

**COUNCIL FOR HIGHER EDUCATION
ACCREDITATION
(A Nonprofit Organization)
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018**

COUNCIL FOR HIGHER EDUCATION ACCREDITATION
(A Nonprofit Organization)
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Council for Higher Education Accreditation
Washington, D.C.

We have audited the accompanying financial statements of the Council for Higher Education Accreditation (a nonprofit organization), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years 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 Council for Higher Education Accreditation as of June 30, 2019 and 2018, and the 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.


CERTIFIED PUBLIC ACCOUNTANTS

Bethesda, Maryland
September 25, 2019

COUNCIL FOR HIGHER EDUCATION ACCREDITATION
(A Nonprofit Organization)
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 2,022,777	\$ 2,658,459
Accounts receivable	250	1,360
Prepaid expenses	49,616	26,193
Investments	3,842,392	3,593,017
Investment in AMHIC, A Reciprocal Association	5,119	3,535
Investments in nonqualified employee benefit plan	546,998	498,153
Property and equipment, net	<u>417,855</u>	<u>291,833</u>
TOTAL ASSETS	\$ <u>6,885,007</u>	\$ <u>7,072,550</u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ 180,509	\$ 223,719
Deferred rent	73,013	-
Deferred revenues	-	1,700
Obligations under nonqualified employee benefit plan	<u>546,998</u>	<u>498,153</u>
Total liabilities	<u>800,520</u>	<u>723,572</u>
Net assets:		
Without donor restrictions	18,077	440,261
Without donor restrictions - Board-designated	<u>4,360,459</u>	<u>4,114,873</u>
	4,378,536	4,555,134
With donor restrictions - time restricted for future periods	<u>1,705,951</u>	<u>1,793,844</u>
Total net assets	<u>6,084,487</u>	<u>6,348,978</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>6,885,007</u>	\$ <u>7,072,550</u>

See accompanying notes to financial statements.

COUNCIL FOR HIGHER EDUCATION ACCREDITATION
(A Nonprofit Organization)
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>			<u>2018</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and other support:						
Membership dues	\$ 1,397,967	\$ 1,686,951	\$ 3,084,918	\$ 1,270,073	\$ 1,772,079	\$ 3,042,152
Conference fees	222,990	-	222,990	221,365	-	221,365
Investment return, net	257,094	-	257,094	187,985	-	187,985
International dues	6,312	19,000	25,312	21,662	21,765	43,427
Recognition fees	10,000	-	10,000	4,000	-	4,000
Other	3,585	-	3,585	(3,641)	-	(3,641)
Net assets released from time restrictions	<u>1,793,844</u>	<u>(1,793,844)</u>	<u>-</u>	<u>1,706,796</u>	<u>(1,706,796)</u>	<u>-</u>
Total revenues and other support	<u>3,691,792</u>	<u>(87,893)</u>	<u>3,603,899</u>	<u>3,408,240</u>	<u>87,048</u>	<u>3,495,288</u>
Expenses:						
Program services expense:						
Membership services	1,237,109	-	1,237,109	947,962	-	947,962
Research and policy	137,388	-	137,388	-	-	-
Government relations	732,848	-	732,848	682,308	-	682,308
Recognition policy	638,248	-	638,248	558,928	-	558,928
The Council's International Quality Group	477,480	-	477,480	528,881	-	528,881
Change Magazine	<u>114,486</u>	<u>-</u>	<u>114,486</u>	<u>106,059</u>	<u>-</u>	<u>106,059</u>
Total program expenses	3,337,559	-	3,337,559	2,824,138	-	2,824,138
General and administrative	<u>530,831</u>	<u>-</u>	<u>530,831</u>	<u>498,836</u>	<u>-</u>	<u>498,836</u>
Total expenses	<u>3,868,390</u>	<u>-</u>	<u>3,868,390</u>	<u>3,322,974</u>	<u>-</u>	<u>3,322,974</u>
Change in net assets	(176,598)	(87,893)	(264,491)	85,266	87,048	172,314
Net assets - beginning	<u>4,555,134</u>	<u>1,793,844</u>	<u>6,348,978</u>	<u>4,469,868</u>	<u>1,706,796</u>	<u>6,176,664</u>
NET ASSETS - ENDING	<u>\$ 4,378,536</u>	<u>\$ 1,705,951</u>	<u>\$ 6,084,487</u>	<u>\$ 4,555,134</u>	<u>\$ 1,793,844</u>	<u>\$ 6,348,978</u>

See accompanying notes to financial statements.

COUNCIL FOR HIGHER EDUCATION ACCREDITATION
(A Nonprofit Organization)
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

	Program Services								
	Membership Services	Research and Policy	Government Relations	Recognition Policy	The Council's International Quality Group	Change Magazine	Total Program Expenses	General and Administrative	Total Expenses
Personnel	\$ 528,383	\$ 136,388	\$ 501,198	\$ 393,094	\$ 243,477	\$ -	\$ 1,802,540	\$ 237,818	\$ 2,040,358
Conference	311,450	-	-	-	-	-	311,450	-	311,450
Professional fees	245,063	-	88,253	80,418	150,213	88,157	652,104	41,869	693,973
Office	35,773	1,000	32,020	25,104	15,795	-	109,692	15,191	124,883
Occupancy costs	59,553	-	56,963	44,659	27,650	-	188,825	27,024	215,849
Information systems	15,399	-	14,730	11,548	7,150	-	48,827	6,988	55,815
Depreciation and amortization	13,274	-	12,696	9,954	6,163	-	42,087	6,024	48,111
Committees	-	-	-	-	-	-	-	61,766	61,766
Printing and publication	9,578	-	9,162	7,183	4,447	-	30,370	4,346	34,716
Travel	6,871	-	6,572	47,141	8,289	23,298	92,171	3,118	95,289
Sponsorship	1,469	-	1,406	1,102	682	-	4,659	667	5,326
Website	10,296	-	9,848	7,721	4,837	-	32,702	4,672	37,374
Meals and reception	-	-	-	5,579	277	2,132	7,988	-	7,988
Supplies	-	-	-	4,745	8,500	899	14,144	-	14,144
Loss on disposal of property and equipment	-	-	-	-	-	-	-	121,348	121,348
TOTAL EXPENSES BY FUNCTION	<u>\$ 1,237,109</u>	<u>\$ 137,388</u>	<u>\$ 732,848</u>	<u>\$ 638,248</u>	<u>\$ 477,480</u>	<u>\$ 114,486</u>	<u>\$ 3,337,559</u>	<u>\$ 530,831</u>	<u>\$ 3,868,390</u>

See accompanying notes to financial statements.

COUNCIL FOR HIGHER EDUCATION ACCREDITATION
(A Nonprofit Organization)
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

	Program services								
	Membership Services	Research and Policy	Government Relations	Recognition Policy	The Council's International Quality Group	Change Magazine	Total Program Expenses	General and Administrative	Total Expenses
Personnel	\$ 483,734	\$ -	\$ 511,048	\$ 370,760	\$ 332,340	\$ -	\$ 1,697,882	\$ 261,802	\$ 1,959,684
Conference	302,090	-	-	-	-	-	302,090	-	302,090
Professional fees	46,409	-	49,020	55,453	123,439	82,762	357,083	116,547	473,630
Office	36,797	-	38,867	28,190	18,037	-	121,891	19,909	141,800
Occupancy costs	35,438	-	37,432	27,149	17,371	-	117,390	19,174	136,564
Information systems	15,413	-	16,280	11,808	7,555	-	51,056	8,339	59,395
Depreciation and amortization	15,163	-	16,016	11,616	7,433	-	50,228	8,204	58,432
Committees	-	-	-	-	-	-	-	57,872	57,872
Printing and publication	5,556	-	5,869	4,257	2,724	-	18,406	3,006	21,412
Travel	5,383	-	5,686	44,847	8,426	23,080	87,422	2,912	90,334
Sponsorship	1,431	-	1,511	1,096	701	-	4,739	774	5,513
Website	548	-	579	420	5,897	-	7,444	297	7,741
Meals and reception	-	-	-	3,332	3,458	-	6,790	-	6,790
Supplies	-	-	-	-	1,500	217	1,717	-	1,717
TOTAL EXPENSES BY FUNCTION	\$ 947,962	\$ -	\$ 682,308	\$ 558,928	\$ 528,881	\$ 106,059	\$ 2,824,138	\$ 498,836	\$ 3,322,974

See accompanying notes to financial statements.

COUNCIL FOR HIGHER EDUCATION ACCREDITATION
(A Nonprofit Organization)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Reconciliation of change in net assets to net cash from operating activities:		
Change in net assets	\$ (264,491)	\$ 172,314
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	48,111	58,432
Realized/unrealized gains	(178,998)	(68,992)
Loss on disposal of property and equipment	121,348	-
Changes in assets and liabilities:		
Accounts receivable	1,110	(785)
Prepaid expenses	(23,423)	11,605
Accounts payable and accrued expenses	(43,210)	(62,415)
Deferred rent	73,013	(19,017)
Deferred revenues	<u>(1,700)</u>	<u>-</u>
Net cash (used in) provided by operating activities	<u>(268,240)</u>	<u>91,142</u>
Cash flows from investing activities:		
Proceeds from sale of investments	291,970	784,016
Purchases of investments	(362,347)	(897,679)
Investment (contribution to) return from AMHIC, A Reciprocal Association	(1,584)	4,091
Purchases of property and equipment	<u>(295,481)</u>	<u>(117,267)</u>
Net cash used in investing activities	<u>(367,442)</u>	<u>(226,839)</u>
Net decrease in cash and cash equivalents	(635,682)	(135,697)
Cash and cash equivalents - beginning	<u>2,658,459</u>	<u>2,794,156</u>
CASH AND CASH EQUIVALENTS - ENDING	<u><u>\$ 2,022,777</u></u>	<u><u>\$ 2,658,459</u></u>
Supplemental disclosures of non-cash investing and financing activities:		
Write-off of property and equipment	<u>\$ 151,828</u>	<u>\$ 236,195</u>
Write-off of accumulated depreciation associated with write-off of property and equipment	<u>\$ (30,480)</u>	<u>\$ (236,195)</u>

See accompanying notes to financial statements.

COUNCIL FOR HIGHER EDUCATION ACCREDITATION
(A Nonprofit Organization)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1. ORGANIZATION

The Council for Higher Education Accreditation (the "Council") is a District of Columbia nonprofit corporation. The Council is dedicated to serving students and their families, colleges and universities, sponsoring bodies, governments and employers by promoting academic quality through formal recognition of higher education accrediting bodies and working to advance self regulation through accreditation. The Council fulfills its mission by focusing its efforts in six service areas.

Membership services

Membership services serves as a primary national forum for accreditation and quality review through the sponsorship of meetings and conferences involving the academic and accreditation communities, policy makers, and international community. Membership services also provides services to member organizations through conducting research and policy analysis, maintenance of the Council's comprehensive database and engaging university presidents in the policy and process of accreditation.

Government relations

Government relations sustains and maintains a strategic and effective government relationship.

Recognition policy

Recognition policy affirms that the standards and processes of the accrediting organization are consistent with the academic quality, improvement and accountability expectations that the Council has established.

The Council's International Quality Group

The Council's International Quality Group ("CIQG") advances international quality assurance and improvement, assisting institutions as well as accreditation and quality assurance organizations in furthering capacity for academic quality as they expand international engagements.

Change Magazine

The Council serves as the editorial home of the *Change Magazine*. The magazine deals with contemporary issues in higher education intended to stimulate and inform faculty, academic administrators, policy leaders and others on key issues and challenges for colleges and universities.

Research and policy

The Council's research and policy analysis function identifies and addresses topics related to accreditation and quality assurance practice and policy, nationally and internationally.

COUNCIL FOR HIGHER EDUCATION ACCREDITATION
(A Nonprofit Organization)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The Council prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which require the Council to report information regarding its financial position and activities according to the following net assets classifications:

Net Assets Without Donor Restrictions - Net assets available 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 emergency reserve, board-designated reserve, and a directors book fund.

Net Assets With Donor Restrictions - Net assets subject to donor-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 restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenue recognition

In accordance with the criteria established in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958, *Not-For-Profit Entities*, the Council accounts for membership dues as contributions in lieu of revenue earned from exchange transactions. As such, membership revenue is reported as an increase in net assets without donor restrictions unless the membership dues are designated for a subsequent year. Expenses and losses are reported as decreases in net assets without donor restrictions. Expirations of temporary restrictions on net assets by fulfillment of the donor-stipulated purpose or by passage of the stipulated time period are reported as reclassifications between the applicable classes of net assets.

Conference fee revenue is recognized upon completion of the activity. Payments received prior to the completion of the conference are reflected as deferred revenues.

Use of estimates

The preparation of the Council's financial statements in conformity with U.S. GAAP requires the use of 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 periods. Actual results could differ from those estimates, and those differences could be material.

Cash and cash equivalents

Cash and cash equivalents consist primarily of cash on deposit, certificates of deposit, money market accounts, and investment grade commercial paper that are readily convertible into cash and purchased with original maturities of three months or less. Money market accounts included with brokerage accounts are classified as investments.

COUNCIL FOR HIGHER EDUCATION ACCREDITATION
(A Nonprofit Organization)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents (continued)

The Council has established a cash money market account which includes \$500,000 of funds the Council's Board of Directors (the "Board") has designated as an emergency reserve (see Note 7), and additional funds for use in supporting the Council's projects and future goals. During the year ended June 30, 2019, the Council expended funds from the cash money market account for the renovation and expansion of the Council's offices, initiation of the research and policy analysis function, and support for the editorial office of *Change Magazine*. These expenditures were either authorized by the the Board or within the expenditure authority the Board has established for the Council's staff. No expenditures were were made from the emergency reserve during the years ended June 30, 2019 or 2018. At June 30, 2019 and 2018, the balance in the cash money market account was \$581,645 and \$973,466, respectively.

Accounts receivable

Accounts receivable are stated at the amount the Council expects to collect from outstanding balances. As of June 30, 2019 and 2018, management has deemed all accounts receivable to be fully collectible.

Investments

The Council carries investments at their fair values in the accompanying statements of financial position. Fair value is determined, when available, from quoted prices on major markets, such as the New York Stock Exchange. Investment return, which consists of realized and unrealized gains and losses, interest income and dividends, net of fees, are reported as an increase in net assets without donor restrictions unless the related assets are limited by other donor-imposed restrictions.

Property and equipment

Acquisitions of property and equipment are recorded at cost. Furniture, equipment, computer equipment and software purchases greater than \$1,000 are capitalized. Leasehold improvements greater than \$1,000 are capitalized and then amortized over the term of the lease or the estimated useful life of the improvement, whichever is shorter. When assets are sold or retired, their cost and related accumulated depreciation are removed from the accounts and any gain or loss reported in the statements of activities.

Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which are as follows:

Furniture and equipment	3 - 7 years
Computer equipment and software	3 - 7 years
Leasehold improvements	The shorter of the useful life or the term of lease

COUNCIL FOR HIGHER EDUCATION ACCREDITATION
(A Nonprofit Organization)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional allocation of expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements 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 expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Personnel	Time and effort
Professional fees	Time and effort
Office	Time and effort
Occupancy costs	Time and effort
Information systems	Time and effort
Depreciation and amortization	Time and effort
Printing and publication	Time and effort
Travel	Time and effort
Sponsorship	Time and effort
Website	Time and effort

Income taxes

The Council is recognized as a tax-exempt organization as defined in Section 501(c)(3) of the Internal Revenue Code (the "Code") and is generally exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. There was no unrelated business income for the years ended June 30, 2019 and 2018.

The Council has filed for and received income tax exemptions in the various jurisdictions where it is required to do so. The Council files Form 990 in the U.S. federal jurisdiction. Management of the Council believes it has no material uncertain tax positions, and, accordingly, has not recognized any unrecognized tax liabilities in these financial statements.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation. These reclassification adjustments had no effect on the the Council's previously reported change in net assets.

Recently adopted accounting pronouncement

In August 2016, FASB issued Accounting Standards Update ("ASU") No. 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities (Topic 958)* ("ASU 2016-14"). This update significantly changes how not-for-profit entities present net assets on the face of the financial statements, as well as requires additional disclosures for expenses by nature and function and for liquidity and availability of resources. ASU 2016-14 is effective for years beginning after December 15, 2017, with early adoption permitted. The Council has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

COUNCIL FOR HIGHER EDUCATION ACCREDITATION
(A Nonprofit Organization)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently issued but not yet adopted accounting pronouncements

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* ("ASU 2018-08"), which provides guidance for determining whether a transaction should be accounted for as a contribution or an exchange transaction, and whether a contribution is conditional or unconditional. This ASU is effective for years beginning after December 15, 2018. The Council is currently evaluating the effect that this will have on its financial statements and related disclosures.

In February 2016, FASB issued ASU No. 2016-02, *Leases*. This update requires all leases with a term greater than 12 months to be recognized on the statement of financial position through a right-of-use asset and a lease liability and the disclosure of key information pertaining to leasing agreements. This new guidance is effective for years beginning after December 15, 2019, with early adoption permitted. The Council is currently evaluating the effect that this will have on its financial statements and related disclosures.

In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-019"), which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU will replace most existing revenue recognition guidance in U.S. GAAP, including industry-specific guidance, when it becomes effective. The guidance is effective for years beginning after December 15, 2018. The Council is currently evaluating the effect that this will have on its financial statements and related disclosures.

Subsequent events

In accordance with FASB ASC 855, *Subsequent Events*, management has evaluated subsequent events through September 25, 2019, the date on which these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

COUNCIL FOR HIGHER EDUCATION ACCREDITATION
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 3. LIQUIDITY AND AVAILABILITY

The following represents the Council's financial assets as of June 30, 2019 and 2018:

Financial assets at year end:	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 2,022,777	\$ 2,658,459
Accounts receivable, net	250	1,360
Investments	<u>3,842,392</u>	<u>3,593,017</u>
Total financial assets at year end	5,865,419	6,252,836
Less amounts not available to be used within one year:		
Less net assets with Board designations	<u>(4,360,459)</u>	<u>(4,114,873)</u>
Financial assets available to meet general expenditures over the next 12 months	<u>\$ 1,504,960</u>	<u>\$ 2,137,963</u>

The Council's goal is generally to maintain financial assets to sustain long-term investment without exposure to undue risk. As part of the Council's liquidity plan, investments are maintained in open-end mutual funds.

NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Furniture and equipment	\$ 124,870	\$ 103,660
Computer equipment and software	330,605	365,869
Leasehold improvements	<u>161,310</u>	<u>3,603</u>
Total cost	616,785	473,132
Less: accumulated depreciation and amortization	<u>198,930</u>	<u>181,299</u>
Property and equipment, net	<u>\$ 417,855</u>	<u>\$ 291,833</u>

NOTE 5. INVESTMENTS

FASB ASC 820, *Fair Value Measurement*, provides a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. Under the standard, fair value is defined as the exit price or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date.

COUNCIL FOR HIGHER EDUCATION ACCREDITATION
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 5. INVESTMENTS (CONTINUED)

The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 - inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Council 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 assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and, 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 Board has established a reserve fund which is invested in a manner that complies with all federal and District of Columbia requirements applicable to the Council as currently constituted, specifically including, but not limited to, any laws or regulations pertaining to the maintenance of the Council's federal tax exemption under Section 501(c)(3) of the Code as an organization described in Section 509(a)(2) of the Code.

The Council's investments are managed at risk levels equivalent to the sectors of the market represented. Control of the investment reserves is vested in the Board, the reserve, investment and audit committee, the Council staff and an external investment advisor with specific levels of responsibility. The investment guidelines and restrictions included in the Reserve and Investment Policy (the "Policy") serve as a framework to achieve the investment objectives at a level of risk that the Board deems acceptable.

COUNCIL FOR HIGHER EDUCATION ACCREDITATION
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NOTE 5. INVESTMENTS (CONTINUED)

A summary of investments held as of June 30, 2019 and 2018, is as follows:

	<u>2019</u>		<u>2018</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash	\$ <u>40,280</u>	\$ <u>40,280</u>	\$ <u>34,260</u>	\$ <u>34,260</u>
Open-end mutual funds:				
Large Value	-	-	701,584	792,675
World Bond	323,709	334,340	541,051	522,867
Multi-Sector Bond	377,732	363,589	393,725	368,910
World Stock	300,506	354,078	266,546	322,994
Intermediate Term	292,993	469,663	433,489	417,110
Large Blend	414,862	473,834	319,706	350,068
World Allocation	285,812	308,375	192,061	210,475
Large Growth	302,794	321,136	268,000	262,910
Multi-alternative	226,498	228,289	214,642	213,878
Short-term Bonds	327,020	330,546	98,009	96,870
Tactical Allocation	<u>554,377</u>	<u>618,262</u>	<u>-</u>	<u>-</u>
Subtotal	<u>3,406,303</u>	<u>3,802,112</u>	<u>3,428,813</u>	<u>3,558,757</u>
Total	<u>\$ 3,446,583</u>	<u>\$ 3,842,392</u>	<u>\$ 3,463,073</u>	<u>\$ 3,593,017</u>

Investment return consisted of the following for the years ended June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Investment return	\$ 287,793	\$ 217,732
Investment fees	<u>(30,699)</u>	<u>(29,747)</u>
Total	<u>\$ 257,094</u>	<u>\$ 187,985</u>

NOTE 6. INVESTMENT IN AMHIC, A RECIPROCAL ASSOCIATION

The Council invests in a subscriber savings account with AMHIC, A Reciprocal Association ("AMHIC"), a reciprocal insurance exchange and captive insurer. AMHIC acts as an insurer of health care and other employee benefits for healthcare, research, or other public service associations. The Council carries its investment in AMHIC at fair value with adjustments to the subscriber savings account included in investment return.

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NOTE 7. NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions includes Board-designated funds consisting of the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Board-designated:		
Fixed asset fund	\$ 18,067	\$ 21,856
Board-designated reserve fund	3,023,931	2,828,110
CHEA Emergency Reserve	500,000	500,000
Directors book fund	<u>818,461</u>	<u>764,907</u>
Total Board-designated net assets	<u>\$ 4,360,459</u>	<u>\$ 4,114,873</u>

Fixed asset fund

The purpose of the fixed asset fund is to set aside funds as needed for property and equipment additions, improvements, and other purchases. Funds are released upon incurring of expenses specifically related to this project.

Board-designated reserve fund

The purpose of the Board-designated reserve fund is to maintain a financial asset for future investment in the Council. Release of the funds is upon the Board's determination. Income earned on specified investment accounts is added to the principal of the Board-designated reserve fund.

CHEA Emergency Reserve

During the year ended June 30, 2018, the Board set aside \$500,000 of funds as an emergency reserve (the "CHEA Emergency Reserve") for use in an emergency situation. Release of the funds is upon approval by two of the following officers: President, Board Chair, and/or Board Treasurer. The funds are held in a cash money market account established by the Council (see Note 2).

Directors book fund

As part of the employment contract that the Council has with the President (see Note 12), the Council has agreed to pay the President's salary and benefits for a period of 12 months during which the President will serve as President Emeritus reporting directly to the Board through its Chair. The purpose of the directors book fund is to set aside funds specifically to meet this contractual obligation with the President. Release of funds from the directors book fund is upon Board determination, and income earned on specified investment accounts is added to the principal of the directors book fund.

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NOTE 8. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Subject to passage of time:		
Dues payments for future operations	\$ <u>1,705,951</u>	\$ <u>1,793,844</u>

Net assets were released from donor restrictions by the passage of time as follows for the years ended June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Expiration of time restrictions	\$ <u>1,793,844</u>	\$ <u>1,706,796</u>

NOTE 9. CONCENTRATION OF CREDIT RISK

The Council manages deposit concentration risk by placing its cash in bank deposit accounts with financial institutions believed by the Council to be creditworthy. At times, amounts on deposit may exceed insured limits. To date, the Council has not experienced any losses in these accounts. The balances in excess of Federal Deposit Insurance Corporation insurance coverage of \$250,000 amounted to \$1,484,376 and \$1,316,688 at June 30, 2019 and 2018, respectively.

The Council invests in various mutual funds. These investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the accompanying statements of financial position.

NOTE 10. RETIREMENT PLANS

The Council maintains a tax-deferred annuity plan qualified under Section 403(b) of the Code. The Council contributes 12 percent of gross salaries for eligible employees to the plan. Employees may make elective contributions to the plan up to the maximum amount allowed by the Code.

In 2003, the Council established a Section 457(b) deferred compensation plan as part of its president's contract. In 2005, the nonqualified deferred compensation plan was expanded to include a top hat group of employees. The assets and liabilities relating to the plans totaling \$546,998 and \$498,153 as of June 30, 2019 and 2018, respectively, appear in the accompanying statements of financial position.

For the years ended June 30, 2019 and 2018, the Council contributed \$180,371 and \$174,584, respectively, on behalf of its employees to these plans.

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NOTE 11. OCCUPANCY COSTS

The Council entered into a lease for its office space under a non-cancelable operating lease agreement, which expires June 30, 2028. The lease agreement includes lease incentives including a three-month abatement period and an improvement allowance. The rental expense is recorded on the straight-line method over the terms of the lease.

Future minimum payments under the lease as of June 30, 2019, are as follows:

<u>Year ending June 30:</u>	<u>Amount</u>
2020	\$ 196,152
2021	201,056
2022	206,082
2023	211,234
2024	216,515
2025 and thereafter	<u>921,561</u>
Total	<u>\$ 1,952,600</u>

Occupancy costs consisted of the following for the years ended June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Occupancy	\$ 209,002	\$ 130,005
Parking	2,586	2,554
Repairs and maintenance	2,851	3,026
Storage	<u>1,410</u>	<u>979</u>
Total	<u>\$ 215,849</u>	<u>\$ 136,564</u>

NOTE 12. EMPLOYMENT AGREEMENT

The Council has an employment agreement with its president. Following termination of employment as president, employment shall continue as President Emeritus for a period of 12 months.

NOTE 13. FAIR VALUE MEASUREMENTS

Assets and liabilities are measured at fair value based on one or more of three valuation techniques identified in the tables below. The valuation techniques are as follows:

- (a) *Market approach.* Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;
- (b) *Cost approach.* Amount that would be required to replace the service capacity of an asset (replacement cost); and
- (c) *Income approach.* Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing and excess earnings models).

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NOTE 13. FAIR VALUE MEASUREMENTS (CONTINUED)

The following tables summarize the Council's fair value measurements on a recurring basis using the valuation hierarchy as of June 30, 2019 and 2018:

Description	Level 1	Level 2	Level 3	Total at June 30, 2019	Valuation Technique
Investments:					
Cash	\$ 40,280	\$ -	\$ -	\$ 40,280	(a)
Open-end mutual funds	<u>3,802,112</u>	<u>-</u>	<u>-</u>	<u>3,802,112</u>	(a)
Total investments	<u>3,842,392</u>	<u>-</u>	<u>-</u>	<u>3,842,392</u>	
Investment in AMHIC	<u>-</u>	<u>-</u>	<u>5,119</u>	<u>5,119</u>	(c)
Investments in nonqualified employee benefit plan:					
Retirement annuities	<u>460,337</u>	<u>-</u>	<u>86,661</u>	<u>546,998</u>	(a)(c)
Total	<u>\$ 4,302,729</u>	<u>\$ -</u>	<u>\$ 91,780</u>	<u>\$ 4,394,509</u>	
Liabilities:					
Obligations under nonqualified employee benefit plan	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 86,661</u>	<u>\$ 86,661</u>	

Description	Level 1	Level 2	Level 3	Total at June 30, 2018	Valuation Technique
Investments:					
Cash	\$ 34,260	\$ -	\$ -	\$ 34,260	(a)
Open-end mutual funds	<u>3,558,757</u>	<u>-</u>	<u>-</u>	<u>3,558,757</u>	(a)
Total investments	<u>3,593,017</u>	<u>-</u>	<u>-</u>	<u>3,593,017</u>	
Investment in AMHIC	<u>-</u>	<u>-</u>	<u>3,535</u>	<u>3,535</u>	(c)
Investments in nonqualified employee benefit plan:					
Retirement annuities	<u>418,874</u>	<u>-</u>	<u>79,279</u>	<u>498,153</u>	(a)(c)
Total	<u>\$ 4,011,891</u>	<u>\$ -</u>	<u>\$ 82,814</u>	<u>\$ 4,094,705</u>	
Liabilities:					
Obligations under nonqualified employee benefit plan	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 79,279</u>	<u>\$ 79,279</u>	

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NOTE 13. FAIR VALUE MEASUREMENTS (CONTINUED)

During the year ended June 30, 2019, there were no transfers between levels of the fair value hierarchy.

Level 3 gains and losses

The following table presents the Council's activity for investments and liabilities measured at fair value on a recurring basis using significant unobservable inputs at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Balance - beginning of year	\$ 79,279	\$ 72,394
Total realized and unrealized gains	2,653	2,385
Purchases, issuances and settlements	<u>4,729</u>	<u>4,500</u>
Balance - end of year	<u>\$ 86,661</u>	<u>\$ 79,279</u>

The retirement annuities are invested in various classes including multiple equities, real estate, and bonds.

The following is a description of the valuation methodologies used for assets measured at fair value:

Mutual funds: valued at the quoted price of shares valued at year-end.

Guaranteed investment contract: value determined by the investment manager.

Money market funds: valued at cost plus accrued interest, which approximates fair value.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Council believes its valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.