

**Unrestricted Fund Balance
Snapshot of FY20 as of 06/30/2020**

Unrestricted	Committee Approved Amount	Expended Amount	PY(s) Adjustments	FY '20 Adjustments	Balance as of 06/30/2020	Proposed FY 2021 as of 11/5/2020
Board Designated						
Board Designated - Risk Management	25,000.00	-	-	-	25,000.00	
Board Designated - Operations Reserve	1,005,121.00	-	294,879.00	100,000.00	1,400,000.00	1,671,000.00
Board Designated - Opportunity Reserve						
Special Projects*						
State Authorization	25,000.00	(16,020.00)	(8,980.00)	-	-	
Higher Education Redesign	50,000.00	(48,094.00)	(1,906.00)	-	-	
Technology Consulting	25,000.00	(25,000.00)	-	-	-	
Open Education Resources (OER)	110,000.00	-	(29,037.00)	(53,283.52)	27,679.48	
State Educational Performance Indicators	60,886.00	-	(58,348.76)	(2,537.24)	-	
Special Projects Total	<u>270,886.00</u>	<u>(89,114.00)</u>	<u>(98,271.76)</u>	<u>44,179.24</u>	<u>27,679.48</u>	
Organizational Capacity						
Technology**	413,936.00	(372,976.00)	-	-	40,960.00	
Branding	50,000.00	(50,000.00)	-	-	-	
Former President's Deferred Compensation	323,116.91	-	(323,116.91)	-	-	
Presidential Search	110,000.00	(110,000.00)	(110,000.00)	-	-	
Organizational Capacity Total	<u>897,052.91</u>	<u>(532,976.00)</u>	<u>(433,116.91)</u>	<u>-</u>	<u>40,960.00</u>	
Board Designated - Opportunity Reserve Total	<u>1,167,938.91</u>	<u>(622,090.00)</u>	<u>(531,388.67)</u>	<u>-</u>	<u>68,639.48</u>	
Board Designated - Capital Assets Reserve						
Future Lease Payments	450,000.00	(155,454.00)	(32,727.00)	(32,727.00)	229,092.00	
Capital Investments	300,000.00	(262,709.00)	-	-	37,291.00	
Board Designated - Capital Asset Reserve Total	<u>750,000.00</u>	<u>(418,163.00)</u>	<u>(32,727.00)</u>	<u>(32,727.00)</u>	<u>266,383.00</u>	
Board Designated Total	<u>2,948,059.91</u>	<u>(1,040,253.00)</u>	<u>294,879.00</u>	<u>11,452.24</u>	<u>1,760,022.48</u>	
Undesignated Total	953,475.00	-	(1,022,708.20)	253,136.35	183,903.15	514,216.15
Total Unrestricted	<u><u>3,901,534.91</u></u>	<u><u>(1,040,253.00)</u></u>	<u><u>(727,829.20)</u></u>	<u><u>264,588.59</u></u>	<u><u>1,943,925.63</u></u>	

Budget Highlights for FY 2020

Overview:

- MHEC's budget is presented on a cash basis (cash in and cash out); however, MHEC accounting operations and the audit are based on an accrual basis (revenues recognized when invoice is created). This is why the FY 2020 Year-End budget carry over number will differ from the prepared audited financial statements.
- At the June 2020 Executive Committee meeting, MHEC reported it was projecting a \$430,380 carry forward. Upon closure of the FY 2020 fiscal year, but prior to all of the FY 2020 revenue and expenses being reported, MHEC projected a \$539,120 carry forward at the August 20 Finance and Audit Committee meeting. Now that all FY 2020 revenues and expenses have been reported, MHEC's FY 2020 Year End budget carry forward shows \$750,613 while the prepared audited financial statements show a \$400,114 while the prepared financial statements show a \$682,007 carry-forward.
- The \$68,606 difference in carry forward between MHEC's FY 2020 Year End budget and the prepared audited financials can be attributed to a few variances between the budget numbers and the audit numbers:
 - A duplicate health care payment
 - A fiscal year-end audit adjustment
 - A small bad debt write-off
- Consistent with budget plans, MHEC is in the process of filling one full-time position to assist in furthering our policy and research area to ensure that we are meeting the deliverables of MHEC's strategic framework. MHEC will also fill one full-time position that will help in supporting and building out our programs and contract area.
- A significant portion of MHEC's annual expenses are tied to travel for meetings and other convenings. Because COVID-19 disrupted the second half of FY 2020, MHEC had to cancel or postpone a few large end-of-the-year meetings and move instead to virtual meetings. As a result, a portion of the travel related expenses were reallocated to allow MHEC staff to work from home during the pandemic with the remaining travel related budgeted expenses left unspent.
- MHEC still retains the funds from the federal Paycheck Protection Program loan it took out in June and will hold onto it through December 25, at which point the funds will be returned to the Small Business Administration (SBA).
- MHEC is utilizing the funds from the \$682,007 surplus for the following:
 - \$271,000 used to meet the 6-month operations reserve (a year and half ahead of schedule).

- \$80,694 to cover expenses in the FY 2021 budget,
 - The remainder \$330,313 into undesignated funds.
- While revenues unexpectedly exceeded budget estimates in large part likely due to an increase in technology purchases, we don't know if that will continue or for how long. It is important and fiscally responsible, for MHEC to remain financially stable and able to meet future unexpected needs.

Revenues:

- **State Commitments (\$1,380,000):** All twelve states paid the \$115,000 state commitment.
- **Insurance Programs (\$688,520):** MHECare revenue earned \$280,328, considerably more than estimated. MHECare revenue is based 100 percent on plan participation and how many students enroll, which can significantly fluctuate from year-to-year. In addition, the MHEC budget is determined prior to the timeline of when campuses make critical decisions regarding their student health plans. The MPP revenue earned \$8,282 more than estimated. MPP revenues are agreed upon during the renewal period. If an institution joins the program midway through the coverage period, the program revenues fluctuate.
- **Technology Contracts (\$1,356,777):** MHEC revenues from technology contracts exceeded the budgeted amount by \$494,302. MHEC's largest provider Dell, had 3rd and 4th quarter sales that were significantly higher than anticipated, likely impacted by COVID-19 due to increased technology demands for remote work and learning.
- **Interest Income (\$42,194):** During the FY 2020 budget process, estimates were conservative based on the fluctuations of the economy and the market. The end-of-the-year actual numbers came in higher than budget, but lower than FY 2019. In Q3 when the market dropped due to the economic shut down, MHEC's Insured Cash Sweeps (ICS) account interest rate went from 1.5 percent to 0.5 percent, with only one remaining CD open at this time with an interest rate of 0.5 percent.
- **Contract Work Income (\$36,375)** MHEC did not budget for the contract work income as it was unanticipated at the time the FY 2020 budget was developed. These were funds provided for contract work with Credential Engine.

Expenses:

- **Consultant Services:** The two accounts that make a majority of the expenses in the consultant fees are computer services (\$102,307) and general consultant fees (\$69,496). Computer services exceeded the budgeted amount by approximately \$32,443. One of the reasons computer services is over budget, is due to higher than planned use of the technology consultants. Another factor in exceeding the planned budget in computer services, was the costs incurred in preparation of setting up MHEC employees to work from home. The majority of expenses in the general consultant account are attributed to the technology committee consultant (MHEC did not replace the CIO when he left a little over a year ago, instead filling in some of his job

responsibilities with the consultant). Finally, staff development funds were not fully utilized in FY 2020.

- The following operations expenses had the greatest variances from the budget:
 - **Dues and Subscriptions:** FY 2019 prepaid expenses were adjusted into FY 2020 during the audit contributing to the year-end total. We also had to reclass a technology membership to this account that was significant.
 - **Professional fees:** MHEC's accounting fees exceeded estimates in FY 2020 because at the beginning of FY 2020 Q3, MHEC brought on an accounting consultant from Robert Half to help cover for the loss of former Director of Finance and Administration Kristin Coffman who passed away in the winter. In March 2020, MHEC hired the consultant as its new Director of Finance and Administration and ended up buying out the consultant's contract from Robert Half.
 - **Office Supplies and Equipment:** As the pandemic started to spread and MHEC staff moved to working from home, the officers approved a one-time payment to the staff to ensure that they have the technology needs to conduct operations from home.
 - **Travel and Lodging (Airfare and Hotel):** In Q3 and Q4 of FY 2020 there were fewer regional convenings, allowing MHEC to make adjustments in related expenses, resulting in \$141,348 under budget.
 - **Conference and Training (Meals and Entertainment):** The expenditure for conference and training was \$8,328 under budget due to fewer regional convenings.
 - **Telephone/Fax/Internet:** The actual expense in FY 2020 is similar to FY 2019 by \$1,500. We under budgeted in this expense by \$6,100.

Note: Many of MHEC's expenses are under budget due to COVID-19. Many of the main operations expenses either came to a halt or slowed down at the end of February.

Date

To the Commission
Midwestern Higher Education Compact
Minneapolis, Minnesota

We have audited the financial statements of Midwestern Higher Education Compact (the Compact) as of and for the year ended June 30, 2020 and have issued our report thereon dated DATE. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated August 12, 2020, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements 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 entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Compact solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Compact is included in Note 1 to the financial statements. As described in Note 1, the Compact changed its accounting policy related to the presentation of the statement of cash flows by adopting the provisions of Accounting Standards Update (ASU) 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 605). The accounting changes adopted in the current year were not considered to have a material effect on the financial statements. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on 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 markedly from management's current judgments. There were no accounting estimates identified during the audit as significant to the financial statements.

Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.

The following misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by, management:

- Decrease in expense and increase in cash due to removal of duplicate invoice – \$22,000
- Decrease in accounts receivable and increase in expenses due to the collection of payment - \$17,000
- Increase in cash and accounts payable due to removal of adjustment - \$25,000

The effect of these corrected misstatement is a decrease of net assets of approximately \$5,000.

Disagreements with Management

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

Representations Requested from Management

We have requested certain written representations from management that are included in the management representation letter dated **Date**.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Compact, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Compact's auditors.

Modification of the Auditor's Report

We have made the following modification to our auditor's report.

We have added an emphasis of the matter paragraph for the correction of error identified by management. Net assets without donor restrictions have been reclassified to net assets with donor restrictions in the amount of \$126,539. Our opinion is not modified with respect to his matter.

This communication is intended solely for the information and use of management, the Commission, and others within the Compact and is not intended to be, and should not be, used by anyone other than these specified parties.

Minneapolis, Minnesota

[Report date]

To the Commission
Midwestern Higher Education Compact
Minneapolis, Minnesota

In planning and performing our audit of the financial statements of Midwestern Higher Education Compact (the Compact) as of and for the year ended June 30, 2020, 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 audit procedures that are appropriate in the circumstances 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 entity'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 material weaknesses and, therefore, material weaknesses may exist that were not identified. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

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 a combination of deficiencies, in internal control over financial reporting, 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. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

We consider the following deficiency in the Compact's internal control to be a material weakness:

Restatement of Prior Year Net Asset Classifications

During the course of our engagement, management identified a material net asset reclassification needed within the financial statements as of June 30, 2019. If not reclassified, this would have resulted in a material misstatement of the Compact's net asset classifications as of June 30, 2020 and 2019. The need for this reclassification indicates that the Compact's interim financial information and related net asset classifications were not correct during the year, which may affect management's decisions made during the course of the year.

This communication is intended solely for the information and use of management, the Commission, and others within the Compact and is not intended to be, and should not be, used by anyone other than these specified parties.

Minneapolis, Minnesota

DRAFT

Financial Statements

June 30, 2020

(With Comparative Totals for June 30, 2019)

Midwestern Higher Education Compact

DRAFT

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

DRAFT

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 (the Compact), which comprise the statements of financial position as of June 30, 2020, 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 audits. We conducted our audits 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 entity'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 the Compact as of June 30, 2020, and the results of its changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Correction of Error

As discussed in Note 9 to the financial statements, certain errors resulting in an understatement of amounts previously reported for net assets with donor restrictions temporary in nature and an overstatement of amounts previously reported for net assets without donor restrictions as of June 30, 2019, were discovered by management of the Compact during the year. Accordingly, amounts reported for net assets with donor restrictions and net asset without donor restrictions have been restated in the 2019 financial statements now presented. The adjustments had no impact on total net assets as of June 30, 2019. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the 2019 financial statements of the Compact, and we expressed an unmodified audit opinion on those audited financial statements in our reported our report dated November 22, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the exception of the correction of error identified in the preceding paragraph, with the audited financial statements from which it has been derived.

Eide Bailly Signature

Minneapolis, Minnesota

DATE, 2020

DRAFT

Midwestern Higher Education Compact
Statement of Financial Position
June 30, 2020 (With Comparative Totals for June 30, 2019)

	2020	2019 (restated)
Assets		
Cash and cash equivalents	\$ 4,045,477	\$ 2,871,215
Certificates of deposit	100,000	460,000
Receivables, net	728,403	830,061
Prepaid expenses	126,241	157,881
Property and equipment, net	203,316	247,525
	\$ 5,203,437	\$ 4,566,682
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 363,713	\$ 268,761
Accrued payroll and related expenses	198,937	219,691
Paycheck Protection Program loan	300,000	-
Deferred state commitments	-	115,000
Deferred lease incentive	195,453	218,010
	1,058,103	821,462
Net Assets		
Without donor restrictions		
Board-designated		
Risk management	25,000	25,000
Operations reserve	1,400,000	1,300,000
Open education resources	27,679	80,963
State educational performance indicators	-	2,537
Technology	40,960	40,960
Future lease payments	229,092	261,819
Capital investments	37,291	37,291
Undesignated	1,863,239	1,192,684
Total without donor restrictions	3,623,261	2,941,254
With donor restrictions		
Purpose restricted	522,073	803,966
	4,145,334	3,745,220
	\$ 5,203,437	\$ 4,566,682

Midwestern Higher Education Compact

Statement of Activities

Year Ended June 30, 2020 (With Comparative Totals for Year Ended June 30, 2019)

	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	
Revenues				
State commitments	\$ 1,380,000	\$ -	\$ 1,380,000	\$ 1,380,000
Program revenue				
Master property program	408,282	825	409,107	420,879
MHECare	280,238	-	280,238	340,838
M-SARA	453,000	5,000	458,000	450,000
Cyber insurance	176	-	176	726
Contract revenue				
Technology	1,356,777	-	1,356,777	1,041,071
Contracted revenue	36,375	-	36,375	-
Other income	4,460	-	4,460	2,723
Sponsorships	28,000	-	28,000	32,000
Conference registration income	150	-	150	300
Interest income	41,369	-	41,369	56,956
Net assets released from restriction	287,718	(287,718)	-	-
Total revenues	4,276,545	(281,893)	3,994,652	3,725,493
Expenses				
Program services				
Operations	2,055,900	-	2,055,900	2,059,135
Services				
Master property program	396,106	-	396,106	148,243
MHECare	2,143	-	2,143	1,023
M-SARA	36,373	-	36,373	41,090
Other	195,255	-	195,255	206,910
Contract				
Technology	129,152	-	129,152	120,653
Policy & research	32,312	-	32,312	62,637
Total program services	2,847,241	-	2,847,241	2,639,691
Management and general expenses	744,736	-	744,736	839,614
Fundraising expenses	2,561	-	2,561	2,824
Total expenses	3,594,538	-	3,594,538	3,482,129
Change in Net Assets	682,007	(281,893)	400,114	243,364
Net Assets, Beginning of Year	2,941,254	803,966	3,745,220	3,501,856
Net Assets, End of Year	\$ 3,623,261	\$ 522,073	\$ 4,145,334	\$ 3,745,220

Midwestern Higher Education Compact

Statement of Functional Expenses

Year Ended June 30, 2020 (With Comparative Totals for Year Ended June 30, 2019)

	2020				2019
	Program Services	Management and General	Fundraising	Total	
Salaries and Benefits	\$ 1,675,044	\$ 607,750	\$ 2,561	\$ 2,285,355	\$ 2,296,847
Professional Fees	66,688	24,298	-	90,986	23,998
Contract Services	72,542	8,397	-	80,939	122,520
Office Space Lease	115,099	40,838	-	155,937	148,056
Auto and Parking	694	184	-	878	2,621
Office Supplies	3,677	1,137	-	4,814	6,423
Postage	428	156	-	584	684
Shipping	2,637	184	-	2,821	3,382
Printing	8,720	414	-	9,134	3,312
Subscriptions	27,050	3,415	-	30,465	22,303
Software/Maintenance Contract	80,754	21,553	-	102,307	136,790
Telephone	15,408	5,597	-	21,005	19,850
Insurance	17,281	6,289	-	23,570	18,585
Miscellaneous	289,253	-	-	289,253	8,457
Depreciation	32,403	11,806	-	44,209	42,752
Travel/Meetings/Conference	412,009	3,211	-	415,220	591,070
Office Equipment	27,554	9,507	-	37,061	34,479
Total Expenses by Function	\$ 2,847,241	\$ 744,736	\$ 2,561	\$ 3,594,538	\$ 3,482,129

Midwestern Higher Education Compact

Statement of Cash Flows

Year Ended June 30, 2020 (With Comparative Totals for Year Ended June 30, 2019)

	2020	2019
Operating Activities		
Change in net assets	\$ 400,114	\$ 243,364
Adjustments to reconcile change in net assets to net cash used for operating activities		
Depreciation	44,209	42,752
Changes in operating assets and liabilities		
Receivables	101,658	(264,084)
Prepaid expenses	31,640	(7,143)
Accounts payable	94,952	(36,676)
Accrued payroll and related expenses	(20,754)	81,592
Deferred state commitments	(115,000)	-
Deferred compensation	-	(323,117)
Deferred lease incentive	(22,557)	(21,792)
Net Cash from (used for) Operating Activities	514,262	(285,104)
Net Cash from Investing Activity		
Proceeds from maturity of certificates of deposit	360,000	899,645
Net Cash from Financing Activity		
Proceeds from Paycheck Protection Program loan	300,000	-
Net Change in Cash and Cash Equivalents	1,174,262	614,541
Cash and Cash Equivalents, Beginning of Year	2,871,215	2,256,674
Cash and Cash Equivalents, End of Year	\$ 4,045,477	\$ 2,871,215

Note 1 - Principal Activity and Significant Accounting Policies

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.

Comparative Financial Information

The accompanying 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 (GAAP). Accordingly, such information should be read in conjunction with our audited financial statements for the year ended June 30, 2019, from which the summarized information was derived.

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 consists 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, 2020 and 2019, the allowance was \$0 and \$21,411, respectively.

Property and Equipment

Property and equipment additions over \$3,500 are recorded 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.

Computers	3 years
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.

The Compact reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended June 30, 2020 and 2019.

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 net assets without donor restriction. The certificates of deposit have maturity dates ranging from six months or less.

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:

Net Assets Without Donor Restrictions – Net assets for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated resources.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restricted are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Compact reports contributions restricted by donors as increases in net assets with donor restriction expires, that is, when stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets released from restrictions. Donor-imposed restrictions are released when the resource was restricted has been fulfilled, or both.

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.

State commitment revenue is billed at the beginning of each fiscal year and is recognized ratably throughout the year. Invoices are due upon receipt of billing. State commitments paid in advance are deferred to the year in which they relate. Technology contract revenues are recognized quarterly based on an agreed upon administration fee per sale made under the contract. Insurance program revenues are recognized in two ways. MHECare revenues are recognized three times a year and is based on an agreed upon administration fee applied to the total premiums paid by students and institutions participating in the program. Master Property Program revenues are recognized ratably annually and based upon the number of institutions engaging in the program. Institutions may join mid-policy year and are assessed based on an agreed upon administration fee. M-SARA revenue is recognized when earned, the Organization receives revenues based on the budget of NC-SARA and a set amount is voted on but the NC-SARA finance and audit committee. 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. The financial statements report certain categories of expense that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses allocated include salaries and benefits, professional fees, contract services, office expenses including office supplies, postage, shipping, and printing; software and maintenance contracts, insurance, depreciation, and travel costs, which are allocated on the basis of estimates of time and effort.

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.

Recent Accounting Guidance

FASB has issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, to clarify and improve the scope and the accounting guidance for contributions received and contributions made. This standard assists the Compact in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Compact has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying consolidated financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with the implementation of ASU 2018-08.

Subsequent Events

The Compact has evaluated subsequent events through **DATE**, 2020, the date the financial statements were available to be issued.

Note 2 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of the balance sheet date, comprise the following:

	2020	2019
Cash and cash equivalents	\$ 4,045,477	\$ 2,871,215
Certificates of deposit	100,000	460,000
Accounts receivables	728,403	830,061
	\$ 4,873,880	\$ 4,161,276

The Compact regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Compact has various sources of liquidity at its disposal, including cash and cash equivalents, certificates of deposits, and accounts receivable.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Compact considers all expenditures related to its ongoing activities of programs, research, and technology contracts as well as the conduct of services undertaken to support those activities to be general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, the Compact operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the statement of cash flows which identifies the sources and uses of the Compact's cash and shows positive cash generated by operations for fiscal years 2020 and 2019.

As part of the liquidity management plan, excess cash is invested in the insured cash sweeps (ICS) account. The Compact no longer has certificate of deposits greater than one year, the Compact has the option to withdraw the funds with an interest penalty that is minimal to the overall certificate of deposit. Although the Board does not intend to spend long-term investments, these amounts could be made available if necessary. As such, they are considered to be available for general expenditures within one year.

Note 3 - Property and Equipment

Property and equipment consists of the following at June 30, 2020 and 2019:

	2020	2019
Computers	\$ 30,407	\$ 30,407
Office improvements	7,520	7,520
Software and IT equipment	295,369	295,369
Furniture	176,952	176,952
Leasehold improvements	362,552	362,552
	872,800	872,800
Less accumulated depreciation	(669,484)	(625,275)
Net property and equipment	\$ 203,316	\$ 247,525

Note 4 - Notes Payable

Notes Payable consist of the following at June 30, 2020 and 2019:

	2020	2019
1.00% Payroll Protection Program loan, due in monthly installments of \$7,040 starting in November 2021, including interest to June 2025, unsecured	\$ 300,000	\$ -

Future maturities of the notes payable are as follows:

Years Ending June 30,	Amount
2021	\$ -
2022	50,427
2023	82,361
2024	83,188
2025	84,024
	\$ 300,000

The Compact was granted a \$300,000 loan under the PPP administration by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The Compact is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The Compact has recorded a note payable and will record the forgiveness upon being legally released from the loan obligation by the SBA. No forgiveness income has been recorded for the year ended June 30, 2020. The Compact will be required to repay any remaining balance.

The stipulations the Compact made with the commission officers is to fully repay the loan at the end of the six-month grace period ending December 25, 2020 if the loan is not needed or consumed. The Compact will pay back the full balance of principal and will have to pay the amount of accrued interest following the six months.

Note 5 - Leases

The Compact leases office space located at 105 Fifth Avenue South through May 2026. Rent expense is prorated over the term of the lease and expensed as incurred.

Office space expense was \$78,704 and \$76,764 for the years ended June 30, 2020 and 2019, respectively. Approximate future annual rental commitments are as follows:

Years Ending June 30,	Amount
2021	\$ 81,088
2022	83,538
2023	86,055
2024	88,638
2025	91,288
Thereafter	86,132
	\$ 516,739

Note 6 - Retirement Plan

Employees of the Compact participate in a TIAA 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 \$202,445 and \$204,207 for the years ended June 30, 2020 and 2019, respectively.

Note 7 - Net Assets With Donor Restrictions

Net assets with donor restrictions consist of the following at June 30, 2020 and 2019:

	2020	2019
Programmatic activities		
Master property program	\$ 295,073	\$ 559,257
M-SARA	227,000	222,000
Multi-State Collaborative on Military Credit (MCMC)		
MCMC - Strada Education Network	-	22,709
	\$ 522,073	\$ 803,966

Net assets released from restrictions for the years ended June 30, 2020 and 2019, were comprised of the following:

	2020	2019
Satisfaction of purpose restrictions		
Master property program	\$ 265,009	\$ 40,000
MCMC - Strada Education Network	22,709	3,690
	\$ 287,718	\$ 43,690

DRAFT

Note 8 - Net Assets Without Donor Restrictions – Board Designated

At June 30, 2020 and 2019, net assets without donor restrictions designated by the Board are available for the following purposes:

	2020	2019
Risk management	\$ 25,000	\$ 25,000
Operations reserve	1,400,000	1,300,000
Special projects		
Open education resources	27,679	80,963
State education performance indicators	-	2,537
Organizational capacity		
Technology	40,960	40,960
Capital asset reserve		
Future lease payments	229,092	261,819
Capital investments	37,291	37,291
	\$ 1,760,022	\$ 1,748,570

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 a set amount approved by the Compact's commission. (2) The special projects and organizational capacity reserve funds are 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 Compact and programs.

Note 9 - Restatement Resulting from Correction of Error

During the year ended June 30, 2020, the management of the Compact identified a misstatement within the 2019 financial statements resulting in an overstatement of previously reported net assets without donor restrictions and understatement of net assets with donor restrictions. Accordingly, amounts reported for net assets with donor restrictions and without donor restrictions have been restated in the 2019 comparative financial statements now presented to correct the error.

The following financial statement line items for the year ended June 30, 2019, were adjusted as a result of the restatement:

<u>Statement of Financial Position</u>	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>As Restated</u>
Net Assets			
Without donor restrictions			
Undesignated	\$ 1,319,223	\$ (126,539)	\$ 1,192,684
Total without donor restrictions	3,067,793	(126,539)	2,941,254
With donor restrictions			
Purpose restricted	677,427	126,539	803,966

DRAFT