

HENRY & HORNE, LLP  
CERTIFIED PUBLIC ACCOUNTANTS

ARIZONA EARLY CHILDHOOD DEVELOPMENT  
AND HEALTH BOARD

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016





ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD

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HENRY & HORNE, LLP  
Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Arizona Early Childhood Development and Health Board  
Phoenix, Arizona

### Report on the Financial Statements

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of Arizona Early Childhood Development and Health Board ("Board"), of the State of Arizona, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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

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## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of Arizona Early Childhood Development and Health Board, of the State of Arizona as of June 30, 2016, and the respective changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 1, the financial statements of the Arizona Early Childhood Development and Health Board, State of Arizona, are intended to present the financial position, and the changes in the financial position of only that portion of the Board's major funds and aggregate remaining fund information of the State of Arizona that is attributable to transactions of the Arizona Early Childhood Development and Health Board. They do not purport to, and do not, present fairly the financial position of the State of Arizona as of June 30, 2016, or the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2016 on our consideration of the Arizona Early Childhood Development and Health Board'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 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 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 Arizona Early Childhood Development and Health Board's internal control over financial reporting and compliance.

*Henry & Horne LLP*

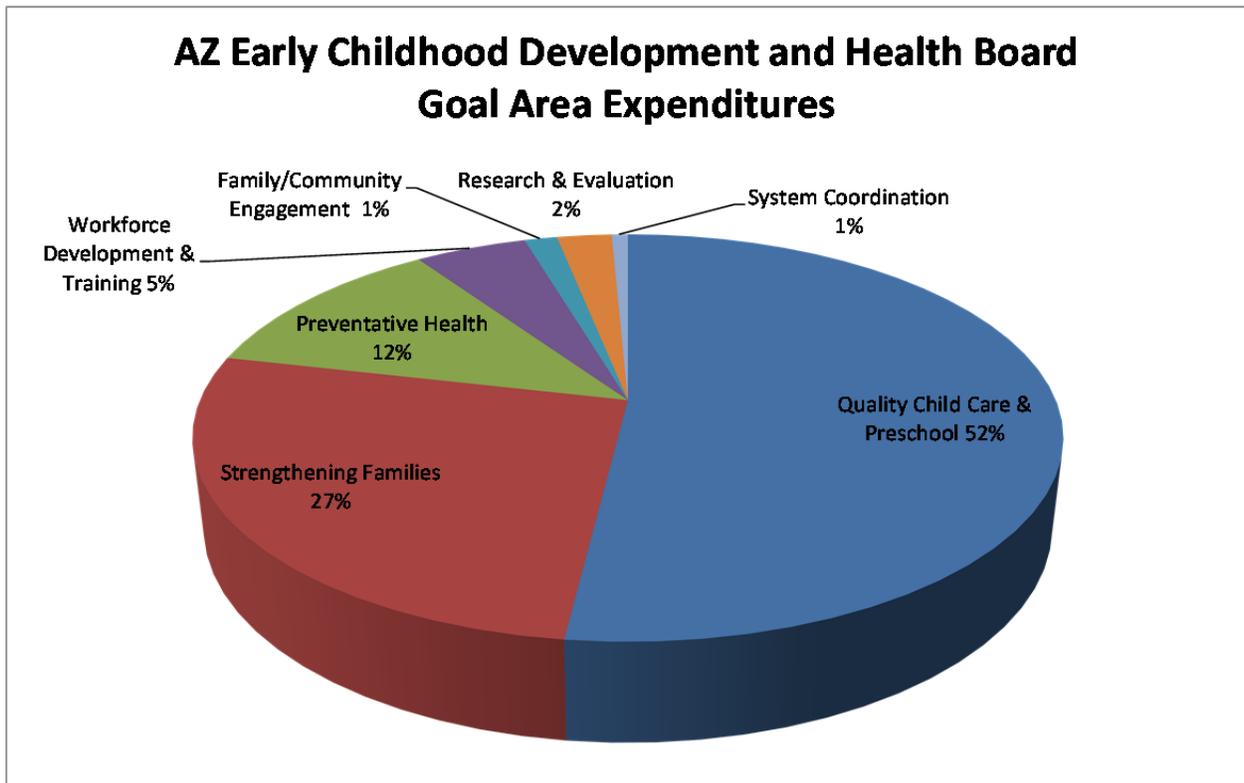
Casa Grande, Arizona  
October 24, 2016

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2016**

The discussion and analysis is designed to provide an analysis of the Arizona Early Childhood Development and Health Board's (Board's) financial conditions and operating results and to also inform the reader on the Health Board's issues and activities.

**Financial Highlights**

Spending on program areas for fiscal year 2015-2016 totaled \$93.3 million (with \$21.8 of this supported from fund 2543) in the following Goal Areas:



In fiscal year 2016 program expenditures made in these goal areas, throughout the state, supported programming in the following ways.

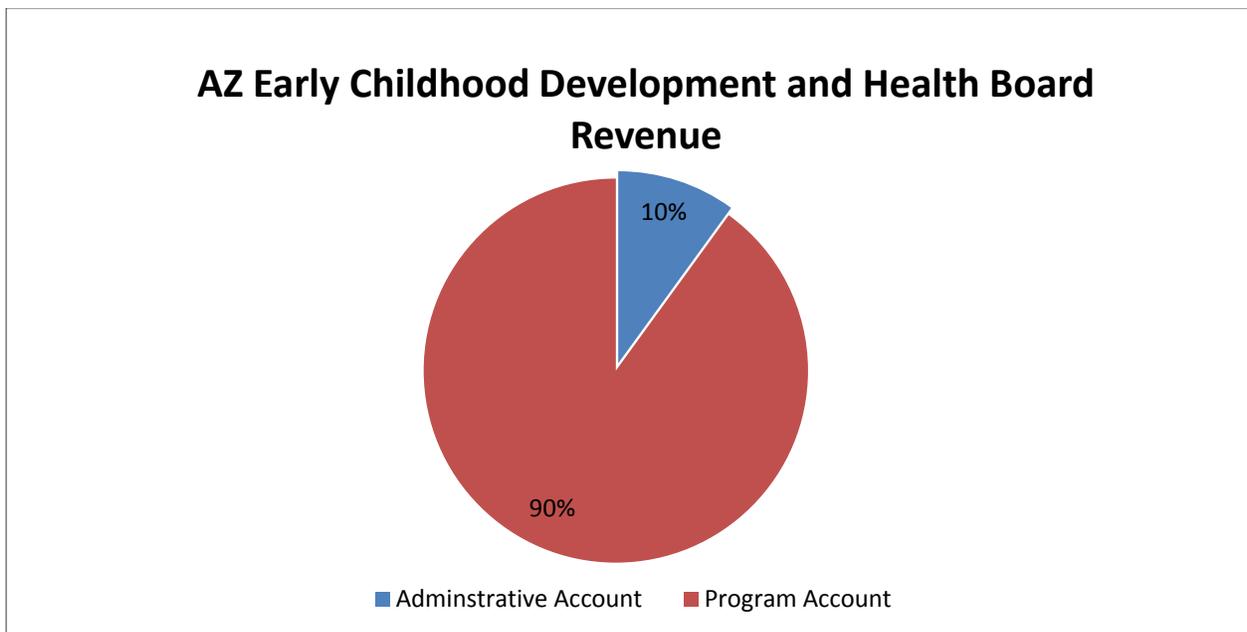
- The Quality and Access goal is in place to increase the availability, quality and diversity of learning environments that support children's language and literacy development, emotional well-being, health and safety. This includes Quality First, the Board's signature program that has engaged more than 900 center and home based child care providers in efforts to improve the quality of the early education services they provide.
- The Professional Development goal area focuses on developing a comprehensive and well-articulated professional development system within Arizona for teachers who work with infant, toddlers and preschoolers. Professional development strategies also address increasing those teachers' access to college coursework and/or degrees so that they are better prepared to engage young minds.
- Under the Health goal area, funds are allocated to improve children's health by increasing access to and expanding the use of early preventive developmental and sensory screenings to identify children with developmental delays, parent education and

referrals to existing services, and increasing medical professionals' use of best practice guidelines for preventive medical, oral and mental healthcare.

- Funds allocated to the Family Support goal area support the goal to expand families' access to the information, services and supports they need to help their young children achieve their fullest potential. Services are voluntary and provided at levels that meet the family's needs, from community-based parenting education to in-home coaching to address tough situations like parenting a child with special needs or dealing with multiple births.
- The overall goal for Coordination is to facilitate coordination among the federal, state, private and tribal system related to early childhood development and health to ensure a common understanding of the systems, share ownership in ensuring access to services for all children and maximize resources.
- A multi-level system of research and evaluation strategies were implemented under the Evaluation goal area to be responsive to the information needs of varied stakeholder groups including the First Things First Board, Regional Partnership Council directors and members, and Arizona citizens.
- Finally, the goal of Community Awareness is to use a variety of community-based activities and materials to increase public awareness of the critical importance of early childhood development and health.

Tobacco revenue deposited with FTF in FY16 continued to be recorded in the following accounts.

- In fiscal year 2016, \$13.1 million of a total of \$131.2 million of tobacco tax funds collected were deposited in the Administrative account, as required by law.



## Overview of the Financial Statements

The Board's basic financial statements comprise two components: 1) fund financial statements, and 2) notes to financial statements. This report also contains supplementary information in addition to the basic financial statements themselves.

### Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Board uses accounting to ensure and demonstrate compliance with finance related legal requirements. The Health Board's financial information is reported in governmental funds, which focus on how money flows into and out of those funds, and the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting, which measure cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Board's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Health Board's projects.

### Notes to the financial statements

The Notes to the Financial Statements provide additional information that is essential for a full understanding of the data provided in the statements.

## Financial Analysis

The following table and analysis discuss the financial position and changes to the financial position for the Board as a whole as of and for the year ended June 30, 2016.

### Balance Sheet

The following table reflects the condensed Balance Sheet as of June 30, 2016.

#### Condensed Balance Sheet (in Thousands)

	Program Fund	Admin Fund	Non-major Funds	Total
Total assets	\$319,184	\$83,645	\$ 7,570	\$410,399
Total liabilities	13,805	18,478	1,285	33,568
Total fund balances	<u>\$305,379</u>	<u>\$65,167</u>	<u>\$ 6,285</u>	<u>\$376,831</u>

Total assets have increased from fiscal year 2015. This is mainly due to a higher ending cash balance at the end of the year.

### Changes in Fund Balances

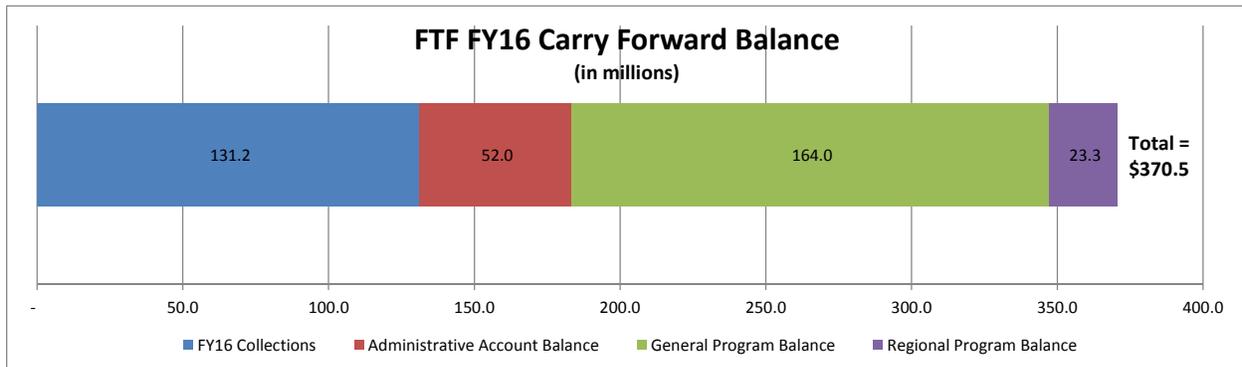
The following table presents a summary of the changes in fund balance for the year ended June 30, 2016.

#### Condensed Revenues, Expenditures and Changes in Fund Balances (in Thousands)

	<u>Program Fund</u>	<u>Admin Fund</u>	<u>Non-major Funds</u>	<u>Total</u>
Program revenues				
Tobacco tax	\$ 113,271	\$ 12,586	\$ -	\$ 125,857
Investment earnings	4,782	531	-	5,313
Grants	-	-	257	257
Other revenue	-	1	-	1
Total revenues	<u>118,053</u>	<u>13,118</u>	<u>257</u>	<u>131,428</u>
Expenditures				
Personal and related expenditures	2,746	9,905	60	12,711
Professional services	1,955	430	254	2,639
Travel	59	327	3	389
Aid to others including State	87,200	18,067	3,420	108,687
Other expenditures	1,385	2,127	19	3,531
Total expenditures	<u>93,345</u>	<u>30,856</u>	<u>3,756</u>	<u>127,957</u>
Excess of revenues over expenditures	24,708	(17,738)	(3,499)	3,471
Transfers in/(out)	-	(150)	9,382	9,232
Beginning fund balances	<u>280,671</u>	<u>83,055</u>	<u>403</u>	<u>364,129</u>
Ending fund balances	<u>\$ 305,379</u>	<u>\$ 65,167</u>	<u>\$ 6,286</u>	<u>\$ 376,832</u>

FTF ended the fiscal year in a positive position in relation to the final approved budget, and actually ended FY16 with an increase to the total agency fund balance. Almost \$6 million of this increase was a result of grant dollars received and recognized in FY16 which are expected to be spent in subsequent fiscal years.

FTF ended the fiscal year with \$376.8 million; \$370.5 million of which was in tobacco tax related funds. Of the \$370.5 million this amount, \$131.2 million are current year collections which serve as the base for FY17's expenditure budget. This leaves a marginal fund balance of \$239.3 million of which \$52.0 is in the Administrative Account, \$164.0 million is in the general Program Account, and \$23.3 million is held within regional fund balances.



### Financial Analysis of the Health Board's Funds

The Board maintains fund accounting to demonstrate compliance with budgetary and legal requirements. The following is a brief discussion of financial highlights from the fund financial statements.

#### Governmental Funds

The focus of governmental fund financial statements is to provide information on the near-term inflows, outflows and balances of spendable resources. The Board maintains two major governmental funds 1) program funds and 2) administrative fund. Beyond these funds, FTF reports all other financial activity under the heading of "non-major funds".

The Program Fund is the main operating fund of the Board and is used in furtherance of the objectives set forth in Arizona Revised Statutes, Title 8, Chapter 13.

The Administrative Fund is used to pay administrative expenses as well as cover some programmatic expenditures.

#### **Budgeting Overview**

When the initiative passed creating FTF (in November 2006), it dictated tax revenues would begin to be collected and accrue to the agency starting January 1, 2007 (six months into FY07). The timing of when the agency would begin spending funds was also outlined in statute, with full spending to begin in FY10. Statute created several allowances for earlier spending, but statute expressly acknowledged a "development phase." Annual collection of tobacco tax revenue and interest income form the basis for the budget the Board is responsible for setting each year for the subsequent year (per ARS 8-1184). In setting this budget, statute directs the Board to determine the total amount of funds necessary to support the administrative and program (statewide and regional) funding needs. Once this total spending budget is set, statute then guides how the funds within the Program area will be allocated.

## **Non-Major Funds**

According to FTF statute (ARS 8-1182) the Board may accept and spend monies from either Gifts or Grants. In FY16, FTF saw an increase in these funds due to dollars received from the Arizona Department of Education (ADE) in relation to their federal PreK Development Grant.

## **Economic and Other Factors**

### Tobaccos Revenues

In June 2012, the FTF Board was presented the findings from economic analysis it had request be completed by the L. William Seidman Research Institute, W. P. Carey School of Business at ASU. This analysis concluded that FTF's Tobacco Tax collections will not fall as radically as previously considered. In June 2014 ASU presented the Board with updated modeling predictions which again showed a relative amount of overall stability, but also did project FTF would see modest declines over time and that depending on a number of factors, total collections could eventually dip below \$100 million. Just prior to the close of FY16 FTF was presented with a draft report updating tobacco collection projections. Once this report is finalized, this latest data will be factored into future budgeting.

FTF has historically projected tobacco revenues would decline over time. In FY16 however, FTF realized a gain over prior year collections amounts. This was the first year in which this has occurred since FTF has been receiving tobacco tax revenues. It is believed that this upswing in revenues is a onetime event due to the changes in the DOR collection process. Looking forward, it is expected that the overall historic trend of an annual decline in revenues of about \$2 million will continue.

### Investment Income

FTF initially invested its funds with the state treasurer in a low yield, highly liquid investment pools. After several years of operation, and the agency moved beyond its start-up phase a substantial fund balance has grown. In order to take advantage of this balance, the Board has sought other, higher yielding investments options to bring in greater interest income. FTF implemented a new investment strategy with the Treasurer's office that continues to yield at a much higher rate of return (as planned/anticipated), with FTF receiving just under a half million dollars in one month. This strategy will continue to help counter the eventual spend down of the agency's fund balance. However, as FTF's cash balances continue to decline this revenue source will accordingly fall in relation.

## **Financial Contact**

The Board's financial statements are designed to present users with a general overview of the finances and to demonstrate accountability. If you have any questions about the report or need additional financial information, please contact Liz Barker Alvarez, Chief Policy Advisor (602) 771-5063.

## FINANCIAL STATEMENTS

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2016

ASSETS	Program Fund	Administrative Fund	Non-major Funds	Total Governmental Funds
Cash and cash equivalents	\$ 290,643,762	\$ 82,831,751	\$ 7,155,465	\$ 380,630,978
Tobacco tax receivable	7,291,799	810,200	-	8,101,999
Other receivables	2,974,945	-	-	2,974,945
Due from other agencies	-	-	414,947	414,947
Due from other funds	18,273,821	3,492	-	18,277,313
<b>TOTAL ASSETS</b>	<b><u>\$ 319,184,327</u></b>	<b><u>\$ 83,645,443</u></b>	<b><u>\$ 7,570,412</u></b>	<b><u>\$ 410,400,182</u></b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Grants/other payables	\$ 13,709,299	\$ 127,003	\$ 1,026,807	\$ 14,863,109
Accrued liabilities	92,829	334,432	1,240	428,501
Due to other funds	3,492	18,016,880	256,941	18,277,313
<b>TOTAL LIABILITIES</b>	<b><u>13,805,620</u></b>	<b><u>18,478,315</u></b>	<b><u>1,284,988</u></b>	<b><u>33,568,923</u></b>
<b>Fund balances</b>				
Restricted	<u>305,378,707</u>	<u>65,167,128</u>	<u>6,285,424</u>	<u>376,831,259</u>
<b>TOTAL FUND BALANCES</b>	<b><u>305,378,707</u></b>	<b><u>65,167,128</u></b>	<b><u>6,285,424</u></b>	<b><u>376,831,259</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 319,184,327</u></b>	<b><u>\$ 83,645,443</u></b>	<b><u>\$ 7,570,412</u></b>	<b><u>\$ 410,400,182</u></b>

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2016

	Program Fund	Administrative Fund	Non-major Funds	Total Governmental Funds
<b>REVENUES</b>				
Tobacco tax	\$ 113,270,617	\$ 12,585,624	\$ -	\$ 125,856,241
Investment earnings	4,782,054	531,339	-	5,313,393
Grants and donations	-	-	256,658	256,658
Other revenue	-	1,108	-	1,108
<b>TOTAL REVENUES</b>	<b>118,052,671</b>	<b>13,118,071</b>	<b>256,658</b>	<b>131,427,400</b>
<b>EXPENDITURES</b>				
Current:				
Personal services	2,006,136	7,235,014	50,426	9,291,576
Employee related expenditures	739,816	2,669,575	9,145	3,418,536
Professional-outside services	1,955,295	429,980	253,859	2,639,134
Travel in-state	46,205	273,747	181	320,133
Travel out-of-state	13,275	53,702	3,190	70,167
Aid to others including State agencies	87,200,374	18,066,899	3,420,256	108,687,529
Other operating expenditures	1,256,143	1,901,764	19,229	3,177,136
Non-capital equipment	11,088	98,241	-	109,329
Capital outlay	116,363	127,035	-	243,398
<b>TOTAL EXPENDITURES</b>	<b>93,344,695</b>	<b>30,855,957</b>	<b>3,756,286</b>	<b>127,956,938</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>24,707,976</b>	<b>(17,737,886)</b>	<b>(3,499,628)</b>	<b>3,470,462</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in from other state agencies	-	-	9,382,527	9,382,527
Transfers out to other state agencies	-	(150,000)	-	(150,000)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>(150,000)</b>	<b>9,382,527</b>	<b>9,232,527</b>
<b>Net change in fund balances</b>	<b>24,707,976</b>	<b>(17,887,886)</b>	<b>5,882,899</b>	<b>12,702,989</b>
<b>FUND BALANCES BEGINNING OF YEAR</b>	<b>280,670,731</b>	<b>83,055,014</b>	<b>402,525</b>	<b>364,128,270</b>
<b>FUND BALANCES END OF YEAR</b>	<b>\$ 305,378,707</b>	<b>\$ 65,167,128</b>	<b>\$ 6,285,424</b>	<b>\$ 376,831,259</b>

See accompanying notes.

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ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Early Childhood Development and Health Board (Board) is an agency of the State of Arizona (State). The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units for one or more individual funds and not the overall government. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Reporting Entity

The Board was established by Ballot Proposition 203 (Prop 203) in the November 7, 2006, State of Arizona general election to provide programs and services to pre-kindergarten children and their families for the purpose of assisting child development by providing education and other support, including parent and family support programs, child care, preschool, health screenings and access to preventive health services. As required by Arizona Revised Statutes (A.R.S.) §16-651, on December 7, 2006, the Governor issued the Governor Issues Elections Proclamation declaring Prop 203 into law immediately and effectively creating the Board.

The Board is part of the State of Arizona's reporting entity. However, the fund financial statements are intended to present solely the transactions of the Board for the current year. These statements do not present the financial position or changes in financial position of the State. The State issues a publicly available Comprehensive Annual Financial Report (CAFR). Copies of the CAFR are posted on the Arizona Department of Administration's General Accounting Office's (GAO) Web site at [www.gao.state.az.us](http://www.gao.state.az.us) or can be obtained by contacting the GAO at 100 North 15th Avenue, 3rd Floor, Suite 302, Phoenix, Arizona, 85007.

The A.R.S. §8-1186 requires an annual audit of the Board's funds, accounts, and sub-accounts by an independent certified public accountant within 120 days after the end of the fiscal year. The accompanying financial statement serves as the basis for this audit.

Measurement Focus/Basis of Accounting

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Tobacco tax income associated with the current fiscal period is considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Grants and similar awards are recognized as revenues as soon as all eligibility requirements imposed by the grantor or provider have been met. Other revenue is not susceptible to accrual because generally they are not measurable until received in cash.

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Board reports the following major special revenue funds:

Program Fund – A.R.S. §8-1181(D) requires that 90 percent of monies received pursuant to A.R.S. §42-3371 shall be deposited into the Program Fund. Monies deposited into this fund are to be used in furtherance of the objectives set forth in Prop 203.

Administrative Fund – Ten percent of the monies received by the Board pursuant to A.R.S. §42-3371 shall be deposited into an Administrative Fund. Monies deposited into the Administrative Fund are used to pay administrative expenses, including the Board's staff salaries.

The focus of the governmental fund financial statements is on major funds rather than reporting fund by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The Board's non-major funds are as follows:

Other Special Revenue Funds

Private Gifts Fund  
Grant Monies Fund  
Federal Grants Fund

Cash and Cash Equivalents

Cash represents amounts in demand deposits and amounts held in trust by financial institutions. The funds held in trust are available to the Board upon demand. Cash equivalents are defined as short-term (original maturities of three months or less), highly liquid investments that are 1) readily convertible to known amounts of cash and 2) so near maturity that they present insignificant risk of changes in value because of changes in interest rates.

Interfund Receivables and Payables

Interfund receivables and payables represent short-term cash loans at year end. All such balances are expected to be repaid in the next fiscal year.

Investment Valuation

Arizona Revised Statutes (ARS) authorize the Board to invest public monies in the State Treasurer's Local Government Investment Pool. As required by GASB Accounting Standards Codification, investments are reported at fair value which is the amount at which financial instruments could be exchanged in a current transaction between willing parties.

Fund Balances - Restricted – Governmental fund balances are classified as restricted in that amounts can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 CASH AND INVESTMENTS HELD BY THE STATE TREASURER

All cash is deposited or invested with the Arizona State Treasurer (Treasurer). The Treasurer is part of the State's financial reporting entity and issues a separately published Annual Financial Report. A copy of the Treasurer's Annual Financial Report can be obtained from its Web site at [www.aztreasury.gov](http://www.aztreasury.gov) or by contacting the Treasurer's Office at 1700 West Washington St., 1<sup>st</sup> Floor, Phoenix, AZ, 85007-2812.

A.R.S. requires state agencies' monies to be deposited with the Treasurer, and further requires those deposits to be invested in various pooled funds. Cash and investments held by the Treasurer represent the Board's portion of those monies. The Treasurer invests idle monies of the state agencies in internal investment pools (Pool 3 and Pool 16) and distributes interest to the participants. Interest earned from these invested monies is allocated monthly based on the average daily balance. Participant shares in the pool are purchased and sold based on the net asset value of the shares, and a participant's portion of the pool is not identified with specific investments. Accordingly, the Board's portion of these deposits and investments approximates the Board's value of pool shares.

The Treasurer's internal investment Pool 3 and Pool 16 are not required to be registered (and are not registered) with the Securities and Exchange Commission under the Investment Company Act of 1940. In accordance with A.R.S. §35-311, the State Board of Investments reviews the activities and performance of the pool monthly.

At June 30, 2016, the Board's deposits with the Treasurer were as follows:

	Program Fund	Administrative Fund	Non-major Funds	Total
Cash	\$ 6,230,182	\$ 1,169,987	\$ 7,155,465	\$ 14,555,634
Investments-Pool 3 & Pool 16	284,413,580	81,661,764	-	366,075,344
	<u>\$ 290,643,762</u>	<u>\$ 82,831,751</u>	<u>\$ 7,155,465</u>	<u>\$ 380,630,978</u>

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016

NOTE 3 RETIREMENT AND PENSION PLAN

Arizona State Retirement Plan

Plan Description. The Arizona State Retirement System (ASRS) administers a cost sharing multiple-employer defined benefit pension plan that covers employees of the Board. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of ARS Title 38, Chapter 5, Article 2. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. ASRS issues a publicly available report that includes financial statements and required supplementary information. The report may be obtained in writing at Arizona State Retirement System, 3300 N. Central Avenue, P.O. Box 33910, Phoenix, Arizona 85067-3910 or by calling 602-240-2200 or 1-800-621-3778.

Funding Policy. The Arizona State Legislature establishes and may amend active plan members' and the Board's contribution rates. For the year ended June 30, 2016, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.47% (11.35% retirement and 0.12% long-term disability) of the member's annual covered payroll and the Board was required by statute at the actuarially determined rate of 11.47% (10.85% retirement, 0.50% for health insurance premium, and 0.12% long-term disability) of the members' annual covered payroll. The Board's contributions to ASRS for the years ended June 30, 2016, 2015, and 2014 were \$979,829, \$1,018,012 and \$958,066, respectively.

Years ended June 30,	<u>Retirement</u>	<u>Health Insurance</u>	<u>Long-term Disability</u>	<u>Total</u>
2016	\$ 926,866	\$ 42,713	\$ 10,250	\$ 979,829
2015	955,704	51,778	10,530	1,018,012
2014	888,327	49,813	19,926	958,066

NOTE 4 RESTRICTED FUND BALANCE

The Board has restricted fund balances in the Program Fund and Administrative Fund due to voter-imposed legislation which imposed a state-wide tobacco tax to provide funding for quality early childhood development and health. The Non-major Fund balance is restricted due to grantor restrictions imposed at the time grants are awarded.

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

NOTE 5 INTERAGENCY SERVICE AGREEMENT

The Board executed an interagency service agreement with the Arizona Department of Health Services (“ADHS”) in the amount of \$1,752,394 to provide financial support to the Board for costs associated with securing evidence-based early intervention home visitation services through the Nurse Family Partnership and/or Healthy Families models to eligible women in identified Community Health Analysis Areas in Arizona. Transfers into the Board’s accounts for year ended June 30, 2016 amounted to \$1,612,527, including \$388,291 due from ADHS to the Board at June 30, 2016. The Agreement is effective through January 14, 2017.

The Board executed an interagency service agreement with the Arizona Department of Education (ADE) in the amount of \$7,770,000 to provide financial support to the Board for developing and enhancing capacity to deliver high-quality preschool programming as well as implement and sustain high-quality preschool for eligible children in selected high-need communities. Transfers into the Board’s accounts for year ended June 30, 2016 amounted to \$7,770,000 from ADE. The Agreement is effective through June 30, 2019.

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REQUIRED SUPPLEMENTARY INFORMATION

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD  
PROGRAM FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL  
Year Ended June 30, 2016

	Budgeted Amounts		Variance with Final Budget- Positive (Negative)
	Original & Final	Actual Amounts	
<b>REVENUES</b>			
Tobacco tax	\$ 108,450,000	\$ 113,270,617	\$ 4,820,617
Investment earnings	4,950,000	4,782,054	(167,946)
<b>TOTAL REVENUES</b>	<b>113,400,000</b>	<b>118,052,671</b>	<b>4,652,671</b>
<b>EXPENDITURES</b>			
Current			
Personal services	2,726,091	2,006,136	719,955
Employee related expenditures	1,126,807	739,816	386,991
Professional and outside services	3,617,077	1,955,295	1,661,782
Travel in-state	138,350	46,205	92,145
Travel out-of-state	28,270	13,275	14,995
Aid to others including State agencies	92,247,837	87,200,374	5,047,463
Other operating expenditures	2,441,833	1,256,143	1,185,690
Non-capital equipment	228,500	11,088	217,412
Capital outlay	203,000	116,363	86,637
<b>TOTAL EXPENDITURES</b>	<b>102,757,765</b>	<b>93,344,695</b>	<b>9,413,070</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>10,642,235</b>	<b>24,707,976</b>	<b>14,065,741</b>
<b>FUND BALANCE BEGINNING OF YEAR</b>	<b>280,670,731</b>	<b>280,670,731</b>	<b>-</b>
<b>FUND BALANCE END OF YEAR</b>	<b>\$ 291,312,966</b>	<b>\$ 305,378,707</b>	<b>\$ 14,065,741</b>

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD  
ADMINISTRATIVE FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL  
Year Ended June 30, 2016

	Budgeted Amounts <u>Original &amp; Final</u>	Actual Amounts <u>                    </u>	Variance with Final Budget- Positive (Negative)
<b>REVENUES</b>			
Tobacco tax	\$ 12,050,000	\$ 12,585,624	\$ 535,624
Investment earnings	550,000	531,339	(18,661)
Other revenue	-	1,108	1,108
<b>TOTAL REVENUES</b>	<u>12,600,000</u>	<u>13,118,071</u>	<u>518,071</u>
<b>EXPENDITURES</b>			
Current			
Personal services	8,289,281	7,235,014	1,054,267
Employee related expenditures	3,315,725	2,669,575	646,150
Professional and outside services	857,934	429,980	427,954
Travel in-state	394,132	273,747	120,385
Travel out-of-state	69,907	53,702	16,205
Aid to others including State agencies	18,061,784	18,066,899	(5,115)
Other operating expenditures	1,773,230	1,901,764	(128,534)
Non-capital equipment	196,491	98,241	98,250
Capital outlay	55,000	127,035	(72,035)
<b>TOTAL EXPENDITURES</b>	<u>33,013,484</u>	<u>30,855,957</u>	<u>2,157,527</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(20,413,484)</u>	<u>(17,737,886)</u>	<u>2,675,598</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers out to other state agencies	(150,000)	(150,000)	-
<b>Total other financing sources (uses)</b>	<u>(150,000)</u>	<u>(150,000)</u>	<u>-</u>
<b>Net change in fund balances</b>	<u>(20,563,484)</u>	<u>(17,887,886)</u>	<u>2,675,598</u>
<b>FUND BALANCE BEGINNING OF YEAR</b>	<u>83,055,014</u>	<u>83,055,014</u>	<u>-</u>
<b>FUND BALANCE END OF YEAR</b>	<u>\$ 62,491,530</u>	<u>\$ 65,167,128</u>	<u>\$ 2,675,598</u>

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REQUIRED SUPPLEMENTARY INFORMATION

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HENRY & HORNE, LLP  
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

The Board of Directors  
Arizona Early Childhood Development and Health Board  
Phoenix, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major fund and the aggregate remaining fund information of Arizona Early Childhood Development and Health Board, Arizona (Board), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Arizona Early Childhood Development and Health Board's basic financial statements, and have issued our report thereon dated October 24, 2016.

#### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Arizona Early Childhood Development and Health Board's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Board's internal control. Accordingly, we do not express an opinion on the effectiveness of Arizona Early Childhood Development and Health Board'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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Arizona Early Childhood Development and Health Board'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 determination of financial statement amounts. 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Henry + Horne LLP*

Casa Grande, Arizona  
October 24, 2016