



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B43325

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

March 20, 2014

Sheila Harsdorf, Chair
Midwestern Higher Education Compact
105 Fifth Avenue South, Suite 450
Minneapolis, MN 55401

Dear Senator Harsdorf:

We have received the audit report prepared by Eide Bailly, LLP, Independent Public Accountants, for the period July 1, 2012 to June 30, 2013. 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, in all material respects, the financial position of Midwestern Higher Education Compact as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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, 2013

Midwestern Higher Education Compact

Eide Bailly LLP
U.S. Bancorp Center
800 Nicollet Mall, Suite 1300
Minneapolis, MN 55402-7033
Phone: 612.253.6500
Fax: 612.253.6600

www.eidebailly.com



Independent Auditor’s Report..... 1

Financial Statements

 Statement of Financial Position 3

 Statement of Activities..... 4

 Statement of Functional Expenses 5

 Statement of Cash Flows 6

 Notes to Financial Statements..... 7



Independent Auditor's Report

To the Commission
Midwestern Higher Education Compact
Minneapolis, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of Midwestern Higher Education Compact (Compact) which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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 an opinion 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. 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 Compact'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 opinion.

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, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Midwestern Higher Education Compact's 2012 financial statements, and our report dated November 30, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Eide Bailly LLP

Minneapolis, Minnesota
December 2, 2013

Midwestern Higher Education Compact
Statement of Financial Position
June 30, 2013 (with Comparative Totals for 2012)

	2013	2012
Assets		
Cash and cash equivalents	\$ 1,688,477	\$ 2,144,586
Certificates of deposit	1,125,645	1,196,000
Receivables		
State commitments	-	83,341
Grants	-	100,000
Other, less allowance for doubtful accounts of \$10,250	231,012	232,633
Prepaid expenses	143,844	100,700
Property and equipment, net	759,565	84,822
	\$ 3,948,543	\$ 3,942,082
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 202,665	\$ 98,385
Accrued payroll and related expenses	78,369	97,848
Deferred state commitments	95,000	95,000
Deferred compensation	182,863	-
Deferred lease incentive	316,336	-
	875,233	291,233
Net Assets		
Unrestricted		
Board designated	1,943,971	2,344,057
Undesignated	793,253	953,475
Total unrestricted	2,737,224	3,297,532
Temporarily restricted	336,086	353,317
	3,073,310	3,650,849
	\$ 3,948,543	\$ 3,942,082

Midwestern Higher Education Compact

Statement of Activities

Year Ended June 30, 2013 (with Comparative Totals for 2012)

	2013			2012
	Unrestricted	Temporarily Restricted	Total	
Revenues				
State commitments	\$ 1,140,000	\$ -	\$ 1,140,000	\$ 1,140,000
Program revenue				
Risk management program	221,124	-	221,124	208,695
Computer technology	569,859	-	569,859	640,878
Grants	67,718	7,282	75,000	460,030
Other revenue	400	147,829	148,229	16,685
Interest income	9,169	-	9,169	11,559
Net assets released from restriction	172,342	(172,342)	-	-
Total revenues	<u>2,180,612</u>	<u>(17,231)</u>	<u>2,163,381</u>	<u>2,477,847</u>
Expenses				
Program services				
Operations	1,280,402	-	1,280,402	1,111,107
Cost savings initiatives				
Technology	188,002	-	188,002	209,903
Energy and health	22,914	-	22,914	99,778
Risk management	67,239	-	67,239	72,017
Policy and research	300,551	-	300,551	251,909
Total program services	1,859,108	-	1,859,108	1,744,714
Management and general expenses	860,883	-	860,883	551,689
Fundraising expenses	20,929	-	20,929	15,464
Total expenses	<u>2,740,920</u>	<u>-</u>	<u>2,740,920</u>	<u>2,311,867</u>
Other Income (Expense)				
Bad debt recovery	-	-	-	72,710
Return of unspent grant funds	-	-	-	(226,155)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(153,445)</u>
Change in Net Assets	(560,308)	(17,231)	(577,539)	12,535
Net Assets, Beginning of Year	<u>3,297,532</u>	<u>353,317</u>	<u>3,650,849</u>	<u>3,638,314</u>
Net Assets, End of Year	<u>\$ 2,737,224</u>	<u>\$ 336,086</u>	<u>\$ 3,073,310</u>	<u>\$ 3,650,849</u>

Midwestern Higher Education Compact
Statement of Functional Expenses
Year Ended June 30, 2013 (with Comparative Totals for 2012)

	2013				2012
	Program Services	Management and General	Fundraising	Total	
Salaries and benefits	\$ 775,477	\$ 623,882	\$ 20,929	\$ 1,420,288	\$ 1,199,848
Professional fees	30,942	10,794	-	41,736	36,229
Contract services	210,014	14,260	-	224,274	290,658
Office space lease	94,432	16,157	-	110,589	62,385
Auto and parking	5,908	4,829	-	10,737	13,337
Office supplies	3,553	2,789	-	6,342	4,293
Postage	4,323	2,374	-	6,697	6,983
Printing	21,366	10,882	-	32,248	66,266
Subscriptions	11,139	7,740	-	18,879	6,858
Software/maintenance contract	56,085	45,230	-	101,315	49,241
Telephone	14,613	7,371	-	21,984	22,162
Insurance	5,992	4,983	-	10,975	7,851
Miscellaneous	97,247	8,372	-	105,619	33,111
Travel/meeting/ conference	525,417	99,058	-	624,475	502,198
Office equipment	2,600	2,162	-	4,762	10,447
	<u>\$ 1,859,108</u>	<u>\$ 860,883</u>	<u>\$ 20,929</u>	<u>\$ 2,740,920</u>	<u>\$ 2,311,867</u>

Midwestern Higher Education Compact

Statement of Cash Flows

Year Ended June 30, 2013 (with Comparative Totals for 2012)

	2013	2012
Operating Activities		
Change in net assets	\$ (577,539)	\$ 12,535
Adjustments to reconcile change in net assets to net cash used for operating activities		
Depreciation	75,719	7,750
Loss on disposal	6,146	-
Changes in operating assets and liabilities		
State commitments receivable	83,341	(45,657)
Grants receivable	100,000	(100,000)
Other receivables	1,621	29,733
Prepaid expenses	(43,144)	(41,514)
Accounts payable	104,280	40,270
Accrued payroll and related expenses	(19,479)	63,690
Deferred compensation	182,863	-
Deferred lease incentive	(3,622)	-
Net Cash from (used for) Operating Activities	(89,814)	(33,193)
Investing Activities		
Purchase of property and equipment	(436,650)	(72,861)
Purchase of certificates of deposit	(529,645)	(1,096,000)
Proceeds from maturity of certificates of deposit	600,000	599,000
Net Cash used for Investing Activities	(366,295)	(569,861)
Net Change in Cash and Cash Equivalents	(456,109)	(603,054)
Cash and Cash Equivalents, Beginning of Year	2,144,586	2,747,640
Cash and Cash Equivalents, End of Year	\$ 1,688,477	\$ 2,144,586
Supplemental Schedule of Noncash Investing Activities		
Capital additions financed through tenant improvement allowance	\$ 319,958	\$ -

Note 1 - Principal Activity and Significant Accounting Policies

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.

Cash and Cash Equivalents

The Compact considers all cash and highly liquid financial instruments with original 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

Accounts receivable consist primarily of amounts due for dues and fees. 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. Accounts receivable are written off when deemed uncollectible. At June 30, 2013 and 2012, the allowance was \$10,250 and \$0, respectively.

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 additions over \$3,500 are carried at cost or, if donated, at the estimated fair value at the date of donation. 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
Furniture	10 years
Leasehold improvements	15 years

When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

Investments in Certificates of Deposit

Purchases of certificates of deposit are recorded at cost. Investment interest income is reported in the statement of activities as an increase in unrestricted net assets. The certificates of deposit have maturity dates ranging from six months to five years.

Deferred State Commitments

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

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets available for use in general operations. Unrestricted Board designated net assets consist of net assets designated by the Board of Directors for various purposes.

Temporarily Restricted Net Assets – Net assets subject to donor restrictions that may or will be met by expenditures or actions of the Compact and/or the passage of time. The Compact reports contributions restricted by donors as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is 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 and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of the Compact. The Compact has no permanently restricted net assets.

Support and Revenue Recognition

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

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.

Donated Materials and Services

Contributed goods are reflected as support in the financial statements at their estimated values on the date of donation. The Compact records donated professional services at the fair value of the services received.

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

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. 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.

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 and those differences could be material.

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, 2012, from which the summarized information was derived.

Subsequent Events

The Compact has evaluated subsequent events through December 2, 2013, the date the financial statements were available to be issued.

Note 2 - Property and Equipment

Property and equipment consists of the following at June 30, 2013 and 2012:

	2013	2012
Office improvements	\$ 10,928	\$ 76,515
Software and IT equipment	285,725	76,001
Furniture	176,952	-
Leasehold improvements	362,552	-
	836,157	152,516
Less accumulated depreciation	(79,732)	(67,694)
Net property and equipment	\$ 756,425	\$ 84,822

Note 3 - Leases

The Compact leases 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 \$50,295 and \$62,385 for the year ended June 30, 2013 and 2012, respectively. Approximate future annual rental commitments are as follows:

Years Ending June 30,	Amount
2014	\$ 65,799
2015	67,784
2016	69,835
2017	71,952
2018	74,137
Thereafter	671,830
	\$ 1,021,337

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 \$133,175 and \$106,071 for the years ended June 30, 2013 and 2012, respectively.

Note 5 - Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at June 30, 2013 and 2012:

	2013	2012
Marsh		
Wind Study	\$ 38,901	\$ 38,901
Master Property/Engineering	23,488	20,659
Contract Extension	70,000	-
At Risk	75,000	-
Lumina		
Tuning	92,033	241,461
Energy & Health	29,382	52,296
Symposium	7,282	-
	\$ 336,086	\$ 353,317

Net assets released from restrictions for the year ended June 30, 2013 and 2012 were comprised of the following:

	2013	2012
Lumina - Tuning	\$ 149,428	\$ -
Lumina - Energy & Health	22,914	325,933
	\$ 172,342	\$ 325,933

Note 6 - Board-Designated Net Assets

At June 30, 2013 and 2012, Board designated net assets are available for the following purposes:

	2013	2012
Risk management	\$ 25,000	\$ 25,000
Operations reserve	1,191,675	1,005,121
Opportunity reserve		
Special projects		
State authorization	11,475	25,000
Higher Education redesign	44,392	50,000
Technology consulting	-	25,000
Organizational capacity		
Technology	239,549	413,936
Branding	-	50,000
Capital asset reserve		
Future lease payments	392,727	450,000
Capital investments	39,153	300,000
	\$ 1,943,971	\$ 2,344,057

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.