

HENRY & HORNE, LLP
CERTIFIED PUBLIC ACCOUNTANTS

ARIZONA EARLY CHILDHOOD DEVELOPMENT
AND HEALTH BOARD

FINANCIAL STATEMENTS

Year Ended June 30, 2013



ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD

TABLE OF CONTENTS

	<u>Page</u>
REPORT ON AUDIT OF FINANCIAL STATEMENTS	
Independent Auditors' Report	1
Management's Discussion & Analysis	3
BASIC FINANCIAL STATEMENTS	
Balance Sheet – Governmental Funds	9
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	10
Notes to Financial Statements	11
REQUIRED SUPPLEMENTARY INFORMATION	
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
COMPLIANCE SECTION	
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



HENRY & HORNE, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of Arizona Early Childhood Development and Health Board ("Board"), of the State of Arizona, as of and for the year ended June 30, 2013, 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.

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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, 2013, 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.

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 and the aggregate remaining fund information of Arizona Early Childhood Development and Health Board, of the State of Arizona as of June 30, 2013, 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.

Other Matters

Required Supplementary Information

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 19 through 20, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2013, on our consideration of the Arizona Early Childhood Development and Health Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Arizona Early Childhood Development and Health Board's internal control over financial reporting and compliance.

Henry & Horne LLP

Casa Grande, Arizona
September 26, 2013

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013**

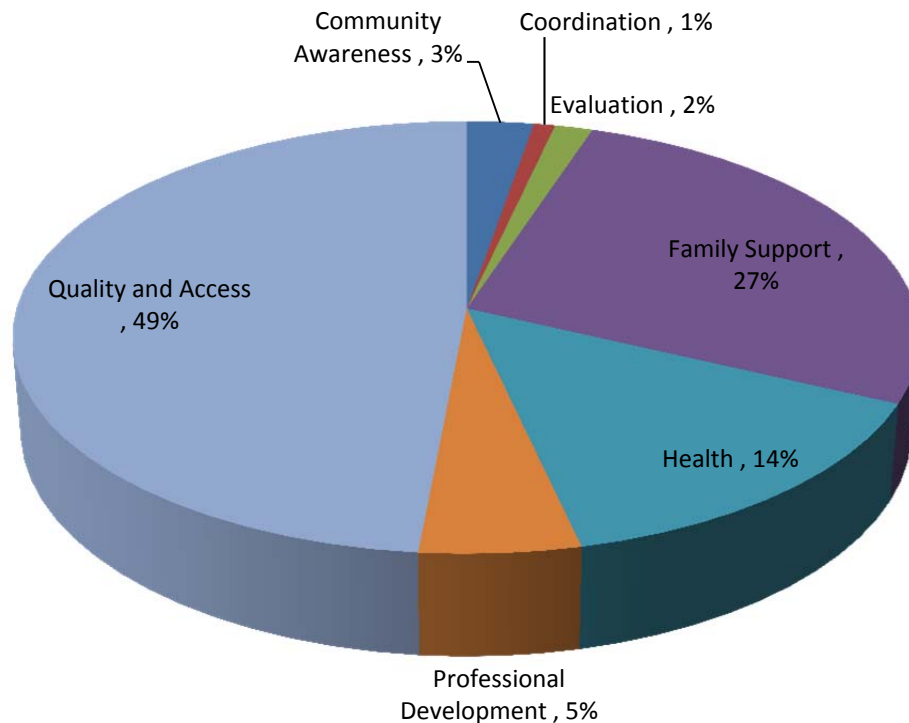
The discussion and analysis is designed to provide an analysis of the Arizona Early Childhood Development and Health Board's (Health Board's) financial conditions and operating results and to also inform the reader on the Health Board's issues and activities.

Financial Highlights

Key financial highlights for fiscal year 2012-2013 are as follows:

- Program spending totaled \$ 132.3 million in the following Goal Areas:

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

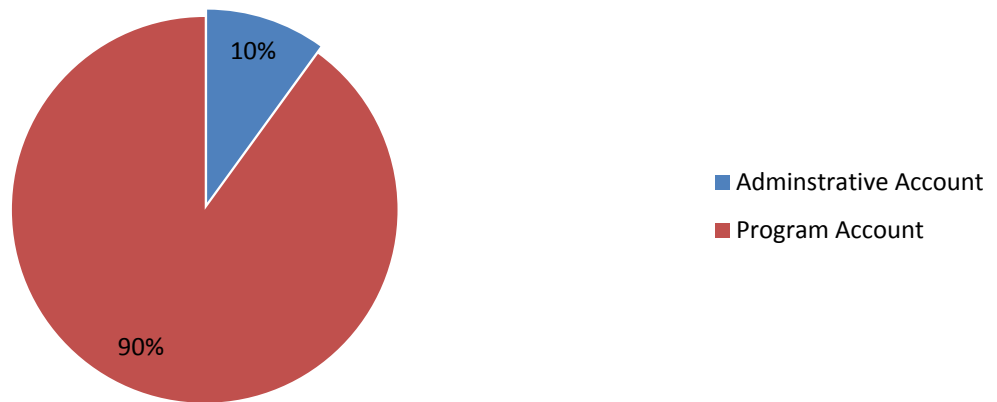


Fiscal year 2013 program expenditures were allocated to these goal areas throughout the state. The Quality and Access goal is in place to increase the availability, quality and diversity of learning environments that support children's language and literacy development, emotional well-being, health and safety. This includes Quality First, the Health's Board's signature program that has engaged more than 900 center and home based child care providers in efforts to improve the quality of the early education services they provide. The Professional Development goal area focuses on developing a comprehensive and well-articulated professional development system within Arizona for teachers who work with infant, toddlers and preschoolers. Professional development strategies also address increasing those teachers access to college coursework and/or degrees so that they are better prepared to engage young

minds. Under the Health goal 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 2013, \$13.24 million of a total of \$132.4 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, 2013.

Balance Sheet

The following table reflects the condensed Balance Sheet as of June 30, 2013.

	Program Fund	Admin Fund	Non-major Funds	Total
Total assets	\$ 354,155	\$ 84,396	\$ 1,296	\$ 439,847
Total liabilities	16,165	817	1,239	18,221
Total fund balances	<u>\$ 337,990</u>	<u>\$ 83,579</u>	<u>\$ 57</u>	<u>\$ 421,626</u>

Total assets have decreased from fiscal year 2012. 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, 2013.

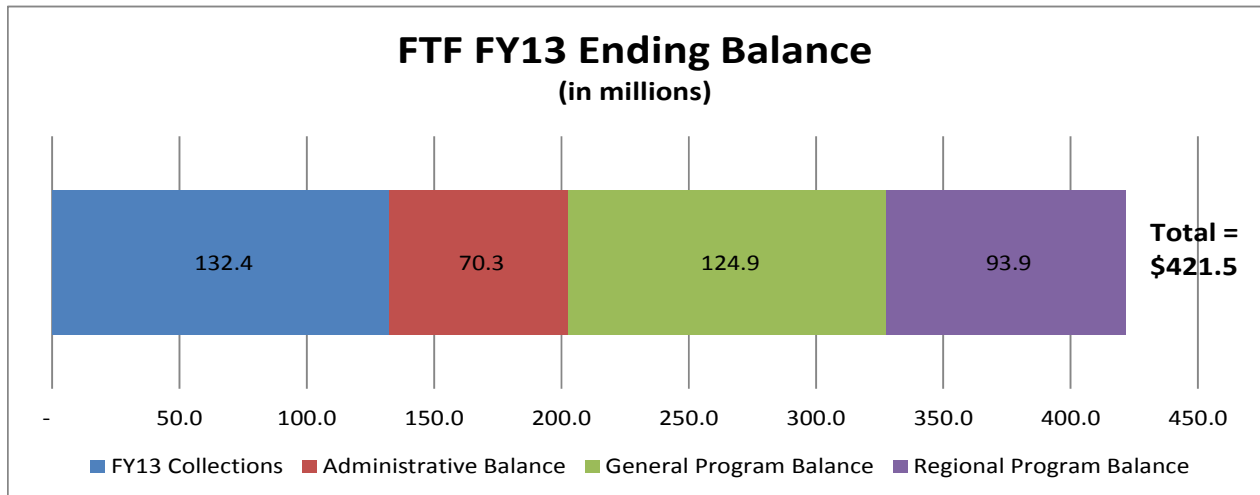
Condensed Revenues, Expenditures and Changes in Fund Balances
(in Thousands)

	Program Fund	Admin Fund	Non-major Funds	Total
Program revenues				
Tobacco tax	\$ 113,191	\$ 12,577	\$ -	\$ 125,768
Investment earnings	5,998	666	51	6,715
Grants		1	499	500
Total revenues	<u>119,189</u>	<u>13,244</u>	<u>550</u>	<u>132,983</u>
Expenditures				
Personal and related expenditures	2,237	9,581	104	11,922
Professional services	1,775	1,080	179	3,034
Travel	61	387	31	479
Aid to others	124,462	16	1,249	125,727
Other expenditures	3,721	1,973	11	5,705
Total expenditures	<u>132,256</u>	<u>13,037</u>	<u>1,574</u>	<u>146,867</u>
Excess of revenues over expenditures	(13,067)	207	(1,024)	(13,884)
Transfers in	-	-	1,073	1,073
Beginning fund balances	<u>351,057</u>	<u>83,372</u>	<u>8</u>	<u>434,437</u>
Ending fund balances	<u>\$337,990</u>	<u>\$83,579</u>	<u>\$ 57</u>	<u>\$421,626</u>

While FTF ended the fiscal year in a positive position in relation to the final approved budget, FY13 marks the second year in which total agency fund balance reduced some \$12.9 million.

Despite the overall drop in fund balance, the decline was not nearly as significant as what would have occurred had 100% of allotted budgets been successfully spent (particularly in the Program area). The actual drop in fund balance was \$23.7 million less than budgeted.

FTF ended the fiscal year with \$421.5 million. Of this amount, \$132.4 million are current year collections which serve as the base for FY15's expenditure budget. This leaves a marginal fund balance of \$289.1 million of which \$70.3 is in the Administrative Account, \$124.9 million is in the general Program Account, and \$93.9 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

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 interested 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.

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.

In reviewing FY13 collections, FTF Board has determined a relatively less aggressive tobacco collection projections being made for the current year. These projections are still in line with the tax modeling work done by ASU's School of Business, but instead of being based on the "expected" figures they are based on the "lower" band. Based on these figures (\$125.8 million FY13 actuals and \$122.2 million FY14 budget), FTF is projecting a decrease (\$3.6 million) in collections next fiscal year, however it represents only a very moderate decrease over FY13's collection totals

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, 2013

	Program Fund	Administrative Fund	Non-major Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 339,518,484	\$ 82,893,706	\$ 654,871	\$ 423,067,061
Tobacco tax receivable	6,568,121	729,792	-	7,297,913
Other receivables	7,564,571	-	-	7,564,571
Due from other agencies	-	-	359,913	359,913
Grants receivable	-	-	281,027	281,027
Due from other funds	503,610	772,678	-	1,276,288
TOTAL ASSETS	\$ 354,154,786	\$ 84,396,176	\$ 1,295,811	\$ 439,846,773
LIABILITIES AND FUND BALANCES				
Liabilities				
Grants/other payables	\$ 16,104,683	\$ 109,002	\$ 485,303	\$ 16,698,988
Accrued liabilities	38,877	204,070	2,179	245,126
Due to other funds	21,150	503,610	751,528	1,276,288
TOTAL LIABILITIES	16,164,710	816,682	1,239,010	18,220,402
Fund balances				
Restricted	337,990,076	83,579,494	56,801	421,626,371
TOTAL FUND BALANCES	337,990,076	83,579,494	56,801	421,626,371
TOTAL LIABILITIES AND FUND BALANCES	\$ 354,154,786	\$ 84,396,176	\$ 1,295,811	\$ 439,846,773

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2013

	Program Fund	Administrative Fund	Non-major Funds	Total Governmental Funds
REVENUES				
Tobacco tax	\$ 113,191,236	\$ 12,576,804	\$ -	\$ 125,768,040
Investment earnings	5,997,669	666,408	51,103	6,715,180
Grants and donations	-	733	499,406	500,139
TOTAL REVENUES	119,188,905	13,243,945	550,509	132,983,359
EXPENDITURES				
Current:				
Personal services	1,615,092	7,063,082	77,653	8,755,827
Employee related expenditures	621,454	2,518,006	26,210	3,165,670
Professional-outside services	1,774,987	1,079,881	179,143	3,034,011
Travel in-state	51,581	319,890	3,071	374,542
Travel out-of-state	9,749	66,780	28,448	104,977
Aid to others	124,462,229	16,013	1,249,233	125,727,475
Other operating expenditures	3,641,162	1,645,433	7,988	5,294,583
Non-capital equipment	79,559	312,593	2,781	394,933
Capital equipment	-	15,348	-	15,348
TOTAL EXPENDITURES	132,255,813	13,037,026	1,574,527	146,867,366
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(13,066,908)	206,919	(1,024,018)	(13,884,007)
OTHER FINANCING SOURCES (USES)				
Transfers in from other state agencies	-	-	1,072,561	1,072,561
Total other financing sources (uses)	-	-	1,072,561	1,072,561
Net change in fund balances	(13,066,908)	206,919	48,543	(12,811,446)
FUND BALANCES BEGINNING OF YEAR	351,056,984	83,372,575	8,258	434,437,817
FUND BALANCES END OF YEAR	\$ 337,990,076	\$ 83,579,494	\$ 56,801	\$ 421,626,371

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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 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, 2013, 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, 2013

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, 2013

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 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.

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 or by contacting the Treasurer's Office at 1700 West Washington St., 1st 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, 2013

NOTE 2 CASH AND INVESTMENTS HELD BY THE STATE TREASURER

At June 30, 2013, the Board's deposits with the Treasurer were as follows:

	Program Fund	Administrative Fund	Non-major Funds	Total
Cash	\$ 10,321,077	\$ 2,417,932	\$ 654,871	\$ 13,393,880
Investments-Pool 3 & Pool 16	329,197,407	80,475,774	-	409,673,181
	<u>\$ 339,518,484</u>	<u>\$ 82,893,706</u>	<u>\$ 654,871</u>	<u>\$ 423,067,061</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, 2013, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.14% (10.9% retirement and .24% long-term disability) of the member's annual covered payroll and the Board was required by statute at the actuarially determined rate of 11.14% (10.25% retirement, 0.65% for health insurance premium, and 0.24% long-term disability) of the members' annual covered payroll. The Board's contributions to ASRS for the years ended June 30, 2013, 2012, and 2011 were \$872,525, \$816,089 and \$722,862, respectively.

Years ended June 30,	Retirement	Health Insurance	Long-term Disability	Total
2013	\$ 802,818	\$ 50,910	\$ 18,797	\$ 872,525
2012	749,980	47,871	18,238	816,089
2011	661,218	43,298	18,346	722,862

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 4 RESTRICTED FUND BALANCE

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

NOTE 5 INTERAGENCY SERVICE AGREEMENT

The Board executed an interagency service agreement with the Arizona Department of Health Services ("ADHS") in the amount of \$1,456,478 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 Health Families models to eligible women in identified Community Health Analysis Areas in Arizona. Transfers into the Board's accounts for year ended June 30, 2013 amounted to \$1,072,561, including \$359,913 due from ADHS to the Board at June 30, 2013. The Agreement is effective through September 30, 2015.

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REQUIRED SUPPLEMENTARY INFORMATION

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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, 2013

	Budgeted Amounts		Variance with Final Budget- Positive (Negative)
	Original & Final	Actual Amounts	
REVENUES			
Tobacco tax	\$ 120,464,100	\$ 113,191,236	\$ (7,272,864)
Investment earnings	5,474,603	5,997,669	523,066
TOTAL REVENUES	125,938,703	119,188,905	(6,749,798)
EXPENDITURES			
Current			
Personal services	1,662,199	1,615,092	47,107
Employee related expenditures	626,015	621,454	4,561
Professional and outside services	4,106,376	1,774,987	2,331,389
Travel in-state	229,213	51,581	177,632
Travel out-of-state	10,905	9,749	1,156
Aid to others	223,229,605	124,462,229	98,767,376
Other operating expenditures	594,477	3,641,162	(3,046,685)
Non-capital equipment	11,390	79,559	(68,169)
TOTAL EXPENDITURES	230,470,180	132,255,813	98,214,367
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(104,531,477)	(13,066,908)	91,464,569
FUND BALANCE BEGINNING OF YEAR	351,056,984	351,056,984	-
FUND BALANCE END OF YEAR	\$ 246,525,507	\$ 337,990,076	\$ 91,464,569

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, 2013

	<u>Budgeted Amounts</u>		<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original & Final</u>	<u>Actual Amounts</u>	
REVENUES			
Tobacco tax	\$ 13,384,900	\$ 12,576,804	\$ (808,096)
Investment earnings	608,289	666,408	58,119
Grants and donations	-	733	733
	<u>13,993,189</u>	<u>13,243,945</u>	<u>(749,244)</u>
TOTAL REVENUES			
EXPENDITURES			
Current			
Personal services	8,104,358	7,063,082	1,041,276
Employee related expenditures	3,052,905	2,518,006	534,899
Professional and outside services	642,987	1,079,881	(436,894)
Travel in-state	333,569	319,890	13,679
Travel out-of-state	73,443	66,780	6,663
Aid to others	-	16,013	(16,013)
Other operating expenditures	1,925,283	1,645,433	279,850
Non-capital equipment	182,241	312,593	(130,352)
Capital	-	15,348	(15,348)
	<u>14,314,786</u>	<u>13,037,026</u>	<u>1,277,760</u>
TOTAL EXPENDITURES			
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(321,597)	206,919	528,516
FUND BALANCE BEGINNING OF YEAR	<u>83,372,575</u>	<u>83,372,575</u>	<u>-</u>
FUND BALANCE END OF YEAR	<u>\$ 83,050,978</u>	<u>\$ 83,579,494</u>	<u>\$ 528,516</u>

COMPLIANCE REPORT

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HENRY & HORNE, LLP
Certified Public Accountants

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

The Board of Directors and the Executive Director
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, 2013, 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 September 26, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Arizona Early Childhood Development and Health Board's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Board's internal control. Accordingly, we do not express an opinion on the effectiveness of Arizona Early Childhood Development and Health Board's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Arizona Early Childhood Development and Health Board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Henry + Horne LLP

Casa Grande, Arizona
September 26, 2013