CHILD & FAMILY RESOURCES, INC.
AND SUBSIDIARY

INDEPENDENT AUDITOR'S REPORT
AND CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2022 AND 2021

RCM

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., which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, 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. as of June 30, 2022 and 2021, 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 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)

4801 E. BROADWAY BLVD. STE. 501 TUCSON, AZ 85711-3648 RCMTUCSON.COM P 520-624-8229 F 520-884-1102 REGIER CARR & MONROE LLP, CPAs TUCSON I TULSA/McALESTER I WICHITA

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 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 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 24, 2022, on our consideration of Child & Family Resources, Inc.'s 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 24, 2022
Tucson, Arizona

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2022 and 2021

ASSETS

	2022	2021
CURRENT ASSETS		
Cash and cash equivalents	$ 2,437,844	$ 2,027,051
Grants and accounts receivable, net	1,895,049	1,704,111
Investments	1,684,519	2,598,433
Prepaid expenses	90,258	148,652
Current portion of note receivable	4,732	4,116
Total current assets	6,112,402	6,482,363
PROPERTY AND EQUIPMENT, NET	3,684,443	2,653,434
OTHER ASSETS		
Non-current portion of note receivable	29,320	34,349
Investment in AHRIC	140,996	192,081
Deposits	53,905	53,755
Total other assets	224,221	280,185
Total assets	$ 10,021,066	$ 9,415,982

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, 2022 and 2021

LIABILITIES AND NET ASSETS

	2022	2021
CURRENT LIABILITIES		
Accounts payable	$ 443,736	$ 351,891
Accrued expenses and other liabilities	653,043	709,294
Current portion of long-term debt	96,579	35,827
Total current liabilities	1,193,358	1,097,012
LONG-TERM LIABILITIES		
Long-term debt, less current portion	353,900	213,964
Total liabilities	1,547,258	1,310,976
NET ASSETS		
Net assets without donor restrictions		
General operating	4,524,274	5,686,135
Investment in capital assets	3,233,964	2,403,643
Board-designated	698,659	-
Total net assets without donor restrictions	8,456,897	8,089,778
Net assets with donor restrictions	16,911	15,228
Total net assets	8,473,808	8,105,006
Total liabilities and net assets	$ 10,021,066	$ 9,415,982

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, 2022

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
REVENUES			
Government grants	$ 16,896,111	$ -	$ 16,896,111
Thrift store revenue	797,041	-	797,041
Parent fees	7,838	-	7,838
Contributions	309,381	5,939	315,320
Other revenue	26,953	-	26,953
In-kind contributions	900	-	900
United Way	2,500	-	2,500
Investment loss, net	(236,973)	-	(236,973)
Interest on note receivable	2,553	-	2,553
Net assets released from restrictions	4,256	(4,256)	-
Total revenues	17,810,560	1,683	17,812,243
EXPENSES			
Program services	14,859,103	-	14,859,103
General and administrative	2,445,898	-	2,445,898
Fundraising	138,440	-	138,440
Total expenses	17,443,441	-	17,443,441
CHANGE IN NET ASSETS	367,119	1,683	368,802
NET ASSETS, BEGINNING OF YEAR	8,089,778	15,228	8,105,006
NET ASSETS, END OF YEAR	$ 8,456,897	$ 16,911	$ 8,473,808

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, 2021

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
REVENUES			
Government grants	$ 15,932,163	$ -	$ 15,932,163
Thrift store revenue	449,038	-	449,038
Parent fees	26,825	-	26,825
Contributions	346,611	10,998	357,609
Other revenue	141,784	-	141,784
Paycheck Protection Program grant	1,726,600	-	1,726,600
In-kind contributions	504	-	504
United Way	1,000	-	1,000
Investment gain, net	168,800	-	168,800
Interest on note receivable	2,850	-	2,850
Total revenues	18,796,175	10,998	18,807,173
EXPENSES			
Program services	14,026,516	-	14,026,516
General and administrative	2,235,842	-	2,235,842
Fundraising	117,052	-	117,052
Total expenses	16,379,410	-	16,379,410
CHANGE IN NET ASSETS	2,416,765	10,998	2,427,763
NET ASSETS, BEGINNING OF YEAR	5,673,013	4,230	5,677,243
NET ASSETS, END OF YEAR	$ 8,089,778	$ 15,228	$ 8,105,006

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, 2022

	Program Services					
	Family and Community Services	Early Childcare and Education Services	Total Program Services	General and Administrative	Fundraising	Total
Personnel expense	$ 6,742,868	$ 1,638,595	$ 8,381,463	$ 999,878	$ 98,286	$ 9,479,627
Payments to providers	-	1,930,109	1,930,109	-	-	1,930,109
Professional and outside services	332,189	7,601	339,790	416,798	1,400	757,988
Employee-related expenses	1,270,060	316,983	1,587,043	134,262	10,441	1,731,746
Materials and supplies	307,339	960,931	1,268,270	108,964	11,665	1,388,899
Other operating expenses	155,141	70,949	226,090	642,355	8,569	877,014
Occupancy costs	198,079	508,189	706,268	59,111	4,267	769,646
Travel and related	196,630	41,293	237,923	6,210	106	244,239
Equipment	143,473	29,020	172,493	78,320	3,706	254,519
Assistance to individuals	8,718	936	9,654	-	-	9,654
Totals	$ 9,354,497	$ 5,504,606	$ 14,859,103	$ 2,445,898	$ 138,440	$ 17,443,441

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, 2021

	Program Services					
	Family and Community Services	Early Childcare and Education Services	Total Program Services	General and Administrative	Fundraising	Total
Personnel expense	$ 6,351,469	$ 1,459,023	$ 7,810,492	$ 990,901	$ 71,903	$ 8,873,296
Payments to providers	36,055	2,062,220	2,098,275	-	-	2,098,275
Professional and outside services	154,678	30,797	185,475	374,912	1,833	562,220
Employee-related expenses	1,209,351	279,225	1,488,576	126,390	9,337	1,624,303
Materials and supplies	210,807	774,066	984,873	144,649	20,256	1,149,778
Other operating expenses	413,342	70,099	483,441	430,182	9,295	922,918
Occupancy costs	626,314	79,804	706,118	57,808	3,696	767,622
Travel and related	111,022	8,839	119,861	14,450	-	134,311
Equipment	115,186	27,867	143,053	96,550	732	240,335
Assistance to individuals	4,905	1,447	6,352	-	-	6,352
Totals	$ 9,233,129	$ 4,793,387	$ 14,026,516	$ 2,235,842	$ 117,052	$ 16,379,410

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, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 368,802	$ 2,427,763
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	231,134	158,271
Net realized and unrealized loss (gain) on investments	195,493	(162,296)
Earnings on AHRIC capital account	51,085	(73,794)
Paycheck Protection Program grant	-	(1,726,600)
Changes in operating assets and liabilities		
Grants and accounts receivable	(190,938)	428,247
Note receivable	4,413	4,116
Prepaid expenses	58,394	(83,953)
Deposits	(150)	(2,197)
Accounts payable	91,845	(4,328)
Accrued expenses and other liabilities	(56,251)	168,070
Net cash provided by operating activities	753,827	1,133,299
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(1,011,498)	(492,685)
Purchases of investments	(1,115,586)	(2,146,392)
Proceeds from sales/maturities of investments	1,834,007	1,542,618
Net cash used by investing activities	(293,077)	(1,096,459)

(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, 2022 and 2021

	2022	2021
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payables	(49,957)	(33,959)
Net increase in cash and cash equivalents	410,793	2,881
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,027,051	2,024,170
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,437,844	$ 2,027,051
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 14,143	$ 12,927

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

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 year ended June 30, 2022.

(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.

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.

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 efforts expended.

Advertising

The Organization uses advertising to promote its programs. Advertising costs are expensed as incurred. The total amounts of advertising expensed were $81,636 and $65,259, for the years ended June 30, 2022 and 2021, 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, 2022 and 2021, the balance of grants and accounts receivable included $176,602 and $33,778, respectively, of amounts over 30 days past due. 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, 2022 and 2021, 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 statement 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 $231,134 and $158,271, for the years ended June 30, 2022 and 2021, respectively.

(continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2022 and 2021.

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, 2022, 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, 2022 and 2021.

Recent Accounting Pronouncements – not yet adopted

Leases

In February 2016, the Financial Accounting Standards Board issued ASU No. 2016-02, Leases (Topic 842), which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either financing or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital lease obligations recognized on the consolidated balance sheet. Lessor accounting under the new standard will remain similar to lessor accounting under current GAAP. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Organization's year ending June 30, 2023 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The effect of applying the new lease guidance on the consolidated financial statements has not yet been determined.

(continued)

3. CONCENTRATION OF RISK

The Federal Deposit Insurance Corporation (FDIC) insures cash accounts at banks up to $250,000 per institution. At June 30, 2022 and 2021, approximately $1,264,000 and $1,384,000, 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, 2022 and 2021, the Organization had approximately $2,098,000 and $1,185,000 of investments 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.

	2022	2021
Financial assets at year-end:		
Cash and cash equivalents	$ 2,437,844	$ 2,027,051
Grants and accounts receivable, net	1,895,049	1,704,111
Investments	1,684,519	2,598,433
Total financial assets	6,017,412	6,329,595
Less amounts not available to be used within one year:		
Net assets with donor restrictions	(16,911)	(15,228)
Financial assets available to meet general expenditures over the next twelve months	$ 6,000,501	$ 6,314,367

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 established lines of credit in the amounts of $1,000,000 and $345,000, upon which it could draw.

(continued)

5. GRANTS AND ACCOUNTS RECEIVABLE

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

	2022	2021
Arizona Department of Economic Security	$ 648,013	$ 581,794
Arizona First Things First	549,535	723,345
Arizona Department of Education	183,620	204,458
Other governmental agencies	299,590	160,181
Other receivables	224,291	44,333
Total grants and accounts receivable	1,905,049	1,714,111
Less: allowance for doubtful accounts	(10,000)	(10,000)
Total grants and accounts receivable, net	$ 1,895,049	$ 1,704,111

6. INVESTMENTS

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

	2022	2021
Certificates of Deposit	$ -	$ 1,749,999
Mutual Funds:		
Long government	58,615	58,092
Diversified emerging markets	114,773	71,612
Small blend	441,771	370,828
Small growth	50,959	57,974
Mid-cap value	13,355	-
Mid-cap blend	13,857	-
Large blend	135,301	-
Foreign large blend	181,858	-
Large growth	20,614	-
Ultrashort bond	44,363	-
Immediate core bond	206,525	-
Government securities	282,242	183,617
Corporate bonds	120,286	106,311
Total investments	$ 1,684,519	$ 2,598,433

(continued)

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.

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, 2022 and 2021.

Certificates of Deposit: Valued at amortized cost, which approximates fair value based on terms and current yields.

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, 2022 are:

	Fair Value Measurements at Reporting Date Using:			
	Level 1	Level 2	Level 3	Total
Mutual Funds:				
Long government	$ 58,615	$ -	$ -	$ 58,615
Diversified emerging markets	114,773	-	-	114,773
Small blend	441,771	-	-	441,771
Small growth	50,959	-	-	50,959
Mid-cap value	13,355	-	-	13,355
Mid-cap blend	13,857	-	-	13,857
Large blend	135,301	-	-	135,301
Foreign large blend	181,856	-	-	181,858
Large growth	20,614	-	-	20,614
Ultrashort Bond	44,363	-	-	44,363
Intermediate Core Bond	206,527	-	-	206,525
Government securities	282,242	-	-	282,242
Corporate bonds	120,286	-	-	120,286
Total	$ 1,684,519	$ -	$ -	$ 1,684,519

Fair values investment assets measured on a recurring basis at June 30, 2021 are:

	Fair Value Measurements at Reporting Date Using:			
	Level 1	Level 2	Level 3	Total
Certificates of Deposit	$ -	$ 1,749,999	$ -	$ 1,749,999
Mutual Funds:				
Long government	58,092	-	-	58,092
Diversified emerging markets	71,612	-	-	71,612
Small blend	370,828	-	-	370,828
Small growth	57,974	-	-	57,974
Government securities	183,617	-	-	183,617
Corporate bonds	106,311	-	-	106,311
Total	$ 848,434	$ 1,749,999	$ -	$ 2,598,433

(continued)

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:

2023	$ 4,732
2024	5,076
2025	5,441
2026	5,834
2027	6,258
Thereafter	6,711
Total	$ 34,052

9. PROPERTY AND EQUIPMENT

Property and equipment and related accumulated depreciation at June 30, 2022 and 2021, consists of the following:

	2022	2021
Land	$ 423,869	$ 423,869
Buildings and improvements	3,750,795	3,210,457
Furniture and equipment	2,779,945	1,882,809
Leasehold improvements	243,169	243,169
Construction-in-progress	250,644	425,976
Total	7,448,422	6,186,280
Less accumulated depreciation	(3,763,979)	(3,532,846)
Net property and equipment	$ 3,684,443	$ 2,653,434

The construction-in-progress at June 30, 2022, represents amounts expended on computer equipment. As of June 30, 2022, the equipment had not been completed and placed into service. The construction-in-progress at June 30, 2021, consisted of amounts expended on building improvements associated with the Organization’s Broadway Blvd location.

(continued)

10. LINES 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, 2023. Variable interest is payable monthly at the prime rate of interest plus 1.25% (6% at June 30, 2022). If CFR defaults on any terms of the line of credit, the interest rate increases to the prime rate plus 4%. The line of credit is primarily collateralized by a deed of trust. There was no outstanding balance at June 30, 2022 and 2021. Under the terms of this agreement, CFR is required to maintain a debt coverage ratio of at least 1.25:1. At June 30, 2022 and 2021, CFR was in compliance with the debt coverage ratio.

CFR has a portfolio loan account, with a maximum draw of $345,000, with Morgan Stanley Bank, N.A., which is collateralized by investments held by Morgan Stanley. Interest is payable monthly at 3.65%. There were no outstanding balances at June 30, 2022 and 2021.

11. NOTES PAYABLE

The notes payable consists of the following at June 30:

	2022	2021
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.	$ 214,160	$ 249,791
Loan for computer equipment, due in monthly installments of $5,738 through April 2026, including interest at 4.70%, collateralized by the equipment.	236,319	-
Total notes payable	450,479	249,791
Less current portion	(96,579)	(35,827)
Non-current portion	$ 353,900	$ 213,964

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

2023	$ 96,579
2024	101,236
2025	106,119
2026	93,955
2027	45,410
Thereafter	7,180
Total	$ 450,479

(continued)

12. PAYCHECK PROTECTION PROGRAM NOTE PAYABLE

On May 8, 2020, CFR qualified for and received a loan pursuant to the Paycheck Protection Program ("PPP"), a program implemented by the U.S. Small Business Administration ("SBA") under the Coronavirus Aid, Relief, and Economic Security Act, from a qualified lender for an aggregate principal amount of $1,726,600. Under the terms of the agreement, the loan was unsecured, with interest at 1% per annum.

During the year ended June 30, 2021, CFR successfully applied for forgiveness of the loan. CFR received forgiveness of $1,726,600, which was recorded as revenue for the year ended June 30, 2021.

13. NET ASSETS WITH DONOR RESTRICTIONS

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

	2022	2021
Connie Hillman Foundation	$ 10,000	$ 10,000
Graham County Resource Center	4,230	4,230
AAA Foundation	2,566	998
River Cities United Way	115	998
Total net assets with donor restrictions	$ 16,911	$ 15,228

14. 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, 2022, $698,659 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.

(continued)

15. OPERATING LEASES

CFR has 12 facility and 13 office equipment leases for their programs and administrative offices under non-cancelable, long-term operating leases with various expirations through June 2030. Two of the leases contain a one-year renewal. 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. During the years ended June 30, 2022 and 2021, total rent and usage expense under these agreements was $496,475 and $773,577, respectively.

Future minimum lease payments under these leases are as follows for the years ending June 30:

2023	$ 444,578
2024	383,932
2025	328,605
2026	251,922
2027	177,044
Thereafter	557,679
Total	$ 2,143,220

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, 2022 and 2021, was $26,953 and $26,820, respectively, and is included in other revenue.

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 $107,837 and $99,146 for the years ended June 30, 2022 and 2021, respectively.

(continued)

17. GRANTS FROM GOVERNMENTAL AGENCIES

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

	2022	2021
Arizona Department of Economic Security and Arizona Department of Child Safety	$ 6,255,859	$ 6,068,586
Arizona Department of Education	2,248,306	2,370,868
Arizona First Things First	2,728,547	2,850,899
United Way First Things First	3,089,013	2,526,378
Arizona Department of Health Services	1,033,184	1,193,274
U.S. Department of Health and Human Services	822,578	495,134
Pima County	36,780	37,777
Other government contracts	681,844	389,247
Total contracts with governmental agencies	$ 16,896,111	$ 15,932,163

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 $194,383 and $192,081 at June 30, 2022 and 2021, respectively. CFR recorded a gain (loss) of $(51,085) and $73,794 on this investment during the years ended June 30, 2022 and 2021, respectively.

20. SUBSEQUENT EVENTS

Management evaluated subsequent events through October 24, 2022, which is the date on which the consolidated financial statements were available to be issued.

CHILD & FAMILY RESOURCES, INC.

UNIFORM GUIDANCE COMPLIANCE REPORTS

YEAR ENDED JUNE 30, 2022

RCM

REGIER CARR & MONROE, LLP, CPAs

CHILD & FAMILY RESOURCES, INC.

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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*

INDEPENDENT AUDITOR'S REPORT

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

We have audited 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, the consolidated financial statements of the Child & Family Resources, Inc. (the "Organization") (a nonprofit organization) which comprise the consolidated statement of financial position as of June 30, 2022, the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 24, 2022.

<u>Internal Control Over Financial Reporting</u>

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting to determine the 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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization'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.

(continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's 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 the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Regier Carr & Monroe, L.L.P.

October 24, 2022
Tucson, Arizona

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

INDEPENDENT AUDITOR'S REPORT

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Child & Family Resources, Inc.'s (the "Organization") compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2022. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization complied, in all material respects, with the 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, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

(continued)

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Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Organization's federal programs.

Auditor's Responsibility for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

(continued)

Report on 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Organization as of and for the year ended June 30, 2022, and have issued our report thereon dated October 24, 2022, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

(continued)

Purpose of this Report

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.

Regier Carr & Monroe, L.L.P.

October 24, 2022
Tucson, Arizona

CHILD & FAMILY RESOURCES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2022

Federal Grantor/Pass Through Grantor/Program Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Federal Funds Expended
U.S. Department of Agriculture			
Passed through Arizona Department of Education:			
Child and Adult Care Food Program	CTD10-25-01	10.558	$ 2,248,306
Total U.S. Department of Agriculture			2,248,306
U.S. Department of Health and Human Services			
Direct:			
Competitive Abstinence Education (CAE)	90SR0132	93.060	207,420
Competitive Abstinence Education (CAE)	90SR0148	93.060	226,911
Competitive Abstinence Education (CAE)	90SR0084	93.060	388,247
Total Competitive Abstinence Education (CAE)			822,578
Substance Abuse and Mental Health Services	5H79SP023010-03	93.243	7,838
CCDF Cluster			
Passed through Arizona Department of Economic Security:			
Child Care and Development Block Grant	CTR044859	93.575	1,048,539
Total CCDF Cluster			1,048,539
Passed through the Arizona Governor's Office of Youth, Faith & Family			
Opioid STR	SOR-DSG-19-080119-03	93.788	97,030
Block Grants for Prevention and Treatment of Substance Abuse	SABG-DSG-20-100120-03	93.959	203,027
Passed through the Arizona Health Care Cost Containment System			
Opioid STR	YH22-0033-03	93.788	104,216
Block Grants for Prevention and Treatment of Substance Abuse	YH21-0003-04	93.959	117,792
Total U.S. Department of Health and Human Services			2,401,020
Total Expenditures of Federal Awards			$ 4,649,326

CHILD & FAMILY RESOURCES, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2022

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards ("Schedule") includes the federal grant activity of the Organization and is presented 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.* Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

The Organization did not pass through any of the federal awards during the audit year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures included on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. INDIRECT COST RATE

Child & Family Resources, Inc. has an approved indirect cost rate of 18.0% that they use for those programs that allow indirect costs.

CHILD & FAMILY RESOURCES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2022

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major federal programs:	
Material weaknesses identified?	No
Significant deficiencies identified?	None reported
Type of auditor's report issued on compliance for major federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
10.558	Child and Adult Care Food Program
93.060	Competitive Abstinence Education

Dollar threshold used to distinguish between Type A and Type B programs:	$ 750,000
Auditee qualified as low-risk auditee?	Yes

Section II - Financial Statement Findings

None noted.

Section III - Federal Award Findings and Questioned Costs

None noted.

CHILD & FAMILY RESOURCES, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2021

Section II - Financial Statement Findings

None noted.

Section III - Federal Award Findings and Questioned Costs

Finding Number 2021-001 Internal Controls over Procurement and Suspension and Debarment, Child and Adult Care Food Program, CFDA 10.558, July 1, 2020 through June 30, 2021 (Significant Deficiency).

Statement of Condition:

The Organization must comply with procurement and suspension and debarment standards set by Uniform Guidance.

Questioned Costs:

None.

Criteria:

All organizations using federal funds to purchase items or services above $25,000 must check if the selected vendor has been suspended or debarred by the federal government. Under these requirements, the Organization should maintain appropriate documentation that this procedure was performed.

Cause:

The Organization did not adequately document that it has checked if a vendor providing an item worth over $25,000 was suspended or debarred by the federal government.

Effect:

With the absence of adequate documentation, the Organization is at risk for noncompliance as it relates to federal procurement and suspension and debarment.

Recommendation:

We recommend the Organization review its formal procurement policies and make the necessary changes to ensure checks for vendor suspension and debarment are adequately documented.

Current Year Status:

Management implemented corrective action plan and the finding was not repeated in the current year.

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

We have audited the consolidated financial statements of Child & Family Resources, Inc. and Subsidiary as of and for the years ended June 30, 2022 and 2021 and have issued our report thereon dated October 24, 2022. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated June 17, 2022, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of Child & Family Resources, Inc. and Subsidiary solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm, have complied with all relevant ethical requirements regarding independence.

We have applied safeguards to reduce threats to independence due to the preparation of financial statements and Form 990 to an acceptable level. Safeguards include having reviews performed by authorized firm personnel in accordance with internal policies and procedures, and having management review, approve and assume responsibility for the services prior to issuance or filing.

(continued)

4801 E. BROADWAY BLVD. STE. 501 TUCSON, AZ 85711-3648 RCMTUCSON.COM P 520-624-8229 F 520-884-1102 REGIER CARR & MONROE LLP, CPAs TUCSON I TULSA/McALESTER I WICHITA

Significant Risks Identified

As required by professional standards, we considered the risk of improper revenue recognition and management override of controls as well as the misappropriation of cash when designing our audit procedures. These are not identified audit findings, but identified risks used to design appropriate audit procedures.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by Child & Family Resources, Inc. and Subsidiary is included in Note 2 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2022. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are:

> Management's estimate of the functional allocation of expenditures is based on actual expenditures and management's estimate of levels of service. Management also estimates the allowance for doubtful accounts, which is based on past experience of collection of receivables. Management also estimates the useful life of the fixed assets acquired which was based on management's experience with similar assets. We evaluated the key factors and assumptions used to develop the functional allocation of expenditures in relation to the financial statements taken as a whole. We also evaluated the adequacy of the allowance for doubtful accounts at year end. We also evaluated the estimated useful life of fixed asset additions for the year. We determined that the above estimates are reasonable in relation to the consolidated financial statements as a whole.

(continued)

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting Child & Family Resources, Inc. and Subsidiary's financial statements relate to: fair value of the investments.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards also require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. The attached schedule summarizes uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements identified by us as a result of our audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to Child & Family Resources, Inc. and Subsidiary's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in a separate letter dated October 24, 2022.

(continued)

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings or Issues

In the normal course of our professional association with Child & Family Resources, Inc. and Subsidiary, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as Child & Family Resources, Inc. and Subsidiary's auditors.

With respect to the Schedule of Expenditures of Federal Awards included with the Uniform Guidance Compliance Reports, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with the guidelines contained in the Uniform Guidance, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the Schedule of Expenditures of Federal Awards to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This report is intended solely for the information and use of the board of directors and management of Child & Family Resources, Inc. and Subsidiary, and is not intended to be and should not be used by anyone other than these specified parties.

Regier Carr & Monroe, L.L.P.

October 24, 2022
Tucson, Arizona

Client: ***C&FR.0 - Child & Family Resources, Inc.***
Engagement: ***6-30-22AN - Child & Family Resources, Inc.***
Period Ending: ***6/30/2022***
Trial Balance: ***TB - TB***
Workpaper: ***3700.10 - Passed Journal Entries Report***

Account	Description	W/P Ref	Debit	Credit
Proposed Journal Entries				
Proposed Journal Entries JE # 301		**4300.01**		
To record thrift store inventory.				
01-160000-RCM	Thrift Store Inventory		61,727.10	
01-470170-90	Thrift Store - Housewares			61,727.10
Total			**61,727.10**	**61,727.10**
Proposed Journal Entries JE # 302		**5100.10**		
To reclass prepaid expenses from AP				
01-132000-00	Prepaid Expenses		24,118.24	
01-211001-00	Accounts Payable-General			24,118.24
Total			**24,118.24**	**24,118.24**
	Total Proposed Journal Entries		**85,845.34**	**85,845.34**
	Total All Journal Entries		**85,845.34**	**85,845.34**