ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD

FINANCIAL STATEMENTS

Year Ended June 30, 2010

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ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD

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Celebrating 50 Years Of Service

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, 2010, 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 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, 2010, 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, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted by the United States of America.

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

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

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

www.henryandhorne.com

In accordance with Government Auditing Standards, we have also issued our report dated November 15, 2010 on our consideration of the Arizona Early Childhood Development and Health Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering 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. Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Our opinion on the basic financial statements is not affected by this missing information. We have applied certain limited procedures to the budgetary comparison 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.

Casa Grande, Arizona
November 15, 2010

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2010

ASSETS	Program Fund	Administrative Fund	Non-major Funds	Total Governmental Funds
Cash and cash equivalents	$ 343,973,125	$ 84,184,260	$ 6,084	$ 428,163,469
Tobacco tax receivable	6,984,000	776,000	-	7,760,000
Total assets	$ 350,957,125	$ 84,960,260	$ 6,084	$ 435,923,469
LIABILITIES AND FUND BALANCES				
Liabilities				
Grants/other payables	$ 13,238,855	$ 755,966	$ -	$ 13,994,821
Accrued liabilities	41,300	490,162	-	531,462
Total liabilities	13,280,155	1,246,128	-	14,526,283
Fund balances, unreserved	337,676,970	83,714,132	6,084	421,397,186
Total liabilities and fund balances	$ 350,957,125	$ 84,960,260	$ 6,084	$ 435,923,469

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, 2010

	Program Fund	Administrative Fund	Non-major Funds	Total Governmental Funds
REVENUES				
Tobacco tax	$ 119,042,011	$ 13,226,891	$ -	$ 132,268,902
Investment earnings	3,891,346	432,372	2,050	4,325,768
Grants and donations	-	-	70,397	70,397
Other revenues	-	555	-	555
Total revenues	122,933,357	13,659,818	72,447	136,665,622
EXPENDITURES				
Current:				
Personal services	174,830	7,973,035	-	8,147,865
Employee related expenditures	50,796	2,807,235	-	2,858,031
Professional-outside services	981,235	2,744,839	53,267	3,779,341
Travel in-state	766	266,355	-	267,121
Travel out-of-state	547	15,124	1,321	16,992
Aid to others	68,397,132	29,750	13,159	68,440,041
Other operating expenditures	1,122,617	1,562,403	4,499	2,689,519
Non-capital equipment	30,904	186,312	-	217,216
Capital equipment	-	7,123	-	7,123
Total expenditures	70,758,827	15,592,176	72,246	86,423,249
Excess (deficiency) of revenues over (under) expenditures	52,174,530	(1,932,358)	201	50,242,373
Fund balances, beginning of year (as restated)	285,502,440	85,646,490	5,883	371,154,813
Fund balances, end of year	$ 337,676,970	$ 83,714,132	$ 6,084	$ 421,397,186

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.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Board reports the following major governmental 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:

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.

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.

At June 30, 2010, the Board's deposits with the Treasurer were as follows:

	Program Fund	Administrative Fund	Non-major Funds	Total
Cash	$ 28,775,718	$ 9,638,437	$ 6,084	$ 38,420,239
Investment-Pool 3	315,197,407	74,545,823	-	389,743,230
	$343,973,125	$ 84,184,260	$ 6,084	$ 428,163,469

NOTE 3 CHANGE IN ACCOUNTING PRINCIPLE

Effective July 1, 2009, the Board elected to begin financial reporting in accordance with accounting principles generally accepted in the United States of America as applied to governmental units for one or more individual funds. This changed the methodology from cash basis reporting to modified accrual reporting. Accordingly, beginning net assets in the Program Fund were restated by $17,805,033. Additionally, beginning net assets in the Administrative Fund were restated by $3,891,549. This change does not affect the State of Arizona.

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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, 2010

	Budgeted Amounts		Variance with Final Budget-
REVENUES	Original & Final	Actual Amounts	Positive (Negative)
Tobacco tax revenues	$ 117,876,113	$ 119,042,011	$ 1,165,898
Investment earnings	3,140,070	3,891,346	751,276
Total revenues	121,016,183	122,933,357	1,917,174
EXPENDITURES			
Current			
Personal services	199,731	174,830	24,901
Employee related expenditures	64,264	50,796	13,468
Professional and outside services	2,726,180	981,235	1,744,945
Travel in-state	1,200	766	434
Travel out-of-state	-	547	(547)
Aid to others	117,929,003	68,397,132	49,531,871
Other operating expenditures	230,380	1,122,617	(892,237)
Non-capital equipment	-	30,904	(30,904)
Total expenditures	121,150,758	70,758,827	50,391,931
Excess (deficiency) of revenues over (under) expenditures	(134,575)	52,174,530	52,309,105
Fund balance beginning of year	285,502,440	285,502,440	-
Fund balance end of year	$ 285,367,865	$ 337,676,970	$ 52,309,105

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, 2010

	Budgeted Amounts Original & Final	Actual Amounts	Variance with Final Budget- Positive (Negative)
REVENUES			
Tobacco tax revenues	$ 13,097,346	$ 13,226,891	$ 129,545
Investment earnings	348,897	432,372	83,475
Other revenues	-	555	555
Total revenues	13,446,243	13,659,818	213,575
EXPENDITURES			
Current			
Personal services	7,966,918	7,973,035	(6,117)
Employee related expenditures	2,701,420	2,807,235	(105,815)
Professional and outside services	7,999,741	2,744,839	5,254,902
Travel in-state	706,310	266,355	439,955
Travel out-of-state	63,898	15,124	48,774
Aid to others		29,750	(29,750)
Other operating expenditures	2,082,970	1,562,403	520,567
Capital equipment	47,288	7,123	40,165
Non-capital equipment	211,738	186,312	25,426
Total expenditures	21,780,283	15,592,176	6,188,107
Excess (deficiency) of revenues over (under) expenditures	(8,334,040)	(1,932,358)	6,401,682
Fund balance beginning of year	85,646,490	85,646,490	-
Fund balance end of year	$ 77,312,450	$ 83,714,132	$ 6,401,682

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ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD

COMPLIANCE REPORT

Year Ended June 30, 2010

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Celebrating 50 Years Of Service

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, 2010, and have issued our report thereon dated November 15, 2010. 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 would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

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

Casa Grande
1115 E. Cottonwood Lane
Suite 100
Casa Grande, AZ 85122-2950
(520) 836-8201
Fax (520) 420-8432

www.henryandhorne.com

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

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 is not intended to be and should not be used by anyone other than these specified parties.

Casa Grande, Arizona
November 15, 2010