HIGHER LEARNING COMMISSION

FINANCIAL STATEMENTS

AUGUST 31, 2014

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FINANCIAL STATEMENTS

AUGUST 31, 2014 AND 2013

CONTENTS

LEGACY
PROFESSIONALS LLP
CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees of
Higher Learning Commission

Report on the Financial Statements
We have audited the accompanying financial statements of Higher Learning Commission (the Commission), which comprise the statements of financial position as of August 31, 2014 and 2013, and the related statements of activities and of 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.

Auditors' 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Our 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 misstatements 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Higher Learning Commission as of August 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Legacy Professionals LLP

Chicago, Illinois

November 10, 2014

Higher Learning Commission

Statements of Financial Position

August 31, 2014 and 2013

	2014	2013
Assets		
Cash	$ 565,485	$ 647,119
Accounts and dues receivable - net of allowance for doubtful accounts of $5,000	982,223	809,912
Due from affiliate	495	-
Earned unbilled revenue	33,204	47,233
Accrued investment income	27,887	27,557
Inventory	9,097	8,330
Prepaid expenses	265,573	226,919
Investments	19,287,012	17,912,818
Property and equipment - net	1,864,438	1,574,308
Total assets	$ 23,035,414	$ 21,254,196
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 512,021	$ 550,551
Unearned revenue	5,363,196	5,210,529
Deferred rent	863,511	894,432
Total liabilities	6,738,728	6,655,512
Unrestricted net assets		
Board designated	8,622,080	5,834,804
Undesignated	7,674,606	8,763,880
Total unrestricted net assets	16,296,686	14,598,684
Total liabilities and net assets	$ 23,035,414	$ 21,254,196

See accompanying notes to financial statements.

Higher Learning Commission

Statements of Activities

Years Ended August 31, 2014 and 2013

	2014	2013
Revenue and other support		
Dues	$ 6,013,234	$ 6,057,209
Accreditation processes revenue	4,581,887	4,629,265
Constituent services	2,739,814	2,508,018
Investment income	870,826	424,816
(Loss) on sale/disposal of property and equipment	(54,315)	(56,193)
Other revenue	-	184,488
Total revenue and other support	14,151,446	13,747,603
Expenses		
General operations expenses		
Governance	200,868	249,197
Personnel	6,255,190	5,957,955
Office operations	652,637	651,691
Furniture and equipment	483,170	288,527
Professional fees and services	234,581	312,932
Communications and technology	183,827	164,763
Other	313,155	184,653
	8,323,428	7,809,718
Evaluation expenses		
PEAQ evaluation processes	1,534,098	1,664,343
AQIP evaluation processes	518,502	514,173
Review and decision making processes	407,139	283,610
	2,459,739	2,462,126
Constituent services expenses		
Communications and publications	-	1,135
Website	41,050	31,105
Annual meeting	969,831	864,811
Education and training	407,247	396,289
Relations with outside organizations	31,994	43,798
Research and development	220,155	200,272
Lumina grant	-	71,557
	1,670,277	1,608,967
Total expenses	12,453,444	11,880,811
Change in net assets	1,698,002	1,866,792
Unrestricted net assets		
Beginning of year	14,598,684	12,731,892
End of year	$ 16,296,686	$ 14,598,684

See accompanying notes to financial statements.

Higher Learning Commission

Statements of Cash Flows

Years Ended August 31, 2014 and 2013

	2014	2013
Cash flows from operating activities		
Change in net assets	$ 1,698,002	$ 1,866,792
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	405,386	219,832
Loss on sale/disposal of property and equipment	54,315	56,193
Realized (gain) on sale of investments	(211,903)	(98,206)
Unrealized (gain) on investments held	(505,620)	(181,694)
Changes in assets and liabilities		
Accounts and dues receivable	(172,311)	859,769
Due from affiliate	(495)	-
Earned unbilled revenue	14,029	122,561
Accrued investment income	(330)	(5,069)
Inventory	(767)	3,759
Prepaid expenses	(38,654)	(3,110)
Accounts payable and accrued expenses	(38,530)	(33,418)
Unearned revenue	152,667	(266,848)
Deferred rent	(30,921)	(11,583)
Net cash provided by operating activities	1,324,868	2,528,978
Cash flows from investing activities		
Purchases of property and equipment	(749,831)	(793,059)
Purchases of investments	(16,086,139)	(8,593,466)
Proceeds from sale of investments	15,429,468	6,739,800
Net cash (used in) investing activities	(1,406,502)	(2,646,725)
Net (decrease) in cash	(81,634)	(117,747)
Cash		
Beginning of year	647,119	764,866
End of year	$ 565,485	$ 647,119

See accompanying notes to financial statements.

NOTE 1. NATURE OF THE ORGANIZATION

Higher Learning Commission (the Commission) is a not-for-profit corporation incorporated in Illinois on November 6, 2000. The Commission's purpose is to validate the quality of and stimulate improvement in higher education. The Commission is primarily supported by voluntary membership dues.

The Commission accredits degree-granting institutions of higher education.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The financial statements of the Commission are prepared using the accrual basis accounting, where income is recognized as earned and expenses are recognized when incurred.

Classification of Net Assets - Financial statement presentation follows the requirements of generally accepted accounting principles. The Commission, as a not-for-profit entity, is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted assets, temporarily restricted net assets, and permanently restricted net assets. Net assets are generally reported as unrestricted unless assets are received from donors with explicit stipulations that limit the use of the asset. Unrestricted net assets are available to finance the general operations of the Commission. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of the Commission, the environment in which it operates and the purposes specified in its articles of incorporation. The Commission does not have any temporarily or permanently restricted net assets. However, there is a Board designated reserve of no less than 50% of the annual general operational expenses and a contingency reserve of $500,000 for legal matters. The Board may vote to establish additional reserves as deemed appropriate. Voluntary resolutions by the Board of Trustees to designate a portion of its unrestricted net assets for specific purposes do not result in restricted funds. Since designations are voluntary and may be reversed by the Board at any time, designated net assets are considered unrestricted net assets.

Accounts and Dues Receivable - Accounts and dues receivable are due upon receipt of the invoice. The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. The allowance is based on historical bad debt experience and an evaluation of aging of the accounts. Receivables are written off in full against the allowance when the unpaid balance is considered uncollectible.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory - Inventory consists of publications and production costs of materials not yet issued. Inventory is carried at the lower of cost or market value; cost being determined on the first-in, first-out basis of accounting.

Investments - The investments of the Commission are reported at fair value. The fair value of a financial instrument is the amount that would be received to sell that asset (or paid to transfer a liability) in an orderly transaction between market participants at the measurement date (the exit price).

Purchases and sales of the investments are reflected on a trade-date basis.

Dividend income is recorded on the ex dividend date. Interest income is recorded on the accrual basis.

Property and Equipment - Property and equipment are carried at cost. The Commission's capitalization policy is to capitalize leaseholds, equipment and software with costs greater than $1,000 and a useful life greater than one year. Major additions are capitalized while replacements, maintenance and repairs which do not improve or extend the lives of the respective assets are expensed currently. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets. Depreciation on the software begins upon the availability of use. The estimated useful lives of leaseholds, equipment and software are as follows:

Furniture and office equipment	3 - 7 years
Software	3 - 5 years
Leasehold improvements	7 - 12 years

Depreciation expense totaled $405,386 for the year ended August 31, 2014 and $219,832 for 2013.

Revenue Recognition - Dues are recognized as revenue during the dues period which the dues relate. Accreditation process and constituent services revenue are recognized in the year in which the related activities are held. Accordingly, funds received in advance of the events held are recorded as unearned revenue and expenses paid in advance of the related events are recorded as prepaid expenses in the accompanying statements of financial position.

Unearned Revenue - The majority of dues for the succeeding fiscal year are billed prior to the end of the current fiscal year. Unearned revenue represents amounts billed and due before year end that will not be earned until the subsequent year.

Deferred Rent - Deferred rent expense consists of "free rent" the landlord provides at the outset of the lease. The Commission is recognizing operating rent expense on the straight-line basis over the term of the lease.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results may differ from those estimates.

Subsequent Events - Subsequent events have been evaluated through November 10, 2014, which is the date the financial statements were available to be issued.

NOTE 3. TAX STATUS

The Commission has been advised by the Internal Revenue Service that it is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and is, therefore, not subject to tax under present income tax laws. In addition, the Internal Revenue Service has determined that the Commission is not a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. The Commission files Form 990, *Return of Organization Exempt from Income Tax*, with the Internal Revenue Service (IRS). The Commission's returns are subject to examination until the applicable statute of limitations expires.

NOTE 4. CONCENTRATION OF CREDIT RISK

Cash consists of monies held in checking and money market accounts with national banks. The Commission places its cash with financial institutions deemed to be creditworthy. Balances are insured by FDIC up to $250,000 per financial institution. Balances may at times exceed insured limits. The Commission believes this credit risk to be minimal.

NOTE 5. INVESTMENTS

Investments at August 31, 2014 and 2013 consisted of the following:

	2014	2013
Money market funds	$ 6,135,402	$ 8,975,653
Certificates of deposit	1,042,767	1,303,459
Common stocks	1,390,279	1,194,175
Corporate bonds and notes	1,875,360	-
Mutual funds	8,843,204	6,439,531
Total	$ 19,287,012	$ 17,912,818

Note 5. Investments (continued)

The Commission invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possibly that changes in the values of investment securities will occur in the near term and that such changes could materially affect amounts reported in the statements of financial position.

Investment income for the years ended August 31, 2014 and 2013 includes the following amounts:

	2014	2013
Interest and dividends	$ 153,303	$ 144,916
Realized gain on investments	211,903	98,206
Unrealized gain on sale of investments	505,620	181,694
Total investment income	$ 870,826	$ 424,816

Note 6. Fair Value Measurements

The *Fair Value Measurements and Disclosures* Topic of the FASB Accounting Standards Codification established 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). The three levels of the fair value hierarchy are described below:

Basis of Fair Value Measurement

Level 1 — Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities

Level 2 — Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly

Level 3 — Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable

The methods to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Commission believes its valuation methods are appropriate and consistent with 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.

NOTE 6. FAIR VALUE MEASUREMENTS (CONTINUED)

The following tables set forth, by level within the fair value hierarchy, the Commission's investment assets at fair value as of August 31, 2014 and 2013. As required, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Commission had no investments classified within Level 3 at August 31, 2014 and 2013.

		Fair Value Measurements at 08/31/14 Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds:				
Domestic equity	$ 1,242,047	$ 1,242,047	$ -	$ -
International equity	2,586,684	2,586,684	-	-
Domestic fixed income	3,832,091	3,832,091	-	-
Hedge funds	973,825	973,825	-	-
Real estate	208,557	208,557	-	-
Total mutual funds	8,843,204	8,843,204	-	-
Common stocks - large cap	1,390,279	1,390,279	-	-
Corporate bonds and notes*	1,875,360	-	1,875,360	-
Money market funds	6,135,402	-	6,135,402	-
Certificates of deposit	1,042,767	-	1,042,767	-
	$ 19,287,012	$ 10,233,483	$ 9,053,529	$ -

* Based on its analysis of the nature and risk of these investments, the Commission has determined that presenting them as a single class is appropriate.

NOTE 6. FAIR VALUE MEASUREMENTS (CONTINUED)

		Fair Value Measurements at 08/31/13 Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds:				
Domestic equity	$ 927,604	$ 927,604	$ -	$ -
International equity	1,242,134	1,242,134	-	-
Domestic fixed income	3,536,286	3,536,286	-	-
International fixed income	93,965	93,965	-	-
Commodities	220,739	220,739	-	-
Hedge funds	350,029	350,029	-	-
Real estate	68,774	68,774	-	-
Total mutual funds	6,439,531	6,439,531	-	-
Common stocks - large cap	1,194,175	1,194,175	-	-
Money market funds	8,975,653	-	8,975,653	-
Certificates of deposit	1,303,459	-	1,303,459	-
	$ 17,912,818	$ 7,633,706	$ 10,279,112	$ -

Level 1 Measurements

The fair value of mutual funds are determined by reference to the funds' underlying assets, which are principally marketable equity and fixed income securities. Shares held in the mutual funds are traded on national securities exchanges and are valued at the net asset value as of the last business day of each period presented.

Most common stocks are traded in active markets on national and international securities exchanges and are valued at closing prices on the last business day of each period presented.

Level 2 Measurements

Corporate bonds and notes are generally valued by benchmarking model-derived prices to quoted market prices and trade data for identical or comparable securities. To the extent that quoted prices are not available, fair value is determined based on a valuation model that include inputs such as interest rate yield curves and credit spreads. Securities traded in markets that are not considered active are valued based on quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. Securities that trade infrequently and therefore have little or no price transparency are valued using the investment manager's best estimates.

NOTE 6. FAIR VALUE MEASUREMENTS (CONTINUED)

Level 2 Measurements (continued)

As of August 31, 2014, the fair value of the Commission's investments in corporate bonds and notes was $1,875,360. These securities have a coupon rate that ranges between 1.65% and 10.35% and matures between October 2016 and October 2019.

Money market funds are valued at cost which approximates their fair value.

The certificates of deposit are carried at cost which approximates fair value as determined by the investment manager.

NOTE 7. EQUIPMENT AND IMPROVEMENTS

Property and equipment assets at August 31, 2014 and 2013 consisted of the following:

	2014	2013
Software	$ 2,142,250	$ 1,556,052
Furniture and office equipment	456,382	461,779
Leasehold improvements	175,142	159,391
Total, at cost	2,773,774	2,177,222
Less accumulated depreciation	(909,336)	(602,914)
Net property and equipment	$ 1,864,438	$ 1,574,308

NOTE 8. LEASES

The Commission leases office space at 230 South LaSalle Street, Chicago, Illinois through June 30, 2022.

The Commission also leases two office copiers for that expire in March 2015 and July 2016. The monthly rental payments are $356 and $174, respectively.

Minimum lease payments are as follows:

Year ending August 31,	
2015	$ 507,877
2016	512,817
2017	518,510
2018	526,116
2019	533,723
Thereafter	1,552,994
Total	$ 4,152,037

NOTE 8. LEASES (CONTINUED)

The Commission is also obligated to pay its proportionate share of building taxes and expenses.

Total rent expense for the year ended August 31, 2014 was $478,211 and $478,722 for 2013.

NOTE 9. FUNCTIONAL EXPENSES

Management has estimated the allocation of functional expenses for the years ended August 31, 2014 and 2013 as follows:

	2014	2013
Program services - accreditation	$ 10,128,797	$ 9,448,933
Management and general	2,324,647	2,431,878
Total expenses	$ 12,453,444	$ 11,880,811

NOTE 10. PENSION PLAN

The Commission sponsors a defined contribution pension plan that covers employees who meet the plan's eligibility requirements. The amount of pension expense was $435,406 for the year ended August 31, 2014 and $437,944 for 2013.

NOTE 11. AFFILIATED ORGANIZATIONS

Higher Learning Commission is a member of the North Central Association of Colleges and Schools (NCA), with representation on NCA's Board of Directors. For the years ended August 31, 2014 and 2013, the Commission made no contributions to NCA.

NOTE 12. FUTURE MEETINGS

The Commission has entered into contracts for services and accommodations for future meetings. These contracts include penalty clauses which would require the Commission to pay certain amounts if a meeting was canceled or guarantees for room blocks are not fulfilled.

NOTE 13. LINE OF CREDIT AGREEMENT

The Commission has a line of irrevocable credit that is subject to an automatic extension clause annually through July 1, 2021. The maximum borrowing under the line of credit is $1,042,767 effective July 1, 2013. The line of credit is fully secured through a certificate of deposit held by the bank. No borrowings were made against the line of credit in the years ended August 31, 2014 and 2013.