



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Financial Statement Audit

# State of Arizona

Early Childhood Development and  
Health Board

For the Period Ended June 30, 2007

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**Debra K. Davenport**  
Auditor General

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State of Arizona  
Report on Audit of Early Childhood Development and Health Board  
For the Period from December 7, 2006 to June 30, 2007

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**STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL**

**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

**WILLIAM THOMSON**  
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report**

Members of the Arizona State Legislature

Members of the Early Childhood Development and Health Board

We have audited the accompanying Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balance for the Early Childhood Development and Health Board as of June 30, 2007 and for the period from December 7, 2006 to June 30, 2007. This statement is the responsibility of the Early Childhood Development and Health Board's management. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, this financial statement was prepared on a basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balance referred to above presents fairly, in all material respects, the fund cash balance of the Early Childhood Development and Health Board as of June 30, 2007, and its cash receipts collected and cash expenses paid for the period from December 7, 2006 to June 30, 2007, on the basis of accounting described in Note 1.

This report is intended solely for the information and use of the Early Childhood Development and Health Board and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Debbie Davenport, CPA  
Auditor General

March 7, 2008

State of Arizona  
 Early Childhood Development and Health Board  
 Statement of Cash Receipts, Cash Disbursements, and  
 Changes in Fund Cash Balance

As of June 30, 2007 and for the Period from December 7, 2006 to June 30, 2007

<b>Cash Receipts</b>	
Tobacco taxes	\$73,986,620
Interest income	<u>286,552</u>
Total cash receipts	<u>\$74,273,172</u>
<b>Cash Disbursements</b>	
Personal services	\$ 70,969
Employee-related expenditures	17,683
Professional and outside services	46,884
Travel	3,150
IT and related charges	134,124
Office administrative	<u>2,427</u>
Total cash disbursements	<u>\$ 275,237</u>
Excess of receipts over disbursements	<u>\$73,997,935</u>
<b>Fund cash balance—Beginning of period</b>	<u>-0-</u>
<b>Fund cash balance—End of period</b>	<u>\$73,997,935</u>
<b>Fund cash balance consists of:</b>	
Cash held by State Treasurer	1,091,383
Investments held by State Treasurer	<u>72,906,552</u>
	<u>\$73,997,935</u>

See accompanying notes to financial statement.

State of Arizona  
Early Childhood Development and Health Board  
Notes to Financial Statement  
For the Period from December 7, 2006 to June 30, 2007

Note 1 – Summary of Significant Accounting Policies

The Early Childhood Development and Health Board (Board) is an agency of the State of Arizona. The accompanying financial statement is prepared on a basis of accounting other than U.S. generally accepted accounting principles (GAAP) applicable to governmental units adopted by the Governmental Accounting Standards Board. The basis of accounting is discussed in detail in Section C.—Basis of Accounting.

A. 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, this financial statement is intended to present solely the cash transactions of the Board for the period from December 7, 2006 to June 30, 2007. This statement does 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](http://www.gao.state.az.us) or can be obtained by contacting the GAO at 100 North 15<sup>th</sup> Avenue, 3<sup>rd</sup> Floor, Suite 302, Phoenix, Arizona, 85007.

The accompanying financial statement presents the activities of the Board. Ten percent of the monies received by the Board pursuant to A.R.S. §42-3371 shall be deposited into an Administrative Fund, except in fiscal year 2007, when all monies were required to be deposited into this fund. Monies deposited into the Administrative Fund are used to pay administrative expenses, including the Board's staff salaries. Additionally, the following Board funds were established, but did not have any reportable activity:

Program Fund—A.R.S. §8-1181(D) requires that beginning in fiscal year 2008, 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.

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Private Gifts Fund—A.R.S. §8-1182 requires that monies or other resources arising from private grants, gifts, or contributions shall be deposited into this fund and shall be used in accordance with the permissible conditions, if any, placed on the use of those monies by the donor.

Grant Monies Fund—A.R.S. §8-1182 requires that federal, state, or local monies received shall be deposited into this fund and shall be used in accordance with the conditions placed on those monies by the awarding government.

Legislative Appropriations Fund—A.R.S. §8-1181(B) requires that monies appropriated by the State's Legislature shall be deposited into this fund and used in accordance with the provisions of Prop 203.

The Board's reporting entity consists of the funds listed above, which are considered special revenue funds. Special Revenue funds are used to account for the proceeds of specific revenue sources that are either legally restricted to expenditures for a specified purpose or designated to finance particular functions or activities of a government. There are no affiliated organizations required to be included as blended or discretely presented component units in the Board's reporting entity.

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.

B. Fund Financial Statement

The focus of the statement is on the sources and uses of cash resources.

C. Basis of Accounting

The accompanying financial statement is prepared using the cash basis of accounting. This basis of accounting recognizes changes in fund cash balance, cash receipts, and cash disbursements arising from cash transactions. This basis is a comprehensive basis of accounting other than U.S. GAAP.

As a result of the use of the cash basis of accounting in preparing the accompanying financial statement, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable for goods or services received but not yet paid and accrued expenses and liabilities) are not reported in the accompanying financial statement.

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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](http://www.aztreasury.gov) or by contacting the Treasurer's Office at 1700 West Washington St., 1<sup>st</sup> 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. The Treasurer's Investment Pool 3 is not rated, and as of June 30, 2007, the weighted average to maturity of the Pool's investments is 3.59 years.

At June 30, 2007, the Board's deposits with the Treasurer were as follows:

Cash	\$ 1,091,383
Investment in Pool 3	<u>72,906,552</u>
	<u>\$73,997,935</u>