



FINANCIAL STATEMENTS

September 30, 2009

The Michigan Early Childhood Investment Corporation

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INDEPENDENT AUDITOR'S REPORT

Executive Committee of the Corporate Board
The Michigan Early Childhood Investment Corporation
Lansing, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of The Michigan Early Childhood Investment Corporation, a discretely presented component unit of the State of Michigan, as of and for the year ended September 30, 2009, which collectively comprise The Michigan Early Childhood Investment Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of The Michigan Early Childhood Investment Corporation'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. 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of The Michigan Early Childhood Investment Corporation as of September 30, 2009, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 14, 2010, on our consideration of The Michigan Early Childhood Investment Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise The Michigan Early Childhood Investment Corporation's basic financial statements. The accompanying Other Supplementary Information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements of The Michigan Early Childhood Investment Corporation. The Other Supplementary Information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

May 14, 2010

The Michigan Early Childhood Investment Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2009

This is a discussion and analysis of the financial performance of The Michigan Early Childhood Investment Corporation (ECIC) for the period October 1, 2008 through September 30, 2009. ECIC's management is responsible for the financial statements, the notes to the financial statements, and this discussion.

ECIC was established through an interlocal agreement pursuant to the Urban Cooperation Act of 1967 (Act 7, P.A. 1967 [Ex. Sess.], Sections 124.501 - 124.512 of the *Michigan Compiled Laws*) between the Michigan Department of Human Services (DHS), a principal department of the State of Michigan, and participating intermediate school districts (ISDs), bodies corporate established as authorized under Part 7 of the Revised School Code, Act 451, P. A. 1976, as amended. The purpose of the interlocal agreement was to create and empower ECIC to implement the powers, privileges and authority of each of the parties with respect to the subject matter of the agreement, including, but not limited to, the performance of successful, effective and efficient coordination and delivery of early childhood development and child care programs and functions throughout the State.

ECIC is a public body corporate and politic of the State of Michigan, separate and distinct from the State, exercising public and essential governmental functions and created by the State. ECIC is a discretely presented component unit of the State and is governed by the Corporation Board, including the Executive Committee.

The governing body of each participating ISD is authorized to appoint one (1) member to the Corporation Board to serve at the will of the ISD. For each ISD-appointed member, the Governor shall appoint up to two (2) members to the Corporation Board that represent the State and serve at the will of the Governor. If there are fewer than five (5) ISD participants, the Governor may appoint up to twelve (12) additional members to the Corporation Board that represent the State and serve at the will of the Governor until there are five (5) or more participating ISD's. The Executive Committee is comprised of fifteen (15) members. The members of the Executive Committee include the director of DHS or his or her designated representative from within DHS and fourteen (14) residents of Michigan appointed by the Governor, all of whom are also Corporation Board members. The members appointed by the Governor include at least one (1) resident representing the participating ISD's.

The additional appointment of Committee members beyond fifteen (15) in number, notice to the Legislature and the Governor's Office of the appointment, the length of their terms, and the composition of the Committee is to be reviewed annually by the CEO to assure the number, the composition, notice of appointment, and the terms of appointment comport with the statutory language that is authored as part of appropriations boilerplate or other statutory language applicable to the ECIC passed by the Legislature and signed by the Governor.

Using the Financial Report

This financial report is prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments*.

The reporting standards require that component units provide financial statements prepared on both the accrual basis of accounting (entity-wide financial statements) and the modified accrual basis of accounting (fund level financial statements). The entity-wide financial statements include a statement of net assets and a statement of activities. The fund level financial statements include a fund balance sheet and a statement of revenues, expenditures and changes in fund balance.

The following narrative and overview of the financial activities of the ECIC is for the period October 1, 2008 through September 30, 2009. The basic financial statements provide information about the activities of ECIC as a whole and include all assets and liabilities. They also include notes to the financial statements, which explain some of the information in the basic financial statements in greater detail.

The Michigan Early Childhood Investment Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2009

Financial Analysis of ECIC

The principal activities of ECIC in fiscal year 2008-09 were twofold. One set of activities was focused on establishing local focal points for early childhood systems development, the improvement of program and resource quality, achieving improved outcomes for children and families, and establishing local parent coalitions for the purpose of encouraging parenting leadership through training and technical assistance. These activities were funded through the continued support of 32 ISDs and Regional Educational Service Agencies (RESAs) and subsequent establishment of eleven more in fiscal year 2008-09, for a total of 55 Great Start Collaboratives and Great Start Parent Coalitions. The second set of activities was focused on improving the quality of child care in Michigan. For example, through contractual relationships, the ECIC funded professional development for child care providers, a statewide system of resources and referral for families with child care needs, and publications to improve the knowledge and skills of child care providers.

Condensed Entity-Wide Financial Information from the Statement of Net Assets and Statement of Activities

As of September 30 and for the Fiscal Years Ended

	<u>2009</u>	<u>2008</u>
<u>Statement of Net Assets</u>		
Total assets	\$ 12,004,271	\$ 10,104,147
Current liabilities	7,564,705	5,589,141
Noncurrent liabilities	<u>25,896</u>	<u>8,835</u>
Total liabilities	<u>7,590,601</u>	<u>5,597,976</u>
Net assets		
Unrestricted*	<u>\$ 4,413,670</u>	<u>\$ 4,506,171</u>
<u>Statement of Activities</u>		
Revenues		
Operating grants	\$ 21,226,305	\$ 19,170,372
Interest earned	62,215	105,438
Other	<u>12,374</u>	<u>8,848</u>
Total revenues	21,300,894	19,284,658
Expenses		
Grants and operations	<u>21,393,395</u>	<u>17,045,577</u>
Change in net assets	(92,501)	2,239,081
Net assets - Beginning of fiscal year	<u>4,506,171</u>	<u>2,267,090</u>
Net assets - Ending of fiscal year	<u>\$ 4,413,670</u>	<u>\$ 4,506,171</u>

The Michigan Early Childhood Investment Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2009

* **All of ECIC's funding supports designated initiatives that are aligned with specific purposes defined by contracts with the State and public agencies. The designated initiatives are not narrower in scope than ECIC's primary purpose and functions. Consequently, ECIC's assets are not restricted.**

Total assets primarily consist of cash and amounts due from DHS and the Michigan Department of Community Health. Total assets increased by approximately \$1.9 million in fiscal year 2008-09 primarily because ECIC received a \$1.4 million grant from the Kellogg Foundation. Also, the increase can be attributed to an approximate increase of \$2.7 million in receivables from the State of Michigan for contract advances to the Great Start Collaboratives that remained outstanding at fiscal year end. There was also decrease of approximately \$1.2 million in receivables due from the State of Michigan.

Total liabilities primarily consist of accounts payable and other liabilities. Total liabilities increased by \$2.0 million in fiscal year 2008-09 primarily because the Michigan Department of Education (MDE) provided an additional \$2.7 million in deferred revenue from school aid funds. The ECIC has yet to apply these funds to future expenditures submitted by the Great Start Collaboratives. The ECIC also experienced a \$0.7 million decrease in accounts payable and other liabilities in the current year.

Overall, **net assets** decreased by approximately \$92,500 during fiscal year 2008-09 as a result of ECIC spending Kresge Foundation monies which were received and recorded as revenue in the previous year.

Revenues primarily consist of grants from federal awards (Early childhood services grants), foundations (Family support services grants), and State funds (Great Start Collaborative State support). Revenues increased by approximately \$2.0 million in fiscal year 2008-09 primarily because of an additional \$1.0 million in federal and state grants over the prior fiscal year. The ECIC also used additional State funding for the Great Start Collaboratives, this represented an increase of approximately \$3.7 million over the previous fiscal year. The remaining unused portion of funds provided to the Great Start Collaboratives was recorded as contract advances and deferred revenue on the balance sheet. The ECIC noted a decrease in current year Foundation awards of approximately \$2.7 million.

Grants and operating expenses increased by approximately \$4 million and primarily consist of reimbursable expenses for operating costs, quality child care contracts, and Great Start Collaboratives. The reason the increase in expenses does not match the increase in revenues is because ECIC did not use all of the foundation grant funds provided in fiscal year 2008-09.

Contacting ECIC

The financial report is designed to present users with a general overview of ECIC's finances and to demonstrate the ECIC's accountability for the funds. The contact information for ECIC is:

The Michigan Early Childhood Investment Corporation
221 N. Pine
Lansing, MI 48933
Web site: www.ecic4kids.org
Judy Samelson, Chief Executive Officer

BASIC FINANCIAL STATEMENTS

The Michigan Early Childhood Investment Corporation

STATEMENT OF NET ASSETS

September 30, 2009

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 1,650,808
Investments	2,539,449
Due from State government	3,433,782
Contract advances to Great Start Collaboratives	4,101,938
Prepays	<u>19,009</u>
Total current assets	11,744,986
Noncurrent assets	
Investments	<u>259,285</u>
TOTAL ASSETS	12,004,271
LIABILITIES	
Current liabilities	
Accounts payable and other liabilities	3,437,493
Current portion of compensated absences	25,274
Unearned revenue	<u>4,101,938</u>
Total current liabilities	7,564,705
Noncurrent liabilities	
Noncurrent portion of compensated absences	<u>25,896</u>
TOTAL LIABILITIES	<u>7,590,601</u>
NET ASSETS	
Unrestricted	<u><u>\$ 4,413,670</u></u>

See accompanying notes to financial statements.

The Michigan Early Childhood Investment Corporation

STATEMENT OF ACTIVITIES

September 30, 2009

Functions/Programs	Expenses	Program Revenues Operating Grants and Contributions	Net (Expenses) Revenues and Change in Net Assets
Governmental activities:			
Early childhood services	\$ 15,730,688	\$ 15,700,865	\$ (29,823)
Great Start Collaboratives State Support	4,085,340	4,085,340	-0-
Family support services	1,525,350	1,440,100	(85,250)
Other	52,017	-	(52,017)
 Total governmental activities	 <u>\$ 21,393,395</u>	 <u>\$ 21,226,305</u>	 (167,090)
General revenues:			
Investment earnings			62,215
Other			12,374
			<u>74,589</u>
			Change in net assets (92,501)
			Net assets, beginning of year <u>4,506,171</u>
			Net assets, end of year <u>\$ 4,413,670</u>

See accompanying notes to financial statements.

The Michigan Early Childhood Investment Corporation

GOVERNMENTAL FUND BALANCE SHEET

September 30, 2009

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 1,650,808
Investments	2,798,734
Due from State government	3,433,782
Contract advances to Great Start Collaboratives	4,101,938
Prepays	<u>19,009</u>
TOTAL ASSETS	<u><u>\$ 12,004,271</u></u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable and other liabilities	\$ 3,437,493
Deferred revenue	<u>4,101,938</u>
TOTAL LIABILITIES	7,539,431
FUND BALANCE	
Reserved for prepays	19,009
Unreserved, undesignated	<u>4,445,831</u>
TOTAL FUND BALANCE	<u>4,464,840</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 12,004,271</u></u>

See accompanying notes to financial statements.

The Michigan Early Childhood Investment Corporation

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

September 30, 2009

Total fund balance - governmental fund \$ 4,464,840

Amounts reported for governmental activities in the statement of net assets are different because:

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the Governmental Fund Balance Sheet. Long-term liabilities at year-end consist of:

Compensated absences (51,170)

Net assets of governmental activities \$ 4,413,670

The Michigan Early Childhood Investment Corporation

STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUND

Year Ended September 30, 2009

	<u>General</u>
REVENUES	
Intergovernmental - Federal/State	
Early childhood services grants	\$ 15,700,865
Great Start Collaboratives State Support	4,085,340
Interest earnings	62,215
Other	
Family support services grants	1,440,100
Miscellaneous	<u>12,374</u>
TOTAL REVENUES	21,300,894
EXPENDITURES	
Current	
Early childhood services	15,706,758
Great Start Collaboratives State Support	4,085,340
Family support services	1,525,350
Other	<u>52,017</u>
TOTAL EXPENDITURES	<u>21,369,465</u>
NET CHANGE IN FUND BALANCE	(68,571)
Fund balance, beginning of year	<u>4,533,411</u>
Fund balance, end of year	<u><u>\$ 4,464,840</u></u>

See accompanying notes to financial statements.

The Michigan Early Childhood Investment Corporation

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

Year Ended September 30, 2009

Net change in fund balance - governmental fund \$ (68,571)

Amounts reported for governmental activities in the statement of activities are different because:

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental fund. These activities consist of:

(Increase) in accrued compensated absences (23,930)

Change in net assets of governmental activities \$ (92,501)

The Michigan Early Childhood Investment Corporation

NOTES TO FINANCIAL STATEMENTS

September 30, 2009

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Michigan Early Childhood Investment Corporation's (ECIC) financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the ECIC are discussed below.

ECIC was established through an interlocal agreement on February 22, 2005, pursuant to the Urban Cooperation Act of 1967 (Act 7, P.A. 1967 [Ex. Sess.], Sections 124.501 - 124.512 of the *Michigan Compiled Laws*) between the Department of Human Services (DHS), a principal department of the State of Michigan, and participating intermediate school districts (ISDs), bodies corporate established as authorized under Part 7 of the Revised School Code, Act 451, P.A. 1976, as amended.

ECIC was developed as a separate legal entity and public body corporate to administer activities related to early childhood development and to implement the objectives and further the purposes set forth in the interlocal agreement. These objectives include ensuring that every young child in Michigan has a great start and arrives at the kindergarten door healthy and ready to succeed in school. Each party to the agreement is a public agency under the Urban Cooperation Act of 1967 with the power to carry out the activities described in the agreement.

ECIC is governed by the Corporation Board, including the Executive Committee. The governing body of each participating ISD is authorized to appoint one (1) member to the Corporation Board to serve at the will of the ISD. For each ISD-appointed member, the Governor shall appoint up to two (2) members to the Corporation Board that represent the State and serve at the will of the Governor. If there are fewer than five (5) ISD participants, the Governor may appoint up to twelve (12) additional members to the Corporation Board that represent the State and serve at the will of the Governor until there are five (5) or more participating ISD's. The Executive Committee is comprised of fifteen (15) members. The members of the Executive Committee include the director of DHS or his or her designated representative from within DHS and fourteen (14) residents of Michigan appointed by the Governor, all of whom are also Corporation Board members. The members appointed by the Governor include at least one (1) resident representing the participating ISD's.

The additional appointment of Committee members beyond fifteen (15) in number, notice to the Legislature and the Governor's Office of the appointment, the length of their terms, and the composition of the Committee is to be reviewed annually by the CEO to assure the number, the composition, notice of appointment, and the terms of appointment comport with the statutory language that is authored as part of appropriations boilerplate or other statutory language applicable to the ECIC passed by the Legislature and signed by the Governor.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14 (as amended by GASB Statement No. 39), *The Financial Reporting Entity*; and Statement on Michigan Committee on Governmental Accounting and Auditing Statement No. 5, these financial statements are exclusive presentations of the financial condition and results of operations of ECIC. ECIC is considered a discretely presented component unit of the State of Michigan and is discretely presented in the State of Michigan's (the Primary Government) financial statements. A copy of the State of Michigan's audited financial statements may be obtained by contacting the State of Michigan.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for ECIC as a whole.

The Michigan Early Childhood Investment Corporation

NOTES TO FINANCIAL STATEMENTS

September 30, 2009

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

2. Basis of Presentation - continued

GOVERNMENT-WIDE FINANCIAL STATEMENTS - CONTINUED

The statement of activities presents the direct functional expenses of ECIC and the program revenues that support them. Direct expenses are specifically associated with a service or program and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients for goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues.

FUND FINANCIAL STATEMENTS

ECIC uses a single (General) fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The governmental fund financial statements present ECIC's individual major fund.

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

The governmental fund is presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The government-wide financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Revenues for grants and contributions are recognized when all eligibility requirements imposed by the provider have been met. Unearned revenue is recorded when resources are received by ECIC before it has legal claim to them.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include state and federal grants and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

The Michigan Early Childhood Investment Corporation

NOTES TO FINANCIAL STATEMENTS

September 30, 2009

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

5. Budgets and Budgetary Accounting

The budget shown as required supplementary information to the financial statements was prepared on a basis consistent with U.S. generally accepted accounting principles and the basis used to reflect actual results. ECIC does not maintain a formal encumbrance system. All annual appropriations lapse at fiscal year end. ECIC employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. ECIC prepares the proposed operating budget for the fiscal year commencing October 1. The operating budget includes proposed expenditures and resources to finance them.
- b. Prior to incurring significant expenditures, the budget is legally enacted through Executive Committee action.
- c. The budget is legally adopted and maintained at the fund level.
- d. Budgeted amounts are reported as originally adopted or amended by the Executive Committee during the year.

6. Financial Data

ECIC's financial statements primarily present the following:

- a. Revenues consist of early childhood services grants, family support services grants, Great Start Collaborative State Support, interest earnings, and miscellaneous revenue.
 - i. Early childhood services grants are revenues from federal agencies provided to ECIC by DHS and the Michigan Department of Community Health (DCH) as pass-through grants which consist of the Child Care and Development Block Grant and the Maternal and Child Health Federal Consolidated Program. Also included are revenues from DHS related to the Head Start State Collaboration Office and in-kind support for DHS employee salaries and benefits.
 - ii. Family support services grants are revenues and in-kind support received directly from foundations and nonprofit organizations which include the Kellogg Foundation, the Kresge Foundation Council of Michigan Foundations, Build Initiative, and National Smart Start Technical Assistance Center (In-Kind support).
 - iii. Great Start Collaboratives State Support is the funding provided by the Michigan Department of Education (MDE) directly to the Great Start Collaboratives pursuant to Act 342, P.A. 2008, section 32b, to support ECIC's purpose in providing early childhood services throughout Michigan.
 - iv. Interest earnings are amounts earned from funds held in ECIC's various cash, cash equivalents, and investments.
 - v. Miscellaneous revenue consists of amounts received from non-federal and non-foundation sources.
- b. Expenditures consist of early childhood services grants, family support services grants, and miscellaneous expenditures funded primarily with DHS and DCH pass-through grants, foundation grants, and earned interest.

The Michigan Early Childhood Investment Corporation

NOTES TO FINANCIAL STATEMENTS

September 30, 2009

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

6. Financial Data - continued

- i. Early childhood services grant expenditures are primarily for services in the following areas:
 - Child care resource/referral and training for providers
 - Public education materials for consumers
 - A portion of administrative costs
 - Technical assistance for Great Start Collaboratives and Parent Coalitions
 - Parent engagement in early childhood
 - Public engagement in early childhood
- ii. Family support service grant expenditures are primarily for services in the following areas:
 - Costs associated with technical assistance, consulting, and organizational infrastructure that use funds received directly from foundations
 - Development of a sustainable funding plan for both the ECIC and Great Start Collaboratives
 - Funding Great Start Collaboratives and increasing their numbers
 - Communication activities focused on building public awareness
 - Building stronger state/local connections to support early learning

7. Cash, cash equivalents, and investments

Cash and cash equivalents consist of a checking and savings account and certificates of deposit with original maturities of 90 days or less. Investments consist of certificates of deposit with original maturities of more than 90 days.

8. Due from State Government

Due from State government consists of amounts due from the State of Michigan various grant programs.

ECIC has recognizes the revenue at the time the services are performed and/or grants become available for use.

9. Prepays

Payments made to vendors for services that will benefit future periods are recorded as prepaid expenditures/expenses.

10. Contract Advances and Deferred/Unearned Revenue

Advances are made on contracts to finance specific operations of those Intermediate School Districts working with ECIC.

ECIC has recorded deferred/unearned revenue at the fund level and the government-wide equaling the amount due from the State of Michigan at year-end. Governmental funds report deferred revenues in connection with receivables that are not considered available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. Government-wide financial statements report unearned revenues that are unavailable to liquidate liabilities of the current period.

The Michigan Early Childhood Investment Corporation

NOTES TO FINANCIAL STATEMENTS

September 30, 2009

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

11. Capital Assets

Capital assets are those with an initial individual cost of \$5,000 or more, with estimated useful lives of more than one year. Capital assets are not recorded in the governmental fund. Instead, capital acquisitions are reflected as expenditures in the governmental fund, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

ECIC has no assets that exceed their capitalization thresholds and would therefore be classified as capital assets at the government-wide financial statement level.

12. Compensated Absences

ECIC employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for certain portions of unused accumulated vacation and sick time. This amount has been recorded as a current and noncurrent liability in the government-wide financial statements.

13. Unrestricted Net Assets

Unrestricted net assets consist of net assets that do not have constraints, that is, they are not narrower in scope than an entity's primary purpose, placed on their use either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation. Unrestricted net assets often are designated for specific purposes by management that can be modified. All of ECIC's funding supports designated initiatives that are aligned with specific purposes defined by contracts with the State and public agencies. The designated initiatives are not narrower in scope than ECIC's primary purpose and functions.

14. Comparative Data

Comparative data for the prior year has been presented as "Other Supplementary Information" in the accompanying financial statements.

15. Federal Programs

ECIC has not integrated its Single Audit reports and financial data as part of the financial statements. The Single Audit reports and financial data will be issued under separate cover as supplementary information to the basic financial statements.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

Michigan Compiled Laws section 129.91 (Public Act 20 of 1943, as amended), authorizes governmental units to make deposits and invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.

The Michigan Early Childhood Investment Corporation

NOTES TO FINANCIAL STATEMENTS

September 30, 2009

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The United States Congress has temporarily increased Federal Deposit Insurance Corporation (FDIC) deposit insurance from \$100,000 to \$250,000 per depositor through December 31, 2013. FDIC regulations provide that deposits of governmental units are to be separately insured for the amount of \$250,000 for deposits in an insured bank for interest-bearing savings deposits and \$250,000 for interest-bearing demand deposits. FDIC insurance coverage through its Transaction Account Insurance Program provides unlimited insurance on non-interest bearing transaction accounts and low-interest bearing (i.e., no higher than 0.50 percent) NOW accounts. This program is scheduled to end December 31, 2009. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$250,000. For the purpose of these rules, the term "savings deposits" includes NOW accounts, money market deposit accounts, and other interest-bearing checking accounts.

Deposits

Deposits of ECIC are at federally insured banks located in the State of Michigan with all accounts maintained in the name of ECIC. As of September 30, 2009, the carrying amount of ECIC's deposits was \$4,449,542 and the bank balance was \$4,508,190, of which \$865,000 was covered by Federal depository insurance. The balance of \$3,643,190 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount ECIC held as cash increased significantly. As a result, the amount of uninsured and uncollateralized cash was substantially higher at these peak periods than at year-end.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, ECIC will not be able to recover the value of its deposits that are in the possession of an outside party. ECIC does not have a policy for custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. ECIC does not have a policy that restricts investment maturities.

The Michigan Early Childhood Investment Corporation

NOTES TO FINANCIAL STATEMENTS

September 30, 2009

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Concentration of Credit Risk

ECIC places no limit on the amount that may be invested in any one issuer.

NOTE C: LONG-TERM LIABILITIES

Long-term liabilities are accrued when incurred. The following table summarizes the compensated absences liabilities of ECIC for the fiscal year ended September 30, 2009:

	Balance Oct. 1, 2008	Additions	Deletions	Balance Sept. 30, 2009	Amounts Due Within One Year
Compensated absences	\$ 27,240	\$ 114,188	\$ 90,258	\$ 51,170	\$ 25,274

Compensated Absences

Employees of ECIC are granted vacation leave in varying amounts. Upon termination of employment, employees are paid certain portions of unused accumulated vacation and sick time.

At September 30, 2009, ECIC's total liability for vacation and sick pay amounted to \$51,170, of which \$25,274 has been classified as a current liability. This liability is recorded in the government-wide financial statements.

NOTE D: POST-EMPLOYMENT BENEFITS

ECIC does not participate in the State of Michigan defined benefit or defined contribution plans. ECIC's management established a 457(b) defined contribution plan in August 2006, which the Executive Committee formally approved on January 9, 2008, to provide benefits at retirement to its employees. Upon establishment, employer contributions to the 457(b) plan were retroactive to the employees' hire date. In November 2007, ECIC's management established a 401(a) plan, which the Executive Committee approved on November 19, 2007. The 401(a) plan requires ECIC to contribute 4% and match any voluntary employee contributions up to 3% of an employee's salary to the 401(a). Any voluntary employee contributions are placed in the 457(b). ECIC contributions to the 401(a) plan for fiscal year 2009 totaled \$49,101. Employee contributions to the 457(b) plan for fiscal year 2009 totaled \$72,974. Both the 401(a) plan and the 457(b) plan are administered by John Hancock Financial Services.

NOTE E: REVENUES FROM SCHOOL AID FUND

Act 268, P.A. 2008, section 32b.(1) required that the School Aid Fund allocate an amount not to exceed \$6,750,000 for fiscal year 2008-09 for competitive grants to Intermediate School Districts (ISD's), Regional Educational Service Districts (RESA's), and Regional Educational Service Agency's (RESA's) for the creation and continuance of great start communities. By January 2009, Michigan Department of Education (MDE) had transferred \$6,750,000 to the ISD's, RESD's, and RESA's via a series of electronic fund transfers, based on an allocation determined by ECIC. When an ISD, RESD, and/or RESA submits its statement of expenditures for reimbursement, ECIC reduces the amount of the advance outstanding by the portion of the reimbursement request.

The Michigan Early Childhood Investment Corporation

NOTES TO FINANCIAL STATEMENTS

September 30, 2009

NOTE F: CONTINGENT LIABILITIES

ECIC participates in Federal and State assisted grant programs that are subject to compliance audits. The Single Audit of the Federal programs and the periodic program compliance audits of many of the programs have not yet been conducted, completed, or resolved. Accordingly, ECIC's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although ECIC expects such amounts, if any, to be immaterial.

NOTE G: RISK MANAGEMENT

ECIC maintains commercial insurance for property, liability, and workers compensation losses.

NOTE H: ECONOMIC DEPENDENCY

Approximately 99% of the total revenue is provided either by or through the State of Michigan. Any reductions in this revenue could have a significant impact on ECIC's operations.

NOTE I: SUBSEQUENT EVENTS

In January 2010, Act 121, P.A. 2009, section 32d.(9) decreased the amount of State support to be provided to ECIC for Great Start Collaboratives from \$6,750,000 for fiscal year 2008-09 to \$6,000,000 for fiscal year 2009-10. These funds will be used to support each of the 56 Great Start Collaboratives in fiscal year 2009-2010.

NOTE J: GASB PRONOUNCEMENTS

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated and unreserved will be replaced with five new classifications: nonspendable, restricted, committed, assigned, and unassigned. ECIC is currently evaluating the impact this standard will have on the financial statements when adopted. ECIC will implement Statement No. 54 beginning with the fiscal year ending September 30, 2011.

REQUIRED SUPPLEMENTARY INFORMATION

The Michigan Early Childhood Investment Corporation

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended September 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental - Federal/State				
Early childhood services grants	\$ 15,509,971	\$ 15,509,971	\$ 15,700,865	\$ 190,894
Great Start Collaboratives State Support	6,750,000	6,750,000	4,085,340	(2,664,660)
Interest earnings	195,438	195,438	62,215	(133,223)
Other				
Family support services grants	4,324,350	4,324,350	1,440,100	(2,884,250)
Miscellaneous	2,500	2,500	12,374	9,874
TOTAL REVENUES	26,782,259	26,782,259	21,300,894	(5,481,365)
EXPENDITURES				
Current				
Early childhood services			15,706,758	
Great Start Collaboratives State Support			4,085,340	
Family support services			1,525,350	
Other			52,017	
TOTAL EXPENDITURES	26,163,391	26,163,391	21,369,465	4,793,926
NET CHANGE IN FUND BALANCE	618,868	618,868	(68,571)	(687,439)
Fund balance, beginning of year	4,533,411	4,533,411	4,533,411	-0-
Fund balance, end of year	<u>\$ 5,152,279</u>	<u>\$ 5,152,279</u>	<u>\$ 4,464,840</u>	<u>\$ (687,439)</u>

OTHER SUPPLEMENTARY INFORMATION

The Michigan Early Childhood Investment Corporation
 COMPARATIVE GOVERNMENTAL FUND BALANCE SHEET

September 30, 2009

	General	
	2009	2008
ASSETS		
Cash and cash equivalents	\$ 1,650,808	\$ 4,037,118
Investments	2,798,734	-
Due from State government	3,433,782	4,637,366
Contract advances to Great Start Collaboratives	4,101,938	1,420,961
Prepays	19,009	8,702
TOTAL ASSETS	\$ 12,004,271	\$ 10,104,147
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts payable and other liabilities	\$ 3,437,493	\$ 4,123,281
Due to State government	-	26,494
Deferred revenue	4,101,938	1,420,961
TOTAL LIABILITIES	7,539,431	5,570,736
FUND BALANCE		
Reserved for prepaids	19,009	6,871
Unreserved, undesignated	4,445,831	4,526,540
TOTAL FUND BALANCE	4,464,840	4,533,411
TOTAL LIABILITIES AND FUND BALANCE	\$ 12,004,271	\$ 10,104,147

The Michigan Early Childhood Investment Corporation

COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUND

Years Ended September 30, 2009 and 2008

	<u>General</u>	
	<u>2009</u>	<u>2008</u>
REVENUES		
Intergovernmental - Federal/State		
Early childhood services grants	\$ 15,700,865	\$ 14,724,435
Great Start Collaboratives State Support	4,085,340	329,036
Interest earnings	62,215	105,438
Other		
Family support services grants	1,440,100	4,116,901
Miscellaneous	12,374	8,848
	<u>21,300,894</u>	<u>19,284,658</u>
TOTAL REVENUES		
	21,300,894	19,284,658
EXPENDITURES		
Current		
Early childhood services	15,706,758	14,722,120
Great Start Collaboratives State Support	4,085,340	329,036
Family support services	1,525,350	1,954,008
Other	52,017	39,092
	<u>21,369,465</u>	<u>17,044,256</u>
TOTAL EXPENDITURES		
	21,369,465	17,044,256
NET CHANGE IN FUND BALANCE		
	(68,571)	2,240,402
Fund balance, beginning of year	<u>4,533,411</u>	<u>2,293,009</u>
Fund balance, end of year	<u>\$ 4,464,840</u>	<u>\$ 4,533,411</u>