FIRST THINGS FIRST

Ready for School. Set for Life.

AGENDA ITEM:

FY11 Fiscal Year End Audit

CEO RECOMMENDATION(S):

- Accept the FY11 Audit

DISCUSSION:

Attached is the FY11 Fiscal Year End Audit. There were no significant findings as part of the audit. In addition, it is worth noting that for the first time FTF provided a Management Discussion and Analysis (MD&A) presentation as part of the audit. This section is not required under a cash audit and is only suggested as best practice when an accrual audit is completed. Last year, when FTF was transitioning to an accrual audit, this section was not included. While this created no material weakness in the FY10 audit, its absence was noted in the audit and FTF committed to providing this analysis in subsequent audits.

HENRY & HORNE, LLP
CERTIFIED PUBLIC ACCOUNTANTS

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD

FINANCIAL STATEMENTS

Year Ended June 30, 2011

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD

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HENRY & HORNE, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Arizona Early Childhood Development and Health Board, State of Arizona, as of and for the year ended June 30, 2011, as shown in the table of contents. These financial statements are the responsibility of the Arizona Early Childhood Development and Health Board's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Arizona Early Childhood Development and Health Board, State of Arizona, are intended to present the financial position, and the changes in the financial position of only that portion of the aggregate remaining fund information of the State of Arizona that is attributable to transactions of the Arizona Early Childhood Development and Health Board. They do not purport to, and do not, present fairly the financial position of the State of Arizona as of June 30, 2011, or the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Arizona Early Childhood Development and Health Board, State of Arizona, as of June 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted by the United States of America.

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In accordance with Government Auditing Standards, we have also issued our report dated October 31, 2011 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 *Govemment Auditing Standards* and should be considered in assessing the results of our audit.

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

Henry + Horne LLP

Casa Grande, Arizona
October 31, 2011

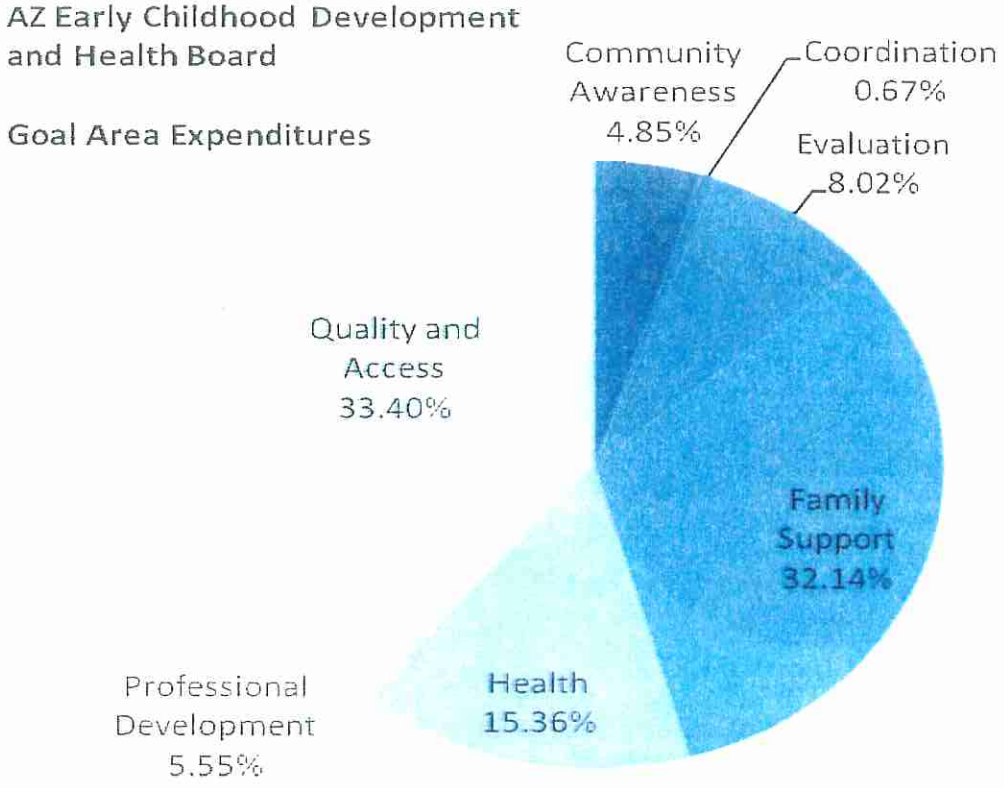
MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2011

The discussion and analysis is designed to provide an analysis of the Arizona Early Childhood Development and Health Board's (Health Board's) financial condition 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 2010-2011 are as follows:

- Program spending totaled $98.7 million in the following Goal Areas:

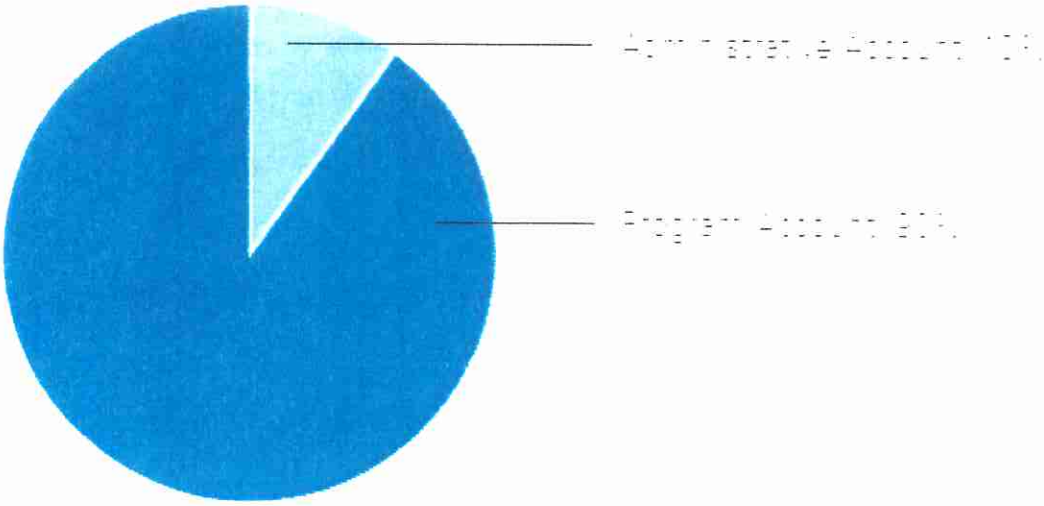


Fiscal year 2011 program expenditures were allocated to these goals areas throughout the state. The Quality and Access goal is in place to increase the availability, quality and diversity of learning environments that support children's language and literacy development, emotional well-being, health and safety. This includes Quality First, the Health's Board's signature program that has engaged more than 700 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 infants, toddlers and preschoolers. Professional development strategies also address increasing those teachers' access to college coursework and/or degrees so that they are better prepared to engage young minds.. Under the Health goal area, funds are allocated to improve children's health by increasing 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 systems 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 2011, $13.07 million of a total of $130.7 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 in to 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 measures 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 tables 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, 2011.

Balance Sheet

The following table reflects the condensed Balance Sheet as of June 30, 2011.

Condensed Balance Sheet
(in Thousands)

	Program Fund	Admin Fund	Non-major Funds	Total
Total assets	$379,348	$84,010	$ 920	$464,278
Total liabilities	19,985	947	911	21,843
Total fund balances	$359,363	$83,063	$ 9	$442,435

Total assets have increased from fiscal year 2010. This is mainly due to a higher ending cash balance at the end of the year.

Changes in Fund Balances

The following table presents a summary of the changes in fund balances for the year ended June 30, 2011.

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

	Program Fund	Admin Fund	Non-major Funds	Total
Program revenues				
Tobacco tax	$117,631	$13,070	$ -	$130,701
Investment earnings	2,747	305	2	3,054
Grants			1,121	1,121
Other revenues	-	1	1	2
Total revenues	120,378	13,376	1,124	134,878
Expenditures				
Personal and related expenditures	1,169	9,467	145	10,781
Professional services	4,419	2,312	321	7,052
Travel	45	337	24	406
Aid to others	92,148	49	626	92,823
Other expenditures	911	1,862	5	2,778
Total expenditures	98,692	14,027	1,121	113,840
Excess of revenues over expenditures	21,686	(651)	3	21,038
Beginning fund balances	337,677	83,714	6	421,397
Ending fund balances	$359,363	$83,063	$ 9	$442,435

Fund balances have increased from Fiscal Year 2010 because of below budget program spending. Although program expenditures were budgeted, and grants were awarded at levels that would normally decrease the fund balance, reimbursement request totals were lower than expected. This pattern mirrors that seen in FY10. However, instead of being the result of the system needing to ramp up service delivery capabilities (as seen in FY10), the lower than anticipated expenditures in FY11 were a result of service providers holding back on program implementation until the outcome of the November 2010 election was known. This election was significant, because voters had the opportunity through legislative referendum to eliminate the agency. Voters overwhelmingly (by nearly 70% of the vote) voted to preserve and affirm the work of the Health Board. With these challenges behind the organization, it is expected that next year, and moving forward, programs will continue to grow and grantees will undoubtedly increase reimbursement request totals to more closely match full grant awards. This will result in the eventual spend down of the agency's fund balance. In addition, Administrative expenditures have also remained below budget.

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 near-term inflows, outflows and balances of spendable resources. The Health Board maintains two major governmental funds 1) program fund and 2) administrative fund.

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

The Administrative Fund is used to pay administrative expenses.

Budgetary Highlights

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

Economic and Other Factors

Declining Tobacco Revenues

As fewer Arizonans consume tobacco products, the Health Board's major funding source—tobacco tax revenues—will continue to decrease before stabilizing in the next 10 to 15 years. Tobacco tax revenue received by the Health Board in FY2011 was 2% less than revenue received in FY2010 and 21% less than revenue in FY2008. Fortunately, the Health Board anticipated this decline. Since additional revenue would eventually be needed, the Health Board established a fund to accumulate tobacco revenue and interest during the program's early days, when policies, tracking and accounting mechanisms were still being assembled. This fund is designed to act as a reserve; sustaining the Health Board's initiatives as tobacco revenues decline.

Investment Income

The Health Board has been investing its funds in a low yield and highly liquid investment 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 investment options to bring in greater interest income. Once implemented, the new investment strategy will bring in significantly higher interest income, which 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, 2011

ASSETS	Program Fund	Administrative Fund	Non-major Funds	Total Governmental Funds
Cash and cash equivalents	$ 369,779,476	$ 82,922,134	$ 118,432	$ 452,820,042
Tobacco tax receivable	8,679,433	837,821	-	9,517,254
Grant reimbursements receivable	-	-	801,962	801,962
Due from other funds	889,046	250,000	-	1,139,046
TOTAL ASSETS	$ 379,347,955	$ 84,009,955	$ 920,394	$ 464,278,304
LIABILITIES AND FUND BALANCES				
Liabilities				
Grants/other payables	$ 19,883,812	$ 201,565	$ 20,093	$ 20,105,470
Accrued liabilities	100,678	498,073	-	598,751
Due to other funds	-	247,382	891,664	1,139,046
TOTAL LIABILITIES	19,984,490	947,020	911,757	21,843,267
Fund balances				
Restricted	359,363,465	83,062,935	8,637	442,435,037
TOTAL FUND BALANCES	359,363,465	83,062,935	8,637	442,435,037
TOTAL LIABILITIES AND FUND BALANCES	$ 379,347,955	$ 84,009,955	$ 920,394	$ 464,278,304

See accompanying notes.

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2011

	Program Fund	Administrative Fund	Non-major Funds	Total Governmental Funds
REVENUES				
Tobacco tax	$ 117,631,298	$ 13,070,146	$ -	$ 130,701,444
Investment earnings	2,746,653	305,184	1,500	3,053,337
Grants and donations	-	-	1,121,118	1,121,118
Other revenues	-	995	1,175	2,170
TOTAL REVENUES	120,377,951	13,376,325	1,123,793	134,878,069
EXPENDITURES				
Current:				
Personal services	835,765	6,899,141	86,077	7,820,983
Employee related expenditures	333,176	2,568,066	59,097	2,960,339
Professional-outside services	4,418,870	2,311,761	320,456	7,051,087
Travel in-state	37,727	292,654	6,354	336,735
Travel out-of-state	6,967	44,351	18,118	69,436
Aid to others	92,148,274	49,574	625,742	92,823,590
Other operating expenditures	844,737	1,665,926	5,396	2,516,059
Non-capital equipment	65,940	196,049	-	261,989
TOTAL EXPENDITURES	98,691,456	14,027,522	1,121,240	113,840,218
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	21,686,495	(651,197)	2,553	21,037,851
FUND BALANCES BEGINNING OF YEAR	337,676,970	83,714,132	6,084	421,397,186
FUND BALANCES END OF YEAR	$ 359,363,465	$ 83,062,935	$ 8,637	$ 442,435,037

See accompanying notes.

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, 2011, 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.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Valuation

Arizona Revised Statutes (ARS) authorize the Board to invest public monies in the State Treasurer's Local Government Investment Pool. As required by GASB Statement No. 31, investments are reported at fair value which is the amount at which financial instruments could be exchanged in a current transaction between willing parties.

Use of 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 an internal investment pool (Pool 3) 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 is not required to be registered (and is 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.

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

At June 30, 2011, the Board's deposits with the Treasurer were as follows:

	Program Fund	Administrative Fund	Non-major Funds	Total
Cash	$ 17,582,069	$ 724,474	$ 118,432	$ 18,424,975
Investment-Pool 3	352,197,407	82,197,660	-	434,395,067
	$ 369,779,476	$ 82,922,134	$ 118,432	$ 452,820,042

NOTE 3 RETIREMENT AND PENSION PLAN

Arizona State Retirement Plan

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

Funding Policy. The Arizona State Legislature has the authority to establish and amend benefits provisions and contributions for active plan members. For the years ended June 30, 2011, 2010 and 2009, active ASRS members and the Board were each required by statute to contribute at the actuarially determined rate of 9.85, 9.40 and 9.45 percent (rate includes .50 for long-term disability), respectively, of the members' annual covered payroll. The Board's contributions to ASRS for the years ended June 30, 2011, 2010 and 2009 were $746,032, $698,465 and $580,327, respectively.

SUPPLEMENTARY INFORMATION

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD
PROGRAM FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2011

	Budgeted Amounts Original & Final	Actual Amounts	Variance with Final Budget- Positive (Negative)
REVENUES			
Tobacco tax revenues	$ 117,900,000	$ 117,631,298	$ (268,702)
Investment earnings	3,600,000	2,746,653	(853,347)
TOTAL REVENUES	121,500,000	120,377,951	(1,122,049)
EXPENDITURES			
Current			
Personal services	1,429,075	835,765	593,310
Employee related expenditures	511,821	333,176	178,645
Professional and outside services	468,010	4,418,870	(3,950,860)
Travel in-state	67,655	37,727	29,928
Travel out-of-state	10,405	6,967	3,438
Aid to others	189,204,761	92,148,274	97,056,487
Other operating expenditures	290,974	844,737	(553,763)
Non-capital equipment	2,520	65,940	(63,420)
TOTAL EXPENDITURES	191,985,221	98,691,456	93,293,765
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(70,485,221)	21,686,495	92,171,716
FUND BALANCE BEGINNING OF YEAR	337,676,970	337,676,970	-
FUND BALANCE END OF YEAR	$ 267,191,749	$ 359,363,465	$ 92,171,716

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, 2011

	Budgeted Amounts Original & Final	Actual Amounts	Variance with Final Budget- Positive (Negative)
REVENUES			
Tobacco tax revenues	$ 13,100,000	$ 13,070,146	$ (29,854)
Investment earnings	400,000	305,184	(94,816)
Other revenues	-	995	995
TOTAL REVENUES	13,500,000	13,376,325	(123,675)
EXPENDITURES			
Current			
Personal services	7,319,118	6,899,141	419,977
Employee related expenditures	2,634,863	2,568,066	66,797
Professional and outside services	2,904,913	2,311,761	593,152
Travel in-state	488,577	292,654	195,923
Travel out-of-state	49,210	44,351	4,859
Aid to others	-	49,574	(49,574)
Other operating expenditures	1,892,684	1,665,926	226,758
Non-capital equipment	172,241	196,049	(23,808)
TOTAL EXPENDITURES	15,461,606	14,027,522	1,434,084
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,961,606)	(651,197)	1,310,409
FUND BALANCE BEGINNING OF YEAR	83,714,132	83,714,132	-
FUND BALANCE END OF YEAR	$ 81,752,526	$ 83,062,935	$ 1,310,409

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD

COMPLIANCE REPORT

Year Ended June 30, 2011

HENRY & HORNE, LLP
Certified Public Accountants

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

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

We have audited the financial statements of Arizona Early Childhood Development and Health Board, as of and for the year ended June 30, 2011, and have issued our report thereon dated October 31, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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Compliance and Other Matters

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

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

Henry & Horne LLP

Casa Grande, Arizona
October 31, 2011