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March 26, 2013

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, 2011 to June 30, 2012. 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, 2012, 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, 2012

Midwestern Higher Education Compact

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Midwestern Higher Education Compact

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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, 2012, 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 2011 financial statements and in our report dated November 17, 2011, 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, 2012, 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 30, 2012

Midwestern Higher Education Compact
Statement of Financial Position
June 30, 2012 (with Comparative Totals for 2011)

	2012	2011
Assets		
Cash and cash equivalents	\$ 2,144,586	\$ 2,747,640
Certificates of deposit	1,196,000	699,000
Receivables		
State commitments	83,341	37,684
Grants	100,000	-
Other, less allowance for doubtful accounts of \$9,790	232,633	262,366
Prepaid expenses	100,700	59,186
Property and equipment, net	84,822	19,711
	\$ 3,942,082	\$ 3,825,587
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 98,385	\$ 58,115
Accrued payroll and related expenses	97,848	34,158
Deferred state commitments	95,000	95,000
	291,233	187,273
Net Assets		
Unrestricted		
Board designated	2,344,057	25,000
Undesignated	953,475	3,191,375
Total unrestricted	3,297,532	3,216,375
Temporarily restricted	353,317	421,939
	3,650,849	3,638,314
	\$ 3,942,082	\$ 3,825,587

Midwestern Higher Education Compact
Statement of Activities and Changes in Net Assets
Year Ended June 30, 2012 (with Comparative Totals for 2011)

	2012			2011
	Unrestricted	Temporarily Restricted	Total	
Revenues				
State commitments	\$ 1,140,000	\$ -	\$ 1,140,000	\$ 1,140,000
Program revenue				
Risk management program	208,695	-	208,695	211,048
Computer technology	640,878	-	640,878	638,901
Grants	218,569	241,461	460,030	-
Other revenue	835	15,850	16,685	14,996
Interest income	11,559	-	11,559	22,007
Net assets released from restriction	325,933	(325,933)	-	-
Total revenues	<u>2,546,469</u>	<u>(68,622)</u>	<u>2,477,847</u>	<u>2,026,952</u>
Expenses				
Program services				
Operations	1,111,107	-	1,111,107	1,018,378
Cost savings initiatives				
Technology	209,903	-	209,903	260,528
Energy and health	99,778	-	99,778	175,878
Risk management	72,017	-	72,017	120,819
Policy and research	251,909	-	251,909	178,504
Total program services	1,744,714	-	1,744,714	1,754,107
Management and general expenses	551,689	-	551,689	502,626
Fundraising expenses	15,464	-	15,464	14,374
Total expenses	<u>2,311,867</u>	<u>-</u>	<u>2,311,867</u>	<u>2,271,107</u>
Other Income (Expense)				
Gain on termination of deferred compensation agreement	-	-	-	71,485
Bad debt recovery	72,710	-	72,710	-
Return of unspent grant funds	(226,155)	-	(226,155)	(15,585)
	<u>(153,445)</u>	<u>-</u>	<u>(153,445)</u>	<u>55,900</u>
Change in Net Assets	81,157	(68,622)	12,535	(188,255)
Net Assets, Beginning of Year	<u>3,216,375</u>	<u>421,939</u>	<u>3,638,314</u>	<u>3,826,569</u>
Net Assets, End of Year	<u>\$ 3,297,532</u>	<u>\$ 353,317</u>	<u>\$ 3,650,849</u>	<u>\$ 3,638,314</u>

Midwestern Higher Education Compact
Statement of Functional Expenses
Year Ended June 30, 2012 (with Comparative Totals for 2011)

	2012				2011
	Program Services	Management and General	Fundraising	Total	
Salaries and Benefits	\$ 802,379	\$ 382,005	\$ 15,464	\$ 1,199,848	\$ 1,059,412
Professional Fees	21,630	14,599	-	36,229	10,416
Contract Services	269,142	21,516	-	290,658	508,456
Office Space Lease	41,715	20,670	-	62,385	59,432
Auto and Parking	8,964	4,373	-	13,337	20,516
Office Supplies	2,964	1,329	-	4,293	4,677
Postage	5,940	1,043	-	6,983	7,908
Printing	57,140	9,126	-	66,266	48,497
Subscriptions	5,670	1,188	-	6,858	12,323
Software/Maintenance					
Contract	32,066	17,175	-	49,241	12,529
Telephone	16,199	5,963	-	22,162	19,403
Insurance	5,250	2,601	-	7,851	5,707
Miscellaneous	23,508	9,603	-	33,111	33,178
Travel/Meeting/ Conference	445,162	57,036	-	502,198	458,534
Office Equipment	6,985	3,462	-	10,447	10,119
	<u>\$ 1,744,714</u>	<u>\$ 551,689</u>	<u>\$ 15,464</u>	<u>\$ 2,311,867</u>	<u>\$ 2,271,107</u>

Midwestern Higher Education Compact
Statement of Cash Flows
Year Ended June 30, 2012 (with Comparative Totals for 2011)

	2012	2011
Operating Activities		
Change in net assets	\$ 12,535	\$ (188,255)
Adjustments to reconcile change in net assets to net cash used for operating activities		
Depreciation	7,750	13,610
Changes in assets and liabilities		
State commitments receivable	(45,657)	24,488
Grants receivable	(100,000)	200,000
Other receivables	29,733	54,551
Prepaid expenses	(41,514)	2,559
Accounts payable	40,270	(38,896)
Accrued payroll and related expenses	63,690	(89,869)
Net Cash used for Operating Activities	(33,193)	(21,812)
Investing Activities		
Purchase of property and equipment	(72,861)	(11,608)
Purchase of certificates of deposit	(1,096,000)	(200,000)
Proceeds from maturity of certificates of deposit	599,000	852,091
Net Cash from (used for) Investing Activities	(569,861)	640,483
Net Change in Cash and Cash Equivalents	(603,054)	618,671
Cash and Cash Equivalents, Beginning of Year	2,747,640	2,128,969
Cash and Cash Equivalents, End of Year	\$ 2,144,586	\$ 2,747,640

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.

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.

Property and Equipment

Property and equipment 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. Depreciation of property and equipment is provided using the straight-line method over the estimated useful lives of the assets.

Office improvements	5 years
Software and IT equipment	5 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 generally accepted accounting principles, which provides a framework for measuring fair value.

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 should maximize the use of observable inputs and minimize the use of unobservable inputs.

A fair value hierarchy has been established, 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 is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Compact is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. The Compact has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990T) with the IRS.

The Compact believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Compact would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

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.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no effect on previously reported operating results or changes in net assets.

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, 2011, from which the summarized information was derived.

Note 2 - State Commitments Receivable

State commitments receivable consist of the following at June 30, 2012:

Wisconsin - fiscal year 2004/2005	\$	82,500
Other		841
		83,341
	\$	83,341

The Compact received payment of \$82,500 on August 8, 2012 from the State of Wisconsin for the outstanding receivable from fiscal year 2004/2005.

Note 3 - Property and Equipment

Property and equipment consist of the following:

Office improvements	\$	76,515
Software and IT equipment		76,001
		152,516
Less accumulated depreciation		(67,694)
Net property and equipment	\$	84,822

Depreciation expense for the year ended June 30, 2012 was \$7,750.

Note 4 - 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 \$106,071 for the year ended June 30, 2012.

Note 5 - Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following at June 30, 2012:

Marsh		
Wind Study	\$	38,901
Master Property/Engineering		20,659
Lumina		
Tuning		241,461
Energy & Health		<u>52,296</u>
	<u>\$</u>	<u>353,317</u>

Net assets released from restrictions for the year ended June 30, 2012 were comprised of the following:

Lumina - Energy & Health	<u>\$</u>	<u>325,933</u>
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Note 6 - Board-designated Net Assets

At June 30, 2012, Board designated net assets are available for the following purposes:

Risk management	\$	25,000
Operations reserve		1,005,121
Opportunity reserve		
Special projects		
State authorization		25,000
Higher Education redesign		50,000
Technology consulting		25,000
Organizational capacity		
Technology		413,936
Branding		50,000
Capital asset reserve		
Future lease payments		450,000
Capital investments		<u>300,000</u>
	<u>\$</u>	<u>2,344,057</u>

The Board established a policy to maintain a reserve for three purposes. 1) The operations reserve is intended to cover shortfalls in the operating budget as a result of unanticipated loss in funding or greater than anticipated expenses. The target operations reserve is equal to six months of average operating costs. 2) The opportunity reserve is intended to provide funds to meet special targets of opportunity or need that further the mission of the Compact which may or may not have specific expectation of incremental or long-term increased revenue. 3) The capital asset reserve is intended to provide a ready source of funds for repair or acquisition of leaseholds, furniture, fixtures, and equipment necessary for the effective operation of the organization and programs.

Note 7 - Commitments

The Compact leases office space from the University of Minnesota (a member of the Compact) under a sublease agreement that expires August 31, 2012. The monthly lease payment is fixed at \$4,799. The Compact signed a new lease for office space located at 105 Fifth Avenue South. This lease commenced on September 1, 2012 through August 2026. Rent expense is prorated over the term of the lease and expensed as incurred.

Office space expense was \$62,385 for the year ended June 30, 2012. Approximate future annual rental commitments are as follows:

Years Ending June 30,	Amount
2013	\$ 65,141
2014	78,169
2015	78,169
2016	78,169
2017	78,169
Thereafter	697,011
	\$ 1,074,828

Note 8 - Subsequent Events

The Compact has evaluated subsequent events through November 30, 2012, the date which the financial statements were available to be issued. During this period, the Compact did not have any material recognizable subsequent events.