

ARIZONA EARLY CHILDHOOD DEVELOPMENT  
AND HEALTH BOARD

FINANCIAL STATEMENTS

Year Ended June 30, 2012





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

We have audited the accompanying financial statements of the Arizona Early Childhood Development and Health Board, State of Arizona, as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Arizona Early Childhood Development and Health Board's management. 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 of America. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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 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, 2012, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Arizona Early Childhood Development and Health Board, State of Arizona, as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted by the United States of America.

**Tempe**  
2055 E. Warner Road  
Suite 101  
Tempe, AZ 85284-3487  
(480) 839-4900  
Fax (480) 839-1749

**Scottsdale**  
7098 E. Cochise Road  
Suite 100  
Scottsdale, AZ 85253-4517  
(480) 483-1170  
Fax (480) 483-7126

**Casa Grande**  
1115 E. Cottonwood Lane  
Suite 100  
Casa Grande, AZ 85122-2950  
(520) 836-8201  
Fax (520) 426-9432

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2012 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information on pages 3 through 8 and 17 through 18, respectively, 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.

*Henry + Horne LLP*

Casa Grande, Arizona  
November 5, 2012

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2012**

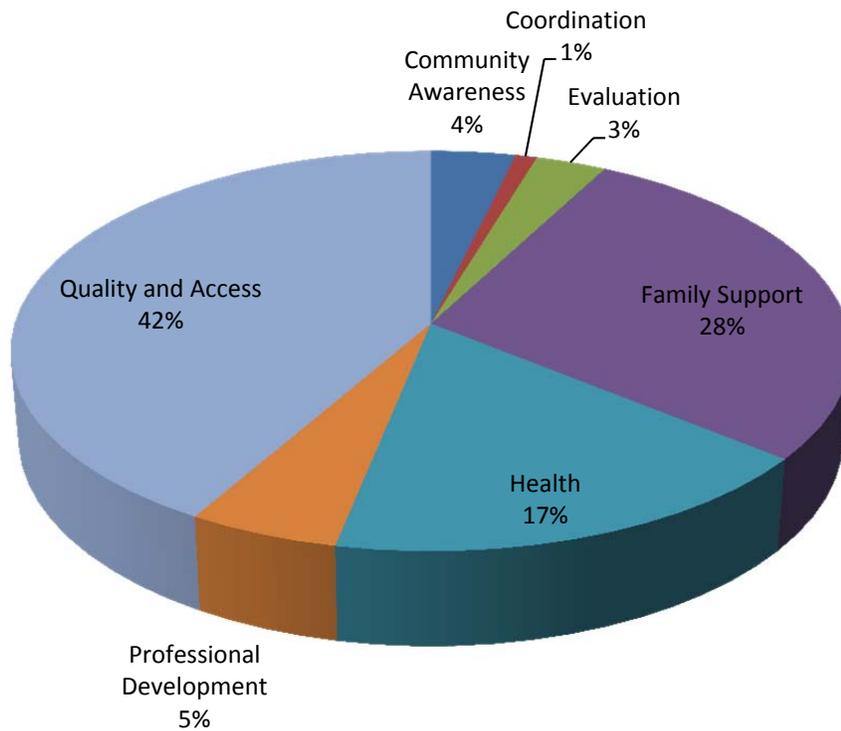
The discussion and analysis is designed to provide an analysis of the Arizona Early Childhood Development and Health Board's (Health Board's) financial conditions and operating results and to also inform the reader on the Health Board's issues and activities.

**Financial Highlights**

Key financial highlights for fiscal year 2011-2012 are as follows:

- Program spending totaled \$ 127.9 million in the following Goal Areas:

**AZ Early Childhood Development and Health Board  
Goal Area Expenditures**

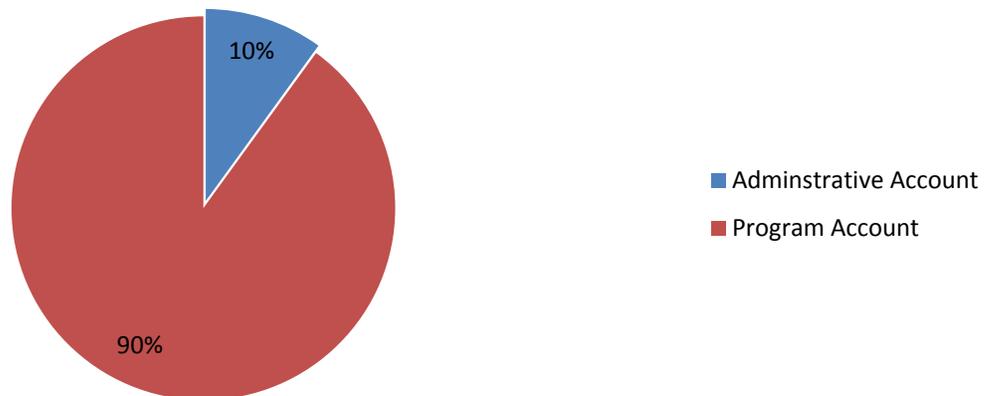


Fiscal year 2012 program expenditures were allocated to these goals areas throughout the state. The Quality and Access goal is in place to increase the availability, quality and diversity of learning environments that support children's language and literacy development, emotional well-being, health and safety. This includes Quality First, the Health's Board's signature program that has engaged more than 750 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 areas, funds are allocated to improve children’s health by increasing the number of children with continuous medical, mental health and dental insurance coverage and expanding access to medical and dental homes, increasing medical professionals’ use of best practice guidelines for preventive medical, oral and mental healthcare, and expanding the use of early screening to identify children with developmental delays. 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. 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.

- Revenue continues to be recorded in the following accounts:

### **AZ Early Childhood Development and Health Board Revenue**



In fiscal year 2012, \$12.83 million of a total of \$128.3 million of tobacco tax funds collected were deposited in the Administrative account, as required by law.

## Overview of the Financial Statements

The Health 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 Health 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 Health 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 Health Board as a whole as of and for the year ended June 30, 2012.

### Balance Sheet

The following table reflects the condensed Balance Sheet as of June 30, 2012.

	Program Fund	Admin Fund	Non-major Funds	Total
Total assets	\$370,076	\$84,168	\$ 267	\$454,511
Total liabilities	19,019	795	259	20,073
Total fund balances	<u>\$351,057</u>	<u>\$83,373</u>	<u>\$ 8</u>	<u>\$434,438</u>

Total assets have decreased from fiscal year 2011. 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, 2012.

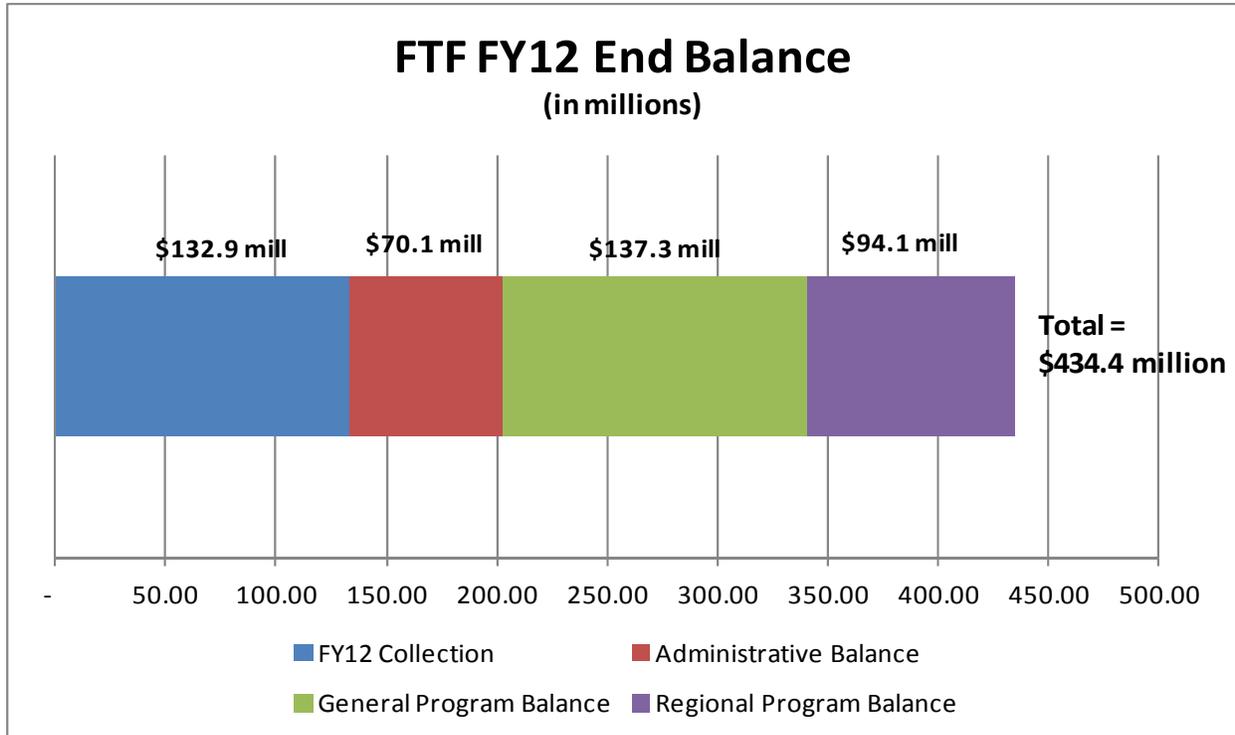
#### Condensed Revenues, Expenditures and Changes in Fund Balances (in Thousands)

	<u>Program Fund</u>	<u>Admin Fund</u>	<u>Non-major Funds</u>	<u>Total</u>
<b>Program revenues</b>				
Tobacco tax	\$ 115,483	\$ 12,832	\$ -	\$ 128,315
Investment earnings	4,153	461	-	4,614
Grants			429	429
<b>Total revenues</b>	<u>119,636</u>	<u>13,293</u>	<u>429</u>	<u>133,358</u>
<b>Expenditures</b>				
Personal and related expenditures	2,077	9,337	26	11,440
Professional services	1,504	1,505	279	3,288
Travel	71	367	14	452
Aid to others	120,320	12	99	120,431
Other expenditures	3,970	1,762	11	5,743
<b>Total expenditures</b>	<u>127,942</u>	<u>12,983</u>	<u>429</u>	<u>141,354</u>
<b>Excess of revenues over expenditures</b>	<b>(8,306)</b>	<b>310</b>	<b>-</b>	<b>(7,996)</b>
<b>Beginning fund balances</b>	<u>359,363</u>	<u>83,063</u>	<u>8</u>	<u>442,434</u>
<b>Ending fund balances</b>	<u><u>\$351,057</u></u>	<u><u>\$83,373</u></u>	<u><u>\$ 8</u></u>	<u><u>\$434,438</u></u>

While FTF ended the fiscal year in a positive position in relation to the final approved budget, FY12 marks the first year in which total agency fund balance reduced some \$8 million.

Despite the overall drop in fund balance, the decline was not nearly as significant as predicted. The actual drop in fund balance was \$100 million less than budgeted. The major cause for this under spending relates to the full budgeting of regional carry forward amounts. The FY13 budget (along with subsequent years) moves away from budgeting the full expensing of Regional carry forward balances to only budgeting that amount in excess of the base allocation made by the Board.

FTF ended the fiscal year with \$434.4 million. Of this amount, \$132.9 million are current year collections which serve as the base for FY14's expenditure budget. This leaves a marginal fund balance of \$301.5 million of which \$70.1 is in the Administrative Account, \$137.3 million is in the general Program Account, and \$94.1 is held within regional fund balances.



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

The Health 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 Health Board maintains two major governmental funds 1) program funds and 2) administrative fund.

The Program Fund is the main operating fund of the Health 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.

## **Budgetary Highlights**

Budgets are set using the prior fiscal years' revenues as a benchmark. This method ensured the fiscal sustainability of the agency in anticipation of the eventual spend down of the agency fund balance. Currently, the Regional Program budgets are set at about 1/3 of the agency's fund balance. As the fund balance is spent down, the budget will follow prior year's revenues as a target more closely.

## **Economic and Other Factors**

### Tobaccos Revenues

FTF has historically projected tobacco revenues would decline over time. However, 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 fact, relative stability can be expected from this fund source assuming quite modest and realistic returns (in subsequent years) in population growth and economic conditions. As the Board adopted a new sustainability plan that assumes tobacco collections levels which are stable and actually slightly above FY12 levels. These projections and the associated modeling done by the L. William Seidman Research Institute will be monitored in the coming years to assess and assure their accuracy.

### Investment Income

The Health Board has been investing its funds in a low yield and highly liquid investments pool since inception. Now that the agency has been established and start-up costs have been covered, a substantial fund balance has grown. In order to take advantage of this balance, the Health 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 yield at much higher rate of return (as planned/anticipated), with FTF receiving over a half million dollars in one month. This strategy will help to counter the eventual spend down of the agency's fund balance.

## **Financial Contact**

The Health 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, Vice President for Communications (602) 771-5063.

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2012

	Program Fund	Administrative Fund	Non-major Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 363,504,419	\$ 83,187,754	\$ 246,033	\$ 446,938,206
Tobacco tax receivable	6,571,208	730,134	-	7,301,342
Grant reimbursements receivable	-	-	21,530	21,530
Due from other funds	-	250,000	-	250,000
<b>TOTAL ASSETS</b>	<b><u>\$ 370,075,627</u></b>	<b><u>\$ 84,167,888</u></b>	<b><u>\$ 267,563</u></b>	<b><u>\$ 454,511,078</u></b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Grants/other payables	\$ 18,979,840	\$ 611,748	\$ 7,645	\$ 19,599,233
Accrued liabilities	38,803	183,565	1,660	224,028
Due to other funds	-	-	250,000	250,000
<b>TOTAL LIABILITIES</b>	<b><u>19,018,643</u></b>	<b><u>795,313</u></b>	<b><u>259,305</u></b>	<b><u>20,073,261</u></b>
<b>Fund balances</b>				
Restricted	<u>351,056,984</u>	<u>83,372,575</u>	<u>8,258</u>	<u>434,437,817</u>
<b>TOTAL FUND BALANCES</b>	<b><u>351,056,984</u></b>	<b><u>83,372,575</u></b>	<b><u>8,258</u></b>	<b><u>434,437,817</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 370,075,627</u></b>	<b><u>\$ 84,167,888</u></b>	<b><u>\$ 267,563</u></b>	<b><u>\$ 454,511,078</u></b>

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2012

	Program Fund	Administrative Fund	Non-major Funds	Total Governmental Funds
<b>REVENUES</b>				
Tobacco tax	\$ 115,482,863	\$ 12,831,430	\$ -	\$ 128,314,293
Investment earnings	4,152,634	461,410	275	4,614,319
Grants and donations	-	-	429,290	429,290
<b>TOTAL REVENUES</b>	<b>119,635,497</b>	<b>13,292,840</b>	<b>429,565</b>	<b>133,357,902</b>
<b>EXPENDITURES</b>				
Current:				
Personal services	1,478,340	6,728,472	20,648	8,227,460
Employee related expenditures	598,048	2,608,665	5,529	3,212,242
Professional-outside services	1,504,445	1,505,168	278,799	3,288,412
Travel in-state	53,680	304,434	2,896	361,010
Travel out-of-state	17,225	62,299	11,867	91,391
Aid to others	120,319,915	12,019	99,228	120,431,162
Other operating expenditures	3,951,409	1,469,987	1,980	5,423,376
Non-capital equipment	18,916	231,280	8,997	259,193
Capital equipment	-	60,876	-	60,876
<b>TOTAL EXPENDITURES</b>	<b>127,941,978</b>	<b>12,983,200</b>	<b>429,944</b>	<b>141,355,122</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(8,306,481)</b>	<b>309,640</b>	<b>(379)</b>	<b>(7,997,220)</b>
<b>FUND BALANCES</b>				
BEGINNING OF YEAR	359,363,465	83,062,935	8,637	442,435,037
<b>FUND BALANCES END OF YEAR</b>	<b>\$ 351,056,984</b>	<b>\$ 83,372,575</b>	<b>\$ 8,258</b>	<b>\$ 434,437,817</b>

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

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.

Fund Balances – Governmental Funds

As of June 30, 2012, fund balances of the governmental funds are classified as follows:

Restricted - amounts that 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.

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.

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Statement No. 31, investments are reported at fair value which is the amount at which financial instruments could be exchanged in a current transaction between willing parties.

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, 2012

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

At June 30, 2012, the Board's deposits with the Treasurer were as follows:

	Program Fund	Administrative Fund	Non-major Funds	Total
Cash	\$ 12,307,012	\$ 1,376,056	\$ 246,033	\$ 13,929,101
Investments-Pool 3 & Pool 16	351,197,407	81,811,698	-	433,009,105
	<u>\$ 363,504,419</u>	<u>\$ 83,187,754</u>	<u>\$ 246,033</u>	<u>\$ 446,938,206</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 A.R.S. 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 ASRS, 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 has the authority to establish and amend benefits provisions and contributions for active plan members. For the years ended June 30, 2012, 2011 and 2010, active ASRS members and the Board were each required by statute to contribute at the actuarially determined rate of 10.75, 9.85 and 9.40 percent (rate includes .25 for long-term disability for years ended June 30, 2012 and 2011, and .40 for year ended June 30, 2010), respectively, of the members' annual covered payroll. The Board's contributions to ASRS for the years ended June 30, 2012, 2011 and 2010 were \$816,089, \$722,862 and \$698,465, respectively.

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, 2012

	<u>Budgeted Amounts</u>		<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original &amp; Final</u>	<u>Actual Amounts</u>	
REVENUES			
Tobacco tax revenues	\$ 126,590,000	\$ 115,482,863	\$ (11,107,137)
Investment earnings	-	4,152,634	4,152,634
	<u>126,590,000</u>	<u>119,635,497</u>	<u>(6,954,503)</u>
TOTAL REVENUES			
EXPENDITURES			
Current			
Personal services	1,565,011	1,478,340	86,671
Employee related expenditures	540,356	598,048	(57,692)
Professional and outside services	1,102,292	1,504,445	(402,153)
Travel in-state	65,655	53,680	11,975
Travel out-of-state	10,405	17,225	(6,820)
Aid to others	221,252,796	120,319,915	100,932,881
Other operating expenditures	284,334	3,951,409	(3,667,075)
Non-capital equipment	2,520	18,916	(16,396)
	<u>224,823,369</u>	<u>127,941,978</u>	<u>96,881,391</u>
TOTAL EXPENDITURES			
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(98,233,369)	(8,306,481)	89,926,888
FUND BALANCE BEGINNING OF YEAR	<u>359,363,465</u>	<u>359,363,465</u>	<u>-</u>
FUND BALANCE END OF YEAR	<u>\$ 261,130,096</u>	<u>\$ 351,056,984</u>	<u>\$ 89,926,888</u>

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, 2012

	Budgeted Amounts <u>Original &amp; Final</u>	Actual Amounts	Variance with Final Budget- Positive (Negative)
<b>REVENUES</b>			
Tobacco tax revenues	\$ 3,010,000	\$ 12,831,430	\$ 9,821,430
Investment earnings	-	461,410	461,410
<b>TOTAL REVENUES</b>	<u>3,010,000</u>	<u>13,292,840</u>	<u>10,282,840</u>
<b>EXPENDITURES</b>			
Current			
Personal services	7,667,878	6,728,472	939,406
Employee related expenditures	2,754,746	2,608,665	146,081
Professional and outside services	1,441,777	1,505,168	(63,391)
Travel in-state	333,569	304,434	29,135
Travel out-of-state	73,443	62,299	11,144
Aid to others	-	12,019	(12,019)
Other operating expenditures	1,778,940	1,469,987	308,953
Non-capital equipment	182,241	231,280	(49,039)
Capital	-	60,876	(60,876)
<b>TOTAL EXPENDITURES</b>	<u>14,232,594</u>	<u>12,983,200</u>	<u>1,249,394</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(11,222,594)</u>	<u>309,640</u>	<u>11,532,234</u>
<b>FUND BALANCE BEGINNING OF YEAR</b>	<u>83,062,935</u>	<u>83,062,935</u>	<u>-</u>
<b>FUND BALANCE END OF YEAR</b>	<u><u>\$ 71,840,341</u></u>	<u><u>\$ 83,372,575</u></u>	<u><u>\$ 11,532,234</u></u>

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD

COMPLIANCE REPORT

Year Ended June 30, 2012





HENRY & HORNE, LLP  
Certified Public Accountants

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 and the Executive Director  
Arizona Early Childhood Development and Health Board  
Phoenix, Arizona

We have audited the financial statements of Arizona Early Childhood Development and Health Board, as of and for the year ended June 30, 2012 as listed in the table of contents, and have issued our report thereon dated November 5, 2012. 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.

Internal Control Over Financial Reporting

Management of Arizona Early Childhood Development and Health Board is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Arizona Early Childhood Development and Health Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Arizona Early Childhood Development and Health Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Tempe**  
2055 E. Warner Road  
Suite 101  
Tempe, AZ 85284-3487  
(480) 839-4900  
Fax (480) 839-1749

**Scottsdale**  
7098 E. Cochise Road  
Suite 100  
Scottsdale, AZ 85253-4517  
(480) 483-1170  
Fax (480) 483-7126

**Casa Grande**  
1115 E. Cottonwood Lane  
Suite 100  
Casa Grande, AZ 85122-2950  
(520) 836-8201  
Fax (520) 426-9432

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Arizona Early Childhood Development and Health Board's financial statements are free of 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*.

This report is intended solely for the information and use of Arizona Early Childhood Development and Health Board's management, the Board of Directors, Executive Director, others within the entity, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Henry + Horne LLP*

Casa Grande, Arizona  
November 5, 2012