



**SUPPLEMENTARY INFORMATION TO FINANCIAL STATEMENTS
(FEDERAL AWARDS)**

September 30, 2012

DRAFT

The Michigan Early Childhood Investment Corporation

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE
A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited The Michigan Early Childhood Investment Corporation's (the Investment Corporation) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that have a direct and material effect on each of the Investment Corporation's major federal programs for the year ended September 30, 2012. The Investment Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of the major federal programs is the responsibility of the Investment Corporation's management. Our responsibility is to express an opinion on the Investment Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Investment Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Investment Corporation's compliance with those requirements.

In our opinion, The Michigan Early Childhood Investment Corporation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the major federal programs for the year ending September 30, 2012.

Internal Control Over Compliance

Management of the Investment Corporation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Investment Corporation's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Investment Corporation's internal control over compliance.

A *deficiency in internal control* over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control* over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities and the major fund of the Investment Corporation as of and for the year ended September 30, 2012, and have issued our report thereon dated January 18, 2013, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of The Michigan Early Childhood Investment Corporation's Board and management, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

January 18, 2013

The Michigan Early Childhood Investment Corporation
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2012

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through Michigan Department of Human Services (DHS) Child Care and Development Block Grant ^(a)	93.575	ECIC-12-99001	\$ 12,579,699
Passed through Michigan Department of Community Health Maternal and Child Health Federal Consolidated Program	93.110	H25MC00252	142,686
Direct Award			
ARRA - Head Start State Advisory Council ^(a)	93.708	90SC0033/01	<u>987,923</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u><u>\$ 13,710,308</u></u>

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^(a) Denotes program tested as "Major Program".

The Michigan Early Childhood Investment Corporation

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2012

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of The Michigan Early Childhood Investment Corporation (the Investment Corporation) and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.

NOTE B: RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The following reconciles the federal revenues reported in the September 30, 2012, basic financial statements to the expenditures of the Investment Corporation administered federal programs reported on the Schedule of Expenditures of Federal Awards:

	<u>Federal/ State Revenue</u>	<u>Less: State Revenue</u>	<u>Adjustments</u>	<u>Federal Award Expenditures</u>
Intergovernmental	\$ 21,607,116	\$(7,896,808)	\$ -	\$ 13,710,308

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

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

We have audited the financial statements of the governmental activities and the major fund of The Michigan Early Childhood Investment Corporation (the Investment Corporation) as of and for the year ended September 30, 2012, which collectively comprise the Investment Corporation's basic financial statements and have issued our report thereon dated January 18, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, The Michigan Early Childhood Investment Corporation's Board, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

January 18, 2013

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The Michigan Early Childhood Investment Corporation
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended September 30, 2012

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Significant deficiencies identified that are not considered to be material weakness(es)? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ Yes X No

Significant deficiencies identified that are not considered to be material weakness(es)? _____ Yes X None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.575	Child Care and Development Block Grant (CCDF) Cluster
93.708	AARA - Head Start State Advisory Council

Dollar threshold used to distinguish between Type A and Type B programs: \$ 411,309

Auditee qualified as low-risk auditee? X Yes _____ No

Section II - Financial Statement Findings

None noted.

Section III - Federal Award Findings and Questioned Costs

None noted.

The Michigan Early Childhood Investment Corporation

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended September 30, 2012

FINDINGS/NONCOMPLIANCE

Control Deficiencies Related to Internal Controls Over the Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to Federal Awards and Internal Control Over Compliance in Accordance with OMB Circular A-133.

No prior audit findings.

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