

ARIZONA EARLY CHILDHOOD DEVELOPMENT
AND HEALTH BOARD

FINANCIAL STATEMENTS

Year Ended June 30, 2022

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD
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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of each major fund of Arizona Early Childhood Development and Health Board ("Board"), of the State of Arizona, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the each major fund of Arizona Early Childhood Development and Health Board, as of June 30, 2022, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Arizona Early Childhood Development and Health Board and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Board are intended to present the financial position, and the changes in the financial position of only that portion of the Board's major funds and aggregate remaining fund information of the State of Arizona that is attributable to transactions of the Board. They do not purport to, and do not, present fairly the financial position of the State of Arizona as of June 30, 2022, or the changes in its financial position for the year ended in conformity with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Arizona Early Childhood Development and Health Board's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, for the year ended June 30, 2022, the Board adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Arizona Early Childhood Development and Health Board's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Arizona Early Childhood Development and Health Board's ability to continue as a going concern for a reasonable period of time.

Auditors' Responsibilities for the Audit of the Financial Statements (Continued)

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Arizona Early Childhood Development and Health Board's basic financial statements. The accompanying management's discussion and analysis and required supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, management's discussion and analysis and required supplementary information are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2022 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 solely 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 the effectiveness of the Arizona Early Childhood Development and Health Board's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Arizona Early Childhood Development and Health Board's internal control over financial reporting and compliance.

Henry + Horne, LLP

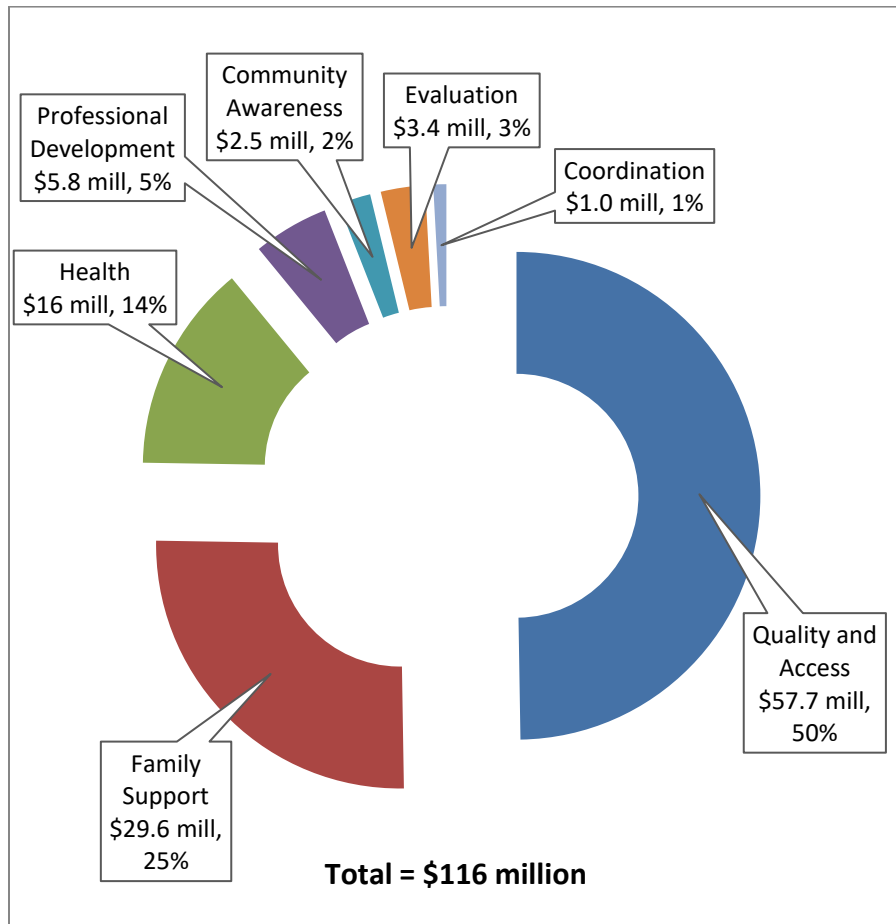
Tempe, Arizona
November 2, 2022

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2022**

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

Financial Highlights

Programmatic spending from the Tobacco Funds Program Account for state fiscal year 2022 totaled \$116 million in the following Board goal areas:

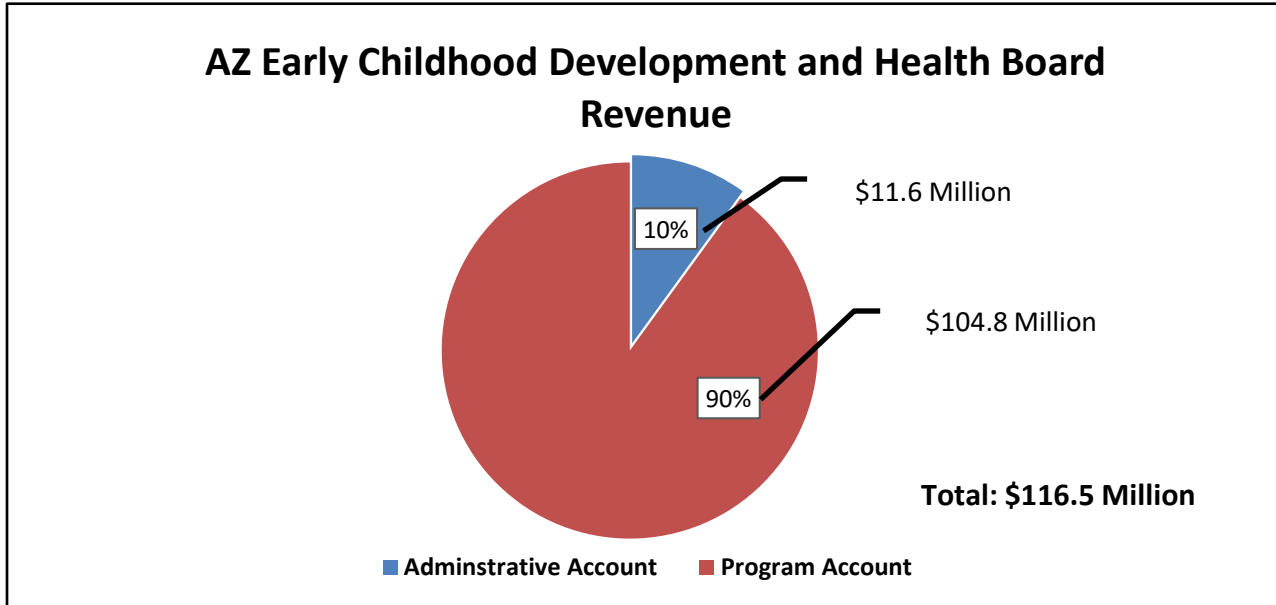


In fiscal year 2022 program expenditures made in these goals areas, throughout the state, supported programming in the following ways.

- 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 Board’s signature program that has engaged approximately 1,000 center and home based childcare 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 area, funds are allocated to improve children’s health by increasing access to and expanding the use of early preventive developmental and sensory screenings to identify children with developmental delays, parent education and referrals to existing services, and increasing medical professionals’ use of best practice guidelines for preventive medical, oral and mental healthcare.
- 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. Services are voluntary and provided at levels that meet the family’s needs, from community-based parenting education to in-home coaching to address tough situations like parenting a child with special needs or dealing with multiple births.
- 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.

Tobacco revenue deposited with FTF in SFY22 continued to be recorded in the following accounts.

- In fiscal year 2022, \$11.6 million of a total of \$116.5 million was deposited into the Administrative account as required by law.



Overview of the Financial Statements

The 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 used to maintain control over resources that have been segregated for specific activities or objectives. The 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 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 Board as a whole as of and for the year ended June 30, 2022.

Balance Sheet

The following table reflects the condensed Balance Sheet as of June 30, 2022.

	Program Fund	Admin Fund	Non-major Funds	Total
Total assets	\$ 273,047	\$ 59,417	\$ 9,619	\$ 342,083
Total liabilities	16,388	286	8,739	25,413
Total fund balances	<u>\$ 256,659</u>	<u>\$ 59,131</u>	<u>\$ 880</u>	<u>\$ 316,670</u>

Total assets have decreased from fiscal year 2021. 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, 2022.

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

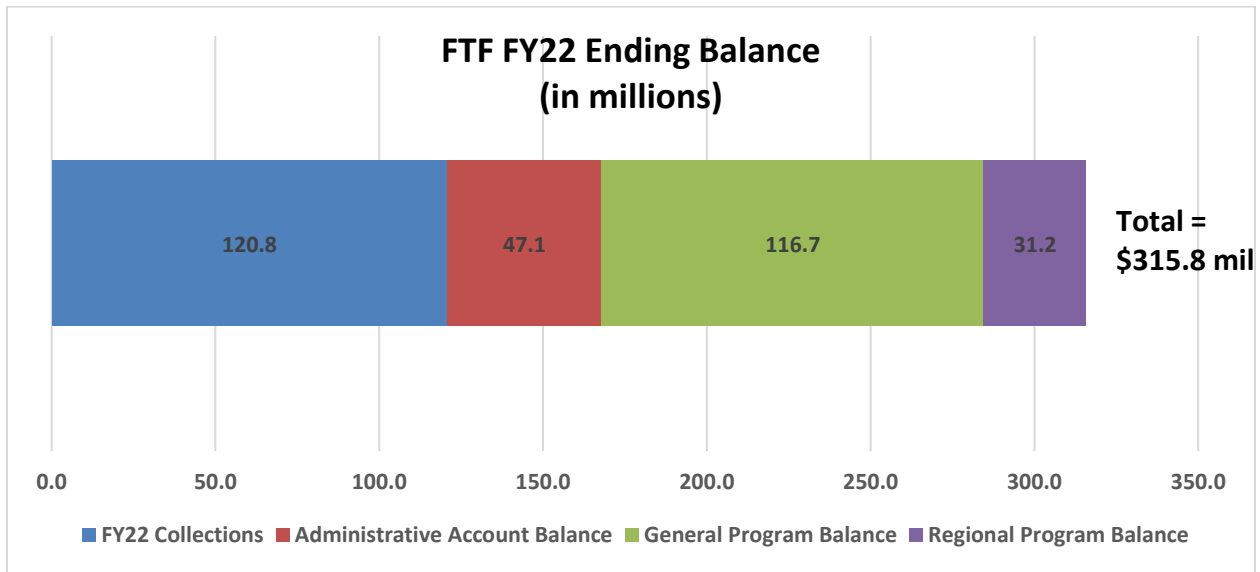
	Program Fund	Admin Fund	Non-major Funds	Total
Program revenues				
Tobacco tax	\$ 104,811	\$ 11,646	\$ -	\$ 116,457
Investment earnings	3,904	434	2	4,340
Grants	-	-	2,096	2,096
Other revenue	-	-	42	42
Total revenues	<u>108,715</u>	<u>12,079</u>	<u>2,141</u>	<u>122,935</u>
Expenditures				
Personal and related expenditures	2,715	10,754	85	13,554
Professional services	2,576	815	162	3,554
Travel	23	103	-	127
Aid to others including State	108,045	263	7,833	116,140
Other expenditures	1,881	2,195	10	4,086
Total expenditures	<u>115,240</u>	<u>14,130</u>	<u>8,090</u>	<u>137,460</u>
Excess of revenues over expenditures	(6,526)	(2,050)	(5,949)	(14,525)
Transfers in/(out)	(484)	(180)	6,135	5,470
Beginning fund balances	<u>263,669</u>	<u>61,362</u>	<u>694</u>	<u>325,725</u>
Ending fund balances	<u><u>\$ 256,659</u></u>	<u><u>\$ 59,131</u></u>	<u><u>\$ 880</u></u>	<u><u>\$ 316,670</u></u>

First Things First officially closed State Fiscal Year 2022 on September 9th, 2022. FTF presents its financial data on a modified accrued accounting basis to ensure revenues and expenditures are aligned with the State's fiscal year as well as ensuring service data figures correlate appropriately with expenditures. This final reconciliation of the fiscal year has to occur in September because FTF grantees are given 45 days after the end of the State's fiscal year (June 30th) to submit their final reimbursements.

FTF Tobacco Program and Administrative funds ended SFY22 with just over \$315.8 million in fund balance; which is a \$9.2 million drop compared to the previous year. This decline is about \$12.4 million less than what was budgeted. Effectively, all of the change was due to less spending than projected and a majority (\$10.3 million) of the lower spending was within the Regional Program account.

Of the \$315.8 million, \$120.8 million are current year (FY22) collections which serve as the base for SFY23's expenditure budget of \$143.1 million. This leaves a marginal Fund Balance of \$195 million, of which \$47.1 million is in the Administrative Account, \$116.7 million is in the general Program Account, and \$31.2 million is held within regional carry forward.

It was projected that the regional carry forward balances would decline, however they actually increased as seen in the chart above and as previously noted compared to the budget it was over \$10 million higher.



Financial Analysis of the Health Board's Funds

The 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 Board maintains three major governmental funds 1) program funds, 2) administrative fund and 3) grants and gifts fund.

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

The Tobacco Administrative Fund is used to pay administrative expenses as well as cover some programmatic expenditures.

Budgeting Overview

When the initiative passed creating FTF (in November 2006), it dictated tax revenues would begin to be collected and accrue to the agency starting January 1, 2007 (six months into SFY07). The timing of when the agency would begin spending funds was also outlined in statute, with full spending to begin in SFY10. Statute created several allowances for earlier spending, but statute expressly acknowledged a “development phase.” Annual collection of tobacco tax revenue and interest income form the basis for the budget the Board is responsible for setting each year for the subsequent year (per ARS 8-1184). In setting this budget, statute directs the Board to determine the total amount of funds necessary to support the administrative and program (statewide and regional) funding needs. Once this total spending budget is set, statute then guides how the funds within the Program area will be allocated.

Grants and Gifts Fund

According to FTF statute (ARS 8-1182) the Board may accept and spend monies from either Gifts or Grants. In SFY22, FTF spent \$8.1 million in non-tobacco funds.

Economic and Other Factors

Tobaccos Revenues

In June 2012, the FTF Board was presented the findings from economic analysis it had request be completed by the L. William Seidman Research Institute, W. P. Carey School of Business at ASU. This analysis concluded that FTF’s Tobacco Tax collections will not fall as radically as previously considered. In June 2014 ASU presented the Board with updated modeling predictions which again showed a relative amount of overall stability, but also did project FTF would see modest declines over time and that depending on a number of factors, total collections could eventually dip below \$100 million. FTF was provided an update in the fall of 2016, 2018, and 2020. Another update was presented to FTF by the ASU School of Business in the early summer of 2022, which shows tobacco tax revenue continuing to decline.

FTF has historically projected tobacco revenues would decline over time. Tobacco collections were just slightly less than anticipated in SFY22, with interest earnings also less than budgeted. In total, tobacco-related revenues were down from budget by only \$700k. Tobacco tax collections were within the bounds provided by the tobacco tax modeling completed for FTF by ASU’s College of Business, landing just above their expected projection in both the 2022 and 2020 reports.

Investment Income

Interest was lower than budgeted. However, it is important to put earnings into context. The current financial markets were not anticipated, yet FTF's effort to maximize its position continues to literally pay dividends. The Board made the decision previously to invest a vast majority of its cash into a separately managed fund (known today as Pool 16), and despite the limitations placed by state law and challenges by the current market, the market returned a rate of 1.69% compared to the state's general pool which earned only 0.48%.

In FY21 the Board approved moving \$40 million of the pool 16 investments to a Treasurer's managed endowment account. FTF will report unrealized gains (or loss) as part of its financial position, but depending on the requirements of the reporting format, this may be as a footnote.

Financial Contact

The 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 Angela Rabago-Mussi, Chief External Affairs Officer at 602-771-5020.

BASIC FINANCIAL STATEMENTS

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2022

	Program Fund	Administrative Fund	Grants and Gifts Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 251,809,210	\$ 53,798,999	\$ 2,021,421	\$ 307,629,630
Tobacco tax receivable	8,432,796	936,977	-	9,369,773
Other receivables	12,123,974	-	-	12,123,974
Due from other agencies	-	-	5,494,194	5,494,194
Due from other funds	681,064	4,681,242	2,103,302	7,465,608
TOTAL ASSETS	\$ 273,047,044	\$ 59,417,218	\$ 9,618,917	\$ 342,083,179
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Grants/other payables	\$ 16,349,781	113,820	\$ 1,271,200	\$ 17,734,801
Accrued liabilities	38,612	172,136	2,243	212,991
Due to other funds	-	-	7,465,608	7,465,608
TOTAL LIABILITIES	16,388,393	285,956	8,739,051	25,413,400
FUND BALANCES				
Restricted	256,658,651	59,131,262	879,866	316,669,779
TOTAL FUND BALANCES	256,658,651	59,131,262	879,866	316,669,779
TOTAL LIABILITIES AND FUND BALANCES	\$ 273,047,044	\$ 59,417,218	\$ 9,618,917	\$ 342,083,179

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
Year Ended June 30, 2022

	Program Fund	Administrative Fund	Grants and Gifts Fund	Total Governmental Funds
REVENUES				
Tobacco tax	\$ 104,811,238	\$ 11,645,693	\$ -	\$ 116,456,931
Investment earnings	3,903,687	433,743	2,420	4,339,850
Grants and donations	-	-	2,096,129	2,096,129
Other revenue	-	-	42,106	42,106
TOTAL REVENUES	108,714,925	12,079,436	2,140,655	122,935,016
EXPENDITURES				
Current:				
Personal services	2,004,181	7,805,031	64,101	9,873,313
Employee related expenditures	710,968	2,948,847	20,425	3,680,240
Professional-outside services	2,576,109	815,388	162,207	3,553,704
Travel in-state	16,221	96,121	-	112,342
Travel out-of-state	7,140	7,040	-	14,180
Aid to others including State agencies	108,044,642	262,557	7,833,252	116,140,451
Other operating expenditures	1,569,604	1,536,768	9,825	3,116,197
Non-capital equipment	311,587	96,635	-	408,222
Debt Service				
Lease principal	-	538,295	-	538,295
Lease interest	-	23,225	-	23,225
TOTAL EXPENDITURES	115,240,452	14,129,907	8,089,810	137,460,169
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(6,525,527)	(2,050,471)	(5,949,155)	(14,525,153)
OTHER FINANCING SOURCES (USES)				
Transfers in from other state agencies	-	-	6,134,605	6,134,605
Transfers out to other state agencies	(484,409)	(180,000)	-	(664,409)
Total other financing sources (uses)	(484,409)	(180,000)	6,134,605	5,470,196
Net change in fund balances	(7,009,936)	(2,230,471)	185,450	(9,054,957)
FUND BALANCES				
BEGINNING OF YEAR	263,668,587	61,361,733	694,416	325,724,736
FUND BALANCES END OF YEAR	\$ 256,658,651	\$ 59,131,262	\$ 879,866	\$ 316,669,779

See accompanying notes.

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2022

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.

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus/Basis of Accounting (Continued)

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.

Grants and Gifts Fund – This other special revenue fund reports the activity from federal, state and local grants as well as private gifts to the Board. Activity in this fund is restricted by grantors and donors for designated purposes.

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.

Interfund Receivables and Payables

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

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Valuation

Arizona Revised Statutes (ARS) authorize the Board to invest public monies in the State Treasurer's Local Government Investment Pool. As required by GASB Accounting Standards Codification, investments are reported at fair value which is the amount at which financial instruments could be exchanged in a current transaction between willing parties.

Fund Balances - Restricted – Governmental fund balances are classified as restricted in that amounts 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.

Leases

The Board recognizes lease receivables and principal/interest expenditures with an initial, individual value of \$500,000 or more. The Board uses the State of Arizona's estimated incremental borrowing rate to measure lease receivables and liabilities unless it can readily determine the interest rate implicit in the lease. The Board's estimated incremental borrowing rate is based on the state-wide determine incremental borrowing rate.

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.

Change in Accounting Principle

For the year ended June 30, 2022, the Board implemented the provisions of GASB Statement No. 87, *Leases*, as amended, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. As a result, the Board's financial statements have been modified to reflect the recognition of certain lease payments as principal and interest expenditures that were previously classified as operating leases and recognized as outflows of resources based on the contract payment provisions. The Board has determined that all lease receivables are insignificant to these, and the State's, financial statements, and have not been further recorded or disclosed as such.

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD
 NOTES TO FINANCIAL STATEMENTS
 Year Ended June 30, 2022

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 Board also invests with the Treasurer’s endowment trust fund. The Treasurer’s endowment trust fund is an investment vehicle for longer term participant objectives. The participants in this trust fund receive shares based upon the value of the shares at the time of purchase. Investments will be co-mingled with other participants; endowment investments will be held in accordance with A.R.S. §35-314.03. The amount initially invested with the trust fund in fiscal year 2021 is intended to be held for a period of at least five years in order to obtain a 4% rate of return thereafter. The Board can divest the initial investment in the trust fund at any time, but may incur a penalty for doing so before the end of the five year lock out period. The fund invest 60% into equity indexing and 40% into active fixed income. The fund is currently unrated.

The Treasurer’s internal investment Pool 3 and Pool 16, and the endowment trust fund, 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.

At June 30, 2022, the Board’s deposits with the Treasurer were as follows:

	Program Fund	Administrative Fund	Grants and Gifts Fund	Total
Cash	\$ 9,088,199	\$ 1,474,790	\$ 1,495,793	\$ 12,058,782
Investments-Pool 3 & Pool 16	208,971,011	48,574,209	525,628	258,070,848
Endowment Trust Fund	33,750,000	3,750,000	-	37,500,000
	<u>\$ 251,809,210</u>	<u>\$ 53,798,999</u>	<u>\$ 2,021,421</u>	<u>\$ 307,629,630</u>

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD
 NOTES TO FINANCIAL STATEMENTS
 Year Ended June 30, 2022

NOTE 3 RETIREMENT AND PENSION PLAN

Arizona State Retirement Plan

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

Funding Policy - The Arizona State Legislature establishes and may amend active plan members' and the Board's contribution rates. For the year ended June 30, 2022, active ASRS members were required by statute to contribute at the actuarially determined rate of 12.41% (12.22% retirement and 0.19% long-term disability) of the member's annual covered payroll and the Board was required by statute at the actuarially determined rate of 12.41% (12.01% retirement, 0.21% for health insurance premium, and 0.19% long-term disability) of the members' annual covered payroll. The Board's contributions to ASRS for the years ended June 30, 2022, 2021, and 2020 were \$1,125,335, \$1,141,421 and \$1,117,710, respectively.

Years ended June 30,	Retirement	Health Insurance	Long-term Disability	Total
2022	\$ 1,089,063	\$ 19,043	\$ 17,229	\$ 1,125,335
2021	1,088,180	36,428	16,813	1,141,421
2020	1,056,795	45,225	15,690	1,117,710

NOTE 4 RESTRICTED FUND BALANCE

The Board has restricted fund balances in the Program Fund and Administrative Fund due to voter-imposed legislation which imposed a state-wide tobacco tax to provide funding for quality early childhood development and health. The Grants and Gifts Fund balance is restricted due to grantor restrictions imposed at the time grants are awarded.

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2022

NOTE 5 INTERAGENCY SERVICE AGREEMENT

The Board executed an interagency service agreement with the Arizona Department of Health Services (“ADHS”) in the amount of \$857,259 to provide financial support to the Board for costs associated with securing evidence-based early intervention home visitation services through the Nurse Family Partnership and/or Healthy Families models to eligible women in identified Community Health Analysis Areas in Arizona. Transfers into the Board’s accounts for year ended June 30, 2022 amounted to \$857,259 from AHDS. The Agreement is effective through September 30, 2022.

The Board executed an interagency service agreement with the Arizona Department of Economic Security (“ADES”) in the amount of \$15,310,300 to provide financial support to the Board for costs associated with the implementation of the Quality First, Arizona’s Quality Improvement and Rating System (QIRS), Redesign Field Test in order to support the effort of expanding the availability of quality early care and education settings in Arizona. Transfers into the Board’s accounts for year ended June 30, 2022 amounted to \$5,091,547 from ADES to the Board at June 30, 2022. The Agreement ends June 30, 2022.

The Board executed an interagency service agreement with the Arizona Health Care Cost Containment System (“AHCCS”) in the amount of \$185,798 to provide financial support to the Board for costs associated with Early Childhood Mental Health Consultations (ECMHC) for home visitors, particularly with respect to identifying and addressing mental health issues. Transfers into the Board’s accounts for year ended June 30, 2022 amounted to \$185,798 from AHCCS to the Board at June 30, 2022. The Agreement is effective through September 29, 2022.

The Board executed an interagency service agreement with Pima County in the amount of \$3,811,600 to provide financial support to the Board for costs associated with providing scholarships for children aged 3 to 5 within Pima County. Transfers into the Board’s accounts for year ended June 30, 2022 amounted to \$1,708,298 from Pima County to the Board at June 30, 2022. The Agreement is effective through June 30, 2022.

In fiscal year 2019, the Board entered into a lease contract for the occupancy of an Administration building. The term of the lease is for 5 years at an incremental rate of 1.5138%. For fiscal year 2022, the debt service for the lease totaled \$538,295 of principal and \$23,225 of interest, and was paid entirely from the Administrative Fund.

REQUIRED SUPPLEMENTARY INFORMATION

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – PROGRAM FUND
Year Ended June 30, 2022

	Budgeted Amounts		Variance with Final Budget- Positive (Negative)
	Original & Final	Actual Amounts	
REVENUES			
Tobacco tax	\$ 104,850,000	\$ 104,811,238	\$ (38,762)
Investment earnings	4,500,000	3,903,687	(596,313)
TOTAL REVENUES	109,350,000	108,714,925	(635,075)
EXPENDITURES			
Current			
Personal services	2,332,971	2,004,181	328,790
Employee related expenditures	965,155	710,968	254,187
Professional and outside services	2,868,541	2,576,109	292,432
Travel in/out of state	34,923	16,221	18,702
Travel out-of-state	-	7,140	(7,140)
Aid to others including State agencies	117,876,482	108,044,642	9,831,840
Other operating expenditures	2,100,951	1,569,604	531,347
Non-capital equipment	7,523	311,587	(304,064)
TOTAL EXPENDITURES	126,186,546	115,240,452	10,946,094
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(16,836,546)	(6,525,527)	10,311,019
OTHER FINANCING SOURCES (USES)			
Transfers out to other state agencies	(750,000)	(484,409)	265,591
Net change in fund balances	(17,586,546)	(7,009,936)	10,576,610
FUND BALANCE BEGINNING OF YEAR	263,668,587	263,668,587	-
FUND BALANCE END OF YEAR	\$ 246,082,041	\$ 256,658,651	\$ 10,576,610

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – ADMINISTRATIVE FUND
Year Ended June 30, 2022

	Budgeted Amounts		Variance with Final Budget-
	Original & Final	Actual Amounts	Positive (Negative)
REVENUES			
Tobacco tax	\$ 11,650,000	\$ 11,645,693	\$ (4,307)
Investment earnings	500,000	433,743	(66,257)
TOTAL REVENUES	12,150,000	12,079,436	(70,564)
EXPENDITURES			
Current			
Personal services	8,210,461	7,805,031	405,430
Employee related expenditures	3,202,080	2,948,847	253,233
Professional and outside services	847,240	815,388	31,852
Travel in/out of state	465,677	103,161	362,516
Aid to others including State agencies	661,884	262,557	399,327
Other operating expenditures	1,546,751	1,536,768	9,983
Non-capital equipment	211,491	96,635	114,856
Debt service			
Lease principal	600,000	538,295	61,705
Lease interest	30,000	23,225	6,775
TOTAL EXPENDITURES	15,775,584	14,129,907	1,645,677
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(3,625,584)	(2,050,471)	1,575,113
OTHER FINANCING SOURCES (USES)			
Transfers out to other state agencies	(180,000)	(180,000)	-
Total other financing sources (uses)	(180,000)	(180,000)	-
Net change in fund balances	(3,805,584)	(2,230,471)	1,575,113
FUND BALANCE BEGINNING OF YEAR	61,361,733	61,361,733	-
FUND BALANCE END OF YEAR	\$ 57,556,149	\$ 59,131,262	\$ 1,575,113

ARIZONA EARLY CHILDHOOD DEVELOPMENT AND HEALTH BOARD
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – GRANTS AND GIFTS FUND
Year Ended June 30, 2022

	Budgeted Amounts		Variance with Final Budget- Positive (Negative)
	Original & Final	Actual Amounts	
REVENUES			
Investment earnings	\$ -	\$ 2,420	\$ 2,420
Grants and donations	-	2,096,129	2,096,129
Other revenue	19,940,914	42,106	(19,898,808)
TOTAL REVENUES	19,940,914	2,140,655	(17,800,259)
EXPENDITURES			
Current:			
Personal services	58,000	64,101	(6,101)
Employee related expenditures	22,620	20,425	2,195
Professional-outside services	123,479	162,207	(38,728)
Travel out-of-state	2,000	-	2,000
Aid to others including State agencies	19,711,651	7,833,252	11,878,399
Other operating expenditures	14,026	9,825	4,201
TOTAL EXPENDITURES	19,931,776	8,089,810	11,841,966
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	9,138	(5,949,155)	(5,958,293)
OTHER FINANCING SOURCES (USES)			
Transfers in from other state agencies	-	6,134,605	6,134,605
Transfers out to other state agencies	(395,500)	-	395,500
Total other financing sources (uses)	(395,500)	6,134,605	6,530,105
Net change in fund balances	(386,362)	185,450	571,812
FUND BALANCE BEGINNING OF YEAR	694,416	694,416	-
FUND BALANCE END OF YEAR	\$ 308,054	\$ 879,866	\$ 571,812

REPORT ON INTERNAL CONTROL AND COMPLIANCE



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major fund and the aggregate remaining fund information of Arizona Early Childhood Development and Health Board, Arizona (Board), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Arizona Early Childhood Development and Health Board's basic financial statements, and have issued our report thereon dated November 2, 2022

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Arizona Early Childhood Development and Health Board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Henry + Horne, LLP

Tempe, Arizona
November 2, 2022