CHILD & FAMILY RESOURCES, INC.
AND SUBSIDIARY

INDEPENDENT AUDITOR'S REPORT
AND CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2024 AND 2023

REGIER CARR & MONROE, LLP, CPAs

CHILD & FAMILY RESOURCES, INC.
AND SUBSIDIARY

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Child & Family Resources, Inc. and Subsidiary
Tucson, Arizona

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Child & Family Resources, Inc. and Subsidiary, which comprise the consolidated statements of financial position as of June 30, 2024 and 2023, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Child & Family Resources, Inc. and Subsidiary as of June 30, 2024 and 2023, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Governmental Auditing Standards* ("GAS") issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Child & Family Resources, Inc. and Subsidiary, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

(continued)

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Child & Family Resources, Inc. 's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and GAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and GAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Child & Family Resources, Inc.'s and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Child & Family Resources, Inc.'s and Subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

(continued)

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2024, on our consideration of Child & Family Resources, Inc.'s Schedule of Expenditures of Federal Awards, 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 Child & Family Resources, Inc.'s 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 Child & Family Resources, Inc.'s internal control over financial reporting and compliance.

Regier Carr + Monroe, L.L.P.

October 28, 2024
Tucson, Arizona

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2024 and 2023

ASSETS

	2024	2023
CURRENT ASSETS		
Cash and cash equivalents	$ 2,861,463	$ 2,049,293
Grants and accounts receivable, net	2,888,145	3,011,077
Investments	3,341,387	2,560,754
Prepaid expenses	79,992	105,591
Current portion of note receivable	5,441	5,075
Total current assets	9,176,428	7,731,790
PROPERTY AND EQUIPMENT, NET	3,332,726	3,504,333
OTHER ASSETS		
Operating lease right of use assets	1,526,932	1,573,518
Non-current portion of note receivable	19,196	25,706
Investment in AHRIC	263,560	199,275
Deposits	61,155	54,455
Total other assets	1,870,843	1,852,954
Total assets	$ 14,379,997	$ 13,089,077

The Notes to Consolidated Financial Statements are an integral part of these statements.

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2024 and 2023

LIABILITIES AND NET ASSETS

	2024	2023
CURRENT LIABILITIES		
Accounts payable	$ 369,818	$ 350,441
Accrued expenses and other liabilities	903,379	801,087
Current portion of operating lease liabilities	400,930	327,879
Current portion of finance lease liabilities	63,310	36,704
Current portion of long-term debt	106,119	101,236
Total current liabilities	1,843,556	1,617,347
LONG-TERM LIABILITIES		
Operating lease liabilities, less current portion	1,163,235	1,270,216
Finance lease liabilities, less current portion	93,928	60,294
Long-term debt, less current portion	147,093	252,846
Total long-term liabilities	1,404,256	1,583,356
Total liabilities	3,247,812	3,200,703
NET ASSETS		
Net assets without donor restrictions		
General operating	7,095,341	5,963,805
Board-designated - investment in capital assets	3,079,514	3,150,251
Board-designated	943,209	753,414
Total net assets without donor restrictions	11,118,064	9,867,470
Net assets with donor restrictions	14,121	20,904
Total net assets	11,132,185	9,888,374
Total liabilities and net assets	$ 14,379,997	$ 13,089,077

The Notes to Consolidated Financial Statements are an integral part of these statements.

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES
For the Year Ended June 30, 2024

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
REVENUES			
Government grants	$ 22,511,350	$ -	$ 22,511,350
Thrift store revenue	788,709	-	788,709
Parent fees	142,960	-	142,960
Contributions	186,127	8,000	194,127
Other revenue	29,305	-	29,305
In-kind contributions	17,328	-	17,328
United Way	5,170	-	5,170
Investment gain, net	358,738	-	358,738
Interest on note receivable	1,892	-	1,892
Net assets released from restrictions	14,783	(14,783)	-
Total revenues	24,056,362	(6,783)	24,049,579
EXPENSES			
Program services	19,719,716	-	19,719,716
General and administrative	2,875,973	-	2,875,973
Fundraising	210,079	-	210,079
Total expenses	22,805,768	-	22,805,768
CHANGE IN NET ASSETS	1,250,594	(6,783)	1,243,811
NET ASSETS, BEGINNING OF YEAR	9,867,470	20,904	9,888,374
NET ASSETS, END OF YEAR	$ 11,118,064	$ 14,121	$ 11,132,185

The Notes to Consolidated Financial Statements are an integral part of these statements.

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES
For the Year Ended June 30, 2023

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
REVENUES			
Government grants	$ 21,072,130	$ -	$ 21,072,130
Thrift store revenue	791,844	-	791,844
Parent fees	41,300	-	41,300
Contributions	213,655	8,291	221,946
Other revenue	30,306	-	30,306
In-kind contributions	1,401	-	1,401
United Way	25,071	-	25,071
Investment gain, net	157,277	-	157,277
Interest on note receivable	2,046	-	2,046
Net assets released from restrictions	4,298	(4,298)	-
Total revenues	22,339,328	3,993	22,343,321
EXPENSES			
Program services	18,268,178	-	18,268,178
General and administrative	2,480,475	-	2,480,475
Fundraising	180,102	-	180,102
Total expenses	20,928,755	-	20,928,755
CHANGE IN NET ASSETS	1,410,573	3,993	1,414,566
NET ASSETS, BEGINNING OF YEAR	8,456,897	16,911	8,473,808
NET ASSETS, END OF YEAR	$ 9,867,470	$ 20,904	$ 9,888,374

The Notes to Consolidated Financial Statements are an integral part of these statements.

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2024

	Program Services					
	Family and Community Services	Early Childcare and Education Services	Total Program Services	General and Administrative	Fundraising	Total
Personnel expense	$ 8,895,790	$ 1,845,002	$ 10,740,792	$ 1,542,266	$ 150,744	$ 12,433,802
Employee-related expenses	1,872,837	393,474	2,266,311	218,372	17,962	2,502,645
Materials and supplies	520,656	1,527,850	2,048,506	170,425	15,827	2,234,758
Payments to providers	-	2,118,933	2,118,933	-	-	2,118,933
Occupancy costs	794,849	70,665	865,514	160,640	9,027	1,035,181
Other operating expenses	576,563	123,447	700,010	193,773	14,712	908,495
Professional and outside services	300,812	39,973	340,785	527,671	980	869,436
Travel and related	444,149	51,316	495,465	20,971	202	516,638
Equipment	70,374	11,644	82,018	41,800	625	124,443
Assistance to individuals	50,974	10,408	61,382	55	-	61,437
Totals	$ 13,527,004	$ 6,192,712	$ 19,719,716	$ 2,875,973	$ 210,079	$ 22,805,768

The Notes to Consolidated Financial Statements are an integral part of these statements.

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2023

	Program Services					
	Family and Community Services	Early Childcare and Education Services	Total Program Services	General and Administrative	Fundraising	Total
Personnel expense	$ 8,481,564	$ 2,127,761	$ 10,609,325	$ 1,032,950	$ 129,687	$ 11,771,962
Employee-related expenses	1,574,176	390,731	1,964,907	159,368	14,985	2,139,260
Payments to providers	-	2,056,527	2,056,527	-	-	2,056,527
Materials and supplies	311,553	1,166,449	1,478,002	132,502	11,822	1,622,326
Occupancy costs	871,719	77,060	948,779	67,548	2,926	1,019,253
Professional and outside services	324,365	88	324,453	526,017	7,721	858,191
Other operating expenses	170,332	43,243	213,575	538,372	11,516	763,463
Travel and related	371,050	77,150	448,200	11,673	-	459,873
Equipment	167,562	37,945	205,507	11,940	1,445	218,892
Assistance to individuals	13,084	5,819	18,903	105	-	19,008
Totals	$ 12,285,405	$ 5,982,773	$ 18,268,178	$ 2,480,475	$ 180,102	$ 20,928,755

The Notes to Consolidated Financial Statements are an integral part of these statements.

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2024 and 2023

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 1,243,811	$ 1,414,566
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	311,246	312,507
Amortization of finance lease right of use asset	48,144	37,025
Amortization of operating lease right of use asset	379,217	353,803
Accretion of operating lease liabilities	45,365	49,427
Accretion of finance lease liabilities	3,980	3,225
Net realized and unrealized loss (gain) on investments	(232,982)	(135,860)
Earnings on AHRIC capital account	(64,285)	(58,279)
Changes in operating assets and liabilities		
Grants and accounts receivable	122,932	(1,116,028)
Note receivable	6,144	3,271
Prepaid expenses	25,599	(15,333)
Deposits	(6,700)	(550)
Accounts payable	19,377	(93,295)
Accrued expenses and other liabilities	102,292	148,044
Operating lease liabilities	(411,926)	(378,653)
Net cash provided by operating activities	1,592,214	523,870
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(80,498)	(36,749)
Purchases of investments	(1,623,609)	(1,221,763)
Proceeds from sales/maturities of investments	1,075,958	481,388
Net cash used by investing activities	(628,149)	(777,124)

(continued)

The Notes to Consolidated Financial Statements are an integral part of these statements.

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
For the Years Ended June 30, 2024 and 2023

	2024	2023
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of finance lease obligation	(51,025)	(38,900)
Principal payments on notes payables	(100,870)	(96,397)
Net cash used by financing activities	(151,895)	(135,297)
Net increase (decrease) in cash and cash equivalents	812,170	(388,551)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,049,293	2,437,844
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,861,463	$ 2,049,293
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 18,853	$ 22,572
Addition to operating lease right of use asset through operating leases	$ 332,631	$ 1,927,321
Addition to property and equipment through finance leases	$ 107,285	$ 132,673

The Notes to Consolidated Financial Statements are an integral part of these statements.

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2024 and 2023

1. ORGANIZATION

Nature of Operations

Child & Family Resources, Inc. ("CFR") is a nationally accredited, community-based, non-profit organization with the mission to build strong communities where children can reach their full potential. CFR was founded in 1970, and has continued to meet the ever-changing needs of families through more than 20 different education and support programs in ten Arizona counties including Pinal, Pima, Maricopa, Yuma, Santa Cruz, Cochise, Graham/Greenlee, Gila, and Mohave. As a nationally accredited organization we adhere to a high standard of outcome measurement that includes pre/post testing, measurable outcomes that demonstrate improved academic skills; improved parenting knowledge, attitudes, beliefs, and skills; improvements in overall family functioning; increases in age appropriate developmental levels; reduction in risk factors including child abuse and neglect; and positive client satisfaction surveys.

In March 2006, Child & Family Resources, Inc. entered into an affiliation agreement with Tucson Nursery Schools and Child Care Centers, Inc. ("TNS"), which provided low cost childcare for low-income working families, in order to further Child & Family Resources, Inc.'s mission. TNS is a nonprofit corporation organized to operate exclusively for education, scientific, literary, and charitable purposes. The agreement required each organization to complete certain administrative and legal steps in order to complete the formal affiliation. Under the affiliation agreement, CFR has the authority to elect the directors of the Board of TNS. In July 2006, Child & Family Resources, Inc. completed all steps of the agreement and became the sole member of TNS.

As of January 1, 2017, CFR assumed operational responsibility of TNS, with TNS employees becoming CFR employees. The land and building remain in TNS's legal entity. During the year ended June 30, 2018, CFR closed down the childcare center, and the building was sold. CFR has kept TNS open as a non-profit organization for potential use in the future.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Child & Family Resources, Inc. and its commonly controlled subsidiary, Tucson Nursery Schools and Child Care Centers, Inc. (collectively referred to as the "Organization"). All intercompany accounts and transactions have been eliminated in consolidation.

(continued)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Basis of Accounting

The Organization follows accounting standards set by the Financial Accounting Standards Board ("FASB"). The FASB sets the United States' generally accepted accounting principles ("U.S. GAAP"), which are followed by the Organization in order to ensure the consistent reporting of its financial position, changes in net assets, and cash flows. The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly, reflect all receivables, payables, and other liabilities.

Consolidated Financial Statement Presentation

The Organization reports information regarding its consolidated financial position and activities according to the presence or absence of donor-imposed restrictions, which are segregated into the following categories:

<u>Net assets with donor restrictions</u> – Net assets which are subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or the passage of time. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions, and reported in the consolidated statement of activities as net assets released from restrictions. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. The Organization has elected to record contributions with donor restrictions as contributions without donor restrictions if the restrictions are met in the current year.

<u>Net assets without donor restrictions</u> – Net assets which are not subject to donor-imposed stipulations. A portion of net assets without donor restrictions have been designated by the board of directors as expended for property and equipment to reflect the total carrying value after accumulated depreciation of all property and equipment, net of directly related liabilities. Remaining net assets without donor restrictions are available for general operations of the Organization.

Revenue Recognition

The Organization records revenue from its thrift store operations at the point of sale.

The Organization recognizes federal and state financial assistance and contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met. There were no conditional contributions for the years ended June 30, 2024 and 2023.

(continued)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Donated Services, Materials and Facilities

Donated materials and facilities are valued at their fair market value as of the date donated. Donated services are recognized in the consolidated financial statements at their fair market value if the services require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not donated. None of the in-kind donations were monetized. In-kind donations were insignificant during the years ended June 30, 2024 and 2023.

Although the Organization utilizes the services of many outside volunteers, the fair value of these services is not recognized in the accompanying consolidated financial statements since they do not meet the criteria for recognition under accounting principles generally accepted in the United States of America. The Organization does not believe it is practical to estimate the value of these services.

Use of Estimates

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

Functional Allocation of Expenses

The costs of providing the various programs have been summarized on a functional basis in the consolidated statement of activities. Expenses that can be identified with a specific program are allocated directly according to their natural classification. Other expenses that are common to several functions are allocated based on management's estimate of the time and effort expended.

Advertising

The Organization uses advertising to promote its programs. Advertising costs are expensed as incurred. The total amounts of advertising expensed were $95,426 and $69,573, for the years ended June 30, 2024 and 2023, respectively.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, available funds on deposit at financial institutions, and highly liquid investments with a maturity of three months or less when purchased.

(continued)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Grants and Accounts Receivable

The Organization grants unsecured credit under contracts primarily with governmental agencies in Arizona. The Organization considers accounts over 30 days past due to be delinquent. At June 30, 2024 and 2023, the balance of grants and accounts receivable included $126,420 and $473,734, respectively, of amounts over 30 days past due. Management reviews grantor and donor payment history as well as general economic conditions to determine the collectability of receivables. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. At both June 30, 2024 and 2023, the allowance for doubtful accounts was $10,000.

Investments

In accordance with accounting principles generally accepted in the United States of America applicable to nonprofit organizations, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the consolidated statements of financial position. Unrealized gains and losses are included with the change in net assets.

Property and Equipment

Purchased property and equipment are recorded at cost. Donations of property and equipment are recorded as support at estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated assets 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 expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

The cost of repairs and maintenance is charged to expense in the year incurred. Expenditures that increase the useful lives of the assets are capitalized and depreciated. The Organization's policy is to capitalize expenditures for property and equipment that exceed $5,000. Property and equipment is depreciated using the straight-line method over the following estimated useful lives of the assets:

Buildings and improvements	10 to 40 years
Furniture and equipment	3 to 15 years
Leasehold Improvements	10 years
Vehicles	5 years

Total depreciation and amortization expense was $359,390 and $349,532, for the years ended June 30, 2024 and 2023, respectively.

(continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

A lease is defined as a party obtaining the right to use an asset legally owned by another party. The Organization determines if an arrangement is a lease at inception. Right-of-use ("ROU") assets and lease liabilities are recorded at the lease commencement date. Lease liabilities are recognized at the present value of the contractual fixed lease payments. The Organization uses discount rates to determine the present value of future lease payments. For leases for which the implicit rate cannot be determined, the Organization has made the policy election to use a risk-free rate as the discount rate for all leases, based on the U.S. Daily Treasury Par Yield Curve rates for various time periods that approximate the lease term. The lease terms used to calculate the ROU asset and lease liability may include options to extend or terminate when it is reasonably certain that the Organization will exercise that option. ROU assets are recognized equal to lease liabilities, adjusted for prepaid lease payments, initial direct costs and lease incentives. Operating lease expense is recognized on a straight-line basis over the lease term, while variable lease payments are expensed as incurred.

As a practical expedient, the Organization has elected not to recognize ROU assets and lease liabilities for leases that, at the commencement date, are for twelve months or less. Refer to Note 14, Operating Leases and Note 15, Finance Leases for additional information.

Income Taxes

CFR and TNS are nonprofit organizations exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and from Arizona income tax under Arizona Revised Statute Section 43-1201(4). CFR and TNS are also public charities under the Internal Revenue Code Section 509(a)(1). This classification allows for donations to both organizations to be deductible as charitable contributions on income tax returns. There were no income taxes paid during the years ended June 30, 2024 and 2023.

Both CFR and TNS have a policy to disclose or recognize income tax positions based on management's estimate of whether it is reasonably possible or probable, respectively, that a liability has been incurred for unrecognized income tax positions. As of June 30, 2024, management is not aware of any uncertain tax positions that are potentially material. In addition, management is not aware of any matters which would cause CFR or TNS to lose their tax-exempt status. Income tax related interest and penalties, if any, are reported in general and administrative expenses when incurred. The accompanying consolidated financial statements do not include any interest or penalties related to income taxes. No income tax examinations are currently underway or anticipated. All prior year returns have been timely filed.

CFR and TNS are annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the Internal Revenue Service. In addition, they both are subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. CFR and TNS have determined that they are not subject to unrelated business income tax for the years ended June 30, 2024 and 2023.

(continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in Accounting Principle - Financial Instruments – Credit Losses

Effective July 1, 2023, the Organization adopted the new standard, Financial Instruments – Credit Losses, (also known as "CECL") which requires a measurement of expected credit losses (allowance for doubtful accounts) that is based on historical experience and current conditions and reasonable and supportable forecasts that affect collectability of reported amounts. The Organization assessed all accounts receivable and determined there was no material impact to the Organization's financial statements as a result of adoption.

3. CONCENTRATION OF RISK

The Federal Deposit Insurance Corporation ("FDIC") insures cash accounts at banks up to $250,000 per institution. At June 30, 2024 and 2023, approximately $2,213,000 and $1,607,000, respectively, of cash on deposit at banks was not covered by FDIC insurance. Investments held by other institutions are covered up to $500,000 under insurance provided by the Securities Investor Protection Corporation (SIPC). However, SIPC does not protect against losses in market value. The Organization's investments are on deposit at a brokerage institution that provides additional insurance above SIPC limits. At June 30, 2024 and 2023, the Organization had approximately $3,255,000 and $2,410,000 of investments and cash equivalents in excess of SIPC limitations, respectively.

4. LIQUIDITY AND AVAILABILITY OF FUNDS

The Organization's financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, are as follows.

	2024	2023
Financial assets at year-end:		
Cash and cash equivalents	$ 2,861,463	$ 2,049,293
Grants and accounts receivable, net	2,888,145	3,011,077
Investments	3,341,387	2,560,754
Total financial assets	9,090,995	7,621,124
Less amounts not available to be used within one year:		
Net assets with donor restrictions	(14,121)	(20,904)
Financial assets available to meet general expenditures over the next twelve months	$ 9,076,874	$ 7,600,220

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4. LIQUIDITY AND AVAILABILITY OF FUNDS (continued)

As part of the Organization's liquidity management plan, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, CFR has an established line of credit in the amounts of $1,000,000 upon which it could draw.

5. GRANTS AND ACCOUNTS RECEIVABLE

Grants and accounts receivable consist of the following at June 30:

	2024	2023
Arizona Department of Economic Security	$ 1,475,778	$ 877,102
Arizona First Things First	740,341	1,170,777
Arizona Department of Education	203,075	223,255
Other governmental agencies	320,244	518,421
Other receivables	158,707	231,522
Total grants and accounts receivable	2,898,145	3,021,077
Less: allowance for doubtful accounts	(10,000)	(10,000)
Total grants and accounts receivable, net	$ 2,888,145	$ 3,011,077

(continued)

6. INVESTMENTS

Investments are stated at fair value and consist of the following as of June 30:

	2024	2023
Certificates of Deposit	$ 768,786	$ 742,933
Mutual Funds:		
Long government	105,982	67,230
Diversified emerging markets	164,251	133,183
Small blend	829,293	503,925
Small growth	84,797	59,937
Mid-cap value	18,167	15,378
Mid-cap growth	17,769	15,612
Large blend	297,971	248,744
Foreign large blend	139,743	125,399
Large growth	114,969	32,599
Ultrashort bond	46,272	22,319
Immediate core bond	185,842	188,870
Government securities	397,673	277,358
Corporate bonds	169,872	127,267
Total investments	$ 3,341,387	$ 2,560,754

7. FAIR VALUE MEASUREMENTS

U.S. generally accepted accounting principles establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consists of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for similar assets, and Level 3 inputs have the lowest priority. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organization measures fair values using Level 1 input because they generally provide the most reliable evidence of fair value.

Level 1 Fair Value Measurements are based on quoted prices (unadjusted) in active markets for identical assets that the reporting entity has the ability to access at the measurement date. An active market for the assets is a market in which transactions for the asset occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

(continued)

7. **FAIR VALUE MEASUREMENTS** (continued)

Level 2 Fair Value Measurements are based on inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. If the asset has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset.

Level 3 Fair Value Measurements are based on unobservable inputs for the asset. Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the assets at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of a market participant that holds the asset. Therefore, unobservable inputs shall reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset (including assumption about risk). Unobservable inputs shall be developed based on the best information available in the circumstances, which might include the reporting entity's own data.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2024 and 2023.

Certificates of Deposit: Valued based model derived valuations in which all significant inputs are observable in active markets.

Stocks, Bonds, Mutual Funds: Valued at the closing price reported on the active market on which the individual securities are traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

(continued)

7. FAIR VALUE MEASUREMENTS (continued)

Fair values investment assets measured on a recurring basis at June 30, 2024 are:

	Fair Value Measurements at Reporting Date Using:			
	Level 1	Level 2	Level 3	Total
Certificates of Deposit	$ -	$ 768,786	$ -	$ 768,786
Mutual Funds:				
Long government	105,982	-	-	105,982
Diversified emerging markets	164,251	-	-	164,251
Small blend	829,293	-	-	829,293
Small growth	84,797	-	-	84,797
Mid-cap value	18,167	-	-	18,167
Mid-cap growth	17,769	-	-	17,769
Large blend	297,971	-	-	297,971
Foreign large blend	139,743	-	-	139,743
Large growth	114,969	-	-	114,969
Ultrashort Bond	46,272	-	-	46,272
Intermediate Core Bond	185,842	-	-	185,842
Government securities	397,673	-	-	397,673
Corporate bonds	169,872	-	-	169,872
Total	$ 2,572,601	$ 768,786	$ -	$ 3,341,387

(continued)

7. FAIR VALUE MEASUREMENTS (continued)

Fair values investment assets measured on a recurring basis at June 30, 2023 are:

	Fair Value Measurements at Reporting Date Using:			
	Level 1	Level 2	Level 3	Total
Certificates of Deposit	$ -	$ 742,933	$ -	$ 742,933
Mutual Funds:				
Long government	67,230	-	-	67,230
Diversified emerging markets	133,183	-	-	133,183
Small blend	503,925	-	-	503,925
Small growth	59,937	-	-	59,937
Mid-cap value	15,378	-	-	15,378
Mid-cap growth	15,612	-	-	15,612
Large blend	248,744	-	-	248,744
Foreign large blend	125,399	-	-	125,399
Large growth	32,599	-	-	32,599
Ultrashort Bond	22,319	-	-	22,319
Intermediate Core Bond	188,870	-	-	188,870
Government securities	277,358	-	-	277,358
Corporate bonds	127,267	-	-	127,267
Total	$ 1,817,821	$ 742,933	$ -	$ 2,560,754

8. NOTE RECEIVABLE - TNS

TNS financed a portion of the sale price on the disposition of a building in May, 2018. The initial value of the note receivable was $50,000, and includes interest at 7%. The note does not include specific maturity date; however, the note calls for monthly installments of $581 or more. If the minimum payment is made on a monthly basis the note will mature in 2028. The note is secured by a mortgage on the building.

Future minimum amounts receivable are as follows for the years ending June 30:

2025	$ 5,441
2026	5,834
2027	6,258
2028	7,104
Total	$ 24,637

(continued)

9. PROPERTY AND EQUIPMENT

Property and equipment and related accumulated depreciation at June 30, 2024 and 2023, consists of the following:

	2024	2023
Land	$ 423,869	$ 423,869
Buildings and improvements	3,757,395	3,750,795
Furniture and equipment	3,371,086	3,200,012
Leasehold improvements	249,278	243,169
Construction-in-progress	4,000	-
Total	7,805,628	7,617,845
Less accumulated depreciation	(4,472,902)	(4,113,512)
Net property and equipment	$ 3,332,726	$ 3,504,333

The construction-in-progress at June 30, 2024, consisted of amounts expended on computer equipment. Depreciation expense was $311,246 and $312,507 for the years ended June 30, 2024 and 2023, respectively. Amortization expense on finance lease right of use assets included in the above balance was $48,144 and $37,025 for the years ended June 30, 2024 and 2023, respectively.

10. LINE OF CREDIT

CFR has a revolving line of credit with a maximum draw of $1,000,000, with Wells Fargo Bank, which matures May 20, 2025. Variable interest is payable monthly at a floating indexed rate set by the lender plus 1%, with a floor rate of 5%. The line of credit is primarily collateralized by a deed of trust. There was no outstanding balance at June 30, 2024 and 2023. Under the terms of this agreement, CFR is required to maintain a debt coverage ratio of at least 1.25:1. At June 30, 2024 and 2023, CFR was in compliance with the debt coverage ratio.

(continued)

11. NOTES PAYABLE

The notes payable consists of the following at June 30:

	2024	2023
CFR mortgage, due in monthly installments of $3,907 through April 2029, including interest at 4.75%, collateralized by a deed of trust on real property.	$ 137,567	$ 176,774
Loan for computer equipment, due in monthly installments of $5,738 through April 2026, including interest at 4.70%, collateralized by the equipment.	115,645	177,308
Total notes payable	253,212	354,082
Less current portion	(106,119)	(101,236)
Non-current portion	$ 147,093	$ 252,846

Principal maturities of the note payable are as follows at June 30:

2025	$ 106,119
2026	94,136
2027	45,410
2028	7,547
Total	$ 253,212

12. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes for the years ended June 30:

	2024	2023
South32 Hermosa Community Fund	$ 8,000	$ -
Graham County Resource Center	4,230	4,230
AAA Foundation	1,891	6,674
Connie Hillman Foundation	-	10,000
Total net assets with donor restrictions	$ 14,121	$ 20,904

(continued)

13. BOARD-DESIGNATED NET ASSETS

During the year ended June 30, 2022, the Organization created the Fund for the Future of Children and Families as designated by the Board of Directors. At June 30, 2024 and 2023, $943,209 and $753,414, respectively, was held in this fund.

The purpose of the Fund for the Future of Children and Families is to achieve long-term growth of portfolio assets by maximizing long-term rate of return on investments and minimizing the risk of loss to advance the Organization's mission, expand impact and assure the longer-term future of the Organization. Funds may be accessed from this fund before a minimum of ten years only in the case of extraordinary circumstances approved by a vote of two-thirds of the Board of Directors.

The Organization also has an amount designated by the Board of Directors for investment in capital assets. At June 30, 2024 and 2023, $3,079,514 and $3,150,251, respectively, was designated for this use.

14. OPERATING LEASES

Effective July 1, 2022 (the "implementation date"), the Organization adopted new guidance intended to improve financial reporting for leases. For operating leases entered into prior to July 1, 2022, the Right-of-Use ("ROU") assets and operating lease liabilities were recognized in the consolidated statement of financial position on the implementation date based on the present value of the remaining future minimum payments over the lease term from the implementation date. For leases entered into subsequent to July 1, 2022, the operating lease ROU asset and operating lease liabilities are based on the present value of minimum payments over the lease term at the commencement date of the lease.

CFR has 12 facility and 3 office equipment leases for its programs and administrative offices under non-cancelable, long-term operating leases with various expirations through April 2031. Leases are negotiated with third-parties and, in some instances contain renewal, expansion and termination options. None of the Agency's leases contain significant purchase options. All of the facility leases, except for the thrift store, allow cancellation with 30 to 90 days' notice if CFR can prove loss of grant funding for programs operated out of those locations. The facility lease for the thrift store allows for early termination upon the 5th anniversary of the lease commencement. If early termination is exercised, CFR may be required to reimburse the landlord for any unamortized lease commissions.

The following chart provides additional information about CFR's operating leases for the years ended June 30, 2024 and 2023:

	2024	2023
Operating lease cost	$ 424,582	$ 403,229
Short-term lease cost	33,584	61,362
Net lease cost	$ 458,166	$ 464,591

(continued)

14. **OPERATING LEASES** (continued)

Other information:

Operating cash outflows from operating leases	$ 403,876	$ 378,653
Right of use assets obtained in exchange for new operating lease liabilities	$ 324,581	$ 1,927,321
Weighted-average remaining lease term	4.76 years	5.83 years
Weighted-average discount rate	3.22%	2.90%

Future minimum lease payments for CFR's operating leases as of June 30, 2024 are as follows:

Year ending December 31,	
2025	$ 443,790
2026	368,805
2027	284,353
2028	189,641
2029	184,090
Thereafter	211,761
Total future lease payments	1,682,440
Less: Present value discount	(118,275)
Total	$ 1,564,165
Current operating lease liabilities	$ 400,930
Long-term operating lease liabilities	1,163,235
Total operating lease liabilities	$ 1,564,165

Note: Table excludes obligations for leases with original terms of 12 months or less which have not been recognized as a right to use asset or liability in the consolidated statement of financial position.

CFR has two sublease agreements to rent out a portion of its facilities. These leases are on a month-to-month basis. Total sublease income during the years ended June 30, 2024 and 2023, was $26,305 and $28,057, respectively, and is included in other revenue.

(continued)

15. FINANCE LEASES

Effective July 1, 2022 (the “implementation date”), the Organization adopted new guidance intended to improve financial reporting for leases. For finance leases entered into prior to July 1, 2022, the ROU assets and finance lease liabilities were recognized in the consolidated statement of financial position on the implementation date based on the present value of the remaining future minimum payments over the lease term from the implementation date. For leases entered into subsequent to July 1, 2022, the ROU assets and finance lease liabilities are based on the present value of minimum payments over the lease term at the commencement date of the lease.

CFR has six vehicle non-cancelable, long-term leases, with various expirations through March 2028. The leases require monthly payments of $273 to $668. The leases do not contain a significant purchase options.

CFR also has one office equipment lease for its programs and administrative offices under a non-cancelable, long-term lease, expiring in January 2026. The lease requires monthly payments of $3,242. The lease does not contain a significant purchase option.

The following chart provides additional information about CFR’s finance leases for the year ended June 30, 2024 and 2023:

	2024	2023
Amortization of ROU assets	$ 48,144	$ 37,025
Interest on lease liabilities	3,980	3,225
Net lease cost	$ 52,124	$ 40,250
Other information:		
Financing cash outflows from finance leases	$ 45,071	$ 38,900
Right of use assets obtained in exchange for new finance lease liabilities	$ 105,128	$ 132,673
Weighted-average remaining lease term	2.87 years	2.58 years
Weighted-average discount rate	3.80%	2.88%

(continued)

15. **FINANCE LEASES** (continued)

Future minimum lease payments for CFR's operating leases as of June 30, 2024 are as follows:

Year ending December 31,	
2025	$ 68,064
2026	51,856
2027	29,165
2028	17,074
Total future lease payments	166,159
Less: Present value discount	(8,921)
Total	$ 157,238
Current finance lease liabilities	$ 63,310
Long-term finance lease liabilities	93,928
Total finance lease liabilities	$ 157,238

16. **PENSION PLAN**

The Organization maintains a defined contribution pension plan (the "Plan"). The Plan allows eligible employees to contribute a portion of their wages on a pretax basis into the Plan. The Plan also allows for discretionary matching and/or profit sharing contributions by CFR. The Organization's contributions under the Plan totaled $200,365 and $134,879 for the years ended June 30, 2024 and 2023, respectively.

(continued)

17. GRANTS FROM GOVERNMENTAL AGENCIES

Revenue from contracts with governmental agencies consists of the following for the years ended June 30:

	2024	2023
Arizona Department of Economic Security and Arizona Department of Child Safety	$ 10,349,639	$ 8,865,958
Arizona Department of Education	2,454,683	2,382,005
Arizona First Things First	3,076,785	2,895,580
United Way First Things First	3,477,645	3,962,439
Arizona Department of Health Services	1,012,831	1,018,814
U.S. Department of Health and Human Services	1,278,167	1,213,025
Pima County	39,622	38,037
Other government contracts	821,978	696,272
Total contracts with governmental agencies	$ 22,511,350	$ 21,072,130

During both of years ended June 30, 2024 and 2023, revenue from contracts with governmental agencies were 94% of total revenue.

18. COMMITMENTS AND CONTINGENCIES

Contracts with Governmental Agencies

The Organization participates in a number of federal, state, and local grant programs. A significant reduction in the level of this support, if it were to occur, would have a material effect on the programs and activities of the Organization. The governmental funding is subject to compliance audits by the respective governmental agencies. Assessments from such audits, if any, are recorded when the amounts of such assessments are reasonably determinable. Some of the governmental contracts are also subject to termination for convenience clauses. The Organization has received no such termination notices.

Litigation

From time-to-time, the Organization may become involved in certain legal proceedings and claims which arise in the normal course of business. Management does not believe that the outcome of these matters will have a material effect on the Organization's financial position.

Health Benefits and Group Captive Pool

The Organization provides health benefits to its employees through participation in a captive group pool for coverage of claims. As an investor and participant in a group captive pool, the Organization shares in group losses that may exceed amounts that have been invested in the pool for such losses. The investment in the group captive pool is accounted for using the equity method of accounting.

(continued)

19. INVESTMENT IN AHRIC

In June 2020, CFR became a subscriber to the Arizona Health Reciprocal Insurance Company (AHRIC), which is a captive insurance company licensed by the Arizona Department of Insurance. As a subscriber, effective on July 1, 2020, CFR will maintain a self-insured group health plan for the benefit of its employees. The investment is recorded using the equity method which is comprised of the initial subscription price paid with subsequent increases or decreases of CFR's capital account based on its proportionate share of the net profit or loss of AHRIC in accordance with ASC 958-810-15. The balance of the investment in AHRIC was $263,560 and $199,275 at June 30, 2024 and 2023, respectively. CFR recorded a gain of $64,284 and $4,893 on this investment during the years ended June 30, 2024 and 2023, respectively.

20. SUBSEQUENT EVENTS

Management evaluated subsequent events through October 28, 2024, which is the date on which the consolidated financial statements were available to be issued.