



FINANCIAL STATEMENTS

September 30, 2016

The Michigan Early Childhood Investment Corporation

TABLE OF CONTENTS

September 30, 2016

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	i-ii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii-vii
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Position	1
Statement of Activities	2
Governmental Fund Financial Statements	
Balance Sheet	3
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position	4
Statement of Revenues, Expenditures, and Changes in Fund Balance	5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to the Statement of Activities	6
Notes to Financial Statements	7-14
REQUIRED SUPPLEMENTARY INFORMATION	
GENERAL FUND	
Budgetary Comparison Schedule	15
OTHER SUPPLEMENTARY INFORMATION	
Comparative Governmental Fund Financial Statements	
Balance Sheet - 2016 and 2015	16
Statement of Revenues, Expenditures, and Changes in Fund Balance - 2016 and 2015	17

Principals

Dale J. Abraham, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA



3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of The Michigan Early Childhood Investment Corporation (the Investment Corporation), a discretely presented component unit of the State of Michigan, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Investment Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Investment Corporation's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2016, on our consideration of the 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Investment Corporation's internal control over financial reporting and compliance.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

November 30, 2016

The Michigan Early Childhood Investment Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2016

This is a discussion and analysis of the financial performance of The Michigan Early Childhood Investment Corporation (the Investment Corporation) for the period October 1, 2015 through September 30, 2016. The Investment Corporation's management is responsible for the financial statements, the notes to the financial statements, and this discussion.

The Investment Corporation 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 the Investment Corporation 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.

The Investment Corporation 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. The Investment Corporation is a discretely presented component unit of the State and is governed by the Corporation Board, including the Executive Committee.

The Investment Corporation 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 the Department of Education (DOE) or his or her designated representative 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 Investment Corporation passed by the Legislature and signed by the Governor.

The Michigan Early Childhood Investment Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2016

The Early Childhood Investment Corporation's mission is to promote and implement innovative, high-quality, research-based early childhood practices and policies that support a comprehensive system in order to ensure every child's future success and the future success of the state of Michigan. A fundamental tenant of the Investment Corporation's work is that it strives to find the links between research, policy, and practice in order to support the creation of impactful programs, initiatives, and policies. Its work is informed by a foundational set of values that include collaboration, innovation, action, family focus, community focus, equity, engagement, professionalism, and accountability. Within the context of state-local and private-public partnerships the Investment Corporation engages in a range of activities, for example:

- serving as a contractor to the state for early childhood innovation, information, research and program evaluation that will help communities develop and execute strategic plans to better serve young children and their families,
- using philanthropic funding to undertake activities designed to inform the state of Michigan of, and advocate for, evidence-based research and community strategies that work and are important to support young children, and
- partnering with state government and other early childhood private and public organizations and agencies to make and maintain Michigan as a leader and epicenter of early childhood development research, innovation, program evaluation, and advocacy.

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 Investment Corporation is for the period October 1, 2015 through September 30, 2016. The basic financial statements provide information about the activities of the Investment Corporation 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, 2016

Financial Analysis of The Investment Corporation

The principal activities of the Investment Corporation in fiscal year 2015-16 were focused on the goal of achieving improved outcomes for children and families. One set of activities, funded by the Michigan Department of Education – Office of Great Start (OGS), was the provision of technical assistance and training in support of local early childhood systems development. Specifically, Investment Corporation staff worked with Great Start Collaboratives and Great Start Parent Coalitions across the state to help them determine and meet the needs of their communities in effective and efficient ways. Another set of OGS funded activities involved working with Regional Resource Centers (RCs) across the state to implement the state's tiered quality rating and improvement system for early learning and care – Great Start to Quality. In particular, ECIC staff managed the work of the RCs, provided technical assistance and professional development for RC staff, managed the maintenance and enhancement of both the web-based STARS platform and Great Start to Quality website, and began to develop with input from practitioners, researchers, parents and providers a framework for inclusion of school age, out of school time settings in the Great Start to Quality system. Using funding from Michigan's Department of Community Health, the Investment Corporation provided technical assistance, coaching and consultation to the communities participating in the state's Maternal, Infant, and Early Childhood Home Visiting program. That work included helping to develop and implement a plan that addresses the necessary provisions for parent participation and the incorporation of required partners for their Local Leadership Groups. The technical assistance for the Local Leadership Groups included reinforcing an understanding of the importance of authentic parent engagement, the development of policies and procedures that support parent engagement, and the convening of a learning community for the parent representatives serving on Local Leadership Groups.

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>2016</u>	<u>2015</u>
<u>Statement of Net Position</u>		
Current assets	\$3,960,487	\$4,368,902
Capital assets, net	<u>203,448</u>	<u>277,217</u>
Total assets	4,163,935	4,646,119
Current liabilities	<u>2,661,575</u>	<u>3,168,007</u>
Net position		
Investment in capital assets	203,448	277,217
Unrestricted*	<u>1,298,912</u>	<u>1,200,895</u>
Total net position	<u><u>\$1,502,360</u></u>	<u><u>\$1,478,112</u></u>

The Michigan Early Childhood Investment Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2016

Statement of Activities

Revenues		
Operating grants and contributions	\$14,931,715	\$13,864,755
Other	80,969	30,150
	<u>15,012,684</u>	<u>13,894,905</u>
Total revenues	15,012,684	13,894,905
Expenses		
Grants and operations	<u>14,988,436</u>	<u>13,923,460</u>
Change in net position	24,248	(28,555)
Net position - beginning of fiscal year	<u>1,478,112</u>	<u>1,506,667</u>
Net position - end of fiscal year	<u>\$1,502,360</u>	<u>\$1,478,112</u>

* **All of the Investment Corporation'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 the Investment Corporation's primary purpose and functions. Consequently, the Investment Corporation's assets are not restricted.**

Total assets primarily consist of cash and amounts due from the Michigan Department of Education and the Michigan Department of Community Health. Total assets decreased by approximately \$482,000 in fiscal year 2016 due primarily to a decrease of \$1,167,000 in due from State government, offset by an increase in cash of \$749,000. This was the result of the Investment Corporation incurring expenditures related to reimbursement-based grants at a pace more evenly distributed across the fourth quarter when compared to the prior year. Also, the decrease in the net capital assets in the amount of \$74,000 was due to the current year depreciation being greater than the current additions to capital assets.

Total liabilities primarily consist of accounts payable and other liabilities. Total liabilities decreased by approximately \$506,000 in fiscal year 2016 because the Investment Corporation had a decrease in expenditures during the last quarter of the fiscal year related to reimbursement-based grants.

Revenues primarily consist of grants from federal and state awards for early childhood services grants. Revenues increased by approximately \$1,118,000 in fiscal year 2016 primarily because of increases in both the Race to the Top and Child Care Development Fund grants, offset by the end in fiscal year 2015 of the State Supplemental General Fund grant.

Grants and operating expenses increased by approximately \$1,065,000 due to the changes in grants noted above.

Economic Factors and Budgetary Highlights

Fiscal year 2016 was a year of transition for the Investment Corporation, with changes in leadership, the end of General Fund revenues, and increases in both the Race to the Top and Child Care Development Fund grants. The Investment Corporation amended its 2016 budget during the fiscal year to reflect a decrease in expenditures due to changes in the scope of work as agreed to by the Michigan Department of Education – Office of Great Start. As the fiscal year ended, management focused on new funding opportunities to diversify revenue and broaden the organization's impact.

The Michigan Early Childhood Investment Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2016

Contacting The Investment Corporation

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

The Michigan Early Childhood Investment Corporation
105 West Allegan St, Suite 200
Lansing, MI 48933
Jeremy Reuter, Chief Executive Officer

BASIC FINANCIAL STATEMENTS

The Michigan Early Childhood Investment Corporation

STATEMENT OF NET POSITION

September 30, 2016

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash	\$ 957,040
Due from State government	2,984,849
Prepays	<u>18,598</u>
Total current assets	3,960,487
Noncurrent assets	
Equipment	1,080,379
Less: accumulated depreciation	<u>(876,931)</u>
Total noncurrent assets	<u>203,448</u>
TOTAL ASSETS	4,163,935
LIABILITIES	
Current liabilities	
Accounts payable and other liabilities	2,642,248
Compensated absences	<u>19,327</u>
TOTAL LIABILITIES	2,661,575
NET POSITION	
Investment in capital assets	203,448
Unrestricted	<u>1,298,912</u>
TOTAL NET POSITION	<u><u>\$ 1,502,360</u></u>

See accompanying notes to financial statements.

The Michigan Early Childhood Investment Corporation

STATEMENT OF ACTIVITIES

Year Ended September 30, 2016

Functions/Programs	Expenses	Program Revenues Operating Grants and Contributions	Net (Expenses) Revenues and Change in Net Position
Governmental activities			
Early childhood services	\$ 14,983,482	\$ 14,931,715	\$ (51,767)
Other	<u>4,954</u>	<u>-</u>	<u>(4,954)</u>
Total governmental activities	<u>\$ 14,988,436</u>	<u>\$ 14,931,715</u>	(56,721)
		General revenues	
		Other	<u>80,969</u>
		Change in net position	24,248
		Net position, beginning of year	<u>1,478,112</u>
		Net position, end of year	<u>\$ 1,502,360</u>

See accompanying notes to financial statements.

The Michigan Early Childhood Investment Corporation

Governmental Fund

BALANCE SHEET

September 30, 2016

	<u>General</u>
ASSETS	
Cash	\$ 957,040
Due from State government	2,984,849
Prepays	<u>18,598</u>
TOTAL ASSETS	<u>\$ 3,960,487</u>
LIABILITIES	
Accounts payable and other liabilities	\$ 2,642,248
FUND BALANCE	
Nonspendable	18,598
Unassigned	<u>1,299,641</u>
TOTAL FUND BALANCE	<u>1,318,239</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 3,960,487</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 POSITION

September 30, 2016

Total fund balance - governmental fund \$ 1,318,239

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

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

Total capital assets	\$ 1,080,379
Accumulated depreciation	<u>(876,931)</u>

Capital assets, net	203,448
---------------------	---------

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>(19,327)</u>
----------------------	-----------------

Net position of governmental activities	<u><u>\$ 1,502,360</u></u>
--	----------------------------

See accompanying notes to financial statements.

The Michigan Early Childhood Investment Corporation

Governmental Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

Year Ended September 30, 2016

	<u>General</u>
REVENUES	
Intergovernmental - Federal/State	
Early childhood services grants	\$ 14,931,715
Other	
Miscellaneous	<u>80,969</u>
TOTAL REVENUES	15,012,684
EXPENDITURES	
Current	
Early childhood services	14,943,746
Other	<u>4,954</u>
TOTAL EXPENDITURES	<u>14,948,700</u>
NET CHANGE IN FUND BALANCE	63,984
Fund balance, beginning of year	<u>1,254,255</u>
Fund balance, end of year	<u><u>\$ 1,318,239</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, 2016

Net change in fund balance - governmental fund \$ 63,984

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	\$ 120,251	
Depreciation expense	<u>(194,020)</u>	
Excess of capital outlay (under) depreciation expense		(73,769)

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:

Decrease in compensated absences	<u>34,033</u>
Change in net position of governmental activities	<u><u>\$ 24,248</u></u>

The Michigan Early Childhood Investment Corporation

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

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

The Michigan Early Childhood Investment Corporation's (the Investment Corporation) 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 Investment Corporation are discussed below.

The Investment Corporation 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.

The Investment Corporation 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.

The Investment Corporation 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 the Office of Great Start (OGS) within the Department of Education (DOE) or his or her designated representative from within OGS 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 Investment Corporation 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, these financial statements are exclusive presentations of the financial condition and results of operations of the Investment Corporation. The Investment Corporation 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 position and the statement of activities (the government-wide financial statements) present information for the Investment Corporation as a whole.

The Michigan Early Childhood Investment Corporation

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

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 the Investment Corporation 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

The Investment Corporation 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 the Investment Corporation'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 financial 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, deferred outflows of resources, current liabilities, and deferred inflows of resources are generally, when applicable, 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 fund balance.

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 the Investment Corporation 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. The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is sixty (60) days. Revenues that are considered measurable but not available are recorded as a receivable and unavailable revenue. 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, 2016

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. The Investment Corporation does not maintain a formal encumbrance system. All annual appropriations lapse at fiscal year end. The Investment Corporation employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. The Investment Corporation 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 and Corporate Board 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

The Investment Corporation's financial statements primarily present the following:

- a. Revenues consist of early childhood services grants, family support services grants, interest earnings, and miscellaneous revenue.
 - i. Early childhood services grants are revenues from federal agencies provided to the Investment Corporation by the Michigan Department of Education (MDE) and the Michigan Department of Community Health (DCH) as pass-through grants which consist of the Child Care and Development Block Grant; the Maternal, Infant, and Early Childhood Home Visiting Program; and Race to the Top - Early Learning Challenge.
 - ii. 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 MDE and DCH pass-through grants, foundation grants, and earned interest.
 - i. Early childhood services grant expenditures are primarily for services in the following areas:
 - Great Start to Quality
 - Child care resource/referral and training for providers
 - Public education materials for consumers
 - A portion of administrative costs
 - Technical assistance for Parent Coalitions
 - Parent engagement in early childhood
 - Public engagement in early childhood

The Michigan Early Childhood Investment Corporation

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

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

7. Cash

Cash consists of the Investment Corporation's checking and savings accounts.

8. Due from State Government

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

The Investment Corporation 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. Capital Assets

Capital assets are those with an initial individual cost of \$5,000 or more, with estimated useful lives of more than one (1) 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. The Investment Corporation 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	3-7 years
-----------	-----------

11. Compensated Absences

The Investment Corporation 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 time. This amount has been recorded as a current liability in the government-wide financial statements.

12. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and the balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position/fund balance that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position and the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position/fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

Currently, the Investment Corporation does not report any deferred outflows of resources or deferred inflows of resources.

The Michigan Early Childhood Investment Corporation

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

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

13. Unrestricted Net Position

Unrestricted net position consists of net position that does 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 positions often are designated for specific purposes by management that can be modified. All of the Investment Corporation'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 the Investment Corporation'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

The Investment Corporation 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.
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 Michigan Early Childhood Investment Corporation

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

NOTE B: CASH AND INVESTMENTS - CONTINUED

Deposits

Deposits of the Investment Corporation are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Investment Corporation. As of September 30, 2016, the carrying amount of the Investment Corporation's deposits was \$957,040 and the bank balance was \$1,062,020, of which \$294,874 was covered by Federal depository insurance. The remaining balance of \$767,146 was uninsured and uncollateralized.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Investment Corporation will not be able to recover the value of its deposits that are in the possession of an outside party. The Investment Corporation 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. The Investment Corporation 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. The Investment Corporation 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

The Investment Corporation places no limit on the amount that may be invested in any one issuer.

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2016, was as follows:

	<u>Balance</u> <u>Oct. 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>Sept. 30, 2016</u>
Capital assets being depreciated				
Equipment	\$ 960,128	\$ 120,251	\$ -	\$ 1,080,379
Less accumulated depreciation for				
Equipment	<u>(682,911)</u>	<u>(194,020)</u>	<u>-</u>	<u>(876,931)</u>
Total net capital assets	<u>\$ 277,217</u>	<u>\$(73,769)</u>	<u>\$ -0-</u>	<u>\$ 203,448</u>

The Michigan Early Childhood Investment Corporation

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

NOTE D: COMPENSATED ABSENCES

Compensated absences are accrued when incurred. The following table summarizes the compensated absences liabilities of the Investment Corporation for the fiscal year ended September 30, 2016:

	<u>Balance</u> <u>Oct. 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>Sept. 30, 2016</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Compensated absences	\$ 53,360	\$ 80,450	\$(114,483)	\$ 19,327	\$ 19,327

Compensated Absences

Employees of the Investment Corporation are granted vacation leave in varying amounts. Upon termination of employment, employees are paid certain portions of unused accumulated vacation time.

At September 30, 2016, the Investment Corporation's total liability for vacation pay amounted to \$19,327, which is recorded as a liability in the government-wide financial statements.

NOTE E: POST-EMPLOYMENT BENEFITS

The Investment Corporation does not participate in the State of Michigan defined benefit or defined contribution plans. The Investment Corporation'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, the Investment Corporation's management established a 401(a) plan, which the Executive Committee approved on November 19, 2007. Plan provisions and contribution requirements may be amended by the Executive Committee. Both the 401(a) plan and the 457(b) plan are administered by John Hancock Financial Services. Through February 15, 2011, the Investment Corporation 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 the Investment Corporation 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). The Investment Corporation contributions to the 401(a) plan for fiscal year 2016 totaled \$102,310.

NOTE F: LEASE OBLIGATIONS

The Investment Corporation rents office space under a lease that expires August 31, 2017. Rental expense for the year ended September 30, 2016, was \$115,023. Future minimum lease payments are as follows:

<u>Year Ending</u> <u>September 30,</u>	
2017	\$ <u>98,482</u>

NOTE G: 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 the Investment Corporation's operations.

The Michigan Early Childhood Investment Corporation

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

NOTE H: CONTINGENT LIABILITIES

The Investment Corporation 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, the Investment Corporation'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 the Investment Corporation expects such amounts, if any, to be immaterial.

NOTE I: RISK MANAGEMENT

The Investment Corporation maintains commercial insurance for property, liability, and workers compensation losses.

NOTE J: DETAILS OF FUND BALANCE CLASSIFICATIONS

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, established the following 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.

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

For classification of fund balances, the Investment Corporation considers restricted amounts to have been spent when an expenditure is incurred for the purposes of which both restricted and unrestricted fund balance is available. Also for the classification of fund balances, the Investment Corporation considers committed, assigned, or unassigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

REQUIRED SUPPLEMENTARY INFORMATION

The Michigan Early Childhood Investment Corporation

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended September 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental - Federal/State				
Early childhood services grants	\$ 17,156,419	\$ 15,798,828	\$ 14,931,715	\$ (867,113)
Other				
Miscellaneous	-	25,000	80,969	55,969
TOTAL REVENUES	17,156,419	15,823,828	15,012,684	(811,144)
EXPENDITURES				
Current				
Early childhood services			14,943,746	
Other			4,954	
TOTAL EXPENDITURES	17,156,419	15,756,212	14,948,700	807,512
NET CHANGE IN FUND BALANCE	-0-	67,616	63,984	(3,632)
Fund balance, beginning of year	1,254,255	1,254,255	1,254,255	-0-
Fund balance, end of year	\$ 1,254,255	\$ 1,321,871	\$ 1,318,239	\$ (3,632)

The Michigan Early Childhood Investment Corporation

Governmental Fund

COMPARATIVE BALANCE SHEET

September 30, 2016 and 2015

	<u>General</u>	
	<u>2016</u>	<u>2015</u>
ASSETS		
Cash	\$ 957,040	\$ 208,005
Due from State government	2,984,849	4,152,147
Prepays	<u>18,598</u>	<u>8,750</u>
TOTAL ASSETS	<u><u>\$ 3,960,487</u></u>	<u><u>\$ 4,368,902</u></u>
LIABILITIES		
Accounts payable and other liabilities	\$ 2,642,248	\$ 3,114,647
FUND BALANCE		
Nonspendable	18,598	8,750
Unassigned	<u>1,299,641</u>	<u>1,245,505</u>
TOTAL FUND BALANCE	<u>1,318,239</u>	<u>1,254,255</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 3,960,487</u></u>	<u><u>\$ 4,368,902</u></u>

OTHER SUPPLEMENTARY INFORMATION

The Michigan Early Childhood Investment Corporation

Governmental Fund

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

Years Ended September 30, 2016 and 2015

	<u>General</u>	
	<u>2016</u>	<u>2015</u>
REVENUES		
Intergovernmental - Federal/State		
Early childhood services grants	\$ 14,931,715	\$ 13,849,746
Other	<u>80,969</u>	<u>45,159</u>
TOTAL REVENUES	15,012,684	13,894,905
EXPENDITURES		
Current		
Early childhood services	14,943,746	13,760,984
Other	<u>4,954</u>	<u>30,903</u>
TOTAL EXPENDITURES	<u>14,948,700</u>	<u>13,791,887</u>
NET CHANGE IN FUND BALANCE	63,984	103,018
Fund balance, beginning of year	<u>1,254,255</u>	<u>1,151,237</u>
Fund balance, end of year	<u><u>\$ 1,318,239</u></u>	<u><u>\$ 1,254,255</u></u>