

**COUNCIL FOR HIGHER EDUCATION
ACCREDITATION
(A Nonprofit Organization)
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019**

COUNCIL FOR HIGHER EDUCATION ACCREDITATION
(A Nonprofit Organization)
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1 - 2
Financial Statements	
Statements of financial position	3
Statements of activities	4
Statements of functional expenses	5 - 6
Statements of cash flows	7
Notes to financial statements	8 - 22

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Council for Higher Education Accreditation

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, 2020 and 2019, 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, 2020 and 2019, 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.

Adoption of New Accounting Pronouncement

As discussed in Note 2 to the financial statements, the Council for Higher Education Accreditation adopted new accounting standard Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, as of July 1, 2019. Our opinion is not modified with respect to this matter.



CERTIFIED PUBLIC ACCOUNTANTS

Bethesda, Maryland
October 19, 2020

COUNCIL FOR HIGHER EDUCATION ACCREDITATION
(A Nonprofit Organization)
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 1,783,821	\$ 2,022,777
Accounts receivable	-	250
Prepaid expenses	53,798	49,616
Investments	3,936,314	3,842,392
Investment in AMHIC, A Reciprocal Association	5,119	5,119
Investments in nonqualified employee benefit plan	647,632	546,998
Property and equipment, net	<u>355,769</u>	<u>417,855</u>
TOTAL ASSETS	<u>\$ 6,782,453</u>	<u>\$ 6,885,007</u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ 186,113	\$ 180,509
Deferred rent	85,677	73,013
Obligations under nonqualified employee benefit plan	647,632	546,998
Loan payable	<u>228,000</u>	<u>-</u>
Total liabilities	<u>1,147,422</u>	<u>800,520</u>
Net assets:		
Without donor restrictions	200,256	18,077
Without donor restrictions - Board-designated	<u>4,411,315</u>	<u>4,360,459</u>
	4,611,571	4,378,536
With donor restrictions - time restricted for future periods	<u>1,023,460</u>	<u>1,705,951</u>
Total net assets	<u>5,635,031</u>	<u>6,084,487</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,782,453</u>	<u>\$ 6,885,007</u>

See accompanying notes to financial statements.

COUNCIL FOR HIGHER EDUCATION ACCREDITATION
(A Nonprofit Organization)
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>			<u>2019</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	\$ 1,458,260	\$ 1,003,280	\$ 2,461,540	\$ 1,397,967	\$ 1,686,951	\$ 3,084,918
Conference fees	236,138	-	236,138	222,990	-	222,990
Recognition fees	180,000	-	180,000	10,000	-	10,000
Investment return, net	95,841	-	95,841	257,094	-	257,094
International dues	30,600	20,180	50,780	6,312	19,000	25,312
Other	5	-	5	3,585	-	3,585
Net assets released from time restrictions	<u>1,705,951</u>	<u>(1,705,951)</u>	<u>-</u>	<u>1,793,844</u>	<u>(1,793,844)</u>	<u>-</u>
Total revenues and other support	<u>3,706,795</u>	<u>(682,491)</u>	<u>3,024,304</u>	<u>3,691,792</u>	<u>(87,893)</u>	<u>3,603,899</u>
Expenses:						
Program services expense:						
Membership services	1,069,009	-	1,069,009	1,237,109	-	1,237,109
Government relations	673,463	-	673,463	732,848	-	732,848
Recognition policy	568,464	-	568,464	638,248	-	638,248
The Council's International Quality Group	449,256	-	449,256	477,480	-	477,480
Research and policy	227,876	-	227,876	137,388	-	137,388
Change Magazine	<u>101,144</u>	<u>-</u>	<u>101,144</u>	<u>114,486</u>	<u>-</u>	<u>114,486</u>
Total program services expense	3,089,212	-	3,089,212	3,337,559	-	3,337,559
General and administrative	<u>384,548</u>	<u>-</u>	<u>384,548</u>	<u>530,831</u>	<u>-</u>	<u>530,831</u>
Total expenses	<u>3,473,760</u>	<u>-</u>	<u>3,473,760</u>	<u>3,868,390</u>	<u>-</u>	<u>3,868,390</u>
Change in net assets	233,035	(682,491)	(449,456)	(176,598)	(87,893)	(264,491)
Net assets - beginning	<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>
NET ASSETS - ENDING	<u>\$ 4,611,571</u>	<u>\$ 1,023,460</u>	<u>\$ 5,635,031</u>	<u>\$ 4,378,536</u>	<u>\$ 1,705,951</u>	<u>\$ 6,084,487</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, 2020

Program Services

	Membership services	Government relations	Recognition policy	The Council's International Quality Group	Research and policy	Change Magazine	Total program services expenses	General and administrative	Total expenses
Personnel	\$ 653,678	\$ 530,458	\$ 405,183	\$ 271,772	\$ 177,295	\$ -	\$ 2,038,386	\$ 230,976	\$ 2,269,362
Professional fees	25,738	20,885	44,605	110,706	9,822	84,786	296,542	51,058	347,600
Conference	236,098	-	-	-	-	-	236,098	-	236,098
Occupancy costs	62,979	51,105	39,034	26,197	17,057	-	196,372	22,305	218,677
Office	26,286	21,328	16,292	11,064	7,117	-	82,087	9,311	91,398
Depreciation and amortization	17,881	14,510	11,082	7,438	4,843	-	55,754	6,332	62,086
Committees	-	-	4,077	-	-	-	4,077	48,089	52,166
Website	13,634	11,064	8,450	5,727	3,693	-	42,568	4,829	47,397
Information systems	11,238	9,119	6,965	4,675	3,044	-	35,041	4,043	39,084
Travel	3,256	2,642	12,958	3,499	882	14,077	37,314	1,396	38,710
Printing and publication	12,679	7,854	5,999	4,026	2,621	800	33,979	4,152	38,131
Supplies	2,898	2,352	11,096	1,206	785	233	18,570	1,121	19,691
Meals and reception	955	775	1,676	2,243	259	1,248	7,156	338	7,494
Sponsorship	1,689	1,371	1,047	703	458	-	5,268	598	5,866
TOTAL EXPENSES BY FUNCTION	<u>\$ 1,069,009</u>	<u>\$ 673,463</u>	<u>\$ 568,464</u>	<u>\$ 449,256</u>	<u>\$ 227,876</u>	<u>\$ 101,144</u>	<u>\$ 3,089,212</u>	<u>\$ 384,548</u>	<u>\$ 3,473,760</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	Government relations	Recognition policy	The Council's International Quality Group	Research and policy	Change Magazine	Total program services expenses	General and administrative	Total expenses
Personnel	\$ 528,383	\$ 501,198	\$ 393,094	\$ 243,477	\$ 136,388	\$ -	\$ 1,802,540	\$ 237,818	\$ 2,040,358
Professional fees	245,063	88,253	80,418	150,213	-	88,157	652,104	41,869	693,973
Conference	311,450	-	-	-	-	-	311,450	-	311,450
Occupancy costs	59,553	56,963	44,659	27,650	-	-	188,825	27,024	215,849
Office	35,773	32,020	25,104	15,795	1,000	-	109,692	15,191	124,883
Depreciation and amortization	13,274	12,696	9,954	6,163	-	-	42,087	6,024	48,111
Committees	-	-	-	-	-	-	-	61,766	61,766
Website	10,296	9,848	7,721	4,837	-	-	32,702	4,672	37,374
Information systems	15,399	14,730	11,548	7,150	-	-	48,827	6,988	55,815
Travel	6,871	6,572	47,141	8,289	-	23,298	92,171	3,118	95,289
Printing and publication	9,578	9,162	7,183	4,447	-	-	30,370	4,346	34,716
Supplies	-	-	4,745	8,500	-	899	14,144	-	14,144
Meals and reception	-	-	5,579	277	-	2,132	7,988	-	7,988
Sponsorship	1,469	1,406	1,102	682	-	-	4,659	667	5,326
Loss on disposal of property and equipment	-	-	-	-	-	-	-	121,348	121,348
TOTAL EXPENSES BY FUNCTION	<u>\$ 1,237,109</u>	<u>\$ 732,848</u>	<u>\$ 638,248</u>	<u>\$ 477,480</u>	<u>\$ 137,388</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)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Reconciliation of change in net assets to net cash from operating activities:		
Change in net assets	\$ (449,456)	\$ (264,491)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	62,086	48,111
Realized/unrealized gains on investments	(32,299)	(178,998)
Loss on disposal of property and equipment	-	121,348
Changes in assets and liabilities:		
Accounts receivable	250	1,110
Prepaid expenses	(4,182)	(23,423)
Accounts payable and accrued expenses	5,604	(43,210)
Deferred rent	12,664	73,013
Deferred revenues	-	(1,700)
Net cash used in operating activities	<u>(405,333)</u>	<u>(268,240)</u>
Cash flows from investing activities:		
Proceeds from sale of investments	819,844	291,970
Purchases of investments	(881,467)	(362,347)
Contribution to AMHIC, A Reciprocal Association	-	(1,584)
Purchases of property and equipment	-	(295,481)
Net cash used in investing activities	<u>(61,623)</u>	<u>(367,442)</u>
Cash provided by financing activities:		
Proceeds from loan payable	<u>228,000</u>	<u>-</u>
Net decrease in cash and cash equivalents	(238,956)	(635,682)
Cash and cash equivalents - beginning	<u>2,022,777</u>	<u>2,658,459</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 1,783,821</u>	<u>\$ 2,022,777</u>
Supplemental disclosures of non-cash investing and financing activities:		
Write-off of property and equipment	<u>\$ -</u>	<u>\$ 151,828</u>
Write-off of accumulated depreciation associated with write-off of property and equipment	<u>\$ -</u>	<u>\$ (30,480)</u>

See accompanying notes to financial statements.

COUNCIL FOR HIGHER EDUCATION ACCREDITATION
(A Nonprofit Organization)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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 *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, 2020 AND 2019

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

Membership dues

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 restricted 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.

Recognition and conference fees

Year ended June 30, 2020

The Council adopted ASC Topic 606, *Revenue from Contracts with Customers* ("Topic 606") on July 1, 2019. With the adoption of Topic 606, revenue is measured based on the consideration specified in a contract with a customer. Under Topic 606, the Council recognizes revenue when it satisfies a performance obligation by transferring control over a product or services to a customer. The majority of the Council's services represent specific services that are distinct and each event or recognition process is treated as a single performance obligation that is satisfied as the services are rendered.

Conference fees are recognized at the time the event takes place. Recognition fees are recognized at the time the application is submitted for evaluation. Payments for fees received in advance are deferred to the applicable period in which the related event or service is performed. The Council believes that this method provides a faithful depiction of the transfer of goods and services over the term of the performance obligation based on the inputs needed to satisfy the obligation.

COUNCIL FOR HIGHER EDUCATION ACCREDITATION
(A Nonprofit Organization)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Year ended June 30, 2020 (continued)

The Council determines transaction price based on contractually agreed upon rates per event or recognition service.

Topic 606 was adopted on a retrospective basis, which had no material effect on the prior year balances; thus there were no adjustments to opening net assets.

Year ended June 30, 2019

For the year ended June 30, 2019, the Council recognized revenue according to ASC Topic 605 ("ASC 605), *Revenue Recognition*, when (1) the customer accepted delivery of the product and title had been transferred or when the service was performed and the Council had no significant obligation remaining to be performed; (2) a final understanding as to the specific nature and terms of the agreed-upon transaction had occurred; (3) price was fixed and determinable; and (4) collection was assured. Services generally met these criteria, and revenue was recognized, when services were rendered.

Disaggregation of revenues

The composition of the Council's fee-based revenues for the years ended June 30, 2020 and 2019, is as follows:

	<u>2020</u>	<u>2019</u>
Fees:		
Conferences	\$ 236,138	\$ 222,990
Recognition	<u>180,000</u>	<u>10,000</u>
Total	<u>\$ 416,138</u>	<u>\$ 232,990</u>
Timing of revenue recognition:		
At point in time	<u>\$ 416,138</u>	<u>\$ 232,990</u>

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, 2020 AND 2019

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents (continued)

The Council had established a cash money market account which included \$500,000 of funds the Council's Board of Directors (the "Board") had designated as part of an emergency reserve (see Note 8), 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 Board or within the expenditure authority the Board has established for the Council's staff. During the year ended June 30, 2020, the money market account was liquidated and the funds were transferred to other cash accounts, while the designation for the emergency reserve remained intact. At June 30, 2019, the balance in the cash money market account was \$581,645.

Accounts receivable

Accounts receivable are stated at the amount the Council expects to collect from outstanding balances. As of June 30, 2020 and 2019, 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, 2020 AND 2019

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
Conference	Direct
Occupancy costs	Time and effort
Office	Time and effort
Depreciation and amortization	Time and effort
Committees	Direct
Website, Information systems, Travel, Printing and publication, and others	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, 2020 and 2019.

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 Council's previously reported change in net assets.

Risks and uncertainties

During March 2020, the World Health Organization declared the outbreak of a strain of coronavirus ("COVID-19") to constitute a "Public Health Emergency of International Concern." Disruptions to business operations have occurred and could continue to develop as a result of quarantines of employees, members, and vendors in areas affected by the outbreak. Given the uncertainty of the situation, the duration of the business disruption and related financial impact cannot be reasonably estimated at this time.

COUNCIL FOR HIGHER EDUCATION ACCREDITATION
(A Nonprofit Organization)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently adopted accounting pronouncements

In May 2014, FASB issued Accounting Standards Update ("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 replaced most existing revenue recognition guidance in U.S. GAAP, including industry-specific guidance, when it became effective. The guidance is effective for years beginning after December 15, 2018. The Council has applied ASU 2014-09 retrospectively to all periods presented and no material changes resulted from the adoption of this ASU.

In June 2018, 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. The Council has applied ASU 2018-08 retrospectively to all periods presented and no material changes resulted from the adoption of this ASU.

Recently issued but not yet adopted accounting pronouncement

In February 2016, FASB issued ASU No. 2016-02, *Leases* ("ASU No. 2016-02"). 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 was amended in June 2020 by ASU No. 2020-05, *Revenue From Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, deferring the effective date of ASU No. 2016-02 to years beginning after December 15, 2021, with early adoption permitted. The Council is currently evaluating the effect that this will have on its financial statements and related disclosures.

Subsequent events

The Council has evaluated subsequent events through October 19, 2020, the date the 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
(A Nonprofit Organization)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 3. LIQUIDITY AND AVAILABILITY

The following represents the Council's financial assets as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 1,783,821	\$ 2,022,777
Accounts receivable, net	-	250
Investments	<u>3,936,314</u>	<u>3,842,392</u>
Total financial assets at year end	5,720,135	5,865,419
Less amounts not available to be used within one year:		
Net assets with Board designations	<u>4,411,315</u>	<u>4,360,459</u>
Financial assets available to meet general expenditures over the next 12 months	<u>\$ 1,308,820</u>	<u>\$ 1,504,960</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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Furniture and equipment	\$ 124,870	\$ 124,870
Computer equipment and software	330,605	330,605
Leasehold improvements	<u>161,310</u>	<u>161,310</u>
Total cost	616,785	616,785
Less: accumulated depreciation and amortization	<u>261,016</u>	<u>198,930</u>
Property and equipment, net	<u>\$ 355,769</u>	<u>\$ 417,855</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
(A Nonprofit Organization)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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
(A Nonprofit Organization)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 5. INVESTMENTS (CONTINUED)

A summary of investments held as of June 30, 2020 and 2019, is as follows:

	<u>2020</u>		<u>2019</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Money market funds	\$ <u>52,150</u>	\$ <u>52,150</u>	\$ <u>40,280</u>	\$ <u>40,280</u>
Open-end mutual funds:				
Large Value	574,996	590,641	-	-
World Bond	369,314	371,712	323,709	334,340
Multi-Sector Bond	-	-	377,732	363,589
World Stock	270,169	335,119	300,506	354,078
Intermediate Term	1,094,331	1,290,934	292,993	469,663
Large Blend	385,057	456,119	414,862	473,834
World Allocation	303,427	301,355	285,812	308,375
Large Growth	277,357	306,448	302,794	321,136
Multi-alternative	237,077	231,836	226,498	228,289
Short-term Bonds	-	-	327,020	330,546
Tactical Allocation	-	-	554,377	618,262
Subtotal	<u>3,511,728</u>	<u>3,884,164</u>	<u>3,406,303</u>	<u>3,802,112</u>
Total	<u>\$ 3,563,878</u>	<u>\$ 3,936,314</u>	<u>\$ 3,446,583</u>	<u>\$ 3,842,392</u>

Investment return consisted of the following for the years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Interest income	\$ 1,956	\$ 7,821
Dividends	93,891	100,974
Realized gain	48,894	80,336
Unrealized gain (loss)	<u>(16,595)</u>	<u>98,662</u>
Investment return	128,146	287,793
Investment fees	<u>(32,305)</u>	<u>(30,699)</u>
Total	<u>\$ 95,841</u>	<u>\$ 257,094</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.

COUNCIL FOR HIGHER EDUCATION ACCREDITATION
(A Nonprofit Organization)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 7. LOAN PAYABLE

On April 20, 2020, the Council received loan proceeds of approximately \$228,000 under the Paycheck Protection Program (“PPP”) from Truist Bank, a North Carolina banking corporation. The PPP, which was established as part of the Coronavirus Aid, Relief and Economic Security Act, provides for loans to qualifying businesses for amounts up to 2.5 times certain average monthly payroll expenses of the qualifying business. The loan and accrued interest, or a portion thereof, may be forgiven after 24 weeks so long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent, mortgage interest and utilities, and maintains its payroll levels, as defined by the PPP. At least 60% of the loan proceeds must be spent on payroll costs, as defined by the PPP, for the loan to be eligible for forgiveness.

The PPP loan matures two years from the date of first disbursement of proceeds to the Council (the “PPP Loan Date”) and accrues interest at a fixed rate of 1%. In accordance with terms of the loan's promissory note, payments are deferred for the first seven months from the PPP Loan Date, at which time they are payable in 17 consecutive monthly payments of interest and principal.

The Council currently intends to use the proceeds for purposes consistent with the PPP; however, there can be no assurances that the Council will ultimately meet the conditions for forgiveness of the loan or that the Council will not take actions that could cause the Council to be ineligible for forgiveness of the loan, in whole or in part.

Based on the facts and circumstances, the Council has determined it most appropriate to account for the PPP loan proceeds under the debt model. Under the debt model, the Council recognizes the proceeds received as debt, recognizes periodic interest expense in the period in which the interest accrues at the stated interest rate and defers recognition of any potential forgiveness of the loan principal or interest until the period in which the Council has been legally released from its obligation by the lender. The Council deemed the debt model to be the most appropriate accounting policy for this arrangement as the underlying PPP loan is a legal form of debt and there are significant contingencies outside of the control of the Council, mainly related to the third-party approval process for forgiveness.

NOTE 8. NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions includes Board-designated funds consisting of the following at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Board-designated:		
Fixed asset fund	\$ 18,067	\$ 18,067
Board-designated reserve fund	3,098,110	3,023,931
CHEA Emergency Reserve	500,000	500,000
Directors book fund	<u>795,138</u>	<u>818,461</u>
Total Board-designated net assets	<u>\$ 4,411,315</u>	<u>\$ 4,360,459</u>

COUNCIL FOR HIGHER EDUCATION ACCREDITATION
(A Nonprofit Organization)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 8. NET ASSETS WITHOUT DONOR RESTRICTIONS (CONTINUED)

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 was upon the Board's determination. In January 2020, the Board established of a \$1,750,000 reserve minimum to be maintained in the Board-designated reserve fund. In connection with the establishment of the reserve minimum, the Board modified the purpose of the Board-designated reserve fund, to include investing in the organizational needs for sustaining and growing the Council's future. The Council may request draw-downs of the Board-designated reserve with proper demonstration of need and budget, subject to the Board's approval. Income earned on specified investment accounts is added to the principal of the Board-designated reserve fund.

CHEA Emergency Reserve

The Board has set aside 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 13), 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.

NOTE 9. NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2020</u>	<u>2019</u>
Subject to passage of time:		
Dues payments for future operations	\$ <u>1,023,460</u>	\$ <u>1,705,951</u>

Net assets were released from donor restrictions by the passage of time as follows for the years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Expiration of time restrictions	\$ <u>1,705,951</u>	\$ <u>1,793,844</u>

COUNCIL FOR HIGHER EDUCATION ACCREDITATION
(A Nonprofit Organization)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 10. CONCENTRATIONS 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 \$1,439,279 and \$1,484,376 at June 30, 2020 and 2019, 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 11. 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 \$647,632 and \$546,998 as of June 30, 2020 and 2019, respectively, appear in the accompanying statements of financial position.

For the years ended June 30, 2020 and 2019, the Council contributed \$202,503 and \$180,371, respectively, on behalf of its employees to these plans.

NOTE 12. 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, 2020, are as follows:

<u>Year ending June 30:</u>	<u>Amount</u>
2021	\$ 201,056
2022	206,082
2023	211,234
2024	216,515
2025	221,928
Thereafter	<u>699,633</u>
Total	<u>\$ 1,756,448</u>

COUNCIL FOR HIGHER EDUCATION ACCREDITATION
(A Nonprofit Organization)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 12. OCCUPANCY COSTS (CONTINUED)

Occupancy costs consisted of the following for the years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Occupancy	\$ 209,986	\$ 209,002
Parking	2,618	2,586
Repairs and maintenance	5,224	2,851
Storage	<u>848</u>	<u>1,410</u>
Total	<u>\$ 218,676</u>	<u>\$ 215,849</u>

NOTE 13. 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.

Subsequent to year end, the Council's in-place president retired and an individual from outside of the Council was approved by the Board to assume the presidential role. The former president remains with the Council as President Emeritus.

NOTE 14. 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).

COUNCIL FOR HIGHER EDUCATION ACCREDITATION
(A Nonprofit Organization)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 14. 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, 2020 and 2019:

Description	Level 1	Level 2	Level 3	Total at June 30, 2020	Valuation Technique
Investments:					
Cash equivalents - money market funds	\$ 52,150	\$ -	\$ -	\$ 52,150	(a)
Open-end mutual funds	<u>3,884,164</u>	<u>-</u>	<u>-</u>	<u>3,884,164</u>	(a)
Total investments	3,936,314	-	-	3,936,314	
Investment in AMHIC	-	-	5,119	5,119	(c)
Investments in nonqualified employee benefit plan:					
Retirement annuities	<u>549,595</u>	<u>-</u>	<u>98,037</u>	<u>647,632</u>	(a)(c)
Total	<u>\$ 4,485,909</u>	<u>\$ -</u>	<u>\$ 103,156</u>	<u>\$ 4,589,065</u>	
Liabilities:					
Obligations under nonqualified employee benefit plan	<u>\$ 549,595</u>	<u>\$ -</u>	<u>\$ 98,037</u>	<u>\$ 647,632</u>	
Description	Level 1	Level 2	Level 3	Total at June 30, 2019	Valuation Technique
Investments:					
Cash equivalents - money market funds	\$ 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	3,842,392	-	-	3,842,392	
Investment in AMHIC	-	-	5,119	5,119	(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>\$ 460,337</u>	<u>\$ -</u>	<u>\$ 86,661</u>	<u>\$ 546,998</u>	

During the years ended June 30, 2020 and 2019, there were no transfers between levels of the fair value hierarchy.

COUNCIL FOR HIGHER EDUCATION ACCREDITATION
(A Nonprofit Organization)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 14. FAIR VALUE MEASUREMENTS (CONTINUED)

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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Balance - beginning of year	\$ 86,661	\$ 79,279
Total realized and unrealized gains	4,218	2,653
Purchases, issuances and settlements	<u>7,158</u>	<u>4,729</u>
Balance - end of year	<u>\$ 98,037</u>	<u>\$ 86,661</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.