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February 23, 2012

Larry A. Isaak, President  
Midwestern Higher Education Compact  
1300 South Second Street, Suite 130  
Minneapolis, MN 55454-1079

Dear Mr. Isaak:

We have received the audit report prepared by Eide Bailly, LLP, Independent Public Accountants, for the period July 1, 2010 to June 30, 2011. Per the auditors' opinion, the audit was conducted in accordance with auditing standards generally accepted in the United States of America and the financial statements included in the report present fairly the financial condition of the Midwestern Higher Education Compact as of June 30, 2011, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a public record.

STATE BOARD OF ACCOUNTS



Financial Statements  
June 30, 2011

# Midwestern Higher Education Compact

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Financial Statements

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## Independent Auditor's Report

To the Commission  
Midwestern Higher Education Compact  
Minneapolis, Minnesota

We have audited the accompanying statement of financial position of Midwestern Higher Education Compact (Compact) as of June 30, 2011, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Compact's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Compact's 2010 financial statements and in our report dated October 8, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Compact's internal control over financial reporting. Accordingly, we do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Midwestern Higher Education Compact as of June 30, 2011, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Eide Bailly LLP*

Minneapolis, Minnesota  
November 17, 2011

Midwestern Higher Education Compact  
Statement of Financial Position  
June 30, 2011 (with Comparative Totals for 2010)

	2011	2010
<b>Assets</b>		
Cash and cash equivalents	\$ 2,221,555	\$ 2,128,969
Certificates of deposit	1,225,085	1,351,091
Receivables		
State commitments, less allowance for doubtful accounts of \$82,500	37,684	62,172
Grants	-	200,000
Other	262,366	316,917
Prepaid expenses	59,186	61,745
Office improvements, net of accumulated depreciation of \$59,944	19,711	21,713
	<u>\$ 3,825,587</u>	<u>\$ 4,142,607</u>
 <b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 58,115	\$ 97,011
Accrued payroll and related expenses	34,158	124,027
Deferred state commitments	95,000	95,000
	<u>187,273</u>	<u>316,038</u>
 <b>Net Assets</b>		
<b>Unrestricted</b>		
Board designated - risk management	25,000	50,000
Undesignated	3,191,375	3,087,468
Total unrestricted	<u>3,216,375</u>	<u>3,137,468</u>
Temporarily restricted	421,939	689,101
	<u>3,638,314</u>	<u>3,826,569</u>
	<u>\$ 3,825,587</u>	<u>\$ 4,142,607</u>

Midwestern Higher Education Compact  
Statement of Activities and Changes in Net Assets  
Year Ended June 30, 2011 (with Comparative Totals for 2010)

	2011			2010
	Unrestricted	Temporarily Restricted	Total	
<b>Revenues</b>				
State commitments	\$ 1,140,000	\$ -	\$ 1,140,000	\$ 1,140,000
Program revenue				
Risk management program	211,048	-	211,048	189,314
Computer technology	491,928	-	491,928	440,218
Novell	146,973	-	146,973	233,417
Grants	-	-	-	211,725
Other revenue	4,995	10,001	14,996	3,021
Interest income	22,007	-	22,007	56,281
Net assets released from restriction	277,163	(277,163)	-	-
Total revenues	<u>2,294,114</u>	<u>(267,162)</u>	<u>2,026,952</u>	<u>2,273,976</u>
<b>Expenses</b>				
Program services				
Operations	1,018,378	-	1,018,378	851,921
Cost savings initiatives				
Technology				
Hardware	-	-	-	1,545
Software	5,368	-	5,368	291
Other	255,160	-	255,160	151,130
Energy and health	175,878	-	175,878	158,103
Risk management	120,819	-	120,819	62,145
Student access	-	-	-	11,254
Policy and research	178,504	-	178,504	197,246
Total program services	1,754,107	-	1,754,107	1,433,635
Management and general expenses	502,626	-	502,626	458,569
Fundraising expenses	14,374	-	14,374	6,188
Total expenses	<u>2,271,107</u>	<u>-</u>	<u>2,271,107</u>	<u>1,898,392</u>
<b>Other Income (Expense)</b>				
Gain on termination of deferred compensation agreement	71,485	-	71,485	-
Return of unspent grant funds	(15,585)	-	(15,585)	-
	<u>55,900</u>	<u>-</u>	<u>55,900</u>	<u>-</u>
Change in Net Assets	78,907	(267,162)	(188,255)	375,584
Net Assets, Beginning of Year	<u>3,137,468</u>	<u>689,101</u>	<u>3,826,569</u>	<u>3,450,985</u>
Net Assets, End of Year	<u>\$ 3,216,375</u>	<u>\$ 421,939</u>	<u>\$ 3,638,314</u>	<u>\$ 3,826,569</u>

Midwestern Higher Education Compact  
Statement of Functional Expenses  
Year Ended June 30, 2011 (with Comparative Totals for 2010)

	2011				2010
	Program Services	Management and General	Fundraising	Total	
Salaries and benefits	\$ 767,037	\$ 275,877	\$ 14,374	\$ 1,057,288	\$ 997,072
Professional fees	125	10,291	-	10,416	9,931
Contract services	418,130	90,326	-	508,456	293,861
Office space lease	42,165	17,267	-	59,432	38,506
Auto and parking	12,838	5,647	-	18,485	24,514
Office supplies	3,366	1,311	-	4,677	8,085
Postage	6,393	1,515	-	7,908	6,456
Printing	40,591	7,906	-	48,497	43,718
Subscriptions	9,240	3,083	-	12,323	13,408
Software/maintenance contract	8,935	3,594	-	12,529	57,125
Telephone	14,753	4,650	-	19,403	16,679
Insurance	6,079	1,659	-	7,738	12,924
Miscellaneous	26,404	8,898	-	35,302	26,423
Travel/meeting/ conference	390,872	67,662	-	458,534	339,066
Office equipment	7,179	2,940	-	10,119	10,624
	<u>\$ 1,754,107</u>	<u>\$ 502,626</u>	<u>\$ 14,374</u>	<u>\$ 2,271,107</u>	<u>\$ 1,898,392</u>

Midwestern Higher Education Compact  
Statement of Cash Flows  
Year Ended June 30, 2011 (with Comparative Totals for 2010)

	2011	2010
Operating Activities		
Change in net assets	\$ (188,255)	\$ 375,584
Adjustments to reconcile change in net assets to net cash from (used for) operating activities		
Depreciation	13,610	13,610
Changes in assets and liabilities		
State commitments receivable	24,488	(61,331)
Grants receivable	200,000	188,275
Other receivables	54,551	(112,657)
Prepaid expenses	2,559	(21,491)
Accounts payable	(38,896)	56,542
Accrued payroll and related expenses	(89,869)	(29,760)
Net Cash from (used for) Operating Activities	(21,812)	408,772
Investing Activities		
Purchase of property and equipment	(11,608)	(6,688)
Purchase of certificates of deposit	(726,085)	(651,091)
Proceeds from maturity of certificates of deposit	852,091	1,174,071
Net Cash from Investing Activities	114,398	516,292
Net Change in Cash and Cash Equivalents	92,586	925,064
Cash and Cash Equivalents, Beginning of Year	2,128,969	1,203,905
Cash and Cash Equivalents, End of Year	\$ 2,221,555	\$ 2,128,969

## **Note 1 - Nature of Activities and Summary of Significant Accounting Policies**

### **Nature of Organization**

The Midwestern Higher Education Compact (Compact) commenced operations in 1991 as a not-for-profit corporation to improve higher education opportunities and services in the Midwestern United States through interstate cooperation. States become members of the compact through passage of legislation. The member states of the Compact include Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota and Wisconsin.

The Compact's mission is to advance education through cooperation and collaboration. The Compact seeks to fulfill its interstate mission through programs that reduce administrative costs, encourage student access and education affordability, facilitate public policy analysis and information exchange, facilitate regional academic cooperation and encourage quality educational programs and services in higher education.

### **Basis of Accounting**

The financial statements of the Compact have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

### **Basis of Presentation**

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in its ASC Topic 958, *Financial Statements of Not-for-Profit Organizations*. Under the FASB ASC Topic 958, the Compact is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The Compact has no permanently restricted net assets.

### **Cash and Cash Equivalents**

The Compact considers all highly liquid investments in debt securities with maturities of three months or less when purchased to be cash equivalents, excluding certificates of deposit. At times, cash and cash equivalents, including certificates of deposit, may be in excess of FDIC insurance limits.

### **Receivables and Credit Policies**

Receivables are recognized as revenues, support or gains in the period received and as assets, decreases of liabilities or expenses depending on the form of the benefits received. Intentions to give and conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. The Compact uses the allowance method to determine uncollectible contributions and other receivables. The allowance is based on prior year experience and management's analysis. The Compact does not charge interest on past due accounts. No allowance was deemed necessary for the year ended June 30, 2011.

State commitments accounts receivable are uncollateralized annual member obligations. Unpaid member accounts receivable do not bear interest. An allowance for member accounts receivable is provided when payment has not been received within five years of the obligation.

### **Office Improvements**

Office improvements are carried at cost or, if donated, at the estimated fair value at the date of donation. The Compact's capitalization policy requires individual assets to be capitalized if the original cost or fair value at date of donation exceeds \$3,500. The estimated useful life of office improvements is five years.

### **Investments**

Investments are stated at market value and consist of certificate of deposits with maturity dates ranging from three to six months.

### **Fair Value Measurements**

The Compact has determined the fair value of certain assets and liabilities in accordance with the provisions of FASB Accounting Standards Codification (ASC) 820-10, *Fair Value Measurements*, which provides a framework for measuring fair value under generally accepted accounting principles.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques are required to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Compact applies a fair value hierarchy, which prioritizes the valuation inputs into three broad levels. Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset or liability. Level 3 inputs are unobservable inputs related to the asset or liability.

### **Deferred State Commitments**

State commitments received in advance of the applicable period are recorded as deferred revenue until earned.

### **Support and Revenue Recognition**

Contributions are recognized when the donor makes a promise to give to the Compact that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Revenue from state commitments is recognized in the year earned. State commitments are billed at the beginning of each fiscal year, due upon receipt of billing, and are typically received during July. Other fees consist of fees earned based on a percentage of sales or cost savings to member institutions in accordance with various program agreements. Other fee revenue is recognized when earned. Unsecured credit is extended to these organizations in the normal course of business.

### **Income Tax Status**

The Compact qualifies as a tax-exempt organization under Section 501(c)(3) and is not a private foundation under Section 509(a) of the Internal Revenue Code. Accordingly, no provision for taxes is required.

The Compact undergoes an annual analysis of its various tax positions, assessing the likelihood of those positions being upheld upon examination with relevant tax authorities, as defined by Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic ASC 740-10 (previously Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*). As of June 30, 2011, no amounts were recorded as a result of this analysis. If the Compact is subject to interest or penalties on underpaid income taxes, they will be recorded as income tax expense. Under normal circumstances, the Compact is no longer subject to Federal and state tax examinations by tax authorities for years before 2008.

### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Functional Allocation of Expenses**

The costs of providing the various programs and activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Fundraising expenses are limited and have been included with management and general expenses.

### **Donated Materials and Services**

In-kind contributions are reflected as support in the financial statements at their estimated values on the date of donation. Donated services are recognized as contributions in accordance with FASB ASC Topic 958-605-25, *Accounting for Contributions Received and Contributions Made*, if (a) the services create or enhance non-financial assets or (b) specialized skills are performed by people with those skills and would otherwise be purchased by the Compact.

### **Comparative Financial Information**

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Compact's financial statements for the year ended June 30, 2010, from which the summarized information was derived.

**Reclassifications**

Certain items in the prior year financial statements have been reclassified for comparability purposes to conform with the presentation in the current year financial statements. These reclassification did not affect the financial position or results of operations as previously reported.

**Note 2 - State Commitments Receivable**

State commitments receivable consist of the following at June 30, 2011:

Wisconsin - fiscal year 2004/2005	\$	82,500
Iowa - fiscal year 2010/2011		32,512
Kansas - fiscal year 2009/2010		4,331
Other		841
		120,184
Allowance for doubtful accounts		(82,500)
		\$ 37,684

**Note 3 - Retirement Plan**

Employees of the Compact participate in a TIAA-CREF tax sheltered deferred annuity plan upon completion of a 30-day waiting period. The employee must contribute to the plan through payroll withholdings. The Compact contributes 13% of the employee’s salary to the plan. Employees are required to contribute 2.5% of their annual salary to the plan. An employee may choose to increase their contribution according to federal guidelines. Employer contributions were \$94,416 for the year ended June 30, 2011.

**Note 4 - Temporarily Restricted Net Assets**

Temporarily restricted net assets of \$28,901 are for the Marsh settlement fund to be paid out for a contracted wind study. The remaining Master Property funds of \$14,809 are unused engineering funds. The payout of these funds is still to be determined. Temporarily restricted net assets of \$378,229 remain for the Lumina grant related to cost savings initiatives for marketing and promotion of the two health-related programs resulting from our grant-supported efforts: a student health insurance program (“MHECare”) and a pharmacy benefits management (PBM) initiative; and to develop metrics and processes to enable colleges and universities to track how savings generated by these and other MHEC programs are being used to promote student success and enhance institutional productivity. Net assets released from restriction from the Lumina Health and Energy grant were \$175,878. Net assets released towards “Closing the Gap” totaled \$4,628. The remaining funds of \$7,371 were returned to the Lumina foundation. Net assets released towards “Making Opportunity Affordable” totaled \$12,258. The remaining funds of \$8,015 were returned to the Lumina Foundation. Net assets released from the “Crest” grant totaled \$69,013.

**Note 5 - Commitments**

The Compact leases office space from the University of Minnesota (a member of the Compact) under a sublease agreement that expires March 31, 2016. The monthly lease payment is fixed at \$4,799.

The Compact also entered into a lease for a vehicle, commencing July 1, 2008 and expiring August 31, 2011. The lease calls for monthly payments of approximately \$568.

Office space expense was \$59,432 for the year ended June 30, 2011. Approximate future annual rental commitments are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2012	\$ 58,722
2013	57,586
2014	57,586
2015	57,586
2016	43,189
	<u>\$ 274,669</u>

**Note 6 - Subsequent Events**

The Compact has evaluated subsequent events through November 17, 2011, the date which the financial statements were available to be issued. During this period, the Compact did not have any material recognizable subsequent events.