



**FINANCIAL STATEMENTS**

**September 30, 2011**

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 (ECIC), a discretely presented component unit of the State of Michigan, as of and for the year ended September 30, 2011, which collectively comprise ECIC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of ECIC'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, 2011, 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 February 13, 2012, on our consideration of ECIC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 ECIC'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 ECIC. 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.

As discussed in Note K, during the year ECIC implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. As a result of this implementation, fund balance classifications in the governmental fund financial statements have been changed to reflect the new classifications under GASB Statement No. 54.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

February 13, 2012

The Michigan Early Childhood Investment Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2011

This is a discussion and analysis of the financial performance of The Michigan Early Childhood Investment Corporation (ECIC) for the period October 1, 2010 through September 30, 2011. 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 political subdivision 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, 2010 through September 30, 2011. 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, 2011

**Financial Analysis of ECIC**

The principal activities of ECIC in fiscal year 2010-11 were multi-fold. First, a 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 54 Great Start Collaboratives and Great Start Parent Coalitions at ISDs and Regional Educational Service Agencies (RESAs) for fiscal year 2010-11. Second advanced the quality and efficiency of programs and services in the early childhood development domains, leading to school readiness including physical, mental and social-emotional health, early learning settings, parenting leadership, and family supports. For example, through contractual relationships ECIC supported a wide array of child care quality improvement initiatives and implemented the first of a tiered quality rating and improvement system. Third, increased knowledge of early childhood issues, particularly related to children's oral health and the economic impact of child care in Michigan. Fourth, developed innovative early childhood policy wherein ECIC persuaded Michigan's Governor to create the Office of Great Start and then provided transition leadership to implement the office, as well as, lead a federal grant that could net \$60 million for Michigan. Fifth, advanced public education and public will. Here, ECIC expanded outreach to early childhood stakeholders, increased media interest in early childhood activities across the state and provided state and local partners with ongoing information about federal and state activities related to the issue. Sixth, increased public and private investment, both at the state and local levels, through a combination of initiatives. Lastly, focused on continuous quality improvement through a comprehensive evaluation conducted by Michigan State University that generated key findings both for the state work and also community by community for ECIC's statewide network.

**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>2011</u>	<u>2010</u>
<b><u>Statement of Net Assets</u></b>		
Current assets	\$ 14,286,337	\$ 16,695,600
Noncurrent assets	<u>114,463</u>	<u>19,900</u>
Total assets	14,400,800	16,715,500
Current liabilities	11,649,951	12,174,323
Noncurrent liabilities	<u>35,003</u>	<u>32,968</u>
Total liabilities	<u>11,684,954</u>	<u>12,207,291</u>
Net assets		
Unrestricted	<u>\$ 2,715,846</u>	<u>\$ 4,508,209</u>

The Michigan Early Childhood Investment Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2011

<u>Statement of Activities</u>	<u>2011</u>	<u>2010</u>
Revenues		
Operating grants	\$ 28,990,957	\$ 22,013,489
Interest earned	9,531	16,568
Other	<u>16,501</u>	<u>40,833</u>
Total revenues	29,016,989	22,070,890
Expenses		
Grants and operations	<u>30,809,352</u>	<u>21,976,351</u>
Change in net assets	( 1,792,363 )	94,539
Net assets - Beginning of fiscal year	<u>4,508,209</u>	<u>4,413,670</u>
Net assets - Ending of fiscal year	<u>\$ 2,715,846</u>	<u>\$ 4,508,209</u>

\* 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 decreased by approximately \$2.3 million in fiscal year 2010-11 because of a decrease of \$1.4 million in receivables from the State of Michigan. There was also a decrease of approximately \$0.8 million in cash and cash equivalents as a result of ECIC spending private foundation monies which were received and recorded in a previous fiscal year.

**Total liabilities** primarily consist of accounts payable and other liabilities. Total liabilities decreased by \$0.6 million in fiscal year 2010-11 because ECIC experienced a \$0.9 million decrease in accounts payable and other liabilities in the current year. There was also a \$0.3 million increase to deferred revenue due to a draw on a federal grant that was not released by year end.

Overall, **net assets** decreased by approximately \$1.8 million during fiscal year 2010-11 as a result of ECIC spending Kresge Foundation and Kellogg 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 \$7.0 million in fiscal year 2010-11 primarily because of additional State funding from the Department of Human Services in the amount of \$7.7 million of American Recovery and Reinvention Act (ARRA) funding. The ECIC noted a decrease in current year Foundation awards of approximately \$1.6 million. The ECIC also noted an increase in state grants in the current year of approximately \$0.9 million.

**Grants and operating expenses** increased by approximately \$8.9 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 previous fiscal years and ECIC was awarded ARRA funding for the 2010-11 fiscal year that it did not have in previous years.

The Michigan Early Childhood Investment Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2011

**Economic Factors and Budgetary Highlights**

The ECIC did amend its 2011 budget during the fiscal year, to account for the increase in ARRA funding that was received after the original budget was adopted by the board. In 2011 the General Fund expenditures were in excess of revenues by \$1,882,929. In comparison, for fiscal year 2010 General Fund revenues were in excess of expenditures by \$83,863.

**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  
112 East Allegan St, Suite 800  
Lansing, MI 48933  
Web site: [www.ecic4kids.org](http://www.ecic4kids.org)  
Judy Samelson, Chief Executive Officer

## **BASIC FINANCIAL STATEMENTS**

The Michigan Early Childhood Investment Corporation

STATEMENT OF NET ASSETS

September 30, 2011

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 2,422,424
Investments	1,034,034
Due from State government	6,000,425
Contract advances to Great Start Collaboratives	4,797,844
Other current assets	<u>31,610</u>
Total current assets	14,286,337
Noncurrent assets	
Capital assets, net	<u>114,463</u>
TOTAL ASSETS	14,400,800
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable and other liabilities	6,341,078
Current portion of compensated absences	29,388
Unearned revenue	<u>5,279,485</u>
Total current liabilities	11,649,951
Noncurrent liabilities	
Noncurrent portion of compensated absences	<u>35,003</u>
TOTAL LIABILITIES	<u>11,684,954</u>
<b>NET ASSETS</b>	
Invested in capital assets	114,463
Unrestricted	<u>2,601,383</u>
TOTAL NET ASSETS	<u><u>\$ 2,715,846</u></u>

See accompanying notes to financial statements.

The Michigan Early Childhood Investment Corporation

STATEMENT OF ACTIVITIES

Year Ended September 30, 2011

Functions/Programs	Expenses	Program Revenues Grants and Contributions	Net (Expenses) Revenues and Change in Net Assets
Governmental activities:			
Early childhood services	\$ 22,706,653	\$ 22,808,189	\$ 101,536
Family support services	1,949,718	57,916	(1,891,802)
Great Start Collaboratives State Support	6,124,852	6,124,852	-0-
Other	17,159	-	(17,159)
Unallocated depreciation	10,970	-	(10,970)
Total governmental activities	<u>\$ 30,809,352</u>	<u>\$ 28,990,957</u>	(1,818,395)
General revenues:			
Investment earnings			9,531
Other			16,501
Total general revenues			<u>26,032</u>
Change in net assets			(1,792,363)
Net assets, beginning of year			<u>4,508,209</u>
Net assets, end of year			<u>\$ 2,715,846</u>

See accompanying notes to financial statements.

The Michigan Early Childhood Investment Corporation

GOVERNMENTAL FUND BALANCE SHEET

September 30, 2011

	<u>General</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 2,422,424
Investments	1,034,034
Due from State government	6,000,425
Contract advances to Great Start Collaboratives	4,797,844
Other current assets	<u>31,610</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 14,286,337</u></b>
<b>LIABILITIES AND FUND BALANCE</b>	
<b>LIABILITIES</b>	
Accounts payable and other liabilities	\$ 6,341,078
Deferred revenue	<u>5,279,485</u>
<b>TOTAL LIABILITIES</b>	<b>11,620,563</b>
<b>FUND BALANCE</b>	
Nonspendable	31,610
Restricted for early childhood development	<u>2,634,164</u>
<b>TOTAL FUND BALANCE</b>	<b><u>2,665,774</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b><u>\$ 14,286,337</u></b>

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, 2011

**Total fund balance - governmental fund** \$ 2,665,774

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

Capital assets used in governmental activities are not financial resources and are not reported as assets in the governmental fund.

The cost of capital assets is	\$ 130,408	
Accumulated depreciation is	<u>(15,945)</u>	
Capital assets, net		114,463

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	<u>(64,391)</u>
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**Net assets of governmental activities** \$ 2,715,846

See accompanying notes to financial statements.

The Michigan Early Childhood Investment Corporation

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

Year Ended September 30, 2011

	<u>General</u>
<b>REVENUES</b>	
Intergovernmental - Federal/State	
Early childhood services grants	\$ 22,808,189
Great Start Collaboratives State Support	6,124,852
Interest earnings	9,531
Other	
Family support services grants	57,916
Miscellaneous	<u>16,501</u>
<b>TOTAL REVENUES</b>	<b>29,016,989</b>
<b>EXPENDITURES</b>	
Current	
Early childhood services	22,808,189
Family support services	1,949,718
Great Start Collaboratives State Support	6,124,852
Other	<u>17,159</u>
<b>TOTAL EXPENDITURES</b>	<b><u>30,899,918</u></b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(1,882,929)</b>
Fund balance, beginning of year	<u>4,548,703</u>
Fund balance, end of year	<u><u>\$ 2,665,774</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, 2011

**Net change in fund balance - governmental fund** \$ (1,882,929)

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

Capital outlays are reported as expenditures in the governmental fund.  
However, in the statement of activities, the cost of capital assets is  
allocated over their estimated useful lives as depreciation expense.  
In the current period, these amounts are:

Capital outlay	\$ 105,533	
Depreciation expense	<u>(10,970)</u>	
Excess of capital outlay over depreciation expense		94,563

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		<u>(3,997)</u>
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**Change in net assets of governmental activities** \$ (1,792,363)

The Michigan Early Childhood Investment Corporation

NOTES TO FINANCIAL STATEMENTS

September 30, 2011

**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.

The Michigan Early Childhood Investment Corporation

NOTES TO FINANCIAL STATEMENTS

September 30, 2011

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

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 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 non-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, 2011

**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 the 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 121, P.A. 2010, section 32b, to support the ECIC's purpose in providing early childhood services throughout Michigan.
  - iv. Interest earnings are amounts earned from funds held in the ECIC's money market account.
  - 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, 2011

**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 and Cash Equivalents

Cash and cash equivalents consists of ECIC's checking and savings accounts, as well as, short-term certificates of deposits, whose maturity dates are less than 90 days.

8. Investments

Investments consist of certificates of deposits, whose original maturity dates are greater than 90 days.

9. 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.

10. Prepays

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

11. 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, 2011

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

12. 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 does not have any capital assets that were acquired prior to the adoption of GASB No. 34.

Capital assets are depreciated using the straight-line method over the following useful lives:

Equipment	5 years
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13. 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.

14. 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.

15. Comparative Data

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

16. 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 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, 2011

**NOTE B: CASH 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.

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, 2011, the carrying amount of ECIC's deposits was \$3,456,458 and the bank balance was \$4,984,576, of which \$750,000 was covered by Federal depository insurance. The balance of \$4,234,576 was uninsured and uncollateralized.

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 will minimize credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

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 will minimize interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity. ECIC will also invest primarily in shorter-term securities, money market mutual funds, or similar investment pools, limiting the average maturity of the portfolio.

Concentration of Credit Risk

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

The Michigan Early Childhood Investment Corporation

NOTES TO FINANCIAL STATEMENTS

September 30, 2011

**NOTE C: CAPITAL ASSETS**

	<u>Balance</u> <u>Oct. 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>Sept. 30, 2011</u>
Capital assets being depreciated				
Equipment	\$ 24,875	\$ 105,533	\$ -	\$ 130,408
Less accumulated depreciation for:				
Equipment	<u>4,975</u>	<u>10,970</u>	<u>-</u>	<u>15,945</u>
Total net capital assets	<u>\$ 19,900</u>	<u>\$ 94,563</u>	<u>\$ -0-</u>	<u>\$ 114,463</u>

**NOTE D: 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, 2011:

	<u>Balance</u> <u>Oct. 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>Sept. 30, 2011</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Compensated absences	<u>\$ 60,394</u>	<u>\$ 122,271</u>	<u>\$ 118,274</u>	<u>\$ 64,391</u>	<u>\$ 29,388</u>

**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, 2011, ECIC's total liability for vacation and sick pay amounted to \$64,391, of which \$29,388 has been classified as a current liability. This liability is recorded in the government-wide financial statements.

**NOTE E: 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, 2010, 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. Through February 15, 2010, ECIC contributed 4% and matched any voluntary employee contributions up to 3% of an employee's salary to the 457(b) plan. The 401(a) plan now 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 2011 totaled \$64,566. Employee contributions to the 457(b) plan for fiscal year 2011 totaled \$73,948 and employee contributions to the 401(a) plan for fiscal year 2011 were \$11,538. Both the 401(a) plan and the 457(b) plan are administered by John Hancock Financial Services.

The Michigan Early Childhood Investment Corporation

NOTES TO FINANCIAL STATEMENTS

September 30, 2011

**NOTE F: LEASE OBLIGATIONS**

ECIC rents office space under a lease that expires August 14, 2015. Rental expense for the year ended September 30, 2011 was \$78,195. Future minimum lease payments are as follows:

<u>Year Ended</u> <u>September 30,</u>	
2012	\$ 80,340
2013	82,750
2014	85,233
2015	<u>80,474</u>
	<u>\$ 328,797</u>

**NOTE G: REVENUES FROM SCHOOL AID FUND**

Act 110, P.A. 2010, section 32b.(1) required that the School Aid Fund would allocate an amount not to exceed \$6,000,000 for fiscal year 2010-11 for competitive grants to 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 2011 Michigan Department of Education (MDE) had transferred \$6,000,000 to the ISD's via a series of electronic fund transfers, based on an allocation determined by ECIC. When a certain 54 ISD, RESD, and RESA submitted its statement of expenditures for reimbursement, ECIC reduced the amount of the reimbursement request by the portion of the advance still outstanding.

**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: 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 J: RISK MANAGEMENT**

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

NOTES TO FINANCIAL STATEMENTS

September 30, 2011

**NOTE K: DETAILS OF FUND BALANCE CATEGORIES AND CLASSIFICATIONS**

In February 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 have been replaced with five new classifications: nonspendable, restricted, committed, assigned and unassigned.

*Nonspendable* - assets that are not available in a spendable form such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

*Restricted* - amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors or laws, regulations or enabling legislation.

*Committed* - amounts constrained on use imposed by formal action of the government's highest level of decision making authority (i.e., Board, Council, etc.).

*Assigned* - amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee or a delegated municipality official.

*Unassigned* - all other resources; the remaining fund balance after non-spendable, restrictions, commitments, and assignments. This class only occurs in the General Fund, except for cases of negative fund balances. Negative fund balances are always reported as Unassigned, no matter which fund the deficit occurs in.

**Fund Balance Classification Policies and Procedures**

For committed fund balance, ECIC's highest level of decision-making authority is the Executive Board. Formal action that is required to be taken to establish a fund balance commitment is a resolution of the Executive Board. If a fund balance commitment is made, the commitment remains in effect until a resolution is made to remove it.

For assigned fund balance, ECIC's Executive Board has not adopted the action required to assign fund balance. Therefore, this authority remains with the Executive Board.

ECIC has not adopted a policy that defines the order of usage for fund balance amounts classified as restricted, committed, assigned, or unassigned.

**REQUIRED SUPPLEMENTARY INFORMATION**

The Michigan Early Childhood Investment Corporation

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended September 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental - Federal/State				
Early childhood services grants	\$ 21,773,408	\$ 24,134,008	\$ 22,808,189	\$ (1,325,819)
Great Start Collaboratives State Support	11,000,000	8,700,000	6,124,852	(2,575,148)
Interest earnings	40,000	40,000	9,531	(30,469)
Other				
Family support services grants	112,500	112,500	57,916	(54,584)
Miscellaneous	160,000	160,000	16,501	(143,499)
<b>TOTAL REVENUES</b>	<b>33,085,908</b>	<b>33,146,508</b>	<b>29,016,989</b>	<b>(4,129,519)</b>
<b>EXPENDITURES</b>				
Current				
Early childhood services			22,808,189	
Family support services			1,949,718	
Great Start Collaboratives State Support			6,124,852	
Other			17,159	
<b>TOTAL EXPENDITURES</b>	<b>33,382,904</b>	<b>35,329,363</b>	<b>30,899,918</b>	<b>4,429,445</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(296,996)</b>	<b>(2,182,855)</b>	<b>(1,882,929)</b>	<b>299,926</b>
Fund balance, beginning of year	4,548,703	4,548,703	4,548,703	-0-
Fund balance, end of year	<u>\$ 4,251,707</u>	<u>\$ 2,365,848</u>	<u>\$ 2,665,774</u>	<u>\$ 299,926</u>

## **OTHER SUPPLEMENTARY INFORMATION**

The Michigan Early Childhood Investment Corporation  
 COMPARATIVE GOVERNMENTAL FUND BALANCE SHEET

September 30, 2011 and 2010

	General	
	2011	2010
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,422,424	\$ 3,297,695
Investments	1,034,034	1,030,279
Due from State government	6,000,425	7,405,776
Contract advances to Great Start Collaboratives	4,797,844	4,922,695
Other current assets	31,610	39,155
TOTAL ASSETS	\$ 14,286,337	\$ 16,695,600
<b>LIABILITIES AND FUND BALANCE</b>		
<b>LIABILITIES</b>		
Accounts payable and other liabilities	\$ 6,341,078	\$ 7,224,202
Deferred revenue	5,279,485	4,922,695
TOTAL LIABILITIES	11,620,563	12,146,897
<b>FUND BALANCE</b>		
Nonspendable	31,610	38,905
Restricted for early childhood development	2,634,164	4,509,798
TOTAL FUND BALANCE	2,665,774	4,548,703
TOTAL LIABILITIES AND FUND BALANCE	\$ 14,286,337	\$ 16,695,600

The Michigan Early Childhood Investment Corporation  
 COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUND

Years Ended September 30, 2011 and 2010

	General	
	2011	2010
<b>REVENUES</b>		
Intergovernmental - Federal/State		
Early childhood services grants	\$ 22,808,189	\$ 15,131,330
Great Start Collaboratives State Support	6,124,852	5,179,243
Interest earnings	9,531	16,568
Other		
Family support services grants	57,916	1,702,916
Miscellaneous	16,501	40,833
	29,016,989	22,070,890
<b>EXPENDITURES</b>		
Current		
Early childhood services	22,808,189	15,150,799
Family support services	1,949,718	1,611,568
Great Start Collaboratives State Support	6,124,852	5,179,243
Other	17,159	45,417
	30,899,918	21,987,027
TOTAL EXPENDITURES	30,899,918	21,987,027
NET CHANGE IN FUND BALANCE	(1,882,929)	83,863
Fund balance, beginning of year	4,548,703	4,464,840
Fund balance, end of year	\$ 2,665,774	\$ 4,548,703