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302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

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

December 29, 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, 2008 to June 30, 2009. 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, 2009, 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, 2009

Midwestern Higher Education Compact

MIDWESTERN HIGHER EDUCATION COMPACT

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EideBailly

CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Executive Committee
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, 2009, 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 2008 financial statements and in our report dated November 24, 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, 2009, 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
October 7, 2009

5601 Green Valley Dr., Ste. 700 | Minneapolis, MN 55437-1145 | Phone 952.944.6166 | Fax 952.944.8496 | EOE

MIDWESTERN HIGHER EDUCATION COMPACT
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2009 (WITH COMPARATIVE TOTALS FOR 2008)

	2009	2008
ASSETS		
Cash and cash equivalents	$ 1,203,905	$ 887,001
Certificates of deposit	1,874,071	1,617,801
Receivables		
Membership dues, less allowance for doubtful accounts of $82,500	841	841
Grants, less net present value of $11,725	388,275	-
Other	204,260	217,708
Prepaid expenses	40,254	33,939
Office improvements, net of accumulated depreciation of $32,725	28,635	40,907
	$ 3,740,241	$ 2,798,197
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 40,469	$ 34,881
Accrued payroll and related expenses	153,787	123,752
Deferred member dues	95,000	190,000
	289,256	348,633
NET ASSETS		
Unrestricted		
Board designated - risk management	50,000	50,000
Undesignated	2,666,791	2,343,507
Total unrestricted	2,716,791	2,393,507
Temporarily restricted	734,194	56,057
	3,450,985	2,449,564
	$ 3,740,241	$ 2,798,197

MIDWESTERN HIGHER EDUCATION COMPACT
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2009 (WITH COMPARATIVE TOTALS FOR 2008)

	2009			
	Unrestricted	Temporarily Restricted	Total	2008
REVENUES				
Member dues	$ 1,140,000	$ -	$ 1,140,000	$ 990,000
Program revenue				
Risk management program	175,715	-	175,715	186,243
Computer technology	308,920	-	308,920	338,211
Novell	239,043	-	239,043	207,265
Grants	325,098	700,485	1,025,583	20,000
Other revenue	-	33,709	33,709	85,468
Interest income	91,374	-	91,374	111,158
Net assets released from restriction	56,057	(56,057)	-	-
Total revenues	2,336,207	678,137	3,014,344	1,938,345
EXPENSES				
Program services				
Operations	1,019,592	-	1,019,592	952,535
Cost savings initiatives				
Technology				
Hardware	36,739	-	36,739	9,031
Software	943	-	943	2,122
Telecommunications	-	-	-	2,633
Other	14,724	-	14,724	43,968
Energy and health	87,790		87,790	-
Risk management	128,713	-	128,713	94,542
Student access	11,409	-	11,409	10,888
Policy and research	229,349	-	229,349	217,048
Total program services	1,529,259	-	1,529,259	1,332,767
Management and general expenses	465,580	-	465,580	440,763
Fundraising expenses	18,084		18,084	-
Total expenses	2,012,923	-	2,012,923	1,773,530
CHANGE IN NET ASSETS	323,284	678,137	1,001,421	164,815
NET ASSETS, BEGINNING OF YEAR	2,393,507	56,057	2,449,564	2,284,749
NET ASSETS, END OF YEAR	$ 2,716,791	$ 734,194	$ 3,450,985	$ 2,449,564

MIDWESTERN HIGHER EDUCATION COMPACT

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2009 (WITH COMPARATIVE TOTALS FOR 2008)

	2009				
	Program Services	Management and General	Fundraising	Total	2008
Salaries and benefits	$ 817,362	$ 345,420	$ 18,084	$ 1,180,866	$ 1,058,711
Legal fees	-	-	-	-	2,414
Accounting fees	-	8,850	-	8,850	8,425
Contract services	119,823	10,682	-	130,505	59,469
Office space lease	21,459	9,741	-	31,200	31,200
Auto and parking	13,422	6,063	-	19,485	23,860
Office supplies	3,023	962	-	3,985	6,523
Postage	6,813	1,391	-	8,204	10,558
Printing	18,746	4,007	-	22,753	49,738
Subscriptions	7,075	2,677	-	9,752	8,633
Software/maintenance contract	31,425	11,813	-	43,238	14,944
Telephone	18,092	4,648	-	22,740	14,822
Insurance	6,491	2,946	-	9,437	10,048
Miscellaneous	87,205	9,433	-	96,638	52,625
Travel/meeting/ conference	364,852	41,411	-	406,263	395,150
Office equipment	13,471	5,536	-	19,007	26,410
	$ 1,529,259	$ 465,580	$ 18,084	$ 2,012,923	$ 1,773,530

MIDWESTERN HIGHER EDUCATION COMPACT
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2009 (WITH COMPARATIVE TOTALS FOR 2008)

	2009	2008
OPERATING ACTIVITIES		
Change in net assets	$ 1,001,421	$ 164,815
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	12,272	12,272
Changes in assets and liabilities		
Grants receivable	(388,275)	-
Other receivables	13,448	(16,766)
Prepaid expenses	(6,315)	(10,036)
Accounts payable	5,588	(1,720)
Accrued payroll and related expenses	30,035	1,607
Deferred member dues	(95,000)	10,000
NET CASH FROM OPERATING ACTIVITIES	573,174	160,172
INVESTING ACTIVITIES		
Purchase of certificates of deposit	(1,456,270)	(1,107,406)
Proceeds from maturity of certificates of deposit	1,200,000	1,105,203
NET CASH USED FOR INVESTING ACTIVITIES	(256,270)	(2,203)
NET CHANGE IN CASH AND CASH EQUIVALENTS	316,904	157,969
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	887,001	729,032
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,203,905	$ 887,001

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 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, 2009; 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.

(continued on next page)

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, 2009; 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.

Fair Value Measurements

The Compact has determined the fair value of certain assets and liabilities in accordance with the provision of FASB Statement No. 157, *Fair Value Measurements,* which provides a framework for measuring fair value under generally accepted accounting principles.

Statement No. 157 defines fair value at the exchange 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. SFAS 157 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. SFAS 157 also establishes 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 2 that observable for the related asset or liability. Level 3 inputs are unobservable inputs related to the asset or liability.

The Compact uses Level 1 inputs to determine fair market value for its investments.

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.

(continued on next page)

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.

In July 2006, Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, (FIN No. 48) was issued. Subsequent to its original issuance, the effective date of its implementation for nonpublic enterprises has been deferred, and is currently deferred for nonpublic entities until years beginning after December 15, 2008. The Compact has elected to defer implementation of FIN No. 48, as allowable.

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 FIN No. 48.

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 (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, 2008, from which the summarized information was derived.

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NOTE 2 - MEMBERSHIP DUES RECEIVABLE

Membership dues receivable consist of the following at June 30, 2009:

Wisconsin - fiscal year 2004/2005	$	82,500
Other		841
		83,341
Allowance for doubtful accounts		(82,500)
	$	841

NOTE 3 - GRANTS RECEIVABLE

Grants receivable consists of the following at June 30, 2009:

Receivable in less than one year	$	200,000
Receivable in one to five years		200,000
		400,000
Less discounts to net present value		(11,725)
Net grants receivable	$	388,275

The grants receivable have been discounted to present value using a discount rate of 4 percent.

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 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 $118,512 for the year ended June 30, 2009.

NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets of $18,900 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 $700,485 are for the Lumina Energy and Health grant, to be paid out over the next three years, for development of new initiatives. Net assets released from restriction, relating to funds received from the Master Property Program, were $56,057 for the year ended June 30, 2009.

(continued on next page)

NOTE 6 - COMMITMENTS

The Compact leases office space from the University of Minnesota (a member of the Compact) under a sublease agreement that expired December 31, 2008, with five successive options to extend the lease for one year. The Compact exercised its option to extend through December 2010. The monthly lease payment is fixed at $3,209.

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, 2009. Approximate future annual rental commitments are as follows:

Years Ending June 30,	Amount
2010	$ 45,321
2011	26,068
2012	1,136
	$ 72,525

EideBailly.

CPAs & BUSINESS ADVISORS

To the Executive Committee
Midwestern Higher Education Compact
Minneapolis, Minnesota

We have audited the financial statements of **Midwestern Higher Education Compact** (Compact) for the year ended June 30, 2009, and have issued our report thereon dated October 7, 2009. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 20, 2009. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings and Considerations

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the Compact as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Compact's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Compact's internal control. Accordingly, we do not express an opinion on the effectiveness of the Compact's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Compact's internal control to be significant deficiencies.

Internal Control over the Preparation and Review of the Financial Statements Being Audited

The Compact does not have an internal control system designed to provide for the preparation and review of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual in an organization of your size. As stated above, it is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Limited Size of Office Staff

The limited number of staff in the accounting department results in certain functions that are not properly segregated which normally should enhance internal control. However, certain administrative controls are in place which mitigates the risk of incompatible duties due to employing a limited number of staff. We recommend the Compact continue to review the duties and assignments within its operations to ensure appropriate segregation of duties, where possible, and strengthen internal control.

Significant Journal Entry/Internal Control over a Significant Account

During the course of our engagement, we proposed a material audit adjustment that would not have been identified as a result of the Compact's existing internal controls, and therefore could have resulted in a material misstatement of the Compact's financial statements. Steps should be taken to ensure that balances are reconciled on an ongoing basis. In doing so, the monthly financial statements will present a more accurate picture of the current financial condition of the Compact and provide a better means of assessment of the financial situation of the Compact.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Midwestern Higher Education Compact are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2009. We noted no transactions entered into by the Compact during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements is the ultimate value of accounts receivable, net present value of grants receivable and allocation of expenses.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

The following misstatement was not corrected by management and is not reflected in the financial statements. Management has determined that the effect is immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

- $34,200 understatement of capital leases, $22,149 understatement of fixed assets, $6,816 understatement of accumulated depreciation and $887 overstatement of capital lease expense.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representation from management that are included in the management representation letter dated October 7, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Compact's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Compact's auditors. However, these discussions occurred in the normal course of our professional relationship and our response were not a condition to our retention.

* * *

This information is intended solely for the use of the Executive Committee and management of **Midwestern Higher Education Compact** and is not intended to be and should not be used by anyone other than these specified parties.

As always, we will be happy to discuss these or any other topics at your convenience. We would like to take this opportunity to express our appreciation to you and your staff for the fine cooperation we received during the course of the audit. We look forward to many years of continued service to **Midwestern Higher Education Compact**.

Eide Bailly LLP

Minneapolis, Minnesota
October 7, 2009