



**MILITARY INTERSTATE CHILDREN'S
COMPACT COMMISSION**

LEXINGTON, KENTUCKY

FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT AUDITORS

JUNE 30, 2022 AND 2021

MILITARY INTERSTATE CHILDREN'S COMPACT COMMISSION
LEXINGTON, KENTUCKY

C O N T E N T S

	<u>Page</u>
Report of Independent Auditors	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Statements of Net Position	9
Statements of Revenues, Expenses, and Changes in Net Position.....	10
Statements of Cash Flows	11
Notes to the Financial Statements	12



Blue & Co., LLC / 250 West Main Street, Suite 2900 / Lexington, KY 40507
main 859.253.1100 fax 859.253.1384 email blue@blueandco.com

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Military Interstate Children's Compact Commission
Lexington, Kentucky

Opinion

We have audited the accompanying financial statements of the business-type activities of the Military Interstate Children's Compact Commission (the Compact) which comprise the statements of financial position as of June 30, 2022 and 2021, and the statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Compact and its subsidiaries as of June 30, 2022 and 2021, and changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Compact and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Compact's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

To the Board of Directors
Military Interstate Children's Compact Commission
Lexington, Kentucky

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Compact's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Compact's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Blue & Co., LLC

Lexington, Kentucky
August 17, 2022

MILITARY INTERSTATE CHILDREN'S COMPACT COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022 AND 2021

Military Interstate Children's Compact Commission's (the Compact's) management team offers readers of the basic financial statements of the Compact the following narrative overview and analysis of the financial activities of the Compact for fiscal year 2022 with comparative data for fiscal years 2021 and 2020. The following should be read in conjunction with our basic financial statements and notes thereto.

Basic Financial Statements

The Compact's basic financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). This is the same basis of accounting employed by most private sector enterprises. Revenues are recognized when earned and expenses are recognized when incurred. See the notes to the basic financial statements for a summary of the Compact's significant accounting policies.

Our basic financial statements include the following components:

Statements of net position present information on the assets and liabilities of the Compact, with the resulting difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Compact is improving or deteriorating. Statements of revenues, expenses, and changes in net position report revenues and expenses, classified as operating, for the period. The resulting change in net position for the period combined with the beginning of the year total net position balance reconciles to the end of the year total net position, per the statements of net position.

Statements of cash flows report the cash flows experienced by the Compact from operating and investing activities. The net result of the cash provided by or used in these activities for the period, added to the beginning of the year balance reconciles to the total cash and cash equivalents, as presented on the statements of net position.

Notes to the financial statements provide additional information on the data presented in the basic financial statements as of and for the years ended June 30, 2022 and 2021.

COMPACT ACTIVITIES

The Compact provides for the uniform treatment of military children transferring between school districts and states. It was developed by The Council of State Governments' National Center for Interstate Compacts, the Department of Defense, national associations, federal and state officials, departments of education, school administrators and military families. Each state must adopt the Compact through their legislative process. Participation is voluntary. Each state appoints representation to a governing commission responsible for enacting rules to implement the Compact. Each participating state also creates a state council based on the requirements of their state legislation.

MILITARY INTERSTATE CHILDREN'S COMPACT COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022 AND 2021

All 50 states and the District of Columbia adopted the Compact. Member states have formed their State Councils, and inform school districts and stakeholders of the terms of the Compact. Since 2008, the Commission has convened 14 Annual Business Meetings in various locations throughout the United States.

FINANCIAL HIGHLIGHTS

The following major financial highlights are of note for the year ended June 30, 2022 (amounts rounded):

- Assets exceeded liabilities by \$1,745,000 as of June 30, 2022 and \$1,746,000 as of June 30, 2021.
- The total balance of net position is unrestricted as of June 30, 2022 and 2021.
- Net position decreased \$1,000 for the fiscal year ended June 30, 2022 and increased \$483,000 for the fiscal year ended June 30, 2021.
- Operating revenues were \$595,000 for the fiscal year ended June 30, 2022 and \$861,000 for the fiscal year ended June 30, 2021.

The following major financial highlights are of note for the year ended June 30, 2021 (amounts rounded):

- Assets exceeded liabilities by \$1,746,000 as of June 30, 2021 and \$1,263,000 as of June 30, 2020.
- The total balance of net position is unrestricted as of June 30, 2021 and 2020.
- Net position increased \$483,000 for the fiscal year ended June 30, 2021 and increased \$147,000 for the fiscal year ended June 30, 2020.
- Operating revenues were \$861,000 for the fiscal year ended June 30, 2021 and \$721,000 for the fiscal year ended June 30, 2020.

MILITARY INTERSTATE CHILDREN'S COMPACT COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022 AND 2021

NET POSITION SUMMARY

Net position was approximately \$1,745,000 at June 30, 2022, \$1,746,000 at June 30, 2021 and \$1,263,000 at June 30, 2020. The decrease in net position for fiscal year 2022 was due to unrealized losses on investments. Most of the increase in net position for fiscal year 2021 was due to appropriations revenue in excess of operating expenses as well as investment income.

A condensed summary of the major components of the net position for the fiscal year ended June 30, 2022, 2021, and 2020 is as follows (amounts rounded):

Current assets increased in fiscal year 2022 due to an excess of revenues over expenses, net of noncash items. Current assets increased in fiscal year 2021 due to an excess of revenues over expenses. There were no meetings in 2021 and revenue increased.

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>FY 2022</u>		<u>FY 2021</u>	
				<u>\$ change</u>	<u>% change</u>	<u>\$ change</u>	<u>% change</u>
Current assets	\$ <u>1,389,000</u>	\$ <u>1,333,000</u>	\$ <u>983,000</u>	\$ <u>56,000</u>	4.20%	\$ <u>350,000</u>	35.61%
Noncurrent assets	\$ <u>490,000</u>	\$ <u>551,000</u>	\$ <u>434,000</u>	\$ <u>(61,000)</u>	-11.07%	\$ <u>117,000</u>	26.96%
Current liabilities	\$ <u>133,000</u>	\$ <u>138,000</u>	\$ <u>154,000</u>	\$ <u>(5,000)</u>	-3.62%	\$ <u>(16,000)</u>	-10.39%
Unrestricted net position	\$ <u>1,745,000</u>	\$ <u>1,746,000</u>	\$ <u>1,263,000</u>	\$ <u>(1,000)</u>	-0.06%	\$ <u>483,000</u>	38.24%

CHANGES IN NET POSITION

A condensed summary and discussion of changes in net position, revenues, and expenses for fiscal years 2022, 2021, and 2020 is as follows (amounts rounded):

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>FY 2022</u>		<u>FY 2021</u>	
				<u>\$ change</u>	<u>% change</u>	<u>\$ change</u>	<u>% change</u>
Operating revenues	\$ <u>595,000</u>	\$ <u>861,000</u>	\$ <u>721,000</u>	\$ <u>(266,000)</u>	-30.89%	\$ <u>140,000</u>	19.42%
Operating expenses	\$ <u>596,000</u>	\$ <u>378,000</u>	\$ <u>574,000</u>	\$ <u>218,000</u>	57.67%	\$ <u>(196,000)</u>	-34.15%
Change in net position	\$ <u>(1,000)</u>	\$ <u>483,000</u>	\$ <u>147,000</u>	\$ <u>(484,000)</u>	-100.21%	\$ <u>336,000</u>	228.57%

MILITARY INTERSTATE CHILDREN'S COMPACT COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022 AND 2021

Revenues

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>FY 2022</u>		<u>FY 2021</u>	
				<u>\$ change</u>	<u>% change</u>	<u>\$ change</u>	<u>% change</u>
Appropriations	\$ 652,000	\$ 655,000	\$ 664,000	\$ (3,000)	-0.46%	\$ (9,000)	-1.36%
Investment income and gains	(57,000)	116,000	35,000	(173,000)	-149.14%	\$ 81,000	231.43%
Other	0	90,000	22,000	(90,000)	-100.00%	\$ 68,000	309.09%
Total operating revenue	<u>\$ 595,000</u>	<u>\$ 861,000</u>	<u>\$ 721,000</u>	<u>\$ (266,000)</u>	<u>-30.89%</u>	<u>\$ 140,000</u>	<u>19.42%</u>

Fiscal Year 2022

Appropriations revenue was stable year-over-year.

Investment income reflects market decline from multiple factors of current economic climate. The Compact's equity investments declined approximately 14% which is consistent with the S&P 500 over the same time period. The fixed income fund declined approximately 6% which is attributable to rising interest rates in 2022. The prime rate increased from 3.25% at June 30, 2021 to 4.75% at June 30, 2022. This reduces the market value of debt securities currently held as the differential in comparative rates progressively favors the market.

Other revenues decreased due to the nonrecurring transaction involving the Paycheck Protection Program loan in fiscal year 2021.

Fiscal Year 2021

Appropriations revenue was stable year-over-year.

Investment income reflects market recovery from the initial decrease related to COVID in the latter part of fiscal year 2020.

Other revenues reflect a donation from the Council of State Governments related to the Compact's allocation of the Paycheck Protection Program loan which was forgiven during the year.

MILITARY INTERSTATE CHILDREN'S COMPACT COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022 AND 2021

Expenses

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>FY 2022</u>		<u>FY 2021</u>	
				<u>\$ change</u>	<u>% change</u>	<u>\$ change</u>	<u>% change</u>
Management fees	\$ 314,000	\$ 312,000	\$ 366,000	\$ 2,000	0.64%	\$ (54,000)	-14.75%
Travel and meetings	158,000	8,000	122,000	150,000	1875.00%	(114,000)	-93.44%
Consultants	46,000	7,000	10,000	39,000	557.14%	(3,000)	-30.00%
Occupancy	19,000	15,000	20,000	4,000	26.67%	(5,000)	-25.00%
Professional services	26,000	11,000	6,000	15,000	136.36%	5,000	83.33%
Other	33,000	25,000	50,000	8,000	32.00%	(25,000)	-50.00%
Total operating expenses	<u>\$ 596,000</u>	<u>\$ 378,000</u>	<u>\$ 574,000</u>	<u>\$ 218,000</u>	<u>57.67%</u>	<u>\$ (196,000)</u>	<u>-34.15%</u>

Fiscal Year 2022

Management fees were consistent year-over-year.

Travel and meetings increased due to reduction of social distancing restrictions from the COVID-19 pandemic. The annual meeting for fiscal year 2022 was held in Little Rock, Arkansas in a hybrid (both in-person and virtually) format while the annual meeting for 2021 was held virtually.

Consulting expense increased in fiscal year 2022 due to an operations audit and strategic plan update.

Professional services increased due to legal research for various states and general interstate compact research.

Fiscal Year 2021

Management fees decreased as the position that was open for part of the year in fiscal year 2020 remained open in 2021.

Travel and meetings, consulting, occupancy and other expenses declined due to travel restrictions from the COVID-19 pandemic in effect for the full year.

MILITARY INTERSTATE CHILDREN'S COMPACT COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022 AND 2021

DISCUSSION OF CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The Compact has approved its fiscal year 2022-2023 operating budget. Budgeted operating revenues are approximately \$679,000. Budgeted operating expenditures are approximately \$727,000, of which approximately 51% is personnel and related costs included as management fees.

REQUEST FOR INFORMATION

This financial report is designed to provide interested parties with a general overview of the Compact's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Executive Director, Military Interstate Children's Compact Commission, 1776 Avenue of the States, Lexington, Kentucky, 40511 or by e-mail to mic3info@csg.org.

MILITARY INTERSTATE CHILDREN'S COMPACT COMMISSION
STATEMENTS OF NET POSITION
JUNE 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<u>ASSETS</u>		
Current assets:		
Accounts receivable	\$ 65,798	\$ 85,189
Prepaid expenses	1,928	14,175
Due from affiliate	<u>1,320,811</u>	<u>1,234,070</u>
Total current assets	1,388,537	1,333,434
Investments	<u>489,793</u>	<u>551,147</u>
Total assets	\$ <u><u>1,878,330</u></u>	\$ <u><u>1,884,581</u></u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Deferred revenue	\$ 112,753	\$ 138,362
Unrestricted net position	<u>1,745,339</u>	<u>1,746,219</u>
Total liabilities and net position	\$ <u><u>1,878,330</u></u>	\$ <u><u>1,884,581</u></u>

See accompanying notes
to financial statements.

MILITARY INTERSTATE CHILDREN'S COMPACT COMMISSION
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Operating revenues:		
Appropriations	\$ 652,317	\$ 654,843
Investment income	12,631	7,562
Unrealized gains	(70,272)	108,384
Other revenue	92	89,905
Total operating revenues	<u>594,768</u>	<u>860,694</u>
Operating expenses:		
Management fees	313,586	311,589
Travel and meetings	157,758	7,969
Consultants	45,821	6,663
Occupancy	19,125	14,667
Professional fees	25,994	11,400
Information technology	9,105	8,609
Advertising	8,918	8,085
Telephone	4,456	3,405
Other	10,885	5,586
Total operating expenses	<u>595,648</u>	<u>377,973</u>
Change in net position	(880)	482,721
Unrestricted net position, beginning of year	<u>1,746,219</u>	<u>1,263,498</u>
Unrestricted net position, end of year	<u>\$ 1,745,339</u>	<u>\$ 1,746,219</u>

See accompanying notes
to financial statements.

MILITARY INTERSTATE CHILDREN'S COMPACT COMMISSION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Cash received from members	\$ 646,191	\$ 650,185
Cash payments to suppliers for goods and services	(277,941)	(98,558)
Cash payments for management services	(285,222)	(293,590)
Other receipts	12,631	7,562
Net cash flows from operating activities	<u>95,659</u>	<u>265,599</u>
Cash flows from investing activities:		
Purchases of investments	(8,918)	(8,080)
Decrease in due from affiliate	(86,741)	(257,519)
Net cash flows from investing activities	<u>(95,659)</u>	<u>(265,599)</u>
Net change in cash	0	0
Cash, beginning of year	<u>0</u>	<u>0</u>
Cash, end of year	<u>\$ 0</u>	<u>\$ 0</u>
Reconciliation of operating income to cash flows from operating activities:		
Change in net position	\$ (880)	\$ 482,721
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Unrealized gains (losses)	70,272	(108,384)
Changes in operating assets and liabilities:		
Accounts receivable	19,391	(79,001)
Prepaid expenses	12,247	(14,175)
Deferred revenue	(25,609)	(15,562)
Net cash flows from operating activities	<u>\$ 95,659</u>	<u>\$ 265,599</u>

See discussion at Note 3 regarding the Compact's financial processes for cash.

MILITARY INTERSTATE CHILDREN'S COMPACT COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

1. SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

The Military Interstate Children's Compact Commission (the Compact) was formed in 2009. The goal of the Compact is to replace the widely varying policies affecting transitioning military students. The Compact leverages consistency and uses a comprehensive approach that provides a consistent policy in every school district and in every state that chooses to join. The primary source of revenue is derived from state member dues.

The Compact addresses key educational transition issues encountered by military families including enrollment, placement, attendance, eligibility and graduation. The Compact seeks to make transition easier so that children of military families are not penalized or delayed in achieving their educational goals.

Children of active duty members of the uniformed services, National Guard and Reserve on active duty orders, and members or veterans who are medically discharged or retired for one year are eligible for assistance.

Basis of Accounting and Accounting Presentation

This summary of significant accounting policies is presented to assist in understanding the Compact's financial statements. The financial statements and accompanying notes are representations of the Compact's management who is responsible for their integrity and objectivity.

The Compact's operations are presented as a single enterprise fund. Enterprise funds distinguish operating revenues and expenses from non-operating items in accordance with the flow of economic resources measurement focus and the accrual basis of accounting. All assets, liabilities, net position, revenues, and expenses are accounted for through a single enterprise fund with revenues recorded when earned and expenses recorded at the time the corresponding liabilities are incurred.

Revenues from appropriations are reported as operating revenues. Purchases of services, materials and supplies, and other miscellaneous expenses are reported as operating expenses.

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) Pronouncements*, the Compact follows GASB guidance as applicable to enterprise funds.

MILITARY INTERSTATE CHILDREN'S COMPACT COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

Receivables

Receivables are reported at their gross value when earned and are reduced by the estimated portion that is expected to be uncollectable. The allowance for uncollectible amounts is based on collection history and information regarding the credit worthiness of those doing business with the Compact. There were no material amounts considered uncollectible at June 30, 2022 and 2021.

Operating Revenues and Expenses

Operating revenues consist of appropriations and other revenues. Operating expenses include management fees, consultants, travel and meeting expense, occupancy and other expenses.

Appropriations

The Compact may levy on and collect an annual assessment from each member state to cover the Compact's annual budget as approved each year. The aggregate annual assessment amount shall be allocated based upon a formula to be determined by the Compact, which shall promulgate a rule binding upon all member states.

Revenue for membership dues is recognized as earned throughout the term of membership. Dues that are paid in advance are included as deferred revenue.

Net Position

Net position represents the difference between assets and liabilities. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments. The Compact applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

Use of Estimates

Management of the Compact has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues, expenses, and the disclosure of contingent assets and liabilities, to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

MILITARY INTERSTATE CHILDREN'S COMPACT COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

Subsequent Events

The Compact evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through August 17, 2022, which is the date the financial statements were available to be issued.

2. INVESTMENTS

The Compact presently does not have an investment policy to address interest rate risk, custodial credit risk, or concentration of credit risk.

The Compact follows GASB Statement No. 72, *Fair Value Measurement and Application*, with respect to financial assets and liabilities. GASB 72 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB 72 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels.

Following is a brief description of those three levels.

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Compact has the ability to access.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The methods and assumptions used to estimate the fair value of assets and liabilities in the financial statements, including a description of the methodologies used for the classifications within the fair value hierarchy, are as follows.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Compact are open-end mutual funds that are registered with the Securities and Exchange Commission and are actively traded.

MILITARY INTERSTATE CHILDREN'S COMPACT COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

Below is a detail of amounts included in deposits and investments as of June 30, 2022 and 2021. Amounts rounded and all amounts are Level 1.

<u>Description</u>	<u>2022</u>	<u>2021</u>
Large-blend equity mutual fund	\$ 292,000	\$ 341,000
Short-term bond fund	198,000	210,000
	<u>\$ 490,000</u>	<u>\$ 551,000</u>

The average duration of the short-term bond fund (the Bond Fund) is 2.72 years. The average maturity is 2.8 years and the yield is 1.94%. The Bond Fund has a Morningstar rating of four stars and is comprised of cash (1.3%), bonds (93.8%) and convertible securities (4.9%). The bonds are comprised of securities with ratings of AAA (19.2%), AA (4.7%), A (29.2%), BBB (43.1%) and other (3.8%).

3. AFFILIATE

The Compact is affiliated with The Council of State Governments (CSG). CSG provides the Compact with management and accounting services. Under the Memorandum of Understanding (the Memorandum) between CSG and the Compact, CSG will pay monthly interest on the balance due to affiliate of .75% less than the average return earned by CSG on its short-term investment account. Interest income for fiscal years 2022 and 2021 was approximately \$3,700 and \$2,500, respectively.

The individuals who comprise the staff of the Compact are employees of CSG and their related wages and benefit expenses are passed through to the Compact. Wages and benefit expense passed through to the Compact for fiscal years 2022 and 2021 were approximately \$285,000 and \$294,000, respectively.

Pursuant to the terms of the Memorandum, the Compact agrees to pay indirect costs as a percent of total direct expenses. The applicable percentage was 5.0 for 2022 and 2021. Total indirect costs for fiscal years 2022 and 2021 were approximately \$28,000 and \$18,000, respectively.

The Compact leases its office space on a month-to-month basis from CSG. Total rent expenses for fiscal years 2022 and 2021 were approximately \$19,100 and \$14,700, respectively.

The Compact's expenses are paid through check requests to CSG and credit cards maintained by CSG. Customer payments and other receipts are deposited to bank accounts maintained by CSG. The Compact does not have direct access to any bank accounts or other sources of cash. For this reason, the accompanying statement of financial position does not include an amount for cash.

MILITARY INTERSTATE CHILDREN'S COMPACT COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

Following is an analysis of the amount due from CSG at June 30 (amounts rounded) :

	<u>2022</u>	<u>2021</u>
Cash held by CSG on behalf of the Compact	\$ <u>1,371,000</u>	\$ <u>1,288,300</u>
Additions - year-end accruals for amounts owed to the Compact:		
Interest	<u>300</u>	<u>300</u>
Reductions - year-end accruals for amounts owed to CSG:		
Vacation and payroll	32,100	36,800
Consultants	0	13,500
Management fees	2,900	2,400
Other	<u>15,500</u>	<u>1,800</u>
Total reductions	<u>50,500</u>	<u>54,500</u>
Due from CSG	\$ <u><u>1,320,800</u></u>	\$ <u><u>1,234,100</u></u>

4. CONCENTRATIONS

Five member states accounted for approximately 45.64% and 45.60%, respectively, of appropriations revenue for the years ended June 30, 2022 and 2021.

As of June 30, 2022 and 2021, approximately 70.3% and 65.5%, respectively, of total assets was comprised of amounts due from CSG.

As discussed in Note 3, the Compact's cash is in accounts maintained by CSG. CSG maintained approximately \$26,615,000 and \$12,012,000, respectively, in an overnight repurchase agreement collateralized by securities at June 30, 2022 and 2021. Money market deposit funds held by CSG, totaling approximately \$17,708,000 and \$17,635,000, respectively, at June 30, 2022 and 2021, are maintained at various federally insured banks. The balance at each bank does not exceed the federally insured limit of \$250,000.

CSG maintains cash and certificate of deposit accounts with federally insured banks primarily in Lexington, Kentucky. At June 30, 2022 and 2021, approximately \$314,000 and \$208,000, respectively was uninsured.

MILITARY INTERSTATE CHILDREN'S COMPACT COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

5. COMMITMENT

As of June 30, 2022, the Compact has entered an agreement with a hotel for a meeting to be held in fiscal year 2023. The agreement includes a penalty clause for cancellation. Estimated total exposure for the Compact for this agreement is approximately \$36,000, respectively.

6. COVID-19 PANDEMIC

On March 11, 2020, the World Health Organization declared Coronavirus (COVID-19) a pandemic. The continued spread of COVID-19, or any similar outbreaks in the future, may adversely impact the local, regional, national and global economies. The extent to which COVID-19 impacts the Compact's operating results is dependent on the breadth and duration of the pandemic and could be affected by other factors management is not currently able to predict. Potential impacts include, but are not limited to, collectability of dues assessments, additional costs for responding to COVID-19 and reductions in other funding. Management believes the Compact is taking appropriate actions to respond to the pandemic, however, the full impact is unknown and cannot be reasonably estimated at the date the consolidated financial statements were available to be issued.