

ARIZONA EARLY CHILDHOOD DEVELOPMENT  
AND HEALTH BOARD

FINANCIAL STATEMENTS

Year Ended June 30, 2019

**ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD  
TABLE OF CONTENTS**

Independent Auditors' Report	1
Management's Discussion and Analysis	3
<b>BASIC FINANCIAL STATEMENTS</b>	
Balance Sheet – Governmental Funds	11
Statement of Revenues, Expenditures and Changes in Fund Balances	12
Governmental Funds	12
Notes to Financial Statements	13
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance	
Budget and Actual – Program Fund	19
Schedule of Revenues, Expenditures, and Changes in Fund Balance	
Budget and Actual – Administrative Fund	20
Schedule of Revenues, Expenditures, and Changes in Fund Balance	
Budget and Actual – Grants and Gifts Fund	21
<b>REPORT ON INTERNAL CONTROL AND COMPLIANCE</b>	
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 <i>Government Auditing Standards</i>	23

## 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 of Arizona Early Childhood Development and Health Board ("Board"), of the State of Arizona, as of and for the year ended June 30, 2019, 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.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of Arizona Early Childhood Development and Health Board, of the State of Arizona as of June 30, 2019, 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, 2019, 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 opinions are not modified with respect to this matter.

## **Other Matter**

### *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 11, 2019 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*

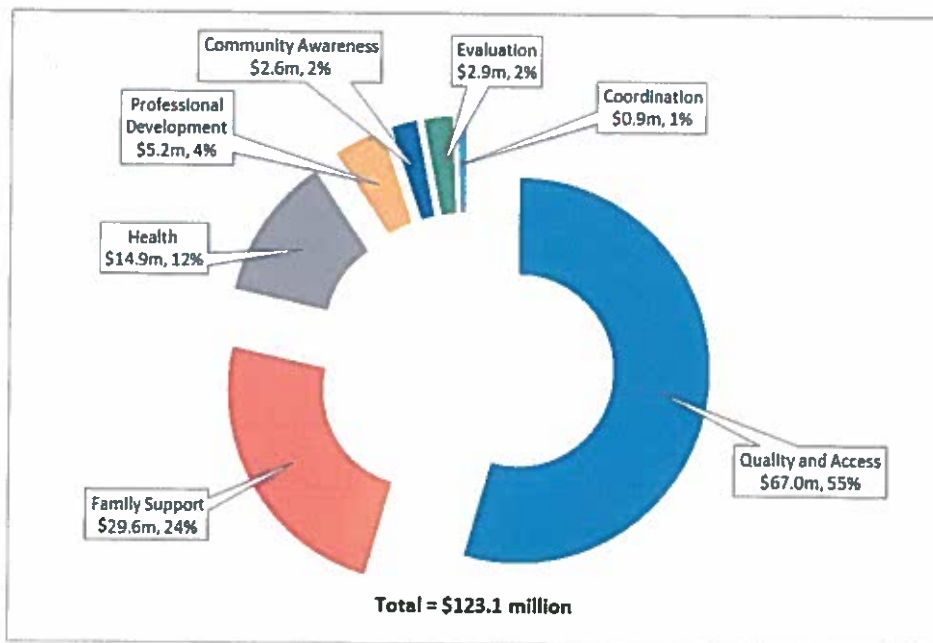
Tempe, Arizona  
October 11, 2019

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2019

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 Board's issues and activities.

### Financial Highlights

Programmatic spending from the Tobacco Funds Program Account for fiscal year 2018-2019 totaled \$123.1 million in the following Board goal areas:



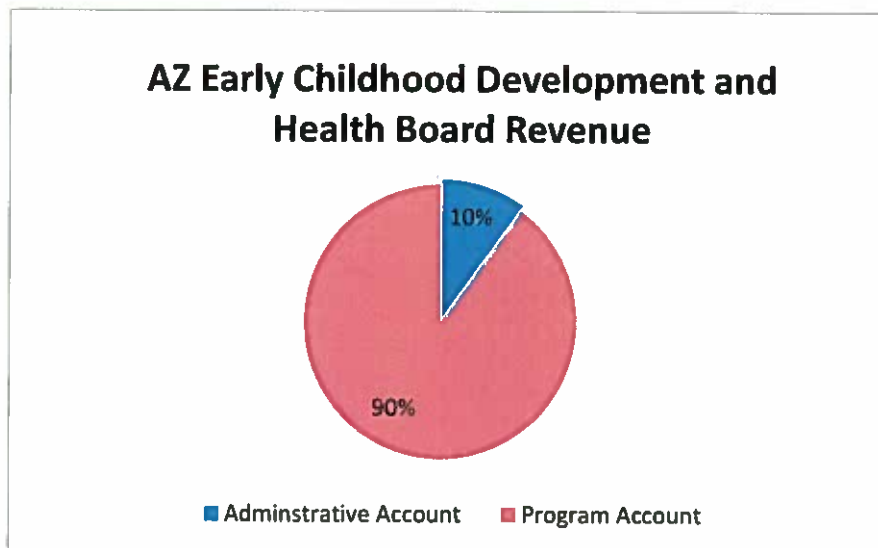
In fiscal year 2019 program expenditures made in these goals areas, throughout the state, supported programming in the following ways.

- 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 over 1,000 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 First Things First (FTF) in FY19 continued to be recorded in the following accounts.

- In fiscal year 2019, \$12.4 million of a total of \$124.3 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 tables 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, 2019.

### Balance Sheet

The following table reflects the condensed Balance Sheet as of June 30, 2019.

	Condensed Balance Sheet (in Thousands)			
	Program Fund	Admin Fund	Non-major Funds	Total
Total assets	304,839	\$ 64,937	\$ 4,325	\$ 374,101
Total liabilities	15,410	1,417	2,468	19,296
Total fund balances	<u>\$ 289,429</u>	<u>\$ 63,519</u>	<u>\$ 1,857</u>	<u>\$ 354,805</u>

Total assets have decreased from fiscal year 2018. This is mainly due to a lower 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, 2019.

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

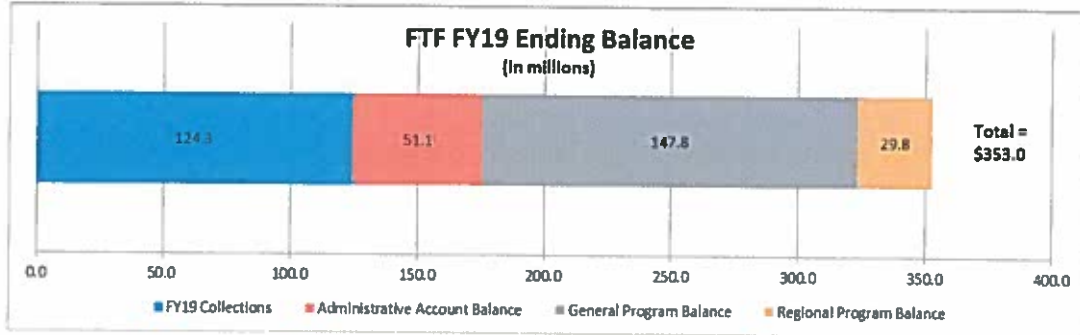
	Program Fund	Admin Fund	Non-major Funds	Total
<b>Program revenues</b>				
Tobacco tax	\$ 103,804	\$ 11,534	\$ -	115,337
Investment earnings	8,022	891	4	8,917
Grants	-	-	338	338
Other revenue	-	-	98	98
<b>Total revenues</b>	<b>111,826</b>	<b>12,425</b>	<b>439</b>	<b>124,691</b>
<b>Expenditures</b>				
Personal and related expenditures	2,651	10,419	-	13,070
Professional services	2,224	628	131	2,982
Travel	51	362	-	413
Aid to others including State	115,409	3	8,356	123,768
Other expenditures	2,511	2,179	115	4,804
<b>Total expenditures</b>	<b>122,845</b>	<b>13,590</b>	<b>8,602</b>	<b>145,037</b>
<b>Excess of revenues over expenditures</b>	<b>(11,019)</b>	<b>(1,165)</b>	<b>(8,162)</b>	<b>(20,346)</b>
<b>Transfers in/(out)</b>	<b>(245)</b>	<b>(180)</b>	<b>4,642</b>	<b>4,217</b>
<b>Beginning fund balances</b>	<b>300,693</b>	<b>64,864</b>	<b>5,377</b>	<b>370,935</b>
<b>Ending fund balances</b>	<b>\$ 289,429</b>	<b>\$ 63,519</b>	<b>\$ 1,857</b>	<b>\$ 354,805</b>

While FTF ended FY 19 with a decrease in its ending fund balance this decline was in line with budget. FY19 marks the sixth year in a downward trend of the agency's total fund balance dropping by \$16.1 million overall, with \$12.6 million of that being in relation to FTF's tobacco tax fund.

FTF ended the fiscal year with \$354.8 million; \$353 million of which was in tobacco tax related funds. Of the \$353 million this amount, \$124.3 million are current year collections which serve as the base for FY20's expenditure budget. This leaves a marginal fund balance of \$228.7 million of which \$51.1 is in the Administrative Account, \$147.8 million is in the general Program Account, and \$29.8 million is held in regional carry forward. In FY19 it was projected that the regional carry forward balances would decline. However, total regional carry forward actually grew slightly (just under \$300k).



While the ending balance was not adversely impacted this year by the 2nd largest drop in tobacco tax collections, due to underspending compared to budget in the Tobacco Fund, it is likely the effect this would have had on the ending balance will be seen in SFY21 and SFY22 as regions spend down the regional carry forward as a result of the Board's fiscal policy.



### 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 three major governmental funds 1) program funds, 2) administrative fund and 3) grants and gifts fund. 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.

## **Grants and Gifts Fund**

According to FTF statute (ARS 8-1182) the Board may accept and spend monies from either Gifts or Grants. In FY19, FTF spent \$8.6 million in non-tobacco funds.

## **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. FTF was provided an update in the fall of 2016. Another update was presented to FTF by the ASU School of Business in the summer of 2018, which shows tobacco tax revenue stabilizing and actually making small gains in future fiscal year.

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. In FY17 tobacco revenues again declined although the decline was modest at \$500k. FY18 saw another decline, but projections were this would be a low point for at least the next several fiscal years.

In FY19 tobacco collections were far less than anticipated coming in \$7.6 million below what was budgeted, and representing the 2<sup>nd</sup> largest year over year drop in FTF's history. However, this was partially offset by strong interest earnings, with these coming in \$1.9 million over budget. As a result, total tobacco related revenues were \$5.75 million short of budget. It is worth noting despite the low amount of tobacco tax collected compared to budget, it was still within the bounds provided by the tobacco tax modeling completed for FTF by ASU's College of Business; landing \$2.3 million above the bottom of the range.

The Board recently re-engaged the Seidman Institute to update tobacco tax collection projections. It is expected additional data "vaping" is having on tobacco tax collections will impact these projections.

### 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).

In FY19, although tobacco collections were less than anticipated, revenue was offset by strong interest earnings, with almost 22% gain (\$1.65 million) over the previous year. This investment strategy will continue to help counter the eventual spend down of the agency's fund balance. However, as FTF's cash balances 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.

## BASIC FINANCIAL STATEMENTS

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2019

	Program Fund	Administrative Fund	Grants and Gifts Fund	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 295,382,386	\$ 64,179,727	\$ 2,350,103	\$ 361,912,216
Tobacco tax receivable	6,814,575	757,175	-	7,571,750
Other receivables	1,323,512	-	-	1,323,512
Due from other agencies	-	-	1,873,422	1,873,422
Due from other funds	1,318,422	-	101,679	1,420,101
<b>TOTAL ASSETS</b>	<b><u>\$ 304,838,895</u></b>	<b><u>\$ 64,936,902</u></b>	<b><u>\$ 4,325,204</u></b>	<b><u>\$ 374,101,001</u></b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Grants/other payables	\$ 15,286,909	\$ 134,780	\$ 1,924,813	\$ 17,346,502
Accrued liabilities	123,379	406,012	-	529,391
Due to other funds	-	876,662	543,439	1,420,101
<b>TOTAL LIABILITIES</b>	<b><u>15,410,288</u></b>	<b><u>1,417,454</u></b>	<b><u>2,468,252</u></b>	<b><u>19,295,994</u></b>
<b>Fund balances</b>				
Restricted	<u>289,428,607</u>	<u>63,519,448</u>	<u>1,856,952</u>	<u>354,805,007</u>
<b>TOTAL FUND BALANCES</b>	<b><u>289,428,607</u></b>	<b><u>63,519,448</u></b>	<b><u>1,856,952</u></b>	<b><u>354,805,007</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 304,838,895</u></b>	<b><u>\$ 64,936,902</u></b>	<b><u>\$ 4,325,204</u></b>	<b><u>\$ 374,101,001</u></b>

See accompanying notes.

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2019

	Program Fund	Administrative Fund	Grants and Gifts Fund	Total Governmental Funds
<b>REVENUES</b>				
Tobacco tax	\$ 103,803,726	\$ 11,533,747	\$ -	\$ 115,337,473
Investment earnings	8,022,442	891,382	3,562	8,917,386
Grants and donations	-	-	338,150	338,150
Other revenue	-	-	97,618	97,618
<b>TOTAL REVENUES</b>	<b>111,826,168</b>	<b>12,425,129</b>	<b>439,330</b>	<b>124,690,627</b>
<b>EXPENDITURES</b>				
Current:				
Personal services	1,938,879	7,596,014	-	9,534,893
Employee related expenditures	711,796	2,823,263	-	3,535,059
Professional-outside services	2,223,519	627,543	130,771	2,981,833
Travel in-state	47,826	315,322	-	363,148
Travel out-of-state	3,296	46,493	-	49,789
Aid to others including State agencies	115,409,361	2,739	8,356,126	123,768,226
Other operating expenditures	2,509,173	1,960,159	114,901	4,584,233
Non-capital equipment	1,381	218,391	-	219,772
<b>TOTAL EXPENDITURES</b>	<b>122,845,231</b>	<b>13,589,924</b>	<b>8,601,798</b>	<b>145,036,953</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(11,019,063)</b>	<b>(1,164,795)</b>	<b>(8,162,468)</b>	<b>(20,346,326)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in from other state agencies	-	-	4,641,950	4,641,950
Transfers out to other state agencies	(245,142)	(180,000)	-	(425,142)
<b>Total other financing sources (uses)</b>	<b>(245,142)</b>	<b>(180,000)</b>	<b>4,641,950</b>	<b>4,216,808</b>
<b>Net change in fund balances</b>	<b>(11,264,205)</b>	<b>(1,344,795)</b>	<b>(3,520,518)</b>	<b>(16,129,518)</b>
<b>FUND BALANCES BEGINNING OF YEAR</b>	<b>300,692,812</b>	<b>64,864,243</b>	<b>5,377,470</b>	<b>370,934,525</b>
<b>FUND BALANCES END OF YEAR</b>	<b>\$ 289,428,607</b>	<b>\$ 63,519,448</b>	<b>\$ 1,856,952</b>	<b>\$ 354,805,007</b>

See accompanying notes.

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2019

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.

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus/Basis of Accounting (Continued)

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.

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.

Grants and Gifts Fund – This other special revenue fund reports the activity from federal, state and local grants as well as private gifts to the Board. Activity in this fund is restricted by grantors and donors for designated purposes.

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.



ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2019

NOTE 2 CASH AND INVESTMENTS HELD BY THE STATE TREASURER (Continued)

At June 30, 2019, the Board's deposits with the Treasurer were as follows:

	Program Fund	Administrative Fund	Grants and Gifts Fund	Total
Cash	\$ 6,718,192	\$ 1,345,603	\$ 2,116,462	\$ 10,180,257
Investments-Pool 3 & Pool 16	288,664,194	62,834,124	233,641	351,731,959
	<u>\$ 295,382,386</u>	<u>\$ 64,179,727</u>	<u>\$ 2,350,103</u>	<u>\$ 361,912,216</u>

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, 2019, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.80% (11.64% retirement and 0.16% long-term disability) of the member's annual covered payroll and the Board was required by statute at the actuarially determined rate of 11.80% (11.18% retirement, 0.46% for health insurance premium, and 0.16% long-term disability) of the members' annual covered payroll. The Board's contributions to ASRS for the years ended June 30, 2019, 2018, and 2017 were \$1,047,411, \$1,005,191 and \$1,036,107, respectively.

Years ended June 30,	Retirement	Health Insurance	Long-term Disability	Total
2019	\$ 992,378	\$ 40,831	\$ 14,202	\$ 1,047,411
2018	952,747	38,459	13,985	1,005,191
2017	972,930	50,542	12,635	1,036,107

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2019

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 Grants and Gifts Fund balance is restricted due to grantor restrictions imposed at the time grants are awarded.

NOTE 5 INTERAGENCY SERVICE AGREEMENT

The Board executed an interagency service agreement with the Arizona Department of Health Services ("ADHS") in the amount of \$1,254,956 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, 2019 amounted to \$1,170,558, including \$84,398 due from ADHS to the Board at June 30, 2019. The Agreement is effective through September 30, 2019.

The Board executed an interagency service agreement with the Arizona Department of Education (ADE) in the amount of \$3,086,994 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, 2019 amounted to \$3,086,994 from ADE. The Agreement is effective through June 30, 2019.

The Board executed an interagency service agreement with the Arizona Department of Economic Security ("ADES") in the amount of \$300,000 to provide financial support to the Board for costs associated with the implementation of the Quality First, Arizona's Quality Improvement and Rating System (QIRS), Redesign Field Test in order to support the effort of expanding the availability of quality early care and education settings in Arizona. Transfers into the Board's accounts for year ended June 30, 2019 amounted to \$300,000 from ADES to the Board at June 30, 2019. The Agreement ended June 30, 2019.

**REQUIRED SUPPLEMENTARY INFORMATION**

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL – PROGRAM FUND  
Year Ended June 30, 2019

	Budgeted Amounts		Variance with Final Budget- Positive (Negative)
	Original & Final	Actual Amounts	
<b>REVENUES</b>			
Tobacco tax	\$ 110,700,000	\$ 103,803,726	\$ (6,896,274)
Investment earnings	6,300,000	8,022,442	1,722,442
<b>TOTAL REVENUES</b>	<b>117,000,000</b>	<b>111,826,168</b>	<b>(5,173,832)</b>
<b>EXPENDITURES</b>			
<b>Current</b>			
Personal services	2,595,686	1,938,879	656,807
Employee related expenditures	1,076,453	711,796	364,657
Professional and outside services	5,714,814	2,223,519	3,491,295
Travel in-state	142,783	47,826	94,957
Travel out-of-state	12,000	3,296	8,704
Aid to others including State agencies	114,984,025	115,409,361	(425,336)
Other operating expenditures	2,910,207	2,509,173	401,034
Non-capital equipment	12,295	1,381	10,914
Capital outlay	77,000	-	77,000
<b>TOTAL EXPENDITURES</b>	<b>127,525,263</b>	<b>122,845,231</b>	<b>4,680,032</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(10,525,263)</b>	<b>(11,019,063)</b>	<b>(493,800)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers out to other state agencies	-	(245,142)	(245,142)
<b>Net change in fund balances</b>	<b>(10,525,263)</b>	<b>(11,264,205)</b>	<b>(738,942)</b>
<b>FUND BALANCE BEGINNING OF YEAR</b>	<b>300,692,812</b>	<b>300,692,812</b>	<b>-</b>
<b>FUND BALANCE END OF YEAR</b>	<b>\$ 290,167,549</b>	<b>\$ 289,428,607</b>	<b>\$ (738,942)</b>

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL – ADMINISTRATIVE FUND  
Year Ended June 30, 2019

	Budgeted Amounts <u>Original &amp; Final</u>	Actual Amounts	Variance with Final Budget- Positive (Negative)
<b>REVENUES</b>			
Tobacco tax	\$ 12,300,000	\$ 11,533,747	\$ (766,253)
Investment earnings	700,000	891,382	191,382
<b>TOTAL REVENUES</b>	<u>13,000,000</u>	<u>12,425,129</u>	<u>(574,871)</u>
<b>EXPENDITURES</b>			
Current			
Personal services	7,905,965	7,596,014	309,951
Employee related expenditures	3,168,758	2,823,263	345,495
Professional and outside services	867,995	627,543	240,452
Travel in-state	393,770	315,322	78,448
Travel out-of-state	71,907	46,493	25,414
Aid to others including State agencies	-	2,739	(2,739)
Other operating expenditures	2,176,751	1,960,159	216,592
Non-capital equipment	211,491	218,391	(6,900)
<b>TOTAL EXPENDITURES</b>	<u>14,796,637</u>	<u>13,589,924</u>	<u>1,206,713</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(1,796,637)</u>	<u>(1,164,795)</u>	<u>631,842</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers out to other state agencies	(180,000)	(180,000)	-
<b>Net change in fund balances</b>	<u>(1,976,637)</u>	<u>(1,344,795)</u>	<u>631,842</u>
<b>FUND BALANCE BEGINNING OF YEAR</b>	<u>64,864,243</u>	<u>64,864,243</u>	<u>-</u>
<b>FUND BALANCE END OF YEAR</b>	<u>\$ 62,887,606</u>	<u>\$ 63,519,448</u>	<u>\$ 631,842</u>

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL – GRANTS AND GIFTS FUND  
Year Ended June 30, 2019

	Budgeted Amounts <u>Original &amp; Final</u>	Actual Amounts	Variance with Final Budget- Positive (Negative)
<b>REVENUES</b>			
Investment earnings	\$ -	\$ 3,562	\$ 3,562
Grants and donations	-	338,150	338,150
Other revenue	<u>357,500</u>	<u>97,618</u>	<u>(259,882)</u>
<b>TOTAL REVENUES</b>	<u>357,500</u>	<u>439,330</u>	<u>81,830</u>
<b>EXPENDITURES</b>			
Current:			
Professional-outside services	484,474	130,771	353,703
Travel out-of-state	2,000	-	2,000
Aid to others including State agencies	9,685,189	8,356,126	1,329,063
Other operating expenditures	<u>119,000</u>	<u>114,901</u>	<u>4,099</u>
<b>TOTAL EXPENDITURES</b>	<u>10,290,663</u>	<u>8,601,798</u>	<u>1,688,865</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(9,933,163)</u>	<u>(8,162,468)</u>	<u>1,770,695</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in from other state agencies	<u>4,732,086</u>	<u>4,641,950</u>	<u>(90,136)</u>
<b>Net change in fund balances</b>	<b>(5,201,077)</b>	<b>(3,520,518)</b>	<b>1,680,559</b>
<b>FUND BALANCE BEGINNING OF YEAR</b>	<u>5,377,470</u>	<u>5,377,470</u>	<u>-</u>
<b>FUND BALANCE END OF YEAR</b>	<u><u>\$ 176,393</u></u>	<u><u>\$ 1,856,952</u></u>	<u><u>\$ 1,680,559</u></u>

## REPORT ON INTERNAL CONTROL AND COMPLIANCE





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, 2019, 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 11, 2019.

**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.

## **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*

Tempe, Arizona  
October 11, 2019



Board of Directors  
Arizona Early Childhood Development and Health Board

We have audited the financial statements of Arizona Early Childhood Development and Health Board for the year ended June 30, 2019, and have issued our report thereon dated October 11, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. Professional standards require that we communicate to you the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated May 10, 2019, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of Arizona Early Childhood Development and Health Board. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. However, the standards do not require us to design procedures specifically to identify such matters.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Arizona Early Childhood Development and Health Board are described in Note 1 to the financial statements. No new accounting policies were adopted and application of existing policies was not changed during the year ended June 30, 2019. We noted no transactions entered into by the Arizona Early Childhood Development and Health Board during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Significant Audit Findings (Continued)

*Qualitative Aspects of Accounting Practices (Continued)*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Due to the nature of the Agency and its operations, there are no estimates that are particularly sensitive

The financial statement disclosures are neutral, consistent, and clear.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Attached is a summary of adjustments made to the financial statements that have been recorded by management. Other than those that are trivial, we did not identify any uncorrected misstatements to the financial statements.

*Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the attached copy of the management representation letter dated October 11, 2019.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Agency's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Agency's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion & analysis and budgetary comparison information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This communication is intended solely for the information and use of Arizona Early Childhood Development and Health Board's Board of Directors and management of and is not intended to be, and should not be, used by anyone other than these specified parties.

*Henry + Horne, LLP*

Tempe, Arizona  
October 11, 2019

Henry & Horne, LLP  
2055 E Warner Rd, Ste 101  
Tempe, AZ 85284

This representation letter is provided in connection with your audit of the financial statements of Arizona Early Childhood Development and Health Board ("Board"), which comprise the respective financial position of the governmental activities and each major fund as of June 30, 2019, and the respective changes in financial position for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of the date this letter is signed, the following representations made to you during your audit.

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated May 10, 2019, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
- 2) The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
- 3) We acknowledge our responsibility for 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.
- 4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- 5) Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
- 6) Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.
- 7) Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.

- 8) We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with generally accepted accounting principles, and we have not consulted a lawyer concerning litigation claims or assessments.
- 9) Guarantees, whether written or oral, under which the Arizona Early Childhood Development and Health Board is contingently liable, if any, have been properly recorded or disclosed.
- 10) We have provided you with:
  - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
  - b) Additional information that you have requested from us for the purpose of the audit.
  - c) Unrestricted access to persons within the Arizona Early Childhood Development and Health Board from whom you determined it necessary to obtain audit evidence.
  - d) Minutes of the meetings of Arizona Early Childhood Development and Health Board or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 11) All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- 12) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 13) We have no knowledge of any fraud or suspected fraud that affects the Arizona Early Childhood Development and Health Board and involves
  - o Management,
  - o Employees who have significant roles in internal control, or
  - o Others where the fraud could have a material effect on the financial statements.
- 14) We have no knowledge of any allegations of fraud or suspected fraud affecting the Arizona Early Childhood Development and Health Board's financial statements communicated by employees, former employees, regulators, or others.
- 15) We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
- 16) We have disclosed to you the identity of the Arizona Early Childhood Development and Health Board's related parties and all the related party relationships and transactions of which we are aware.
- 17) There have been all communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 18) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

- 19) The Arizona Early Childhood Development and Health Board has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or fund balance.
- 20) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts, and legal and contractual provisions for reporting specific activities in separate funds.
- 21) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
- 22) We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
- 23) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
- 24) There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
- 25) As part of your audit, you assisted with preparation of the financial statements and related notes. We acknowledge our responsibility as it relates to those nonaudit services, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.
- 26) The Arizona Early Childhood Development and Health Board has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 27) The Arizona Early Childhood Development and Health Board has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 28) The financial statements properly classify all funds and activities.
- 29) All funds that meet the quantitative criteria in GASBS Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
- 30) Components and classifications of fund balance (nonspendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.



- 31) Investments are properly valued.
- 32) Provisions for uncollectible receivables, if applicable, have been properly identified and recorded.
- 33) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
- 34) Interfund and internal balances have been appropriately classified and reported.
- 35) Deposits and investments are properly classified as to risk and are properly disclosed.
- 36) We have appropriately disclosed the Arizona Early Childhood Development and Health Board's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
- 37) We are in agreement with the adjusting journal entries you have proposed and summarized in the accompanying schedule, and they have been posted to the organization's accounts.
- 38) We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.
- 39) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
- 40) In regards to the nonattest services we have:
  - a. Assumed all management responsibilities.
  - b. Overseen the services by designating an individual who possesses suitable skill, knowledge, or experience.
  - c. Evaluated the adequacy and results of the services performed.
  - d. Accepted responsibility for the results of the services.
  - e. Retained a copy of the work products prepared by you for our records.

The nonattest services provided by you are:

- a. Posting any standard, adjusting, or correcting journal entries that you have proposed and have been approved by us.
- b. Preparation of financial statements

Furthermore, we have reviewed and approved the financial statements and related notes.



Signature

CFO/COO

Title

Client: **0408217 - Arizona Early Childhood Development and Health Board**  
Engagement: **AECDHB - Arizona Early Childhood Development and Health Board**  
Period Ending: **6/30/2019**  
Trial Balance: **05.01 - TB**  
Workpaper: **05.04 - Combined Adjusting Journal Entries Report**

Account	Description	WIP Ref	Debit	Credit
<b>Adjusting Journal Entry</b>				
<b>Adjusting Journal Entry JE # 101</b>				
Client entry to correct revenue object code.				
2544.4612	Restricted Donations		53,807.00	
2544.4699	Miscellaneous Receipts			53,807.00
<b>Total</b>			<b>53,807.00</b>	<b>53,807.00</b>
<b>Adjusting Journal Entry JE # 102</b>				
Client entry to correct revenue object code.				
2544.4699	Miscellaneous Receipts		58,150.00	
2544.4612	Restricted Donations			58,150.00
<b>Total</b>			<b>58,150.00</b>	<b>58,150.00</b>
<b>Adjusting Journal Entry JE # 103</b>				
Client entry to reclass revenues.				
2544.4645	Payment Card Transaction Fees Paid		1,194.00	
2544.4699	Miscellaneous Receipts			1,194.00
<b>Total</b>			<b>1,194.00</b>	<b>1,194.00</b>
<b>Total Adjusting Journal Entry</b>			<b>113,151.00</b>	<b>113,151.00</b>
<b>Total All Journal Entries</b>			<b>113,151.00</b>	<b>113,151.00</b>