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, 2012, and have issued our report thereon dated November 5, 2012. 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 10, 2012, 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 for the required supplementary information accompanying the financial statements, as described by professional standards, is to apply certain limited procedures consisting of inquiries of management about 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.

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.

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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, 2012. 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.

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.

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, 2012.

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 November 5, 2012.

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

With respect to the required supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated 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 in accordance with auditing standards generally accepted in the United States of America, the method of preparing it has not changed from the prior period. We compared and reconciled the required supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We do not express an opinion or provide assurance on the required supplementary information.

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
November 5, 2012

FIRST THINGS FIRST

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Director ADHS

Clarence H. Carter
Director DES

John Huppenthal
Superintendent ADE

Chief Executive Officer
Rhian Evans Allvin

November 5, 2012

Henry & Horne, LLP
1115 E. Cottonwood Lane, Suite 100
Casa Grande, Arizona 85122

We are providing this letter in connection with your audit of the financial statements of Arizona Early Childhood Development and Health Board as of June 30, 2012 and for the year then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position of the governmental activities and each major fund and the aggregate remaining fund information of Arizona Early Childhood Development and Health Board and the respective changes in financial position and, where applicable, cash flows thereof in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with U.S. generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of November 5, 2012, the following representations made to you during your audit:

1. 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 Arizona Early Childhood Development and Health Board required by generally accepted accounting principles to be included in the financial reporting entity.

2. We have made available to you:
   a. Financial records and related data
   b. Minutes of the meetings of directors, and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared

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

4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.

5. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.

6. We have no knowledge of any fraud or suspected fraud affecting the company 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

7. We have no knowledge of any allegations of fraud or suspected fraud affecting the Health Board received in communications from employees, former employees, regulators, or others.

8. The Health Board no plans or intentions that may materially affect the carrying value or classification of assets, liabilities or fund equity.

9. The following, if any, have been properly recorded or disclosed in the financial statements:
   a. Related party transactions, including revenues, expenditures, loans, transfers, leasing arrangements, and guarantees.
   b. Guarantees, whether written or oral, under which the Board 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.

10. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant 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.

11. There are no:
   a. Violations or possible violations of budget ordinances, laws or regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits 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.
   b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed in accordance with generally accepted accounting principles.

12. We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

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

14. The Health Board has followed all applicable laws and regulations in adopting, approving, and amending budgets.

15. We are not aware of any pending or threatened litigation, claims, or assessments or un-asserted claims or assessments that should be disclosed in the financial statements, and we have not consulted a lawyer concerning litigation, claims, or assessments.

16. 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 made all management decisions and performed all management functions. We have reviewed, approved and accepted responsibility for those financial statements and related notes.

17. 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.

18. Deposits and investment securities are properly classified in category of custodial risk.

19. The financial statements properly classify all funds and activities.

20. All funds that meet the quantitative criteria in GASB Statements Nos. 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.

21. Components of net assets (invested in capital assets; net of related debt; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.

22. 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. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

23. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements for each opinion unit.

24. We have evaluated and classified any subsequent events as recognized or nonrecognized through the date of this letter. 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.

Signature: _____ 11/7/12

Title: CFO/COO

Client: *0408217 - Arizona Early Childhood Development and Health Board*
Engagement: *AECDHB - Arizona Early Childhood Development and Health Board*
Period Ending: *6/30/2012*
Trial Balance: *05.01 - TB*
Workpaper: *05.02 - Proposed JE Report*

Account	Description	W/P Ref	Debit	Credit
Proposed JE # 1		L103		
Correct allocation of year-end accrual between funds				
2542.6299	Professional & Outside Services		299,623.00	
2543.1215	Accrued Expense		299,623.00	
2542.1215	Accrued Expense			299,623.00
2543.6200	Professional and Outside Services			299,623.00
Total			**599,246.00**	**599,246.00**

HENRY & HORNE, LLP
CERTIFIED PUBLIC ACCOUNTANTS

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD

FINANCIAL STATEMENTS

Year Ended June 30, 2012

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD

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HENRY & HORNE, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Arizona Early Childhood Development and Health Board, State of Arizona, as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Arizona Early Childhood Development and Health Board's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements of the Arizona Early Childhood Development and Health Board, State of Arizona, are intended to present the financial position, and the changes in the financial position of only that portion of the aggregate remaining fund information of the State of Arizona that is attributable to transactions of the Arizona Early Childhood Development and Health Board. They do not purport to, and do not, present fairly the financial position of the State of Arizona as of June 30, 2012, or the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2012 on our consideration of the Arizona Early Childhood Development and Health Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information on pages 3 through 8 and 17 through 18, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Henry & Horne LLP

Casa Grande, Arizona
November 5, 2012

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

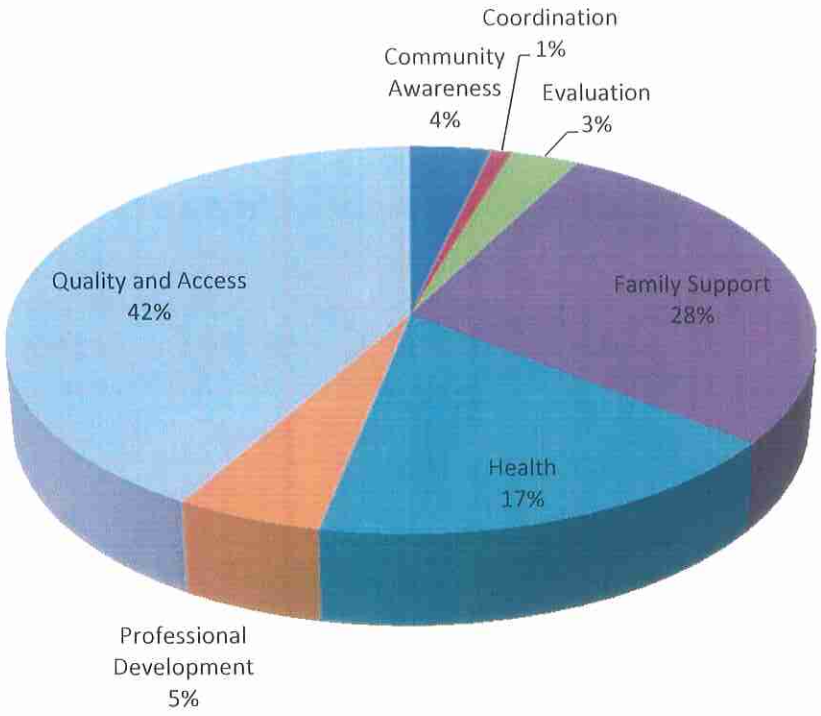
The discussion and analysis is designed to provide an analysis of the Arizona Early Childhood Development and Heath Board's (Health Board's) financial conditions and operating results and to also inform the reader on the Health Board's issues and activities.

Financial Highlights

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

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

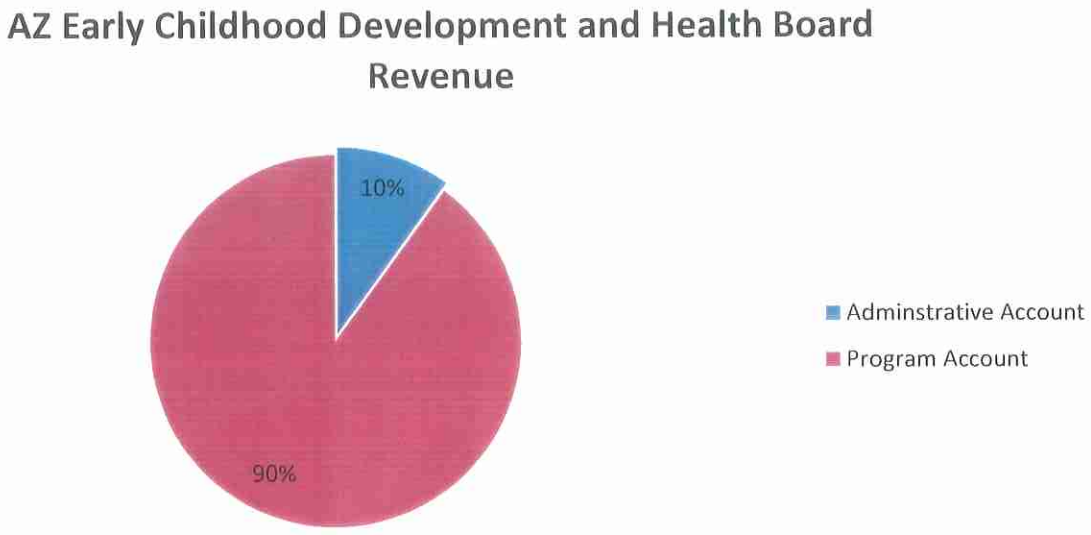
AZ Early Childhood Development and Health Board
Goal Area Expenditures



Fiscal year 2012 program expenditures were allocated to these goals areas throughout the state. The Quality and Access goal is in place to increase the availability, quality and diversity of learning environments that support children's language and literacy development, emotional well-being, health and safety. This includes Quality First, the Health's Board's signature program that has engaged more than 750 center and home based child care providers in efforts to improve the quality of the early education services they provide. The Professional Development goal area focuses on developing a comprehensive and well- articulated

professional development system within Arizona for teachers who work with infant, toddlers and preschoolers. Professional development strategies also address increasing those teachers access to college coursework and/or degrees so that they are better prepared to engage young minds. Under the Health goal areas, funds are allocated to improve children's health by increasing the number of children with continuous medical, mental health and dental insurance coverage and expanding access to medical and dental homes, increasing medical professionals' use of best practice guidelines for preventive medical, oral and mental healthcare, and expanding the use of early screening to identify children with developmental delays. Funds allocated to the Family Support goal area support the goal to expand families' access to the information, services and supports they need to help their young children achieve their fullest potential. The overall goal for Coordination is to facilitate coordination among the federal, state, private and tribal system related to early childhood development and health to ensure a common understanding of the systems, share ownership in ensuring access to services for all children and maximize resources. A multi- level system of research and evaluation strategies were implemented under the Evaluation goal area to be responsive to the information needs of varied stakeholder groups including the First Things First Board, Regional Partnership Council, directors and members, and Arizona citizens. Finally, the goal of Community Awareness is to use a variety of community-based activities and materials to increase public awareness of the critical importance of early childhood development and health.

- Revenue continues to be recorded in the following accounts:



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

Overview of the Financial Statements

The Health Board's basic financial statements comprise two components: 1) fund financial statements, and 2) notes to financial statements. This report also contains supplementary information in addition to the basic financial statements themselves.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Health Board uses accounting to ensure and demonstrate compliance with finance–related legal requirements. The Health Board's financial information is reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting, which measure cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Health Board's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Health Board's projects.

Notes to the financial statements

The Notes to the Financial Statements provide additional information that is essential for a full understanding of the data provided in the statements.

Financial Analysis

The following table and analysis discuss the financial position and changes to the financial position for the Health Board as a whole as of and for the year ended June 30, 2012.

Balance Sheet

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

Condensed Balance Sheet
(in Thousands)

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

Total assets have decreased from fiscal year 2011. This is mainly due to a lower ending cash balance at the end of the year.

Changes in Fund Balances

The following table presents a summary of the changes in fund balance for the year ended June 30, 2012.

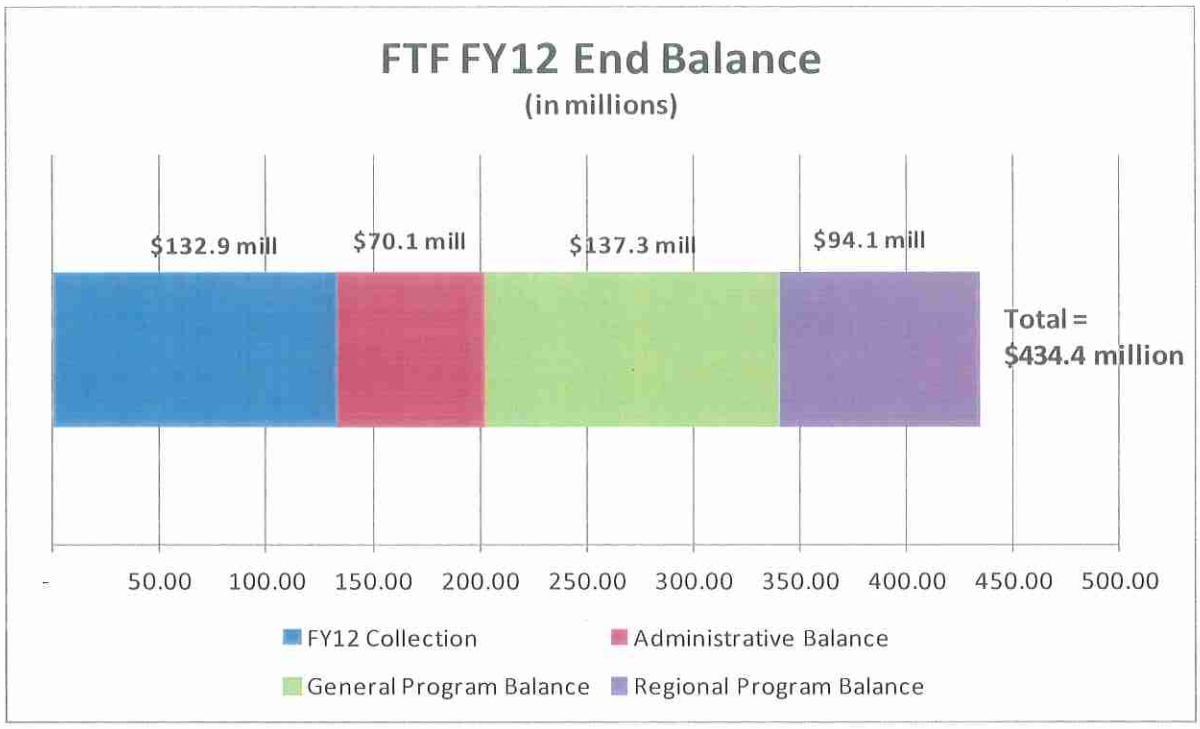
Condensed Revenues, Expenditures and Changes in Fund Balances
(in Thousands)

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

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

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

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



Financial Analysis of the Health Board's Funds

The Health Board maintains fund accounting to demonstrate compliance with budgetary and legal requirements. The following is a brief discussion of financial highlights from the fund financial statements.

Governmental Funds

The focus of governmental fund financial statements is to provide information on the near-term inflows, outflows and balances of spendable resources. The Health Board maintains two major governmental funds 1) program funds and 2) administrative fund.

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

The Administrative Fund is used to pay administrative expenses.

Budgetary Highlights

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

Economic and Other Factors

Tobaccos Revenues

FTF has historically projected tobacco revenues would decline over time. However, in June 2012 the FTF Board was presented the findings from economic analysis it had request be completed by the L. William Seidman Research Institute, W. P. Carey School of Business at ASU. This analysis concluded that FTF's Tobacco Tax collections will not fall as radically as previously considered. In fact, relative stability can be expected from this fund source assuming quite modest and realistic returns (in subsequent years) in population growth and economic conditions. As the Board adopted a new sustainability plan that assumes tobacco collections levels which are stable and actually slightly above FY12 levels. These projections and the associated modeling done by the L. William Seidman Research Institute will be monitored in the coming years to assess and assure their accuracy.

Investment Income

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

Financial Contact

The Health Board's financial statements are designed to present users with a general overview of the finances and to demonstrate accountability. If you have any questions about the report or need additional financial information, please contact Liz Barker Alvarez, Vice President for Communications (602) 771-5063.

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

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

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, 2012

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

See accompanying notes.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Early Childhood Development and Health Board (Board) is an agency of the State of Arizona (State). The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units for one or more individual funds and not the overall government. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Reporting Entity

The Board was established by Ballot Proposition 203 (Prop 203) in the November 7, 2006, State of Arizona general election to provide programs and services to pre-kindergarten children and their families for the purpose of assisting child development by providing education and other support, including parent and family support programs, child care, preschool, health screenings and access to preventive health services. As required by Arizona Revised Statutes (A.R.S.) §16-651, on December 7, 2006, the Governor issued the Governor Issues Elections Proclamation declaring Prop 203 into law immediately and effectively creating the Board.

The Board is part of the State of Arizona's reporting entity. However, the fund financial statements are intended to present solely the transactions of the Board for the current year. These statements do not present the financial position or changes in financial position of the State. The State issues a publicly available Comprehensive Annual Financial Report (CAFR). Copies of the CAFR are posted on the Arizona Department of Administration's General Accounting Office's (GAO) Web site at www.gao.state.az.us or can be obtained by contacting the GAO at 100 North 15th Avenue, 3rd Floor, Suite 302, Phoenix, Arizona, 85007.

The A.R.S. §8-1186 requires an annual audit of the Board's funds, accounts, and sub-accounts by an independent certified public accountant within 120 days after the end of the fiscal year. The accompanying financial statement serves as the basis for this audit.

Fund Balances – Governmental Funds

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

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Interfund Receivables and Payables

Interfund receivables and payables represent short-term cash loans at year end. All such balances are expected to be repaid in the next fiscal year.

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.

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.

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

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

	Program Fund	Administrative Fund	Non-major Funds	Total
Cash	$ 12,307,012	$ 1,376,056	$ 246,033	$ 13,929,101
Investments-Pool 3 & Pool 16	351,197,407	81,811,698	-	433,009,105
	$ 363,504,419	$ 83,187,754	$ 246,033	$ 446,938,206

NOTE 3 RETIREMENT AND PENSION PLAN

Arizona State Retirement Plan

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

Funding Policy. The Arizona State Legislature has the authority to establish and amend benefits provisions and contributions for active plan members. For the years ended June 30, 2012, 2011 and 2010, active ASRS members and the Board were each required by statute to contribute at the actuarially determined rate of 10.75, 9.85 and 9.40 percent (rate includes .25 for long-term disability for years ended June 30, 2012 and 2011, and .40 for year ended June 30, 2010), respectively, of the members' annual covered payroll. The Board's contributions to ASRS for the years ended June 30, 2012, 2011 and 2010 were $816,089, $722,862 and $698,465, respectively.

SUPPLEMENTARY INFORMATION

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD
PROGRAM FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2012

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

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD
ADMINISTRATIVE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2012

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

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD

COMPLIANCE REPORT

Year Ended June 30, 2012

HENRY & HORNE, LLP
Certified Public Accountants

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

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

We have audited the financial statements of Arizona Early Childhood Development and Health Board, as of and for the year ended June 30, 2012 as listed in the table of contents, and have issued our report thereon dated November 5, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Henry & Horne LLP

Casa Grande, Arizona
November 5, 2012