

COUNCIL FOR HIGHER EDUCATION ACCREDITATION

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

June 30, 2023

(With Summarized Comparative Information for the Year Ended June 30, 2022)

COUNCIL FOR HIGHER EDUCATION ACCREDITATION

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June 30, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Council for Higher Education Accreditation

Opinion

We have audited the accompanying financial statements of Council for Higher Education Accreditation (the Council), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses and cash flows for the year then ended, and the 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 Council for Higher Education Accreditation as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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 Council and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. 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 Council's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment 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 Council'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 judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Council'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.

Report on Summarized Comparative Information

We have previously audited the Council's 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 28, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.



HAN GROUP LLC
Washington, DC
October 2, 2023

COUNCIL FOR HIGHER EDUCATION ACCREDITATION

Statement of Financial Position

June 30, 2023

(With Summarized Comparative Information for 2022)

| | 2023 | 2022 |
|--|---------------------|---------------------|
| Assets | | |
| Cash and cash equivalents | \$ 3,106,763 | \$ 3,120,024 |
| Accounts receivable | 1,108 | 587 |
| Investments | 4,060,707 | 3,584,531 |
| Investment in AMHIC, a reciprocal association | 18,320 | 18,320 |
| Investment in nonqualified employee benefit plan | 151,622 | 125,763 |
| Property and equipment, net | 247,675 | 312,758 |
| Prepaid expenses | 53,919 | 51,819 |
| Right-of-use assets – operating lease | 945,740 | 1,117,126 |
| Total assets | <u>\$ 8,585,854</u> | <u>\$ 8,330,928</u> |
| Liabilities and Net Assets | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 174,734 | \$ 180,874 |
| Deferred revenue | 1,791,895 | 1,778,150 |
| Operating lease liability | 1,056,273 | 1,233,423 |
| Obligations under nonqualified employee benefit plan | 151,622 | 125,763 |
| Total liabilities | <u>3,174,524</u> | <u>3,318,210</u> |
| Net Assets | | |
| Without donor restrictions | | |
| Undesignated | 839,167 | 924,937 |
| Board designated | 4,572,163 | 4,087,781 |
| Total net assets | <u>5,411,330</u> | <u>5,012,718</u> |
| Total liabilities and net assets | <u>\$ 8,585,854</u> | <u>\$ 8,330,928</u> |

See accompanying notes.

COUNCIL FOR HIGHER EDUCATION ACCREDITATION

Statement of Activities

Year Ended June 30, 2023

(With Summarized Comparative Information for 2022)

| | 2023 | 2022 |
|--|---------------------|---------------------|
| Revenue and Support Without Donor Restrictions | | |
| Membership dues | \$ 3,029,810 | \$ 2,970,783 |
| Conference fees | 237,440 | 141,280 |
| Recognition fees | 110,000 | 110,000 |
| Other income | 2,595 | 10,433 |
| Investment income (loss), net | 282,276 | (405,501) |
| Total revenue and support without donor restrictions | <u>3,662,121</u> | <u>2,826,995</u> |
| Expenses | | |
| Program services: | | |
| Membership Services | 1,221,927 | 1,130,859 |
| Government Relations | 582,028 | 576,322 |
| Recognition Policy | 540,881 | 561,371 |
| The Council's International Quality Group | 323,863 | 390,592 |
| Research and Policy | 125,241 | 56,266 |
| Total program services | <u>2,793,940</u> | <u>2,715,410</u> |
| Management and general | 469,569 | 447,037 |
| Total expenses | <u>3,263,509</u> | <u>3,162,447</u> |
| Change in Net Assets Without Donor Restrictions | 398,612 | (335,452) |
| Net Assets , beginning of year | <u>5,012,718</u> | <u>5,348,170</u> |
| Net Assets , end of year | <u>\$ 5,411,330</u> | <u>\$ 5,012,718</u> |

See accompanying notes.

COUNCIL FOR HIGHER EDUCATION ACCREDITATION

Statement of Functional Expenses

Year Ended June 30, 2023

(With Summarized Comparative Information for 2022)

| | 2023 | | | | | | 2022 | | |
|-----------------------------------|---------------------|----------------------|--------------------|---|---------------------|------------------------|------------------------|---------------------|---------------------|
| | Program Services | | | | | Supporting Services | | | |
| | Membership Services | Government Relations | Recognition Policy | The Council's International Quality Group | Research and Policy | Total Program services | Management and General | Total | Total |
| Salaries and related expenses | \$ 722,692 | \$ 476,595 | \$ 416,431 | \$ 263,135 | \$ 102,554 | \$ 1,981,407 | \$ 87,447 | \$ 2,068,854 | \$ 2,128,250 |
| Travel | 298,236 | 6,014 | 33,761 | 3,321 | 1,294 | 342,626 | 88,508 | 431,134 | 239,400 |
| Professional fees and consultants | 46,595 | - | 3,820 | 2,500 | - | 52,915 | 202,029 | 254,944 | 271,013 |
| Occupancy | 72,856 | 48,048 | 41,981 | 26,528 | 10,338 | 199,751 | 8,816 | 208,567 | 201,410 |
| Office expenses | 24,546 | 13,794 | 12,053 | 7,616 | 2,968 | 60,977 | 32,451 | 93,428 | 76,271 |
| Information technology | 29,398 | 19,374 | 16,928 | 10,713 | 4,169 | 80,582 | 3,554 | 84,136 | 82,855 |
| Depreciation | 24,655 | 16,258 | 14,207 | 8,976 | 3,499 | 67,595 | 2,983 | 70,578 | 106,107 |
| Service fees and other expenses | 2,949 | 1,945 | 1,700 | 1,074 | 419 | 8,087 | 43,781 | 51,868 | 57,141 |
| Total Expenses | <u>\$ 1,221,927</u> | <u>\$ 582,028</u> | <u>\$ 540,881</u> | <u>\$ 323,863</u> | <u>\$ 125,241</u> | <u>\$ 2,793,940</u> | <u>\$ 469,569</u> | <u>\$ 3,263,509</u> | <u>\$ 3,162,447</u> |

See accompanying notes.

COUNCIL FOR HIGHER EDUCATION ACCREDITATION

Statement of Cash Flows

Year Ended June 30, 2023

(With Summarized Comparative Information for 2022)

| | 2023 | 2022 |
|---|---------------------|---------------------|
| Cash Flows from Operating Activities | | |
| Change in net assets | \$ 398,612 | \$ (335,452) |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation | 70,578 | 106,107 |
| Realized and unrealized (gain) loss on investments | (224,843) | 409,394 |
| Change in the measurement of operating leases | - | (7,084) |
| Noncash lease expenses | (5,764) | - |
| Change in operating assets and liabilities: | | |
| Accounts receivable | (521) | 712 |
| Prepaid expenses | (2,100) | 10,485 |
| Accounts payable and accrued expenses | (6,140) | (9,878) |
| Deferred revenue | 13,745 | 78,347 |
| Obligations under nonqualified employee benefit plan | 25,859 | (808,250) |
| Net cash provided by (used in) operating activities | <u>269,426</u> | <u>(555,619)</u> |
| Cash Flows from Investing Activities | | |
| Proceeds from sales of investments | 447,661 | 952,195 |
| Purchases of investments | (724,853) | (147,840) |
| Purchases of property and equipment | (5,495) | (102,934) |
| Net cash (used in) provided by investing activities | <u>(282,687)</u> | <u>701,421</u> |
| Net (Decrease) Increase in Cash and Cash Equivalents | (13,261) | 145,802 |
| Cash and Cash Equivalents, beginning of year | <u>3,120,024</u> | <u>2,974,222</u> |
| Cash and Cash Equivalents, end of year | <u>\$ 3,106,763</u> | <u>\$ 3,120,024</u> |

See accompanying notes.

COUNCIL FOR HIGHER EDUCATION ACCREDITATION

Notes to Financial Statements

June 30, 2023

1. Nature of Operations

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 the five service areas listed below. The Council is primarily supported by membership dues.

Membership services

Membership services acts 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 the 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.

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.

Basis of Accounting

The accompanying financial statements of the Council have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Consequently, revenue is recognized when earned and expenses are recorded as obligations are incurred.

Cash and Cash Equivalents

The Council considers all highly liquid instruments, which are to be utilized for current operations and which have an original maturity of three months or less, to be cash and cash equivalents. All other highly liquid instruments, which are to be used for the long-term purposes of the Council, are classified as investments.

COUNCIL FOR HIGHER EDUCATION ACCREDITATION

Notes to Financial Statements

June 30, 2023

2. Summary of Significant Accounting Policies (continued)

Accounts Receivable

The Council's accounts receivable consist primarily of amounts due from conference registrations and from sponsorships at June 30, 2023. There was no allowance recorded as the entire balance has been deemed by management to be fully collectible within one year. If an amount becomes uncollectible, it is expensed when that determination is made.

Investments

Investments are measured at fair value and are composed of equity funds, fixed income mutual funds, money market funds and cash equivalents held for long-term purposes, retirement annuities and guaranteed funds. Fair value is 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. Unrealized gains or losses on investments are determined by the change in fair value at the beginning and end of the reporting period. Investment income is presented net of investment advisory and management fees on the accompanying statement of activities. Net realized and unrealized gains or losses on investments are included in net investment income on the accompany statement of activities.

Investment in AMHIC, A Reciprocal Association

The Council holds a subscriber savings account with AMHIC, A Reciprocal Association (AMHIC). AMHIC is reciprocal insurance exchange and captive insurer that acts as an insurer of health care and other employee benefits for healthcare, research, or other public service associations. AMHIC's Board of Directors may allocate AMHIC's net income to its subscribers' accounts. The Council carries its investment in AMHIC at fair value with adjustments to the subscriber saving account included in investment income. The funds in the subscriber savings account, less any amounts due to AMHIC from the Council, will become available to the Council upon the termination of its agreement with AMHIC.

Property and equipment

Property and equipment with a cost over \$5,000 with a projected useful life exceeding one year are capitalized at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from three to five years. Expenditures for minor and routine repairs and maintenance are expensed as incurred. Upon retirement or disposal of assets, the cost and accumulated depreciation are eliminated from the accounts and the resulting gain or loss is reported on the statement of activities, as appropriate.

COUNCIL FOR HIGHER EDUCATION ACCREDITATION

Notes to Financial Statements

June 30, 2023

2. Summary of Significant Accounting Policies (continued)

Leases

The Council accounts for leases in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 842, *Leases*. The Council is a lessee in an operating lease for building space. The lease liability is increased by interest and reduced by payments each period, and the right-of-use asset is amortized over the lease term. For operating leases, interest on the lease liability and the amortization of the right-of-use asset result in straight-line occupancy expenses over the lease term. Variable lease expenses, if any, are recognized when incurred.

A lease liability is measured based on the present value of its future lease payments. Variable payments are included in future lease payments when those variable payments depend on an index or rate and are measured using the index or rate at the commencement date. Lease payments, including variable payments made based on an index rate, are remeasured when any of the following occur: (1) the lease is modified (and the modification is not accounted for as a separate contract), (2) certain contingencies related to variable lease payments are resolved, or (3) there is a reassessment of any of the following: the lease term, purchase options or amounts that are probable of being owed under a residual value guarantee. For the purposes of measuring the lease liabilities, the Council uses a risk-free rate from the U.S. Treasury constant maturities nominal rate based on the period comparable with that of each lease term.

Right-of-Use Assets

Right-of-Use (ROU) assets are measured at the commencement date at the amount of the initially measured liability plus any lease payments made to the lessor before or after commencement date, minus any lease incentives received, plus any initial direct costs. Unless impaired, ROU assets are subsequently measured throughout the lease term at the amount of the lease liability (that is the present value of the remaining lease payments), plus unamortized initial direct costs, and the addition or subtraction of any prepaid lease payments (accrued lease payments, less the unamortized balance of lease incentives received). Operating lease payments are recognized on a straight-line basis over the lease term.

Classification of Net Assets

- *Net Assets Without Donor Restrictions* represent funds that are not subject to donor-imposed stipulations and are available for support of the Council's general operations. The Board of Directors has designated certain net assets without donor restrictions for various reserves as disclosed in Note 7, *Liquidity and Availability of Resources*.
- *Net Assets With Donor Restrictions* represent funds that are 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. The Council did not have any donor-imposed restrictions which are perpetual in nature at June 30, 2023.

COUNCIL FOR HIGHER EDUCATION ACCREDITATION

Notes to Financial Statements

June 30, 2023

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition

Membership Dues

Membership dues are generally received in advance of the membership period and are recognized as revenue on a pro-rata basis over the membership period. Membership dues received, which are applicable to the following year, are included in deferred revenue. Conversely, any amounts due for past periods would be included in accounts receivable. The balance of deferred membership dues at June 30, 2023 was \$1,791,895 and is presented as deferred revenue on the accompanying statement of financial position.

Conference fees

Conference fees are generally received in advance and are recognized as revenue when the related conference or meetings takes place. Fees received in advance are recorded as deferred revenue. Conversely any amounts due after a conference has taken place would be recorded in accounts receivable. There were no deferred conference fees at June 30, 2023.

Recognition fees

Recognition fees are generally received with the application and are recognized at the time the application is submitted for review. The Council believes this method provides a faithful depiction of the transfer of goods and services over the term of the performance obligation based on inputs needed to satisfy the obligation. Any amounts received in advance would be deferred until that time. Conversely, any fees due after the services were performed would be included in receivables. There were no deferred recognition fees at June 30, 2023.

Functional Allocation of Expenses

The costs of providing program and supporting services have been summarized on a functional basis on the accompanying statement of activities. The statement of functional expenses presents expenses by function and natural classification. The Council incurs expenses that directly relate to, and can be assigned to, a specific program or supporting activity. The Council also conducts a number of activities which benefit both its program objectives as well as supporting services. These costs, which are not specifically attributable to a specific program or supporting activity, are allocated by management on a consistent basis among program and supporting services benefited based on the distribution of labor. Expenses allocated include salaries and related expenses, travel, occupancy, office expenses, information technology, depreciation, and service fees and other expenses.

Use of Estimates

The preparation of financial statements in conformity GAAP requires management to make estimates and assumptions that affect certain amounts reported on the financial statements and accompanying notes. Actual results could differ from those estimates.

COUNCIL FOR HIGHER EDUCATION ACCREDITATION

Notes to Financial Statements

June 30, 2023

2. Summary of Significant Accounting Policies (continued)

Pending Accounting Pronouncement

In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326)*, which replaces the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The ASU is effective for non-public entities for fiscal years beginning after December 15, 2022, with early adoption permitted. The ASU can be applied at the beginning of the earliest period presented using a modified retrospective approach. Management is currently evaluating the impact of ASUS 2016-13 on the Council's financial statements.

Summarized Comparative Information

The accompanying financial statements are presented with certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Council's financial statements for the year ended June 30, 2022 from which the summarized information was derived.

Reclassification

Certain 2022 amounts have been reclassified to conform to the 2023 financial statement presentations.

3. Concentrations

Financial instruments that potentially subject the Council to significant concentrations of credit risk consist of cash deposits and investments. The Council maintains cash deposits and investments with various financial institutions that exceed insurable limits under the Federal Deposit Insurance Corporation (FDIC) and the Securities Investor Protection Corporation (SIPC). Amounts in excess of insured levels are subject to potential loss. The Council has not experienced any losses on its cash deposits and investments to date as it relates to FDIC or SIPC insurance limits. Management periodically assesses the financial condition of the institutions and believes that the risk of any loss is minimal.

The Council invests funds in a professionally managed portfolio of marketable securities. Such investments are exposed to market and credit risks. Therefore, the Council's investments may be subject to significant fluctuations in fair value. As a result, the investment balances reported on the accompanying financial statements may not be reflective of the portfolio's value during subsequent periods.

4. Investments

Investments consist of the following at June 30, 2023:

| | | |
|---|----|------------------|
| Equity funds | \$ | 2,263,298 |
| Fixed income mutual funds | | 1,763,788 |
| Money market funds and cash equivalents | | <u>33,621</u> |
| Total investments | \$ | <u>4,060,707</u> |

COUNCIL FOR HIGHER EDUCATION ACCREDITATION

Notes to Financial Statements

June 30, 2023

5. Fair Value Measurements

The three levels of the fair value hierarchy for recurring fair value measurements are prioritized based on the inputs to valuation techniques used to measure fair value and are 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 (1) quoted prices for similar assets or liabilities in active markets; (2) quoted prices for identical or similar assets or liabilities in inactive markets; (3) inputs other than quoted prices that are observable for the asset or liability; and (4) 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 following is a summary of input levels used to determine fair values, measured on a recurring basis, of investments and the obligations under the nonqualified employee benefit plan at June 30, 2023:

| | Level 1 | Level 2 | Level 3 | Total |
|--|---------------------|-------------|------------------|---------------------|
| Investments: | | | | |
| Equity funds | \$ 2,263,298 | \$ - | \$ - | \$ 2,263,298 |
| Fixed-income mutual fund | 1,763,788 | - | - | 1,763,788 |
| Money market funds and cash equivalents | 33,621 | - | - | 33,621 |
| Investment portfolio investments at fair value | 4,060,707 | - | - | 4,060,707 |
| Investment in AMHIC | - | - | 18,320 | 18,320 |
| Investments in nonqualified employee benefit plan: | | | | |
| Retirement annuities | 136,803 | - | 4,913 | 141,716 |
| Guaranteed funds | 9,906 | - | - | 9,906 |
| Total investments at fair value | <u>\$ 4,207,416</u> | <u>\$ -</u> | <u>\$ 23,233</u> | <u>\$ 4,230,649</u> |
| Liabilities: | | | | |
| Obligations under nonqualified employee benefit plan | <u>\$ 146,709</u> | <u>\$ -</u> | <u>\$ 4,913</u> | <u>\$ 151,622</u> |

COUNCIL FOR HIGHER EDUCATION ACCREDITATION

Notes to Financial Statements

June 30, 2023

5. Fair Value Measurements (continued)

Level 3 Gains and Losses

The Council's activity for investments and liabilities measured at fair value on a recurring basis using unobservable inputs for the year ended June 30, 2023 were as follows:

| | Level 3 Retirement annuities and related liability | Level 3 Investment in AMHIC |
|---|---|-----------------------------------|
| Level 3 investments – beginning of year | \$ 4,476 | \$ 18,320 |
| Net investment earnings | 437 | - |
| Level 3 investments – end of year | <u>\$ 4,913</u> | <u>\$ 18,320</u> |

Investments and the Obligations under the nonqualified employee benefit plan are measured at fair value based on the following valuation techniques:

- *Equity funds, fixed income mutual funds, guaranteed funds, money markets funds and cash equivalents and level 1 retirement annuities are valued using the market approach where prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.*
- *Investments in AMHIC and level 3 retirement annuities are valued using the income approach which includes techniques that convert future amounts to a single present value based on market expectations. These techniques may include present value techniques, option-pricing and excess earnings models.*

The methods described above may produce a fair value calculation that may not be indicative of the net realizable value or reflective of future fair values. While the Council believes that the 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.

6. Property and Equipment

The Council held the following property and equipment at June 30, 2023:

| | |
|---|-------------------|
| Furniture and equipment | \$ 103,186 |
| Computer equipment and software | 395,062 |
| Leasehold improvements | 147,086 |
| Trademark and copyright | 7,759 |
| | <u>653,093</u> |
| Less: accumulated depreciation and amortization | <u>(405,418)</u> |
| Property and equipment, net | <u>\$ 247,675</u> |

COUNCIL FOR HIGHER EDUCATION ACCREDITATION

Notes to Financial Statements

June 30, 2023

7. Liquidity and Availability of Resources

The following schedule reflects the Council's financial assets as of June 30, 2023, reduced by amounts not available for general use within one year. All financial assets listed below are considered to be convertible to cash within one year.

| | |
|--|---------------------|
| Financial Assets: | |
| Cash and cash equivalents | \$ 3,106,763 |
| Accounts receivable | 1,108 |
| Investments | <u>4,060,707</u> |
| Total financial assets | 7,168,578 |
| Less those unavailable for general expenditures within one year: | |
| Board designated – general reserve | (3,728,866) |
| Board designated – emergency reserve | (500,000) |
| Board designated – executive compensation reserve | (331,842) |
| Board designated – fixed asset fund | <u>(11,455)</u> |
| Total unavailable for general expenditures within one year | <u>(4,572,163)</u> |
| Financial assets available to meet cash needs for general expenditures within one year | <u>\$ 2,596,415</u> |

The Council's policy is to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. The Council operates with a balanced budget and without any short or long term non-operating debt. At June 30, 2023, the Council had remaining financial assets equivalent to approximately nine months of budgeted operating expenses. The Board designates reserves for general and other purposes, as detailed above which are included in net assets without donor restrictions on the accompanying statement of financial position. Should the need arise, the Board may approve releases of the reserves.

8. Lease

In June 2018, the Council entered into an operating lease agreement for office space expiring on June 30, 2028. The Council records monthly rent expense on a straight-line basis equal to the total rent due over the lease term. Rent expense was \$208,567 for the year ended June 30, 2023 and is included in occupancy on the accompanying statement of functional expenses.

COUNCIL FOR HIGHER EDUCATION ACCREDITATION

Notes to Financial Statements

June 30, 2023

8. Lease (continued)

The table below presents a maturity analysis of the operating lease liability and a reconciliation of the total amount of the liability in the statement of financial position as of June 30, 2023:

| | | |
|--|----|----------------|
| 2024 | \$ | 216,498 |
| 2025 | | 221,886 |
| 2026 | | 227,426 |
| 2027 | | 233,116 |
| 2028 | | 238,958 |
| | | <hr/> |
| Total future minimum lease payments | | 1,137,884 |
| Less: discount for present value | | (81,611) |
| | | <hr/> |
| Present value of future minimum lease payments | | 1,056,273 |
| Less: current obligations under lease | | (199,076) |
| | | <hr/> |
| Long-term lease obligations | \$ | <u>857,197</u> |

Lease costs and other related information for the year ended June 30, 2023 were as follows:

| | | |
|---|----|----------------|
| Lease cost: | | |
| Operating lease cost | \$ | 205,470 |
| Variable lease cost | | 3,097 |
| | | <hr/> |
| Total lease cost | \$ | <u>208,567</u> |
| | | |
| Other information related to the lease: | | |
| Operating cash flows for operating lease | \$ | 5,764 |
| Weighted average remaining lease term (years) | | 5 |
| Weighted average discount rate | | 3% |

9. Commitments and Contingencies**Employment Agreement**

The Council entered into an employment contract with its President in July 2020 that documents the terms and conditions of employment. Under the terms of the contract, should the Council terminate the President's employment without cause, the Council will be obligated to pay severance equivalent to six months at the salary rate in effect upon termination. In addition, the Council would be obligated to pay for certain benefits over that six-month period.

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Notes to Financial Statements

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10. Retirement Plan

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

The Council also maintains a nonqualified compensation plan (the Plan) under Code 457(b) for eligible employees including the President, Vice Presidents, and Director of Operations. The Council makes non-elective contributions to the Plan up to the maximum amount allowed by the Code. The assets and corresponding liabilities related to the plan totaled \$151,622 at June 30, 2023 and are presented as investments in nonqualified employee benefit plan and obligations under nonqualified employee benefit plan, respectively on the accompanying statement of financial position.

For the year ended June 30, 2023, the Council contributed \$205,425 on behalf of its employees to the retirement plans which is included in salaries and related expenses on the accompanying statement of functional expenses.

11. Income Taxes

Under Section 501(c)(3) of the Code, the Council is a nonprofit and is exempt from federal taxes on income other than net unrelated business income. The Council did not have any material unrelated business income tax liability for the year ended June 30, 2023.

The Council follows the authoritative guidance relating to accounting for uncertainty in income taxes included in Accounting Standards Codification Topic 740-10, *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. It is the Council's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expenses.

The Council performed an evaluation of uncertain tax positions for the year ended June 30, 2023 and determined that there were no matters that would require recognition on the financial statements or that may have any effect on its tax-exempt status. The statute of limitations generally remains open for three tax years with the U. S. federal jurisdiction or the various states and local jurisdictions in which the Council files tax returns.

12. Subsequent Events

In preparing these financial statements, the Council has evaluated events and transactions for potential recognition or disclosure through October 2, 2023, the date the financial statements were available to be issued. There were no subsequent events that require recognition of, or disclosure in, the financial statements.