CHILD & FAMILY RESOURCES, INC.
AND SUBSIDIARY

INDEPENDENT AUDITOR'S REPORT
AND CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022

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. and Subsidiary, which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, 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, 2023 and 2022, 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)

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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 November 8, 2023, 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.

November 8, 2023
Tucson, Arizona

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2023 and 2022

ASSETS

	2023	2022
CURRENT ASSETS		
Cash and cash equivalents	$ 2,049,293	$ 2,437,844
Grants and accounts receivable, net	3,011,077	1,895,049
Investments	2,560,754	1,684,519
Prepaid expenses	105,591	90,258
Current portion of note receivable	5,075	4,732
Total current assets	7,731,790	6,112,402
PROPERTY AND EQUIPMENT, NET	3,504,333	3,684,443
OTHER ASSETS		
Operating lease right of use assets	1,573,518	-
Non-current portion of note receivable	25,706	29,320
Investment in AHRIC	199,275	140,996
Deposits	54,455	53,905
Total other assets	1,852,954	224,221
Total assets	$ 13,089,077	$ 10,021,066

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, 2023 and 2022

LIABILITIES AND NET ASSETS

	2023	2022
CURRENT LIABILITIES		
Accounts payable	$ 350,441	$ 443,736
Accrued expenses and other liabilities	801,087	653,043
Current portion of operating lease liabilities	327,879	-
Current portion of finance lease liabilities	36,704	-
Current portion of long-term debt	101,236	96,579
Total current liabilities	1,617,347	1,193,358
LONG-TERM LIABILITIES		
Operating lease liabilities, less current portion	1,270,216	-
Finance lease liabilities, less current portion	60,294	-
Long-term debt, less current portion	252,846	353,900
Total long-term liabilities	1,583,356	353,900
Total liabilities	3,200,703	1,547,258
NET ASSETS		
Net assets without donor restrictions		
General operating	5,963,805	4,524,274
Board-designated - investment in capital assets	3,150,251	3,233,964
Board-designated	753,414	698,659
Total net assets without donor restrictions	9,867,470	8,456,897
Net assets with donor restrictions	20,904	16,911
Total net assets	9,888,374	8,473,808
Total liabilities and net assets	$ 13,089,077	$ 10,021,066

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 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
Paycheck Protection Program grant	-	-	-
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 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
Payments to providers	-	2,056,527	2,056,527	-	-	2,056,527
Professional and outside services	324,365	88	324,453	526,017	7,721	858,191
Employee-related expenses	1,574,176	390,731	1,964,907	159,368	14,985	2,139,260
Materials and supplies	311,553	1,166,449	1,478,002	132,502	11,822	1,622,326
Other operating expenses	170,332	43,243	213,575	538,372	11,516	763,463
Occupancy costs	871,719	77,060	948,779	67,548	2,926	1,019,253
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 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 STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 1,414,566	$ 368,802
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	312,507	231,134
Amortization of finance lease right of use asset	37,025	-
Amortization of operating lease right of use asset	353,803	-
Accretion of operating lease liabilities	49,427	-
Accretion of finance lease liabilities	3,225	-
Net realized and unrealized loss (gain) on investments	(135,860)	195,493
Earnings on AHRIC capital account	(58,279)	51,085
Changes in operating assets and liabilities		
Grants and accounts receivable	(1,116,028)	(190,938)
Note receivable	3,271	4,413
Prepaid expenses	(15,333)	58,394
Deposits	(550)	(150)
Accounts payable	(93,295)	91,845
Accrued expenses and other liabilities	148,044	(56,251)
Operating lease liabilities	(378,653)	-
Net cash provided by operating activities	523,870	753,827
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(36,749)	(1,011,498)
Purchases of investments	(1,221,763)	(1,115,586)
Proceeds from sales/maturities of investments	481,388	1,834,007
Net cash used by investing activities	(777,124)	(293,077)

(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, 2023 and 2022

	2023	2022
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of finance lease obligation	(38,900)	-
Principal payments on notes payables	(96,397)	(49,957)
Net cash provided (used) by financing activities	(135,297)	(49,957)
Net decrease in cash and cash equivalents	(388,551)	410,793
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,437,844	2,027,051
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,049,293	$ 2,437,844
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 22,572	$ 14,143
Addition to operating lease right of use asset through operating leases	$ 1,927,321	$ -
Addition to property and equipment through finance leases	$ 132,673	$ -

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, 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, 2023 and 2022.

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 efforts expended.

Advertising

The Organization uses advertising to promote its programs. Advertising costs are expensed as incurred. The total amounts of advertising expensed were $69,573 and $81,636, for the years ended June 30, 2023 and 2022, 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, 2023 and 2022, the balance of grants and accounts receivable included $473,734 and $176,602, 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, 2023 and 2022, 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 $312,507 and $231,134, for the years ended June 30, 2023 and 2022, 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 Agency 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, 2023 and 2022.

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, 2023, 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, 2023 and 2022.

(continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in Accounting Principle - Leases

Effective July 1, 2022, the Organization adopted new guidance intended to improve financial reporting for leases. Under the new guidance, a lessee is required to recognize assets and liabilities for leases. Consistent with legacy US GAAP, the recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee will depend on the classification of the lease as financing or operating. However, unlike legacy US GAAP, which requires that only capital leases are recognized in the statement of financial position, the new guidance requires that both operating and financing leases be recognized in the statement of financial position. The Organization adopted this new standard using a modified retrospective method, applying the new guidance as of the beginning of the year of adoption, with a cumulative effect of initially applying the guidance recognized as an adjustment to net assets at July 1, 2022. Therefore, prior period information has not been restated. The Organization has elected the package of practical expedients, which among other things, allows historical lease classifications to be carried forward. The Organization did not elect the hindsight practical expedient in determining lease term and impairment of an entity's Right of Use Assets ("ROU assets"). On July 1, 2022, the Organization recognized an operating lease liability and ROU asset of $1,790,370, related to real estate and office equipment. Additionally on July 1, 2022, the Organization recognized a finance lease liability and capitalized equipment of $132,673, related to office equipment. There was no cumulative-effect adjustment required to be booked to net assets upon transition. The adoption of this standard did not have a material impact on the statement of activities as compared to prior periods.

3. CONCENTRATION OF RISK

The Federal Deposit Insurance Corporation (FDIC) insures cash accounts at banks up to $250,000 per institution. At June 30, 2023 and 2022, approximately $1,607,000 and $1,264,000, 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, 2023 and 2022, the Organization had approximately $2,410,000 and $2,258,000 of investments and cash equivalents in excess of SIPC limitations, respectively.

(continued)

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.

	2023	2022
Financial assets at year-end:		
Cash and cash equivalents	$ 2,049,293	$ 2,437,844
Grants and accounts receivable, net	3,011,077	1,895,049
Investments	2,560,754	1,684,519
Total financial assets	7,621,124	6,017,412
Less amounts not available to be used within one year:		
Net assets with donor restrictions	(20,904)	(16,911)
Financial assets available to meet general expenditures over the next twelve months	$ 7,600,220	$ 6,000,501

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.

5. GRANTS AND ACCOUNTS RECEIVABLE

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

	2023	2022
Arizona Department of Economic Security	$ 877,102	$ 648,013
Arizona First Things First	1,170,777	549,535
Arizona Department of Education	223,255	183,620
Other governmental agencies	518,421	299,590
Other receivables	231,522	224,291
Total grants and accounts receivable	3,021,077	1,905,049
Less: allowance for doubtful accounts	(10,000)	(10,000)
Total grants and accounts receivable, net	$ 3,011,077	$ 1,895,049

(continued)

6. INVESTMENTS

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

	2023	2022
Certificates of Deposit	$ 742,933	$ -
Mutual Funds:		
Long government	67,230	58,615
Diversified emerging markets	133,183	114,773
Small blend	503,925	441,771
Small growth	59,937	50,959
Mid-cap value	15,378	13,355
Mid-cap blend	-	13,857
Mid-cap growth	15,612	-
Large blend	248,744	135,301
Foreign large blend	125,399	181,858
Large growth	32,599	20,614
Ultrashort bond	22,319	44,363
Immediate core bond	188,870	206,525
Government securities	277,358	282,242
Corporate bonds	127,267	120,286
Total investments	$ 2,560,754	$ 1,684,519

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.

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, 2023 and 2022.

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, 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

(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

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:

2024	$ 5,075
2025	5,441
2026	5,834
2027	6,258
2028	8,173
Total	$ 30,781

(continued)

9. PROPERTY AND EQUIPMENT

Property and equipment and related accumulated depreciation at June 30, 2023 and 2022, consists of the following:

	2023	2022
Land	$ 423,869	$ 423,869
Buildings and improvements	3,750,795	3,750,795
Furniture and equipment	3,200,012	2,779,945
Leasehold improvements	243,169	243,169
Construction-in-progress	-	250,644
Total	7,617,845	7,448,422
Less accumulated depreciation	(4,113,512)	(3,763,979)
Net property and equipment	$ 3,504,333	$ 3,684,443

The construction-in-progress at June 30, 2022, consisted of amounts expended on computer equipment. Depreciation expense was $312,507 and $231,134 for the years ended June 30, 2023 and 2022, respectively. Amortization expense on finance lease right of use assets included in the above balance was $37,025 for the year ended June 30, 2023.

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, 2024. Variable interest is payable monthly at the prime rate of interest plus 1.25% (9.5% at June 30, 2023). 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, 2023 and 2022. Under the terms of this agreement, CFR is required to maintain a debt coverage ratio of at least 1.25:1. At June 30, 2023 and 2022, 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, 2023 and 2022.

(continued)

11. NOTES PAYABLE

The notes payable consists of the following at June 30:

	2023	2022
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.	$ 176,774	$ 214,160
Loan for computer equipment, due in monthly installments of $5,738 through April 2026, including interest at 4.70%, collateralized by the equipment.	177,308	236,319
Total notes payable	354,082	450,479
Less current portion	(101,236)	(96,579)
Non-current portion	$ 252,846	$ 353,900

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

2024	$ 101,236
2025	106,119
2026	93,955
2027	45,410
Thereafter	7,362
Total	$ 354,082

12. NET ASSETS WITH DONOR RESTRICTIONS

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

	2023	2022
Connie Hillman Foundation	$ 10,000	$ 10,000
AAA Foundation	6,674	2,566
Graham County Resource Center	4,230	4,230
River Cities United Way	-	115
Total net assets with donor restrictions	$ 20,904	$ 16,911

(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, 2023 and 2022, $753,414 and $698,659, 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, 2023 and 2022, $3,150,251 and $3,233,964, respectively, was designated for this use.

14. OPERATING LEASES

After Implementation of ASU No. 2016-02, Leases (Topic 842)

Effective July 1, 2022 (the "implementation date"), the Organization adopted new guidance intended to improve financial reporting for 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. 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.

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.

CFR has 11 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.

(continued)

14. **OPERATING LEASES** (continued)

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

Lease cost:

Operating lease cost	$ 403,229
Short-term lease cost	61,362
Net lease cost	$ 464,591

Other information:

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

Future minimum lease payments for CFR's operating leases as of June 30, 2023 are as follows:

Year ending December 31,	
2024	$ 368,956
2025	318,362
2026	260,903
2027	206,313
2028	189,641
Thereafter	395,851
Total future lease payments	1,740,026
Less: Present value discount	(141,931)
Total	$ 1,598,095
Current operating lease liabilities	$ 327,879
Long-term operating lease liabilities	1,270,216
Total operating lease liabilities	$ 1,598,095

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.

(continued)

14. OPERATING LEASES (continued)

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, 2023 and 2022, was $28,057 and $26,953, respectively, and is included in other revenue.

Prior to ASU No. 2016-02, Leases (Topic 842)

At June 30, 2022, CFR had 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.

At June 30, 2022, future minimum lease payments under these leases were as follows for the years ending June 30:

2023	$ 444,578
2024	383,392
2025	328,605
2026	251,922
2027	177,044
Thereafter	557,679
Total	$ 2,143,220

15. FINANCE LEASES

Effective July 1, 2022 (the "implementation date"), the Organization adopted new guidance intended to improve financial reporting for 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. 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.

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.

(continued)

15. **FINANCE LEASES** (continued)

CFR 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, 2023:

Lease cost:	
Amortization of ROU assets	$ 37,025
Interest on lease liabilities	3,225
Net lease cost	$ 40,250
Other information:	
Financing cash outflows from finance leases	$ 38,900
Right of use assets obtained in exchange for new finance lease liabilities	$ 132,673
Weighted-average remaining lease term	2.58 years
Weighted-average discount rate	2.88%

Future minimum lease payments for CFR's operating leases as of June 30, 2023 are as follows:

Year ending December 31,	
2024	$ 38,899
2025	38,899
2026	22,727
Total future lease payments	100,525
Less: Present value discount	(3,527)
Total	$ 96,998
Current finance lease liabilities	$ 36,704
Long-term finance lease liabilities	60,294
Total finance lease liabilities	$ 96,998

(continued)

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 $134,879 and $107,837 for the years ended June 30, 2023 and 2022, respectively.

17. GRANTS FROM GOVERNMENTAL AGENCIES

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

	2023	2022
Arizona Department of Economic Security and Arizona Department of Child Safety	$ 8,865,958	$ 6,255,859
Arizona Department of Education	2,382,005	2,248,306
Arizona First Things First	2,895,580	2,728,547
United Way First Things First	3,962,439	3,089,013
Arizona Department of Health Services	1,018,814	1,033,184
U.S. Department of Health and Human Services	1,213,025	822,578
Pima County	38,037	36,780
Other government contracts	696,272	681,844
Total contracts with governmental agencies	$ 21,072,130	$ 16,896,111

During the years ended June 30, 2023 and 2022, revenue from contracts with governmental agencies were 94% and 95%, respectively, 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.

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18. COMMITMENTS AND CONTINGENCIES (continued)

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.

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 $199,275 and $140,996 at June 30, 2023 and 2022, respectively. CFR recorded a gain (loss) of $4,893 and $(51,085) on this investment during the years ended June 30, 2023 and 2022, respectively.

20. SUBSEQUENT EVENTS

Management evaluated subsequent events through November 8, 2023, which is the date on which the consolidated financial statements were available to be issued.