

ARIZONA EARLY CHILDHOOD DEVELOPMENT
AND HEALTH BOARD

FINANCIAL STATEMENTS

Year Ended June 30, 2014



ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD

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HENRY & HORNE, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of Arizona Early Childhood Development and Health Board ("Board"), of the State of Arizona, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of Arizona Early Childhood Development and Health Board, of the State of Arizona as of June 30, 2014, 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, 2014, or the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 20 through 21, 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 October 14, 2014, on our consideration of the Arizona Early Childhood Development and Health Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Arizona Early Childhood Development and Health Board's internal control over financial reporting and compliance.

Henry & Horne LLP

Casa Grande, Arizona
October 14, 2014

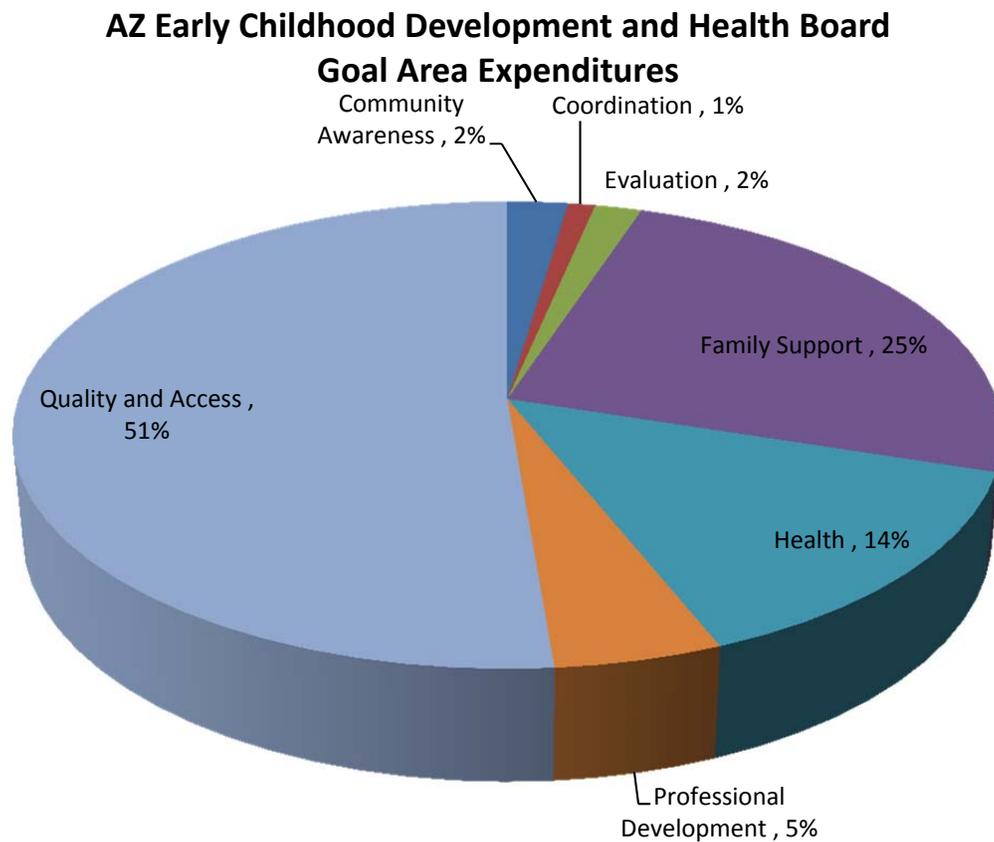
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014**

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 2013-2014 are as follows:

- Program spending totaled \$ 141.9 million in the following Goal Areas:

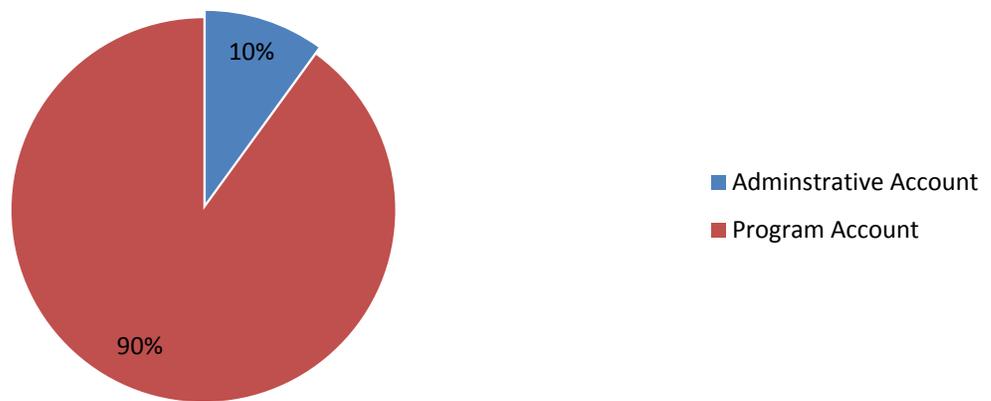


Fiscal year 2014 program expenditures were allocated to these goals areas throughout the state. The Quality and Access goal is in place to increase the availability, quality and diversity of learning environments that support children's language and literacy development, emotional well-being, health and safety. This includes Quality First, the Health 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 facilities, 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 2014, \$13.04 million of a total of \$130.6 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, 2014.

Balance Sheet

The following table reflects the condensed Balance Sheet as of June 30, 2014.

	Condensed Balance Sheet (in Thousands)			
	Program Fund	Admin Fund	Non-major Funds	Total
Total assets	\$328,938	\$83,511	\$ 2,184	\$414,633
Total liabilities	15,300	336	2,099	17,735
Total fund balances	\$313,638	\$83,175	\$ 85	\$396,898

Total assets have decreased from fiscal year 2013. 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, 2014.

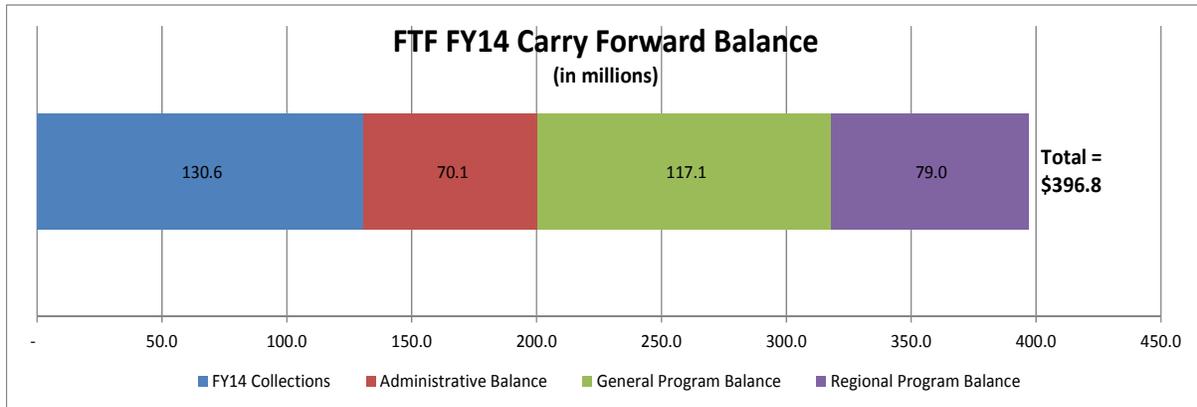
Condensed Revenues, Expenditures and Changes in Fund Balances (in Thousands)

	<u>Program Fund</u>	<u>Admin Fund</u>	<u>Non-major Funds</u>	<u>Total</u>
Program revenues				
Tobacco tax	\$ 112,160	\$ 12,462	\$ -	\$ 124,622
Investment earnings	5,395	584	11	5,990
Grants		-	980	980
Total revenues	<u>117,555</u>	<u>13,046</u>	<u>991</u>	<u>131,592</u>
Expenditures				
Personal and related expenditures	2,399	9,962	25	12,386
Professional services	1,395	794	437	2,626
Travel	69	389	38	496
Aid to others	129,041	-	2,889	131,930
Aid to State Agencies	5,606	-	-	5,606
Other expenditures	3,397	2,155	308	5,860
Total expenditures	<u>141,907</u>	<u>13,300</u>	<u>3,697</u>	<u>158,904</u>
Excess of revenues over expenditures	(24,352)	(254)	(2,706)	(27,312)
Transfers in/(out)	-	(150)	2,734	2,584
Beginning fund balances	<u>337,990</u>	<u>83,579</u>	<u>57</u>	<u>421,626</u>
Ending fund balances	<u>\$313,638</u>	<u>\$83,175</u>	<u>\$ 85</u>	<u>\$396,898</u>

While FTF ended the fiscal year in a positive position in relation to the final approved budget, FY14 marks the second year in which total agency fund balance reduced. In addition, FY14's reduction was the largest cash drop in FTF's history: some \$24.8 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 \$31.4 million less than allotted budgets.

FTF ended the fiscal year with \$396.8 million. Of this amount, \$130.6 million are current year collections which serve as the base for FY15's expenditure budget. This leaves a marginal fund balance of \$266.2 million of which \$70.1 is in the Administrative Account, \$117.1 million is in the general Program Account, and \$79 million 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 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.

In reviewing FY14 collections, FTF Board has determined a relatively less aggressive tobacco collection projections should be made for the current year (FY15). These projections are still in line with the tax modeling work done by ASU's School of Business, and are generally in line with the "expected" figure of \$122.7 million presented by ASU. As such, FTF is projecting it will realize \$122.2 million in tobacco revenues in FY15, a \$2.4 million decrease in collections from FY14'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.

FINANCIAL STATEMENTS

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

ASSETS	Program Fund	Administrative Fund	Non-major Funds	Total Governmental Funds
Cash and cash equivalents	\$ 315,451,812	\$ 82,254,370	\$ 317,865	\$ 398,024,047
Tobacco tax receivable	6,793,187	754,799	-	7,547,986
Other receivables	5,375,900	-	-	5,375,900
Due from other agencies	-	-	1,863,262	1,863,262
Grants receivable	-	-	3,124	3,124
Due from other funds	1,316,937	502,278	-	1,819,215
TOTAL ASSETS	<u>\$ 328,937,836</u>	<u>\$ 83,511,447</u>	<u>\$ 2,184,251</u>	<u>\$ 414,633,534</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Grants/other payables	\$ 15,245,079	\$ 87,917	\$ 280,388	\$ 15,613,384
Accrued liabilities	54,555	247,980	-	302,535
Due to other funds	373	-	1,818,842	1,819,215
TOTAL LIABILITIES	<u>15,300,007</u>	<u>335,897</u>	<u>2,099,230</u>	<u>17,735,134</u>
Fund balances				
Restricted	<u>313,637,829</u>	<u>83,175,550</u>	<u>85,021</u>	<u>396,898,400</u>
TOTAL FUND BALANCES	<u>313,637,829</u>	<u>83,175,550</u>	<u>85,021</u>	<u>396,898,400</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 328,937,836</u>	<u>\$ 83,511,447</u>	<u>\$ 2,184,251</u>	<u>\$ 414,633,534</u>

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2014

	Program Fund	Administrative Fund	Non-major Funds	Total Governmental Funds
REVENUES				
Tobacco tax	\$ 112,159,842	\$ 12,461,894	\$ -	\$ 124,621,736
Investment earnings	5,395,398	584,489	10,949	5,990,836
Grants and donations	-	-	980,675	980,675
TOTAL REVENUES	117,555,240	13,046,383	991,624	131,593,247
EXPENDITURES				
Current:				
Personal services	1,709,280	7,196,271	18,674	8,924,225
Employee related expenditures	689,241	2,766,068	6,666	3,461,975
Professional-outside services	1,394,861	793,613	437,562	2,626,036
Travel in-state	58,255	318,213	29,701	406,169
Travel out-of-state	10,638	70,861	8,444	89,943
Aid to others	129,041,287	117	2,888,962	131,930,366
Aid to State Agencies	5,606,570	-	-	5,606,570
Other operating expenditures	3,338,728	1,548,886	66,641	4,954,255
Non-capital equipment	58,627	435,157	241,500	735,284
Capital equipment	-	171,141	-	171,141
TOTAL EXPENDITURES	141,907,487	13,300,327	3,698,150	158,905,964
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(24,352,247)	(253,944)	(2,706,526)	(27,312,717)
OTHER FINANCING SOURCES (USES)				
Transfers in from other state agencies	-	-	2,734,746	2,734,746
Transfers out to other state agencies	-	(150,000)	-	(150,000)
Total other financing sources (uses)	-	(150,000)	2,734,746	2,584,746
Net change in fund balances	(24,352,247)	(403,944)	28,220	(24,727,971)
FUND BALANCES BEGINNING OF YEAR	337,990,076	83,579,494	56,801	421,626,371
FUND BALANCES END OF YEAR	\$ 313,637,829	\$ 83,175,550	\$ 85,021	\$ 396,898,400

See accompanying notes.

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ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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, 2014, 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, 2014

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, 2014

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, 2014

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

At June 30, 2014, the Board's deposits with the Treasurer were as follows:

	Program Fund	Administrative Fund	Non-major Funds	Total
Cash	\$ 13,254,405	\$ 1,798,710	\$ 317,865	\$ 15,370,980
Investments-Pool 3 & Pool 16	302,197,407	80,455,660	-	382,653,067
	<u>\$ 315,451,812</u>	<u>\$ 82,254,370</u>	<u>\$ 317,865</u>	<u>\$ 398,024,047</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, 2014, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.54% (11.30% retirement and 0.24% long-term disability) of the member's annual covered payroll and the Board was required by statute at the actuarially determined rate of 11.54% (10.70% retirement, 0.60% 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, 2014, 2013, and 2012 were \$958,066, \$891,714 and \$835,363, respectively.

Years ended June 30,	Retirement	Health Insurance	Long-term Disability	Total
2014	\$ 888,329	\$ 49,813	\$ 19,924	\$ 958,066
2013	820,474	52,030	19,210	891,714
2012	767,693	49,002	18,668	835,363

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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 \$1,475,846 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, 2014 amounted to \$1,417,809, including \$546,325 due from ADHS to the Board at June 30, 2014. The Agreement is effective through September 30, 2015.

The Board executed an interagency service agreement with the Arizona Department of Economic Security ("DES") in the amount of \$1,316,937 dated August 6, 2014 for activities occurring through September 30, 2013 to provide financial support to Board for costs associated with child care and development targeted funds (CCDF) expended in support of the CCDF target population of eligible infant and toddlers (zero (0) through three (3) years of age). Eligible CCDF infant and toddler expenditures must benefit this age group and may include professional development; public knowledge and engagement; health and safety of infants and toddlers; facility enhancement/expansion; child care settings and activities for families, friends, neighbor providers, family child care, and teen parents; planning, research, and evaluation efforts; child care resource and referral activities; parent and family involvement through training; and program standard enhancements. Transfers into the Board's accounts for year ended June 30, 2014 amounted to \$1,316,937, including \$1,316,937 due from DES to the Board at June 30, 2014. The Agreement is effective through September 30, 2013.

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REQUIRED SUPPLEMENTARY INFORMATION

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD
PROGRAM FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
Year Ended June 30, 2014

	Budgeted Amounts		Variance with Final Budget- Positive (Negative)
	Original & Final	Actual Amounts	
REVENUES			
Tobacco tax	\$ 109,980,000	\$ 112,159,842	\$ 2,179,842
Investment earnings	54,000	5,395,398	5,341,398
TOTAL REVENUES	110,034,000	117,555,240	7,521,240
EXPENDITURES			
Current			
Personal services	2,604,197	1,709,280	894,917
Employee related expenditures	1,014,190	689,241	324,949
Professional and outside services	4,314,922	1,394,861	2,920,061
Travel in-state	87,046	58,255	28,791
Travel out-of-state	4,750	10,638	(5,888)
Aid to others	150,848,208	129,041,287	21,806,921
Aid to State Agencies	5,606,570	5,606,570	-
Other operating expenditures	4,174,958	3,338,728	836,230
Non-capital equipment	801,785	58,627	743,158
TOTAL EXPENDITURES	169,456,626	141,907,487	27,549,139
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(59,422,626)	(24,352,247)	35,070,379
FUND BALANCE BEGINNING OF YEAR	337,990,076	337,990,076	-
FUND BALANCE END OF YEAR	\$ 278,567,450	\$ 313,637,829	\$ 35,070,379

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, 2014

	Budgeted Amounts <u>Original & Final</u>	Actual Amounts	Variance with Final Budget- Positive (Negative)
REVENUES			
Tobacco tax	\$ 122,200	\$ 12,461,894	\$ 12,339,694
Investment earnings	6,000	584,489	578,489
TOTAL REVENUES	<u>128,200</u>	<u>13,046,383</u>	<u>12,918,183</u>
EXPENDITURES			
Current			
Personal services	8,247,627	7,196,271	1,051,356
Employee related expenditures	3,127,037	2,766,068	360,969
Professional and outside services	1,102,906	793,613	309,293
Travel in-state	368,680	318,213	50,467
Travel out-of-state	70,641	70,861	(220)
Aid to others	-	117	(117)
Other operating expenditures	1,874,068	1,548,886	325,182
Non-capital equipment	181,491	435,157	(253,666)
Capital	<u>-</u>	<u>171,141</u>	<u>(171,141)</u>
TOTAL EXPENDITURES	<u>14,972,450</u>	<u>13,300,327</u>	<u>1,672,123</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(14,844,250)	(253,944)	14,590,306
OTHER FINANCING SOURCES (USES)			
Transfers out to other state agencies	<u>-</u>	<u>(150,000)</u>	<u>(150,000)</u>
Total other financing sources (uses)	<u>-</u>	<u>(150,000)</u>	<u>(150,000)</u>
Net change in fund balances	(14,844,250)	(403,944)	14,440,306
FUND BALANCE BEGINNING OF YEAR	<u>83,579,494</u>	<u>83,579,494</u>	<u>-</u>
FUND BALANCE END OF YEAR	<u><u>\$ 68,735,244</u></u>	<u><u>\$ 83,175,550</u></u>	<u><u>\$ 14,440,306</u></u>

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REPORT ON INTERNAL CONTROL AND COMPLIANCE

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HENRY & HORNE, LLP
Certified Public Accountants

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major fund and the aggregate remaining fund information of Arizona Early Childhood Development and Health Board, Arizona (Board), as of and for the year ended June 30, 2014, 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 14, 2014.

Internal Control Over Financial Reporting

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

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

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

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Compliance and Other Matters

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

Purpose of this Report

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

Henry & Horne LLP

Casa Grande, Arizona
October 14, 2014



HENRY & HORNE, LLP
Certified Public Accountants

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, 2014, and have issued our report thereon dated October 14, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and Government Auditing Standards as well as certain information related to the planned scope and timing of our audit. Professional standards require that we provide you with 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 21, 2014, 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, 2014. We noted no transactions entered into by the Agency 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.

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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 funding sources, there are no estimates that are particularly sensitive.

The disclosures in the financial statements 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. We identified no audit adjustments for the year ended June 30, 2014.

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 management representation letter dated October 14, 2014.

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 auditor's 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 is 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.

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

Henry + Horne LLP

Casa Grande, Arizona
October 14, 2014



FIRST THINGS FIRST

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Janice Decker

Vice Chair

Dr. Pamela Powell

Members

Nadine Mathis Basha

Gayle Burns

Steven W. Lynn

Hon. Cecil Patterson

Vivian Saunders

Ruth Solomon

Ex-Officio Members

Clarence H. Carter
Director DES

Will Humble
Director ADHS

John Huppenthal
Superintendent ADE

Chief Executive Officer

Sam Leyvas

4000 North Central Avenue, Suite 800

Phoenix, Arizona 85012

Phone: 602-771-5100

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October 14, 2014

Henry & Horne, LLP
1115 E Cottonwood Lane, Suite 100
Casa Grande, AZ 85112

We are providing this letter 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, 2014, 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 an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United State 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 October 14, 2014, 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 21, 2014, including our responsibility for the preparation and fair presentation of the financial statements 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. generally accepted accounting principles 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 are reasonable.

6. All events subsequent to the date of the financial statements and for which US GAAP requires adjustment or disclosure have been adjusted or disclosed. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to, or disclosure in, the aforementioned financial statements.

7. 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 entity from whom you determined it necessary to obtain audit evidence.
- d) Minutes of the meetings of the Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared.

8. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

9. We have no knowledge of any fraud or suspected fraud affecting the entity involving:

- a. Management,
- b. Employees who have significant roles in internal control, or
- c. Others where the fraud could have a material effect on the financial statements.

10. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.

11. 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.

12. We have made available to you all financial records and related data.

13. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

14. The Board has no plans or intentions that may materially affect the carrying value or classification, if applicable, of assets, deferred outflows, liabilities, deferred inflows or fund balance.

15. We are responsible for compliance with the laws, regulations, and provisions of contracts and agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provision of contracts and agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

16. There are no violations or possible violations of budget ordinances, laws or regulations, (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and agreements, tax or debt limits, and any related debt covenants, if applicable, 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.

17. As part of your audit, you assisted with preparation of the financial statements and related notes. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have assumed all management responsibilities. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.

18. The 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.

19. The Board has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

20. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
21. The financial statements properly classify all funds and activities.
22. All funds that meet the quantitative criteria in GASBS No. 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.
23. Interfund balances have been appropriately classified and reported.
24. Provisions for uncollectible receivables, if applicable, have been properly identified and recorded.
25. Expenditures have been appropriately classified in or allocated to functions and programs, and allocations have been made on a reasonable basis.
26. Revenues are appropriately classified within program revenues or general revenues.
27. Deposits and investments are properly classified as to risk and are properly disclosed.
28. 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.
29. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
30. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
31. The following, if any, have been properly recorded or disclosed in the financial statements:
 - a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - b. Guarantees, whether written or oral, under which the District is contingently liable.
 - c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances.

32. 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.

Signed:  10/14/14
Title: CFO/COO