrow Leadership International Ministries (the Ministry) as of June 30, 2007 and 2006, and the related combined statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Ministry's management. 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. These standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Arrow Leadership International Ministries as of June 30, 2007 and 2006, and the changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Tulsa, Oklahoma  
\_\_\_\_\_, 2007

Arrow Leadership International Ministries

**Combined Statements of Financial Position**

June 30,

	2007	2006
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 220,918	\$ 154,521
Accounts receivable, net	31,131	17,161
Pledges receivable, net	117,653	142,802
Prepaid expenses	8,032	11,214
Investments	23,608	-
Total current assets	<u>401,342</u>	<u>325,698</u>
<b>Furniture and Equipment, net</b>	<u>16,826</u>	<u>19,406</u>
Total assets	<u>\$ 418,168</u>	<u>\$ 345,104</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 29,511	\$ 26,242
Accrued liabilities	9,011	16,442
Note payable	-	44,655
Total current liabilities	<u>38,522</u>	<u>87,339</u>
<b>Net Assets</b>		
Unrestricted net assets	268,471	114,963
Temporarily restricted net assets	111,175	142,802
Total net assets	<u>379,646</u>	<u>257,765</u>
Total liabilities and net assets	<u>\$ 418,168</u>	<u>\$ 345,104</u>

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

Arrow Leadership International Ministries

**Combined Statements of Activities and Changes in Net Assets**

For the Years Ended June 30,

	<u>2007</u>	<u>2006</u>
<b>Changes in Unrestricted Net Assets</b>		
Support and Revenue		
Contributions	\$ 525,880	\$ 176,955
Registration fees	473,593	279,578
Investment earnings	2,391	5,521
Other	24,137	9,542
Net assets released from restrictions	152,194	301,324
Total support and revenue	<u>1,178,195</u>	<u>772,920</u>
Expenses		
Program services	840,376	802,528
Fundraising	98,308	141,577
Management and general	86,804	92,093
Total expenses	<u>1,025,488</u>	<u>1,036,198</u>
Increase (decrease) in unrestricted net assets	<u>152,707</u>	<u>(263,278)</u>
<b>Changes in Temporarily Restricted Net Assets</b>		
Contributions	117,653	444,126
Net assets released from restrictions	<u>(152,194)</u>	<u>(301,324)</u>
Increase (decrease) in temporarily restricted net assets	<u>(34,541)</u>	<u>142,802</u>
<b>Increase (Decrease) in Net Assets</b>	118,166	(120,476)
<b>Foreign Currency Translation Adjustment</b>	3,715	602
<b>Net Assets, Beginning of Year</b>	<u>257,765</u>	<u>377,639</u>
<b>Net Assets, End of Year</b>	<u>\$ 379,646</u>	<u>\$ 257,765</u>

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

Arrow Leadership International Ministries

**Combined Statement of Functional Expenses**

For the Year Ended June 30, 2007

	Program Services	Fundraising	Management and General	Total
Salaries, benefits and taxes	\$ 289,180	\$ 57,598	\$ 50,448	\$ 397,226
Training seminars and conferences	148,875	-	-	148,875
Other	21,643	4,311	3,776	29,729
Lodging	135,043	-	-	135,043
Travel	14,581	2,904	2,544	20,030
Ministry with others	14,390	-	-	14,390
Rentals and leases	20,807	4,144	3,630	28,581
Equipment and computer services	4,713	939	822	6,474
Legal and accounting	10,505	2,092	2,533	15,130
Telephone and utilities	17,273	3,440	3,013	23,726
Scholarships	68,273	4,476	3,920	76,670
Depreciation	5,075	1,011	885	6,971
Office supplies and postage	10,412	2,074	1,816	14,302
Courier and freight	3,364	670	587	4,620
Advertising and promotion	9,229	1,838	1,610	12,678
Insurance	2,038	406	355	2,799
Dues and subscriptions	3,582	714	625	4,921
Consulting	58,699	11,691	10,240	80,630
Bad debts	2,693	-	-	2,693
	<u>\$ 840,376</u>	<u>\$ 98,308</u>	<u>\$ 86,804</u>	<u>\$ 1,025,488</u>

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

Arrow Leadership International Ministries

**Combined Statement of Functional Expenses**

For the Year Ended June 30, 2006

	Program Services	Fundraising	Management and General	Total
Salaries, benefits and taxes	\$ 289,990	\$ 86,564	\$ 56,267	\$ 432,821
Training seminars and conferences	127,028	-	-	127,028
Other	17,172	9,802	6,370	33,344
Lodging	104,185	-	-	104,185
Travel	14,343	4,281	2,783	21,407
Ministry with others	27,607	-	-	27,607
Rentals and leases	19,093	5,699	3,705	28,497
Equipment and computer services	9,227	2,754	1,790	13,771
Legal and accounting	2,191	654	494	3,339
Telephone and utilities	13,129	3,919	2,547	19,595
Scholarships	67,288	-	-	67,288
Depreciation	7,063	2,108	1,371	10,542
Office supplies and postage	11,940	3,564	2,316	17,820
Courier and freight	2,424	724	470	3,618
Advertising and promotion	23,557	7,032	4,571	35,160
Insurance	992	296	192	1,480
Dues and subscriptions	2,630	785	510	3,925
Consulting	44,872	13,395	8,707	66,974
Bad debts	17,797	-	-	17,797
	<u>\$ 802,528</u>	<u>\$ 141,577</u>	<u>\$ 92,093</u>	<u>\$ 1,036,198</u>

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

Arrow Leadership International Ministries

**Combined Statements of Cash Flows**

For the Years Ended June 30,

	2007	2006
<b>Cash flows from operating activities</b>		
Increase (decrease) in net assets	\$ 118,166	\$ (120,476)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities		
Depreciation	6,971	10,542
Provision for bad debt	2,430	17,797
Effect of changes in exchange rates on cash	3,715	602
Non cash donation	(23,608)	(1,707)
Changes in assets and liabilities		
Accounts receivable	(16,400)	19,010
Pledge receivable	25,149	(142,802)
Prepaid expenses	3,182	(3,162)
Accounts payable	3,269	8,426
Accrued liabilities	(7,431)	(9,986)
Net cash provided by (used in) operating activities	115,443	(221,756)
<b>Cash flows from investing activities</b>		
Purchase of fixed assets	(4,391)	(2,929)
<b>Cash flows from financing activities</b>		
Payments of principal on notes payable	(44,655)	-
Borrowing on notes payable	-	44,655
Net cash provided by (used in) financing activities	(44,655)	44,655
<b>Net change in cash and cash equivalents</b>	66,397	(180,030)
<b>Cash and cash equivalents, beginning of year</b>	154,521	334,551
<b>Cash and cash equivalents, end of year</b>	\$ 220,918	\$ 154,521

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

**Notes to Combined Financial Statements**

June 30, 2007 and 2006

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**Note A – Description of Operations**

Arrow Leadership International Ministries (the Ministry) is comprised of a charity incorporated under the Society Act of British Columbia and a charity incorporated in the state of North Carolina in 1986. The Ministry has operations in Canada and the United States. The Ministry sponsors programs such as the Arrow Leadership Program, the Executive Arrow Program and others, which provide Christian-based training to young leaders through a series of seminars and other activities.

**Note B - Summary Of Significant Accounting Policies**

*1. Principles of Combination*

The legally separate entities of the Ministry have common boards, management and purpose. Management has therefore elected to present combined financial statements of the Ministry. The combined financial statements of Arrow Leadership International Ministries include the accounts of its affiliate, Arrow Leadership International Ministries – Canada. All material inter-agency accounts and transactions have been eliminated in combination.

*2. Basis of Presentation*

The financial statements are presented on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned rather than when received and expenses are recorded when an obligation is incurred rather than when paid.

*3. Basis of Presentation*

The Ministry presents information about its financial position and activities according to the following three classes of net assets, depending on the existence and nature of donor restrictions.

*Unrestricted* – Support received that is not subject to donor-imposed restrictions and over which the Board of Directors has discretionary control is classified as unrestricted.

*Temporarily Restricted* – Support received subject to donor-imposed use restrictions or time restrictions that will be met either through actions of the Ministry or by the passage of time is classified as temporarily restricted. As restrictions are met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted gifts which are received and either spent or deemed spent within the same fiscal year are reported as unrestricted contributions.

*Permanently Restricted* – Support received subject to donor-imposed restrictions stipulating that funds be invested in perpetuity is classified as permanently restricted. In accordance with purposes stipulated by donors, earnings from such funds may be either unrestricted or temporarily restricted. At June 30, 2007 and 2006, the Ministry had no permanently restricted net assets.

## Notes to Combined Financial Statements

June 30, 2007 and 2006

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### Note B - Summary Of Significant Accounting Policies - Continued

#### 4. *Use of Estimates*

Preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

#### 5. *Cash and Cash Equivalents*

The Ministry considers all highly liquid investments with an original maturity of three months or less to be cash equivalents for the purposes of the statement of cash flows. Cash balances at a single financial institution in excess of U.S. Federal Deposit Insurance and/or Canadian Deposit Insurance limits amount of \$162,771 and \$165,749 at June 30, 2007 and 2006, respectively.

#### 6. *Receivables*

Receivables are recognized on the accrual basis of accounting. A reserve for possible losses on receivables has been computed using a historical default rate applied to the outstanding balance. For the years ended June 30, 2007 and 2006, \$2,430 and \$17,797, respectively, has been estimated as allowance for doubtful accounts. Receivables are charged off if they are deemed to be uncollectible. Receivables are considered past due after thirty days.

#### 8. *Furniture and Equipment*

Furniture and equipment is recorded at cost or, for donated items, at fair value on the date of receipt. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which are 3 years for computer equipment and software, 5 years for office equipment, and 10 years for office furniture. The Ministry's policy is to capitalize expenditures for purchases of assets which cost over \$500.

#### 9. *Income Tax Status*

The Ministry is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In Canada, the Ministry is a charitable organization registered under the Income Tax Act and, as such, is exempt from income taxes.

#### 10. *Reclassifications*

Certain 2006 balances have been reclassified to conform with 2007 presentations.

# Arrow Leadership International Ministries

## Notes to Combined Financial Statements

June 30, 2007 and 2006

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### Note C – Investments

Securities consist of money market funds that approximate cost.

### Note D – Furniture and Equipment

Ministry fixed assets consist of the following at June 30:

	2007	2006
Office and computer equipment	\$ 47,036	\$ 50,120
Furniture and fixtures	127,041	117,690
Artwork	1,844	1,707
	<u>175,921</u>	<u>169,517</u>
Accumulated depreciation	159,095	150,111
	<u>\$ 16,826</u>	<u>\$ 19,406</u>

### Note E – Pledges Receivable

Unconditional promises to give are recognized as contributions in the year received. Promises to give expected to be collected in future years are recorded at the present value of estimated future cash flows using the prime rate as defined by *The Wall Street Journal*. During 2007, pledges receivable represent a unconditional promise to give from one donor. Management believes all outstanding pledges to be fully collectible. Pledges receivable at June 30 were as follows:

	2007	2006
Pledges receivable due: In less than one year	\$ 89,954	\$ 142,802
Pledges receivable due: In one to five years	29,984	-
	<u>119,938</u>	<u>142,802</u>
Present value discount	(2,285)	-
Allowance for uncollectible pledges	-	-
	<u>\$ 117,653</u>	<u>\$ 142,802</u>

### Note F – Lease Commitment

The Ministry has entered into long-term lease agreements for the lease of office space and small equipment. The agreements vary in length. Lease expense amounted to \$28,581 and \$28,497 for the years ending June 30, 2007 and 2006, respectively.

The future minimum rental payments under the noncancelable leases that have initial or remaining terms in excess of one year are \$27,823 in 2008, \$14,043 in 2009.

**Notes to Combined Financial Statements**

June 30, 2007 and 2006

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**Note G – Concentrations of Credit Risk**

Financial instruments that potentially subject the Ministry to concentrations of credit risk consist principally of cash, cash equivalents and investments. The Ministry places its temporary cash deposits with high credit-quality U.S. and Canadian financial institutions. At times, amounts may exceed the federally insured limits.

**Note H – Retirement Plan**

The Ministry maintains a defined contribution retirement plan. The Ministry provides an annual discretionary matching contribution, up to 3 percent of eligible employees' salary, towards a Canadian self-directed Registered Retirement Savings Plan (RRSP). The Ministry contributed \$12,229 and \$10,908 to the RRSP for the years ended June 30, 2007 and 2006, respectively.

**Note I – Cumulative Translation Adjustment**

The following is an analysis of the changes in net assets arising from foreign currency translation adjustments which are included in unrestricted net assets at June 30:

	2007	2006
Cumulative translation adjustment, beginning of year	\$ 17,308	\$ 16,706
Adjustment resulting from translation of financial statements into U.S. Dollars	3,715	602
Cumulative translation adjustment, end of year	<u>\$ 21,023</u>	<u>\$ 17,308</u>

**Note J – Note Payable**

The note payable consists of funds (\$50,000 Canadian) advanced from an individual during 2006. The note was retired during 2007.

Arrow Leadership International Ministries

**Notes to Combined Financial Statements**

June 30, 2007 and 2006

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**Note K – Temporarily Restricted Net Assets**

At June 30, temporarily restricted net assets are available for the following purposes:

	2007	2006
Time restricted funds	\$ 111,175	\$ 6,000
Executive Arrow Program	-	44,655
Arrow Leadership Program	-	47,492
Debt repayment (Note J)	-	44,655
	<hr/>	<hr/>
Total temporarily restricted net assets	<u>\$ 111,175</u>	<u>\$ 136,802</u>

During 2007, temporarily restricted net assets were released from restriction based upon expenditures made for the restricted purpose.