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January 28, 2009

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, 2007 to June 30, 2008. 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, 2008, 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

# **Midwestern Higher Education Compact**

# MIDWESTERN HIGHER EDUCATION COMPACT

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## INDEPENDENT AUDITOR'S REPORT

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To the Executive Committee  
**Midwestern Higher Education Compact**  
Minneapolis, Minnesota

We have audited the accompanying statement of financial position of **Midwestern Higher Education Compact** (the Compact), as of June 30, 2008, 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 2007 financial statements and in our report dated February 25, 2008, 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, 2008, 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 24, 2008

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**MIDWESTERN HIGHER EDUCATION COMPACT**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2008 (WITH COMPARATIVE TOTALS FOR 2007)**

	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 887,001	\$ 729,032
Certificates of deposit	1,617,801	1,615,598
Receivables		
Membership dues, less allowance for doubtful accounts of \$82,500	841	841
Other, less allowance for doubtful accounts of \$26,382	217,708	200,942
Prepaid expenses	33,939	23,903
Office improvements, net of accumulated depreciation of \$20,453	40,907	53,179
	<u>\$ 2,798,197</u>	<u>\$ 2,623,495</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 34,881	\$ 36,601
Accrued payroll and related expenses	123,752	122,145
Deferred member dues	190,000	180,000
	<u>348,633</u>	<u>338,746</u>
<b>NET ASSETS</b>		
Unrestricted		
Board designated - risk management	50,000	50,000
Undesignated	2,343,507	2,085,645
Total unrestricted	<u>2,393,507</u>	<u>2,135,645</u>
Temporarily restricted	56,057	149,104
	<u>2,449,564</u>	<u>2,284,749</u>
	<u>\$ 2,798,197</u>	<u>\$ 2,623,495</u>

**MIDWESTERN HIGHER EDUCATION COMPACT**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEAR ENDED JUNE 30, 2008 (WITH COMPARATIVE TOTALS FOR 2007)**

	2008			2007
	Unrestricted	Temporarily Restricted	Total	
<b>REVENUES</b>				
Member dues	\$ 990,000	\$ -	\$ 990,000	\$ 990,000
Program revenue				
Risk management program	186,243	-	186,243	158,706
Telecom program reimbursement	-	-	-	26,382
Computer collaborative	338,211	-	338,211	261,519
Novell	207,265	-	207,265	307,526
Other revenue	49,411	56,057	105,468	12,210
Interest income	111,158	-	111,158	104,968
Net assets released from restriction	149,104	(149,104)	-	
Total revenues	<u>2,031,392</u>	<u>(93,047)</u>	<u>1,938,345</u>	<u>1,861,311</u>
<b>EXPENSES</b>				
Program services				
Operations	952,535	-	952,535	1,020,922
Cost savings initiatives				
Technology				
Hardware	9,031	-	9,031	16,736
Software	2,122	-	2,122	42,066
Telecommunications	2,633	-	2,633	1,148
Other	43,968	-	43,968	31,011
Risk management	94,542	-	94,542	83,375
Student access	10,888	-	10,888	22,107
Policy and research	217,048	-	217,048	94,516
Total program services	<u>1,332,767</u>	<u>-</u>	<u>1,332,767</u>	<u>1,311,881</u>
Management and general expenses	440,763	-	440,763	436,519
Total expenses	<u>1,773,530</u>	<u>-</u>	<u>1,773,530</u>	<u>1,748,400</u>
<b>CHANGE IN NET ASSETS</b>	<b>257,862</b>	<b>(93,047)</b>	<b>164,815</b>	<b>112,911</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>2,135,645</b>	<b>149,104</b>	<b>2,284,749</b>	<b>2,171,838</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 2,393,507</b>	<b>\$ 56,057</b>	<b>\$ 2,449,564</b>	<b>\$ 2,284,749</b>

**MIDWESTERN HIGHER EDUCATION COMPACT**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2008 (WITH COMPARATIVE TOTALS FOR 2007)**

	2008			2007
	Program Services	Management and General	Total	
Salaries and benefits	\$ 723,353	\$ 335,358	\$ 1,058,711	\$ 1,041,679
Legal fees	2,414	-	2,414	530
Accounting fees	5,745	2,680	8,425	8,500
Contract services	59,087	382	59,469	14,035
Office space lease	21,274	9,926	31,200	31,200
Auto and parking	16,276	7,584	23,860	21,151
Office supplies	4,608	1,915	6,523	12,608
Postage	8,787	1,771	10,558	14,805
Printing	41,538	8,200	49,738	55,952
Subscriptions	6,843	1,790	8,633	15,082
Software/maintenance contract	10,401	4,543	14,944	54,112
Telephone	10,510	4,312	14,822	12,909
Insurance	6,852	3,196	10,048	9,975
Miscellaneous	43,925	8,700	52,625	118,619
Travel/meeting/conference	352,892	42,258	395,150	310,886
Office equipment	18,262	8,148	26,410	26,357
	<u>\$ 1,332,767</u>	<u>\$ 440,763</u>	<u>\$ 1,773,530</u>	<u>\$ 1,748,400</u>

**MIDWESTERN HIGHER EDUCATION COMPACT**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2008 (WITH COMPARATIVE TOTALS FOR 2007)**

	<u>2008</u>	<u>2007</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 164,815	\$ 112,911
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	12,272	8,181
Changes in assets and liabilities		
Membership dues receivable	-	87,768
Other receivables	(16,766)	(717)
Contributions receivable	-	101,740
Prepaid expenses	(10,036)	2,611
Accounts payable	(1,720)	6,191
Accrued payroll and related expenses	1,607	68,199
Deferred member dues	10,000	180,000
NET CASH FROM OPERATING ACTIVITIES	<u>160,172</u>	<u>566,884</u>
INVESTING ACTIVITIES		
Purchase of certificates of deposit	(1,107,406)	(1,007,006)
Proceeds from sale of certificates of deposit	1,105,203	500,000
Purchase of office improvements	-	(61,360)
NET CASH USED FOR INVESTING ACTIVITIES	<u>(2,203)</u>	<u>(568,366)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	157,969	(1,482)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>729,032</u>	<u>730,514</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 887,001</u>	<u>\$ 729,032</u>

**MIDWESTERN HIGHER EDUCATION COMPACT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

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**NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Nature of Organization*

The Midwestern Higher Education Compact (the 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 in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under the SFAS No. 117, 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. The Compact considers the collection of a portion of other receivables to be questionable at June 30, 2008; accordingly, an allowance for doubtful accounts has been made.

Member accounts receivable are uncollateralized member obligations for yearly dues. Unpaid member accounts receivable do not bear interest. Member accounts receivable are considered uncollectible when it is determined the member is not able to pay. This is determined by history and knowledge of the member.

## NOTES TO FINANCIAL STATEMENTS

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The carrying amount of member accounts receivable is reduced by a valuation allowance that reflects management's best estimate of the amounts that will not be collected. Management reviews all member accounts receivable balances on an assessment of current creditworthiness, estimates the portion if any, of the balance that will not be collected. The Compact considers the collection of a portion of member accounts receivable to be questionable at June 30, 2008; accordingly, an allowance for doubtful accounts has been made.

### *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 months to five years.

### *Deferred Dues*

Dues 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 dues is recognized in the year earned. Dues 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.

### *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, 2007, from which the summarized information was derived.

## NOTES TO FINANCIAL STATEMENTS

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### *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 SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, if the services (a) 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.

## **NOTE 2 - MEMBERSHIP DUES RECEIVABLE**

Membership dues receivable consist of the following at June 30, 2008:

Wisconsin - fiscal year 2004/2005	\$ 82,500
Other	841
	<hr/>
	83,341
Allowance for doubtful accounts	(82,500)
	<hr/>
	\$ 841
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## **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 percent of the employee's salary to the plan. Employees are required to contribute 2.5 percent of their annual salary to the plan. An employee may choose to increase their contribution according to federal guidelines. Employer contributions were \$100,047 for the year ended June 30, 2008.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets of \$56,057 are for the Marsh settlement fund to be redistributed among various institutions within the Master Property Program. Net assets released from restriction, relating to funds received from the Lumina Foundation for Education and the Master Property Program, were \$149,104 for the year ended June 30, 2008.

### NOTE 5 - COMMITMENTS

The Compact leases office space from the University of Minnesota (a member of the Compact) under a sublease agreement that expires December 31, 2008, with five successive options to extend the lease for one year. The Compact exercised its option to extend through December 2009. The monthly lease payment is fixed at \$2,600.

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

Office space expense was \$31,200 for the year ended June 30, 2008. Approximate future annual rental commitments are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2009	\$ 38,015
2010	22,415
2011	6,815
2012	1,136
	<u>\$ 68,381</u>