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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

July 13, 2011

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, 2009 to June 30, 2010. 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, 2010, 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, 2010

Midwestern Higher Education Compact

Financial Statements

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, 2010, 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 2009 financial statements and in our report dated October 7, 2009, 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, 2010, 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 8, 2010

Midwestern Higher Education Compact

Statement of Financial Position

June 30, 2010 (with Comparative Totals for 2009)

	2010	2009
Assets		
Cash and cash equivalents	$ 2,128,969	$ 1,203,905
Certificates of deposit	1,351,091	1,874,071
Receivables		
Membership dues, less allowance for doubtful accounts of $82,500	62,172	841
Grants	200,000	388,275
Other	316,917	204,260
Prepaid expenses	61,745	40,254
Office improvements, net of accumulated depreciation of $46,335	21,713	28,635
	$ 4,142,607	$ 3,740,241
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 97,011	$ 40,469
Accrued payroll and related expenses	124,027	153,787
Deferred member dues	95,000	95,000
	316,038	289,256
Net Assets		
Unrestricted		
Board designated - risk management	50,000	50,000
Undesignated	3,218,981	2,666,791
Total unrestricted	3,268,981	2,716,791
Temporarily restricted	557,588	734,194
	3,826,569	3,450,985
	$ 4,142,607	$ 3,740,241

	2010			
	Unrestricted	Temporarily Restricted	Total	2009
Revenues				
Member dues	$ 1,140,000	$ -	$ 1,140,000	$ 1,140,000
Program revenue				
Risk management program	189,314	-	189,314	175,715
Computer technology	440,218	-	440,218	317,335
Novell	233,417	-	233,417	239,043
Grants	11,725	200,000	211,725	1,025,583
Other revenue	3,021	-	3,021	25,294
Interest income	56,281	-	56,281	91,374
Net assets released from restriction	376,606	(376,606)	-	-
Total revenues	2,450,582	(176,606)	2,273,976	3,014,344
Expenses				
Program services				
Operations	851,921	-	851,921	1,019,592
Cost savings initiatives				
Technology				
Hardware	1,545	-	1,545	36,739
Software	291	-	291	943
Other	151,130	-	151,130	14,724
Energy and health	158,103		158,103	87,790
Risk management	62,145	-	62,145	128,713
Student access	11,254	-	11,254	11,409
Policy and research	197,246	-	197,246	229,349
Total program services	1,433,635	-	1,433,635	1,529,259
Management and general expenses	458,569	-	458,569	465,580
Fundraising expenses	6,188		6,188	18,084
Total expenses	1,898,392	-	1,898,392	2,012,923
Change in Net Assets	552,190	(176,606)	375,584	1,001,421
Net Assets, Beginning of Year	2,716,791	734,194	3,450,985	2,449,564
Net Assets, End of Year	$ 3,268,981	$ 557,588	$ 3,826,569	$ 3,450,985

	2010				
	Program Services	Management and General	Fundraising	Total	2009
Salaries and benefits	$ 671,932	$ 318,952	$ 6,188	$ 997,072	$ 1,180,866
Professional fees	-	9,931	-	9,931	8,850
Contract services	284,630	9,231	-	293,861	140,381
Office space lease	25,104	13,402	-	38,506	31,200
Auto and parking	16,129	8,385	-	24,514	19,485
Office supplies	5,443	2,642	-	8,085	3,985
Postage	4,976	1,480	-	6,456	8,204
Printing	33,890	9,828	-	43,718	22,753
Subscriptions	9,695	3,713	-	13,408	9,752
Software/maintenance contract	37,617	19,508	-	57,125	43,238
Telephone	11,566	5,113	-	16,679	22,740
Insurance	8,426	4,498	-	12,924	9,437
Miscellaneous	18,413	8,010	-	26,423	94,795
Travel/meeting/ conference	298,352	40,714	-	339,066	398,230
Office equipment	7,462	3,162	-	10,624	19,007
	$ 1,433,635	$ 458,569	$ 6,188	$ 1,898,392	$ 2,012,923

	2010	2009
Operating Activities		
Change in net assets	$ 375,584	$ 1,001,421
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	13,610	12,272
Changes in assets and liabilities		
Membership dues receivable	(61,331)	-
Grants receivable	188,275	(388,275)
Other receivables	(112,657)	13,448
Prepaid expenses	(21,491)	(6,315)
Accounts payable	56,542	5,588
Accrued payroll and related expenses	(29,760)	30,035
Deferred member dues	-	(95,000)
Net Cash from Operating Activities	408,772	573,174
Investing Activities		
Purchase of property and equipment	(6,688)	-
Purchase of certificates of deposit	(651,091)	(1,456,270)
Proceeds from maturity of certificates of deposit	1,174,071	1,200,000
Net Cash from (used for) Investing Activities	516,292	(256,270)
Net Change in Cash and Cash Equivalents	925,064	316,904
Cash and Cash Equivalents, Beginning of Year	1,203,905	887,001
Cash and Cash Equivalents, End of Year	$ 2,128,969	$ 1,203,905

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, 2010.

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.

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, 2010; 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 ASC Topic 820-10, *Fair Value Measurements,* which provides a framework for measuring fair value under generally accepted accounting principles (GAAP).

FASB ASC Topic 820-10 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. GAAP requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. GAAP 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.

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.

The Compact has adopted the provisions of FASB Accounting Standards Codification Topic ASC 740-10 (previously Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes), on July 1, 2009. The implementation of this standard had no impact on the financial statements. As both the date of adoption, and as of June 30, 2010, the unrecognized tax benefit accrual was zero.

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 ASC 740-10.

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, 2009, from which the summarized information was derived.

Note 2 - Membership Dues Receivable

Membership dues receivable consist of the following at June 30, 2010:

Wisconsin - fiscal year 2004/2005	$	82,500
Iowa - fiscal year 2009/2010		57,000
Kansas - fiscal year 2009/2010		4,331
Other		841
		144,672
Allowance for doubtful accounts		(82,500)
	$	62,172

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 $97,015 for the year ended June 30, 2010.

Note 4 - 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 $14,800 are unused engineering funds. The payout of these funds is still to be determined. Temporarily restricted net assets of $442,876 remain for the Lumina Energy and Health grant, to be paid out over the next year, for development of new initiatives. During the year ended June 30, 2010, $100,000 was received from the Lumina Grant to be used for the "Closing the Gap" study and $88,001 was released, leaving $11,999 in temporarily restricted net assets. The Compact also received $100,000 from the Gates Foundation grant to be used for the "Crest" study. Net assets released from restriction from this grant were $30,987, leaving $69,013 in temporarily restricted net assets. Net assets released from restriction from the Lumina Health and Energy grant were $257,618.

Note 5 - 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 and expiring August 31, 2011. The lease calls for monthly payments of approximately $568.

Office space expense was $38,506 for the year ended June 30, 2010. Approximate future annual rental commitments are as follows:

Years Ending June 30,	Amount
2011	$ 26,068
2012	1,136
	$ 27,204

Note 6 - Subsequent Events

The President of the Midwestern Higher Education Compact tendered his resignation from the Compact subsequent to June 30, 2010. The President's final day of employment is scheduled to be October 29, 2010 and the Compact has a deferred compensation liability related to his employment through July 2, 2011.