Center for Excellence in Higher Education, Inc.

Stevens-Henager College
EIN: 20-8091013, DUNS: 830967790, OPE ID: 00367400
CollegeAmerica Denver
EIN: 20-8091013, DUNS: 869303586, OPE ID: 02594300
CollegeAmerica Arizona
EIN: 20-8091013, DUNS 148984107, OPE ID: 03120300
California College San Diego
EIN: 20-8091013, DUNS: 626397678, OPE ID: 02110800

Year Ended December 31, 2012

Consolidated Financial Statements
With Supplementary Information
And Compliance Report

And

Independent Auditor's Report

shaw & co.

Center for Excellence in Higher Education, Inc.

Table of Contents

shaw & co.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Center for Excellence in Higher Education, Inc.
Salt Lake City, UT

Financial Statements

We have audited the accompanying consolidated financial statements of Center for Excellence in Higher Education, Inc. (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2012, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Center for Excellence in Higher Education, Inc. as of December 31, 2012, 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.

1564 South 500 West, Ste. 201
Bountiful, UT 84010-7400
Phone: (801) 294-3155
Fax: (801) 294-3190
www.shaw-cpa.com
info@shaw-cpa.com

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reported dated June 7, 2013 on our consideration of Center for Excellence in Higher Education, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying Note 13 of the Organization's calculations of their Title IV 90/10 revenue test is required by the U.S. Department of Education and the accompanying Note 6 on related party transactions is required by the U.S. Department of Education and accounting principles generally accepted in the United States of America and are presented for purposes of additional analysis and are not a required part of the financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Bountiful, Utah
June 7, 2013

Center for Excellence in Higher Education, Inc.

Consolidated Statement of Financial Position

December 31, 2012

ASSETS	
Current assets	
Cash and cash equivalents	$ 6,281,927
Restricted cash	620,331
Student receivables, current, net of allowance for doubtful accounts of $6,066,795	35,991,175
Promises to give, current portion	108,000
Total current assets	43,001,433
Fixed assets, at cost, less accumulated depreciation of $9,435,136	6,054,414
Student receivables, noncurrent, net of allowance for doubtful accounts of $20,558,457	43,084,934
Promises to give, net of current portion	306,338
Goodwill	419,042,664
Deposits	1,067,099
Total assets	$ 512,556,882
LIABILITIES AND NET ASSETS	
Current liabilities	
Accounts payable	$ 5,991,615
Grants payable, current portion	100,000
Accrued liabilities	966,970
Excess student funds	1,952,584
Deferred tuition	37,982,485
Current portion of long-term debt	32,000,000
Total current liabilities	78,993,654
Grants payable, net of curent portion	283,646
Deferred rent	2,971,040
Long-term debt, net of current portion	399,000,000
Total liabilities	481,248,340
Net assets	
Unrestricted	30,894,204
Temporarily restricted	414,338
Permanently restricted	-
Total net assets	31,308,542
Total liabilities and net assets	$ 512,556,882

See accompanying notes to consolidated financial statements.

Center for Excellence in Higher Education, Inc.

Consolidated Statement of Activities
For The Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Total
REVENUES AND OTHER SUPPORT			
Tuition and fees	$ 183,668,476	$ -	$ 183,668,476
Contributions and grants	10,448,458	-	10,448,458
Other income	206,368	-	206,368
Interest income	71,193	-	71,193
Net assets released from restrictions	107,023	(107,023)	-
Total revenues and other support	194,501,518	(107,023)	194,394,495
EXPENSES			
Admissions and marketing	64,032,460	-	64,032,460
Instructional	36,344,017	-	36,344,017
Administrative	20,415,777	-	20,415,777
Occupancy	10,174,617	-	10,174,617
Student expenses	8,997,746	-	8,997,746
Depreciation	4,627,597	-	4,627,597
Grants	841,953	-	841,953
Interest	245,680	-	245,680
Total expenses	145,679,847	-	145,679,847
Change in net assets	48,821,671	(107,023)	48,714,648
Net assets, beginning of year	41,883,453	521,361	42,404,814
Former stockholder distributions prior to merger	(59,810,920)	-	(59,810,920)
Net assets, end of year	$ 30,894,204	$ 414,338	$ 31,308,542

See accompanying notes to consolidated financial statements.

Center for Excellence in Higher Education, Inc.

Consolidated Statement of Cash Flows
Year Ended December 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ 48,714,648
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	4,627,597
Bad debt expense	23,601,168
Changes in operating assets and liabilities:	
Student receivables	(30,870,306)
Promises to give	105,997
Deposits	(396,596)
Accounts payable	(1,492,944)
Grants payable	383,646
Accrued liabilities	(4,265,066)
Excess student funds	(55,822)
Deferred tuition	10,448,971
Deferred rent	203,157
Net cash provided by operating activities	51,004,450
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of fixed assets	(6,325,963)
Decrease in restricted cash	1,680,295
Net cash used in investing activities	(4,645,668)
CASH FLOWS FROM FINANCING ACTIVITIES	
Distributions to stockholder, prior to merger	(59,810,920)
Net cash provided by financing activities	(59,810,920)
Net change in cash and cash equivalents	(13,452,138)
Cash and cash equivalents, beginning of year	19,734,065
Cash and cash equivalents, end of year	$ 6,281,927
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash paid for interest	$ 181,766
Cash paid for income taxes	$ -

SUPPLEMENTAL SCHEDULE OF NONCASH ACTIVITIES

As part of the merger transaction, the Organization issued two notes payable for $431,000,000 as part of the purchase transactions and the recording of goodwill on the consolidated statement of financial position.

See accompanying notes to consolidated financial statements.

Center for Excellence in Higher Education, Inc.
Notes to Consolidated Financial Statements
December 31, 2012

1. DESCRIPTION OF BUSINESS

Center for Excellence in Higher Education, Inc. (the "Organization") is a non-profit corporation established in December 2006 to promote excellence in higher education by working with philanthropists and others interested in reforming American colleges and universities. Education reform, for these purposes, is defined as increasing access, reducing costs, and improving the quality of higher education with the goal to make universities, schools, departments, and ultimately individual faculty members accountable for the quality and effectiveness of their work.

Effective December 31, 2012, Center for Excellence in Higher Education, Inc. executed merger agreements to merge Stevens-Henager College, Inc. ("SHC"), CollegeAmerica Denver, Inc. ("CAD"), CollegeAmerica Arizona, Inc. ("CAA"), California College San Diego, Inc. ("CCSD"), California College, Inc. ("CCI"), and CollegeAmerica Services, Inc. ("CASI") into Center for Excellence in Higher Education, Inc., with Center for Excellence in Higher Education, Inc. as the surviving Organization. The Organization is engaged in the following business activities through its divisions:

Stevens-Henager College operates a postsecondary college with campuses located in Utah and Idaho.

CollegeAmerica Denver operates a postsecondary college with campuses located in Colorado and Wyoming.

CollegeAmerica Arizona operates a postsecondary college with campuses located in Arizona and Idaho.

California College San Diego operates a postsecondary college with campuses located in California.

CollegeAmerica Services provides various services to the divisions.

Stevens-Henager College, CollegeAmerica Denver, CollegeAmerica Arizona, and California College San Diego are accredited by the Accrediting Commission of Career Schools and Colleges ("ACCSC").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Organization have been prepared on the accrual basis. The Organization follows the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*.

The significant accounting policies followed are described below to enhance the usefulness of the financial statement to the reader.

Date of Management's Review

Subsequent events were evaluated through June 7, 2013, which is the date the financial statement was available to be issued. From their review, management has determined that there were no significant recognizable or unrecognizable subsequent events that were not properly disclosed.

Basis of Accounting and Principles of Consolidation

These consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements include the accounts of Center for Excellence in Higher Education, Inc., Stevens-Henager College, CollegeAmerica Denver, CollegeAmerica Arizona, California College San Diego, California College, and CollegeAmerica Services. These divisions are under common control and, therefore, are presented on a consolidated basis. All intercompany accounts and transactions have been eliminated.

Use of Estimates

The process of preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities along with disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the consolidated statement of financial position, cash equivalents include money market accounts.

Restricted Cash

Short-term restricted cash primarily represents amounts held for students that were received from the CAL Grants and Direct Loan programs. Restricted cash excludes certain funds that may be required to be returned if a student who receives Title IV program funds withdraws. These components are a part of cash, as they are not legally restricted or otherwise segregated from other assets. Restricted cash is excluded from cash and cash equivalents in the consolidated statement of financial position and is held in bank deposit accounts.

Student Receivables

Student receivables consist of amounts due for tuition from currently enrolled and former students. Student receivables are stated at the amount management expects to collect from outstanding balances. Student receivables with maturities greater than one year are presented at their net present value and discounted at rates commensurate with the underlying student's borrowing rate.

Fixed Assets

Fixed assets are stated at cost net of accumulated depreciation. Expenditures for maintenance and repairs are charged to expense as incurred, whereas renewals and betterments that extend the lives of fixed assets are capitalized. Depreciation of fixed assets other than leasehold improvements is computed using either straight-line or accelerated methods with lives ranging from eighteen months to five years. Depreciation of leasehold improvements is computed using the straight-line method over the shorter of the life of the asset or the life of the lease.

Goodwill

Goodwill represents the excess of the purchase price paid over the fair value of the net assets acquired in connection with a business combination. The Organization reviews goodwill for possible impairment on an annual basis or when triggering events occur in accordance with FASB ASC 350 *Intangibles – Goodwill and Other*. Goodwill is tested for impairment at the reporting unit level. The Organization utilizes a two-part impairment test. First, the fair value of the reporting unit is compared to the carrying value (including goodwill). If the carrying value is greater than the fair value, the second step is performed. In the second step, the implied fair value of the reporting unit goodwill is compared to the carrying amount of goodwill. If the carrying value is greater, a loss is recognized. The goodwill impairment test considers the impact of current conditions and the economic outlook for the Organization's industry, the general overall economic outlook including market data, governmental and environmental factors, in establishing assumptions used to compute the fair value of the reporting unit. The Organization also takes into account the historical, current and future operating results and any other facts and data pertinent to valuing the reporting unit.

Revenue Recognition

The Organization's revenue consists of tuition revenue and contributions (see below). Tuition revenue is recognized on a straight-line basis over the applicable period of instruction net of expected refunds. The Organization's students generally enroll in a program that encompasses a series of modules which are taken consecutively over the length of the program.

If a student's attendance precedes the receipt of tuition payments, the Organization establishes a student receivable for tuition charges in the amount reasonably assured of collection. Tuition payments received reduce the balance of accounts receivable due from the student.

If a student withdraws from a program prior to a specified refund date, a portion of such student's tuition is refunded. The Organization records a provision for expected refunds and reduces revenue for the amount that is expected to be subsequently refunded.

Bad debt expense is offset against gross tuition and fees revenue.

Advertising Costs

Advertising costs are charged to operations when incurred. Advertising expense for the year ended December 31, 2012 was approximately $39,553,000.

Concentrations of Credit Risks

The Organization maintains its cash in bank deposit accounts, which at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Contributions

Unconditional promises to give are recognized as contributions when received at the net present value of the amounts expected to be collected. Contributions are considered available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted for future periods or by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes.

When a donor-imposed time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restriction. Donor-restricted contributions whose restrictions are met in the same year the contribution is received are reported as unrestricted.

Promises to give

Promises to give are recorded at their estimated fair value.. Amounts due later than one year, if any, are recorded at the present value of estimated future cash flows. . The Organization estimates the allowance based on analysis of specific donors, taking into consideration the age of past due pledges and an assessment of the donor's ability to pay. At December 31, 2012, management of the Organization considers all promises to be collectible; therefore, no allowance has been recorded.

Income taxes

The Organization is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and therefore has made no provision for federal income taxes in the accompanying financial statement. In addition, the Organization has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code.

The Organization's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending December 31, 2012, 2011, 2010, and 2009 are subject to examination by the IRS, generally for three years after they were filed. Generally accepted accounting principles require tax effects from an uncertain tax position to be recognized in the financial statement only if the position is more likely than not to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged. If an uncertain tax position meets the more-likely-than-not threshold, the largest amount of tax benefit that is greater than 50% likely to be recognized upon ultimate settlement with the taxing authority is recorded. The Organization's primary tax positions relate to its status as a not-for-profit entity exempt from income taxes and classification of activities related to its exempt purpose. Management has evaluated the tax positions reflected in the Organization's tax filings and does not believe that any material uncertain tax positions exist.

Prior to the merger, SHC, CAD, CAA, CCSD, CASI, and CCI filed their tax returns as subchapter "S" Corporations. Under those provisions, the companies generally do not pay income taxes on their taxable income. Instead, the stockholder is liable for individual income taxes on the Companies' taxable income. Accordingly, no provision for income taxes is included in the consolidated financial statements.

The Companies' Forms 1120S, *U.S. Income Tax Return for an S Corporation*, for the years ending December 31, 2012, 2011, 2010, and 2009 are subject to examination by the IRS, generally for three years after they were filed. Generally accepted accounting principles require tax effects from an uncertain tax position to be recognized in the financial statement only if the position is more likely than not to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged. If an uncertain tax position meets the more-likely-than-not threshold, the largest amount of tax benefit that is greater than 50% likely to be recognized upon ultimate settlement with the taxing authority is recorded. Management has evaluated the tax positions reflected in the Companies' tax filings and does not believe that any material uncertain tax positions exist.

Fair Value of Financial Instruments

The Organization has a number of financial instruments, none of which are held for trading purposes. The Organization estimates that the fair value of all financial instruments at December 31, 2012 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying consolidated statement of financial position.

3. PROMISES TO GIVE

Promises to give as of December 31, 2012 consist of the following:

Amounts due in:	
Less than one year	$ 108,000
One to five years	324,000
	432,000
Less: discount to net present value (1.89%)	(17,662)
	$ 414,338

Management reviews contributions and pledges receivable quarterly and writes-off the amount of individual pledges, if any, it determines to be uncollectible. A discount rate commensurate with the risks involved in holding pledges receivable due in future years was used in calculating the present value of future cash flows. There was no allowance for doubtful pledges as of December 31, 2012.

4. FIXED ASSETS

Fixed assets as of December 31, 2012 consist of the following:

Furniture and equipment	$ 7,942,944
Software	716,605
Student computers	4,672,761
Leasehold improvements	2,157,240
	15,489,550
Less: accumulated depreciation	(9,435,136)
	$ 6,054,414

Depreciation expense for the year ended December 31, 2012 was $4,627,597.

5. GRANTS PAYABLE

Grants payable as of December 31, 2012 consist of the following:

Amounts payable in less than one year	$ 100,000
Amounts payable in one to five years	300,000
	400,000
Less: discount to net present value (1.89%)	(16,354)
	$ 383,646

The grants payable is closely tied to the promise to give (see Note 3). Management reviews grants payable quarterly and writes-off the amount of grants payable, if any, it determines to be not payable in the future. A discount rate commensurate with the risks involved in the payment of grants due in future years was used in calculating the present value of future cash flows. There was no allowance for grants payable as of December 31, 2012.

6. RELATED PARTY TRANSACTIONS

The Organization derives a substantial portion of its revenue from Student Financial Aid (SFA) received by its students under the Title IV programs administered by the U.S. Department of Education pursuant to the Higher Education Act of 1965, as amended (HEA). To continue to participate in the SFA programs, the Organization must comply with the regulations promulgated under the HEA. Those regulations require that all related party transactions be disclosed, regardless of their materiality to the financial statements.

The chairman of the board of directors owns and operates real estate leasing companies from which the Organization leases some campus facilities. The amounts paid for the year ended December 31, 2012 was approximately $4,644,000. The chairman of the board made a cash contribution of $10,075,000 to the Organization during the year ended December 31, 2012. The Organization also has two notes payable to a related party trust (see Note 8).

In addition, the corporations (which were previously owned by the chairman of the board of directors) merged into the Organization (see Note 1 and Note 11). The corporations contributed to the Organization some of their accounts receivable. The contribution was recorded net of the allowance for doubtful accounts. The net amount of the contribution was $46,185,367. Also, prior to the merger, the stockholder of the Companies (now chairman of the board) operated CollegeAmerica Services, Inc. (CASI), a related party which provided various administrative services to the Companies. During the year ended December 31, 2012, the Companies recorded expense of approximately $28,910,000, for services performed and expenses paid by CASI.

7. ECONOMIC DEPENDENCY

The Organization (SHC, CAD, CAA, and CCSD) receives significant revenue from Title IV sources. Continuing participation in Title IV programs requires compliance with numerous federal regulations. Future noncompliance with these regulations or a change in the laws governing these programs could severely impact the operations of the Organization. Further, ineligibility to participate in Title IV programs would have a material adverse effect on the Organization's enrollment, revenue and results of operations.

8. LONG-TERM DEBT

In connection with the merger, the Organization entered into two notes payable with the seller, a related party trust. The senior note matures December 31, 2017 and the junior note matures December 31, 2019. Both notes bear interest at 1% and require quarterly interest payments. Principal payments on the senior note are required based on a formula which takes into account cash flow and revenue of the organization. No principal payments are due on the junior note until after the senior note is paid in full. The notes contain certain events which could result in an adjustment to the interest rate in the future and acceleration of principal payments. No triggering events have occurred as of December 31, 2012.

The balance of the senior note at December 31, 2012 was $200,000,000. The balance of the junior note at December 31, 2012 was $231,000,000. The current portion of the notes payable has been calculated based upon management's expectation for payment of principal in 2013 in accordance with the formula. Projected future minimum principal payments are as follows:

Year ended December 31,	
2013	$ 32,000,000
2014	36,000,000
2015	40,000,000
2016	44,000,000
2017	48,000,000
Thereafter	231,000,000
	$ 431,000,000

9. COMMITMENTS AND CONTINGENCIES

Operating lease agreements

The Organization leases its campus facilities under operating lease agreements. The operating lease agreements contain provisions which allow for rent increases on an annual basis, subject to limits. The Organization recognizes rent expense on a straight-line basis over the lease period. Rent expense for the year ended December 31, 2012 was approximately $10,174,000. Future minimum lease payments are as follows:

Year Ending December 31,	Amount
2013	$ 8,134,510
2014	7,925,002
2015	7,926,534
2016	6,592,334
2017	5,788,700
Thereafter	10,272,334
	$46,639,414

Letters of credit

The Organization has four letters of credit outstanding at December 31, 2012. Three letters of credit are to the Division of Private Occupational Schools, Colorado Department of Education on behalf of CollegeAmerica Denver. One letter of credit is in lieu of a security deposit to a landlord. The amount outstanding under the letters of credit is $2,731,394 at December 31, 2012. The letters of credit are guaranteed to the issuing bank by the chairman of the board of directors of the Organization. All letters of credit will expire in 2013.

Legal proceedings

From time to time, the Organization may be involved in various legal proceedings that are incidental to its business. However, to management's knowledge, there currently are no material pending legal proceedings involving the Organization.

10. REGULATORY

The Organization is subject to extensive regulation by federal and state governmental agencies and accrediting bodies. In particular, the Higher Education Act and the regulations promulgated there under by the U.S. Department of Education subject the Organization to significant regulatory scrutiny on the basis of numerous standards that schools must satisfy in order to participate in the various federal student financial assistance programs under Title IV of the Higher Education Act.

To participate in Title IV programs, an institution must be authorized to offer its programs of instruction by the relevant agency of the state in which it is physically located, accredited by an accrediting agency recognized by the U.S. Department of Education and certified as eligible by the U.S. Department of Education. The U.S. Department of Education will certify an institution to participate in Title IV programs only after the institution has demonstrated compliance with the Higher Education Act and the U.S. Department of Education's extensive regulations regarding institutional eligibility. An institution must also demonstrate its compliance to the U.S. Department of Education on an ongoing basis. As of December 31, 2012, management believes the Organization is in compliance with the applicable regulations in all material respects.

The Higher Education Act requires accrediting agencies to review many aspects of an institution's operations in order to ensure that the education offered is of sufficiently high quality to achieve satisfactory outcomes and that the institution is complying with accrediting standards. Failure to demonstrate compliance with accrediting standards may result in the imposition of probation, the requirements to provide periodic reports, the loss of accreditation or other penalties if deficiencies are not remediated.

Student Default Rate

For each federal fiscal year, the U.S. Department of Education calculates a rate of student defaults for each educational institution which is known as a "cohort default rate." An institution may lose its eligibility to participate in some or all Title IV programs if, for each of the three most recent federal fiscal years for which information is available, 25% or more of its students who became subject to a repayment obligation in that federal fiscal year defaulted on such obligation by the end of the following federal fiscal year. In addition, an institution may lose its eligibility to participate in some or all Title IV programs if its cohort default rate exceeds 40% in the most recent federal fiscal year for which default rates have been calculated by the U.S. Department of Education. The divisions' cohort default rates for the 2010, 2009 and 2008 federal fiscal years were the following:

	2010	2009	2008
Stevens Henager College	18.4	15.0	10.6
CollegeAmerica Denver	26.0	22.7	18.5
CollegeAmerica Arizona	19.9	24.5	18.6
California College San Diego	15.3	19.7	15.0

Financial Responsibility

The U.S. Department of Education calculates an institution's composite score for financial responsibility based on its (i) equity ratio, which measures the institution's capital resources, ability to borrow and financial viability; (ii) primary reserve ratio, which measures the institution's ability to support current operations from expendable resources; and (iii) net income ratio, which measures the institution's ability to operate at a profit. An institution that does not meet the U.S. Department of Education's minimum composite score may demonstrate its financial responsibility by posting a letter of credit in favor of the U.S. Department of Education and possibly accepting other conditions on its participation in the Title IV programs. The composite score, using the proprietary ratios, for the Organization for the year ended December 31, 2012 was 0.2.

The composite score, using the non-profit ratios, for the Organization for the year ended December 31, 2012 was 0.2.

Because the Organization operates in a highly regulated industry, they, like other industry participants, may be subject from time to time to audits, investigations, claims of noncompliance or lawsuits by governmental agencies or third parties, which allege statutory violations, regulatory infractions or common law causes of action. While there can be no assurance that regulatory agencies or third parties will not undertake investigations or make claims against the Organization, or that such claims, if made, will not have a material adverse effect on the Organization's business, results of operations or financial condition, management believes it has materially complied with all regulatory requirements.

11. MERGER

Effective December 31, 2012, Center for Excellence in Higher Education, Inc. executed merger agreements to merge Stevens-Henager College, Inc., CollegeAmerica Denver, Inc., CollegeAmerica Arizona, Inc., California College San Diego, Inc., California College, Inc., and CollegeAmerica Services, Inc. into Center for Excellence in Higher Education, Inc., with Center for Excellence in Higher Education, Inc. as the surviving Organization. As part of the merger, all trade names, domain names, and other intellectual property formerly held by the divisions were acquired by the Organization. The acquisition was recorded at fair value and goodwill was recorded. Total consideration was $480,864,694 which includes liabilities assumed of $49,864,694. Through the transaction, the Organization recognized cash of ($3,725,228), restricted cash of $620,331, net accounts receivable of $32,890,742, deposits of $1,067,099, property and equipment of $6,054,414, and goodwill of $419,042,664.

12. LINE OF CREDIT

At December 31, 2012, the Organization has a line of credit with a bank in the amount of $3,600,000 which expires on August 31, 2013. Any unpaid advances bear interest at an adjusted LIBOR rate. As of December 31, 2012, the line of credit contains a sublimit for letters of credit of $3,600,000, of which four letters of credit were outstanding in the amount of $2,731,394. The line of credit is guaranteed by the chairman of the board of directors.

13. ATTESTATION OF REVENUE SOURCES

Regulations restrict the proportion of cash receipts for tuition and fees from eligible programs to not more than 90 percent from Title IV programs. The failure of the Companies to meet the 90 percent limitation could result in the loss of the Companies' ability to participate in Title IV programs. For the year ended December 31, 2012, the Companies received the following (in thousands):

	Stevens-Henager College	College America Denver	College America Arizona	California College San Diego
Revenue from Title IV sources	104,008	23,249	13,325	17,660
Total cash basis revenue	118,999	27,477	15,033	25,872
Percentage of revenue from Title IV	87.40%	84.61%	88.64%	68.26%
Percentage of revenue from Non-Title IV	12.6%	15.39%	11.36%	31.74%

Center for Excellence in Higher Education, Inc.

In accordance with 34 C.F.R. 668.23, further analysis of Title IV revenues and total cash basis revenue for 2012:

(In thousands)	Stevens Henager College		CollegeAmerica Denver		CollegeAmerica Arizona		California College San Diego	
	Amount Disbursed	Adjusted Amount	Amount Disbursed	Adjusted Amount	Amount Disbursed	Adjusted Amount	Amount Disbursed	Adjusted Amount
Adjusted student Title IV revenue								
Subsidized loan	$ 32,570	$ 32,570	$ 7,359	$ 7,359	$ 4,128	$ 4,128	$ 5,429	$ 5,429
Unsubsidized loan	40,144	40,144	8,752	8,752	4,876	4,876	6,342	6,342
Federal pell grant	30,740	30,740	6,934	6,934	4,239	4,239	5,721	5,721
FSEOG (Subject to matching reduction)	554	554	204	204	82	82	168	168
Federal work study applied to tuition and fees (Subject to matching reduction)								
Student Title IV revenue		104,008		23,249		13,325		17,660
Revenue adjustment								
If the amount of Funds Applied First plus Student Title IV Revenue is more than tuition and fees, then reduce Title IV revenue by the amount over tuition and fees								
Adjusted Student Title IV revenue		$ 104,008		$ 23,249		$ 13,325		$ 17,660
Student Non Title IV revenue								
Grant funds for the student from nonfederal public agencies or private sources independent of the institution	$ 11	$ 11	$ (5)	$ (5)	$ 105	$ 105	$ 76	$ 76
Funds provided for the student under a contractual arrangement with a Federal, State, or Local government agency for the purpose of providing job training to low income individuals	3,569	3,569	1,858	1,858	386	386	5,751	5,751
Funds used by a student from savings plans for educational expenses established by or on behalf of the student that qualify for special tax treatment under the Internal Revenue Code								
School scholarships disbursed to the student								
Amounts of unsubsidized Loan over the pre ECASLA loan limits	(19)	(19)	(5)	(5)	(2)	(2)	(6)	(6)
Student payments	7,012	7,012	1,212	1,212	959	959	1,038	1,038
Student Non Title IV revenue		$ 10,573		$ 3,060		$ 1,448		$ 6,859
Revenue from other sources (Totals for the fiscal year)								
Activities conducted by the school that are necessary for education and training (34 C.F.R. S668.28(a)(3)(ii))	$	$	$	$	$	$	$	$
Funds paid by a student, or on behalf of a student by a party other than a school, for an education or training in a qualified program that is not eligible (34 C.F.R. S668.28(a)(3)(iii))								
The Net Present Value (NPV) of school loans disbursed to students (34 C.F.R. S668.28(a)(5)(i) and (b))	4,418	4,418	1,168	1,168	260	260	1,353	1,353
Revenue from other sources		$ 4,418		$ 1,168		$ 260		$ 1,353

SUPPLEMENTARY INFORMATION

AND

COMPLIANCE REPORT

Center for Excellence in Higher Education, Inc.

Detail of Consolidated Statement of Financial Position

December 31, 2012

	Stevens Henager College	CollegeAmerica Denver	CollegeAmerica Arizona	California College San Diego	CASI	CEHE	Eliminations	Totals
ASSETS								
Current assets								
Cash and cash equivalents	$ (111,689)	$ (5,290)	$ (8,007)	$ (36,823)	$ (3,563,419)	$ 10,007,155	$ -	$ 6,281,927
Restricted cash	491,846	41,647	47,878	38,960	-	-	-	620,331
Student receivables, current, net of allowance for doubtful accounts	23,710,605	4,996,608	1,979,626	5,304,336	-	-	-	35,991,175
Promises to give, current portion	-	-	-	-	-	108,000	-	108,000
Total current assets	24,090,762	5,032,965	2,019,497	5,306,473	(3,563,419)	10,115,155	-	43,001,433
Fixed assets, at cost	3,048,997	516,155	302,971	720,433	1,465,858	-	-	6,054,414
Student receivables, noncurrent, net of allowance for doubtful accounts	25,118,840	7,981,093	1,608,150	8,376,851	-	-	-	43,084,934
Promises to give, net of current portion	-	-	-	-	-	306,338	-	306,338
Goodwill	-	-	-	-	-	431,000,000	(11,957,336)	419,042,664
Deposits	297,797	80,119	84,301	127,690	477,192	-	-	1,067,099
Total assets	$ 52,556,396	$ 13,610,332	$ 4,014,919	$ 14,531,447	$ (1,620,369)	$ 441,421,493	$ (11,957,336)	$ 512,556,882
LIABILITIES AND NET ASSETS								
Current liabilities								
Accounts payable	$ 2,837,398	$ 598,164	$ 336,595	$ 670,809	$ 1,548,649	$ -	$ -	$ 5,991,615
Grants payable, current portion	-	-	-	-	-	100,000	-	100,000
Accrued liabilities	674,695	89,247	62,275	64,761	75,992	-	-	966,970
Excess student funds	1,133,244	150,773	127,198	541,369	-	-	-	1,952,584
Deferred tuition	25,087,760	5,277,655	2,669,931	4,947,139	-	-	-	37,982,485
Current portion of long-term debt	-	-	-	-	-	32,000,000	-	32,000,000
Total current liabilities	29,733,097	6,115,839	3,195,999	6,224,078	1,624,641	32,100,000	-	78,993,654
Grants payable, net of curent portion	-	-	-	-	-	283,646	-	283,646
Deferred rent	2,167,110	209,390	301,178	276,798	16,564	-	-	2,971,040
Long-term debt, net of current portion	-	-	-	-	-	399,000,000	-	399,000,000
Total liabilities	31,900,207	6,325,229	3,497,177	6,500,876	1,641,205	431,383,646	-	481,248,340
Net assets								
Unrestricted	20,656,189	7,285,103	517,742	8,030,571	(3,261,574)	9,623,509	(11,957,336)	30,894,204
Temporarily restricted	-	-	-	-	-	414,338	-	414,338
Total net assets	20,656,189	7,285,103	517,742	8,030,571	(3,261,574)	10,037,847	(11,957,336)	31,308,542
Total liabilities and net assets	$ 52,556,396	$ 13,610,332	$ 4,014,919	$ 14,531,447	$ (1,620,369)	$ 441,421,493	$ (11,957,336)	$ 512,556,882

See independent auditor's report and accompanying notes to consolidated financial statement.

Center for Excellence in Higher Education, Inc.

Detail of Consolidated Statement of Activities
For The Year Ended December 31, 2012

	Stevens Henager College	CollegeAmerica Denver	CollegeAmerica Arizona	California College San Diego	CASI	CEHE	Eliminations	Totals
REVENUES								
Tuition and fees	$ 112,538,438	$ 29,190,732	$ 16,427,264	$ 25,512,042	$ 28,909,790	$ -	$ (28,909,790)	$ 183,668,476
Contributions and grants	-	-	-	-	-	10,448,458	-	10,448,458
Other income	109,052	39,785	13,174	44,357	-	-	-	206,368
Interest income	17,720	13,925	3,129	36,419	-	-	-	71,193
Total revenues	112,665,210	29,244,442	16,443,567	25,592,818	28,909,790	10,448,458	(28,909,790)	194,394,495
EDUCATIONAL EXPENSES								
Admissions and marketing	39,950,643	10,559,411	5,539,466	7,929,855	52,585	500	-	64,032,460
Instructional	21,306,024	7,140,725	2,404,143	5,473,136	19,989	-	-	36,344,017
Administrative	27,770,641	6,657,130	3,753,595	5,714,086	5,322,633	107,482	(28,909,790)	20,415,777
Occupancy	5,796,248	1,696,101	1,144,395	1,517,294	20,579	-	-	10,174,617
Student expenses	6,228,459	1,601,637	506,103	635,266	26,281	-	-	8,997,746
Depreciation	3,239,094	602,306	318,380	335,236	132,581	-	-	4,627,597
Grants	-	-	-	-	-	841,953	-	841,953
Interest	-	15,952	-	5	229,723	-	-	245,680
Total expenses	104,291,109	28,273,262	13,666,082	21,604,878	5,804,371	949,935	(28,909,790)	145,679,847
Change in net assets	8,374,101	971,180	2,777,485	3,987,940	23,105,419	9,498,523	-	48,714,648
Net assets, beginning of year	25,365,000	7,703,000	2,680,000	10,147,000	7,927,826	539,324	(11,957,336)	42,404,814
Stockholder distributions prior to merger	(13,082,912)	(1,389,077)	(4,939,743)	(6,104,369)	(34,294,819)	-	-	(59,810,920)
Net assets, end of year	$ 20,656,189	$ 7,285,103	$ 517,742	$ 8,030,571	$ (3,261,574)	$ 10,037,847	$ (11,957,336)	$ 31,308,542

See independent auditor's report and accompanying notes to consolidated financial statements.

shaw & co.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
Center for Excellence in Higher Education, Inc.
Salt Lake City, UT

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Center for Excellence in Higher Education, Inc. (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2012, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated June 7, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Center for Excellence in Higher Education, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Center for Excellence in Higher Education, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Center for Excellence in Higher Education, Inc.'s consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

1564 South 500 West, Ste. 201
Bountiful, UT 84010-7400
Phone: (801) 294-3155
Fax: (801) 294-3190
www.shaw-cpa.com
info@shaw-cpa.com

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bountiful, Utah
June 7, 2013

Center for Excellence in Higher Education, Inc.
Schedule of Findings and Disposition of Prior Year Findings
Year Ended December 31, 2012

Section I - Summary of Auditor's Results

Consolidated Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

• Material weakness(es) identified?	____Yes	√ No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	____Yes	√ None reported
Noncompliance material to financial statements noted?	____Yes	√ No

Section II - Financial Statement Findings

No findings related to the consolidated financial statements were noted which are required to be reported in accordance with *Government Auditing Standards* for the year ended December 31, 2012.

Disposition of Prior Year Findings

No findings related to the combined financial statements were noted which are required to be reported in accordance with *Government Auditing Standards* for the year ended December 31, 2011.

Center for Excellence in Higher Education, Inc.

Stevens-Henager College
EIN: 20-8091013, DUNS: 830967790, OPE ID: 00367400
CollegeAmerica Denver
EIN: 20-8091013, DUNS: 869303586, OPE ID: 02594300
CollegeAmerica Arizona
EIN: 20-8091013, DUNS 148984107, OPE ID: 03120300
California College San Diego
EIN: 20-8091013, DUNS: 626397678, OPE ID: 02110800

Years Ended December 31, 2013 and 2012

Consolidated Financial Statements
With Supplementary Information
And Compliance Report

And

Independent Auditor's Report

shaw&co.

Center for Excellence in Higher Education, Inc.

Table of Contents

shaw & co.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Center for Excellence in Higher Education, Inc.
Salt Lake City, UT

Financial Statements

We have audited the accompanying consolidated financial statements of Center for Excellence in Higher Education, Inc. (a nonprofit organization), which comprise the consolidated statements of financial position as of December 31, 2013 and 2012, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of 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 consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Center for Excellence in Higher Education, Inc. as of December 31, 2013 and 2012, 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.

1564 South 500 West, Ste. 201
Bountiful, UT 84010-7400
Phone: (801) 294-3155
Fax: (801) 294-3190
www.shaw-cpa.com
info@shaw-cpa.com

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reported dated June 6, 2014 on our consideration of Center for Excellence in Higher Education, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying Note 16 of the Organization's calculations of their Title IV 90/10 test is required by the U.S. Department of Education and the accompanying Note 10 on related party transactions is required by the U.S. Department of Education and accounting principles generally accepted in the United States of America and are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. In addition, the detail of consolidated statement of financial position on page 18 and the detail of consolidated statement of activities on page 20 are presented for purpose of additional analysis and are not a required part of the consolidated financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Bountiful, Utah
June 6, 2014

Center for Excellence in Higher Education, Inc.

Consolidated Statements of Financial Position

December 31, 2013 and 2012

	12/31/2013	12/31/2012
ASSETS		
Current assets		
Cash and cash equivalents	$ 8,255,514	$ 6,281,927
Restricted cash	369,987	620,331
Student receivables, current, net of allowance for doubtful accounts of $5,953,888 and $6,066,795	43,945,162	35,991,175
Promises to give, current portion	108,000	108,000
Total current assets	52,678,663	43,001,433
Fixed assets, at cost, less accumulated depreciation of $10,491,574 and $9,435,136	9,332,524	6,054,414
Student receivables, noncurrent, net of allowance for doubtful accounts of $22,189,505 and $20,558,457	50,155,920	43,084,934
Promises to give, net of current portion	208,128	306,338
Goodwill	419,042,664	419,042,664
Deposits	1,464,325	1,067,099
Total assets	$ 532,882,224	$ 512,556,882
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$ 6,834,814	$ 5,991,615
Grants payable, current portion	100,000	100,000
Accrued liabilities	4,529,961	966,970
Excess student funds	1,306,140	1,952,584
Deferred tuition	28,510,505	37,982,485
Current portion of long-term debt	20,000,000	32,000,000
Total current liabilities	61,281,420	78,993,654
Grants payable, net of current portion	692,711	283,646
Deferred rent	3,109,290	2,971,040
Long-term debt, net of current portion	403,000,000	399,000,000
Total liabilities	468,083,421	481,248,340
Unrestricted	64,482,675	30,894,204
Temporarily restricted	316,128	414,338
Permanently restricted	-	-
Total net assets	64,798,803	31,308,542
Total liabilities and net assets	$ 532,882,224	$ 512,556,882

See accompanying notes to consolidated financial statements.

Center for Excellence in Higher Education, Inc.

Consolidated Statement of Activities

For The Year Ended December 31, 2013

	Unrestricted	Temporarily Restricted	Total
REVENUES AND OTHER SUPPORT			
Tuition and fees	$ 186,128,271	$ -	$ 186,128,271
Contributions and grants	2,014,098	-	2,014,098
Other income	258,689	-	258,689
Interest income	37,442	-	37,442
Net assets released from restrictions	98,210	(98,210)	-
Total revenues and other support	188,536,710	(98,210)	188,438,500
EXPENSES			
Admissions and marketing	65,189,923	-	65,189,923
Instructional	34,620,237	-	34,620,237
Administrative	25,088,042	-	25,088,042
Occupancy	10,928,712	-	10,928,712
Student expenses	9,014,092	-	9,014,092
Depreciation	5,052,929	-	5,052,929
Grants	759,065	-	759,065
Interest	4,295,239	-	4,295,239
Total expenses	154,948,239	-	154,948,239
Change in net assets	33,588,471	(98,210)	33,490,261
Net assets, beginning of year	30,894,204	414,338	31,308,542
Net assets, end of year	$ 64,482,675	$ 316,128	$ 64,798,803

See accompanying notes to consolidated financial statements.

Center for Excellence in Higher Education, Inc.

Consolidated Statement of Activities
For The Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Total
REVENUES AND OTHER SUPPORT			
Tuition and fees	$ 183,668,476	$ -	$ 183,668,476
Contributions and grants	10,448,458	-	10,448,458
Other income	206,368	-	206,368
Interest income	71,193	-	71,193
Net assets released from restrictions	107,023	(107,023)	-
Total revenues and other support	194,501,518	(107,023)	194,394,495
EXPENSES			
Admissions and marketing	64,032,460	-	64,032,460
Instructional	36,344,017	-	36,344,017
Administrative	20,415,777	-	20,415,777
Occupancy	10,174,617	-	10,174,617
Student expenses	8,997,746	-	8,997,746
Depreciation	4,627,597	-	4,627,597
Grants	841,953	-	841,953
Interest	245,680	-	245,680
Total expenses	145,679,847	-	145,679,847
Change in net assets	48,821,671	(107,023)	48,714,648
Net assets, beginning of year	41,883,453	521,361	42,404,814
Former stockholder distributions prior to merger	(59,810,920)	-	(59,810,920)
Net assets, end of year	$ 30,894,204	$ 414,338	$ 31,308,542

See accompanying notes to consolidated financial statements.

Center for Excellence in Higher Education, Inc.

Consolidated Statements of Cash Flows

For The Years Ended December 31, 2013 and 2012

	12/31/2013	12/31/2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 33,490,261	$ 48,714,648
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	5,052,929	4,627,597
Bad debt expense	25,691,492	23,601,168
Changes in operating assets and liabilities:		
Student receivables	(40,716,466)	(30,870,306)
Promises to give	98,210	105,997
Deposits	(397,226)	(396,596)
Accounts payable	843,199	(1,492,944)
Grants payable	409,065	383,646
Accrued liabilities	3,562,992	(4,265,066)
Excess student funds	(646,444)	(55,822)
Deferred tuition	(9,471,980)	10,448,971
Deferred rent	138,250	203,157
Net cash provided by operating activities	18,054,282	51,004,450
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(8,331,039)	(6,325,963)
Decrease in restricted cash	250,344	1,680,295
Net cash used in investing activities	(8,080,695)	(4,645,668)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(8,000,000)	-
Distributions to stockholder, prior to merger	-	(59,810,920)
Net cash used in financing activities	(8,000,000)	(59,810,920)
Net change in cash and cash equivalents	1,973,587	(13,452,138)
Cash and cash equivalents, beginning of year	6,281,927	19,734,065
Cash and cash equivalents, end of year	$ 8,255,514	$ 6,281,927
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 3,234,378	$ 181,766
Cash paid for income taxes	$ -	$ -

See accompanying notes to consolidated financial statements.

1. DESCRIPTION OF BUSINESS

Center for Excellence in Higher Education, Inc. (the "Organization") is a non-profit corporation established in December 2006 to promote excellence in higher education by working with philanthropists and others interested in reforming American colleges and universities. Education reform, for these purposes, is defined as increasing access, reducing costs, and improving the quality of higher education with the goal to make universities, schools, departments, and ultimately individual faculty members accountable for the quality and effectiveness of their work.

Effective December 31, 2012, Center for Excellence in Higher Education, Inc. executed merger agreements to merge Stevens-Henager College, Inc. ("SHC"), CollegeAmerica Denver, Inc. ("CAD"), CollegeAmerica Arizona, Inc. ("CAA"), California College San Diego, Inc. ("CCSD"), California College, Inc. ("CCI"), and CollegeAmerica Services, Inc. ("CASI") into Center for Excellence in Higher Education, Inc., with Center for Excellence in Higher Education, Inc. as the surviving Organization. The Organization is engaged in the following business activities through its divisions:

Stevens-Henager College operates a postsecondary college with campuses located in Utah and Idaho..

CollegeAmerica Denver operates a postsecondary college with campuses located in Colorado and Wyoming.

CollegeAmerica Arizona operates a postsecondary college with campuses located in Arizona and Idaho.

California College San Diego operates a postsecondary college with campuses located in California.

CollegeAmerica Services provides various services to the divisions.

Stevens-Henager College, CollegeAmerica Denver, CollegeAmerica Arizona, and California College San Diego are accredited by the Accrediting Commission of Career Schools and Colleges ("ACCSC").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Organization have been prepared on the accrual basis. The Organization follows the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*.

The significant accounting policies followed are described below to enhance the usefulness of the financial statement to the reader.

Date of Management's Review

Subsequent events were evaluated through June 6, 2014, which is the date the financial statements were available to be issued. From their review, management has determined that there were no significant recognizable or unrecognizable subsequent events that were not properly disclosed.

Basis of Accounting and Principles of Consolidation

These consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements include the accounts of Center for Excellence in Higher Education, Inc., Stevens-Henager College, CollegeAmerica Denver, CollegeAmerica Arizona, California College San Diego, California College, and CollegeAmerica Services. These divisions are under common control and, therefore, are presented on a consolidated basis. All intercompany accounts and transactions have been eliminated.

Use of Estimates

The process of preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities along with disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the consolidated statement of financial position, cash equivalents include money market accounts.

Restricted Cash

Short-term restricted cash primarily represents amounts held for students that were received from the CAL Grants and Direct Loan programs. Restricted cash excludes certain funds that may be required to be returned if a student who receives Title IV program funds withdraws. These components are a part of cash, as they are not legally restricted or otherwise segregated from other assets. Restricted cash is excluded from cash and cash equivalents in the consolidated statement of financial position and is held in bank deposit accounts.

Student Receivables

Student receivables consist of amounts due for tuition from currently enrolled and former students. Student receivables are stated at the amount management expects to collect from outstanding balances. Student receivables with maturities greater than one year are presented at their net present value and discounted at rates commensurate with the underlying student's borrowing rate.

Fixed Assets

Fixed assets are stated at cost net of accumulated depreciation. Expenditures for maintenance and repairs are charged to expense as incurred, whereas renewals and betterments that extend the lives of fixed assets are capitalized. Depreciation of fixed assets other than leasehold improvements is computed using either straight-line or accelerated methods with lives ranging from eighteen months to five years. Depreciation of leasehold improvements is computed using the straight-line method over the shorter of the life of the asset or the life of the lease.

Goodwill

Goodwill represents the excess of the purchase price paid over the fair value of the net assets acquired in connection with a business combination. The Organization reviews goodwill for possible impairment on an annual basis or when triggering events occur in accordance with FASB ASC 350 *Intangibles – Goodwill and Other*. Goodwill is tested for impairment at the reporting unit level. The Organization utilizes a two-part impairment test. First, the fair value of the reporting unit is compared to the carrying value (including goodwill). If the carrying value is greater than the fair value, the second step is performed. In the second step, the implied fair value of the reporting unit goodwill is compared to the carrying amount of goodwill. If the carrying value is greater, a loss is recognized. The goodwill impairment test considers the impact of current conditions and the economic outlook for the Organization's industry, the general overall economic outlook including market data, governmental and environmental factors, in establishing assumptions used to compute the fair value of the reporting unit. The Organization also takes into account the historical, current and future operating results and any other facts and data pertinent to valuing the reporting unit.

Revenue Recognition

The Organization's revenue consists of tuition revenue and contributions (see below). Tuition revenue is recognized on a straight-line basis over the applicable period of instruction net of expected refunds. The Organization's students generally enroll in a program that encompasses a series of modules which are taken consecutively over the length of the program.

If a student's attendance precedes the receipt of tuition payments, the Organization establishes a student receivable for tuition charges in the amount reasonably assured of collection. Tuition payments received reduce the balance of accounts receivable due from the student.

If a student withdraws from a program prior to a specified refund date, a portion of such student's tuition is refunded. The Organization records a provision for expected refunds and reduces revenue for the amount that is expected to be subsequently refunded.

Bad debt expense is offset against gross tuition and fees revenue.

Advertising Costs

Advertising costs are charged to operations when incurred. Advertising costs for the years ended December 31, 2013 and 2012 was $37,184,420 and $39,370,092, respectively.

Concentrations of Credit Risks

The Organization maintains its cash in bank deposit accounts, which at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Contributions

Unconditional promises to give are recognized as contributions when received at the net present value of the amounts expected to be collected. Contributions are considered available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted for future periods or by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes.

When a donor-imposed time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restriction. Donor-restricted contributions whose restrictions are met in the same year the contribution is received are reported as unrestricted.

Promises to give

Promises to give are recorded at their estimated fair value. Amounts due later than one year, if any, are recorded at the present value of estimated future cash flows. The Organization estimates the allowance based on analysis of specific donors, taking into consideration the age of past due pledges and an assessment of the donor's ability to pay. At December 31, 2013 and 2012, management of the Organization considers all promises to be collectible; therefore, no allowance has been recorded.

Income taxes

The Organization is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and therefore has made no provision for federal income taxes in the accompanying financial statement. In addition, the Organization has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code.

The Organization's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending December 31, 2013, 2012, 2011, and 2010 are subject to examination by the IRS, generally for three years after they were filed. Generally accepted accounting principles require tax effects from an uncertain tax position to be recognized in the financial statement only if the position is more likely than not to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged. If an uncertain tax position meets the more-likely-than-not threshold, the largest amount of tax benefit that is greater than 50% likely to be recognized upon ultimate settlement with the taxing authority is recorded. The Organization's primary tax positions relate to its status as a not-for-profit entity exempt from income taxes and classification of activities related to its exempt purpose. Management has evaluated the tax positions reflected in the Organization's tax filings and does not believe that any material uncertain tax positions exist.

Prior to the merger, SHC, CAD, CAA, CCSD, CASI, and CCI filed their tax returns as subchapter "S" Corporations. Under those provisions, the companies generally do not pay income taxes on their taxable income. Instead, the stockholder is liable for individual income taxes on the Companies' taxable income. Accordingly, no provision for income taxes is included in the consolidated financial statements.

The Companies' Forms 1120S, *U.S. Income Tax Return for an S Corporation*, for the years ending December 31, 2012, 2011, and 2010 are subject to examination by the IRS, generally for three years after they were filed. Generally accepted accounting principles require tax effects from an uncertain tax position to be recognized in the financial statement only if the position is more likely than not to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged. If an uncertain tax position meets the more-likely-than-not threshold, the largest amount of tax benefit that is greater than 50% likely to be recognized upon ultimate settlement with the taxing authority is recorded. Management has evaluated the tax positions reflected in the Companies' tax filings and does not believe that any material uncertain tax positions exist.

Fair Value of Financial Instruments

The Organization has a number of financial instruments, none of which are held for trading purposes. The Organization estimates that the fair value of all financial instruments at December 31, 2013 and 2012 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying consolidated statements of financial position.

3. PROMISES TO GIVE

Promises to give as of December 31, 2013 and 2012, consist of the following:

	2013	2012
Amounts due in:		
Less than one year	$ 108,000	$ 108,000
One to five years	216,000	324,000
	324,000	432,000
Less: discount to net present value (1.89%)	(7,872)	(17,662)
	$ 316,128	$ 414,338

Management reviews contributions and pledges receivable quarterly and writes-off the amount of individual pledges, if any, it determines to be uncollectible. A discount rate commensurate with the risks involved in holding pledges receivable due in future years was used in calculating the present value of future cash flows. There was no allowance for doubtful pledges as of December 31, 2013 and 2012.

4. RECEIVABLE FACTORING

In December 2013, the Organization factored an accounts receivable portfolio with a book value of $1,464,399 to a credit agency. Under the arrangement, the Organization transferred $1,464,399 of accounts receivable to the credit agency in exchange for cash proceeds of $1,400,000. The terms of the agreement allow the credit agency to require the Organization to repurchase all uncollected receivables in the portfolio if 70% or more of the receivables are not considered current on June 30, 2014.

5. FIXED ASSETS

Fixed assets as of December 31, 2013 and 2012 consist of the following:

	2013	2012
Furniture and equipment	$ 8,346,391	$ 7,942,944
Software	2,893,503	716,605
Student computers	6,270,943	4,672,761
Leasehold improvements	2,313,261	2,157,240
	19,824,098	15,489,550
Less: accumulated depreciation	(10,491,574)	(9,435,136)
	$ 9,332,524	$ 6,054,414

Depreciation expense for the years ended December 31, 2013 and 2012 was $5,052,929 and $4,627,597.

6. GRANTS PAYABLE

Grants payable as of December 31, 2013 and 2012 consist of the following:

	2013	2012
Amounts payable in less than one year	350,000	$ 100,000
Amounts payable in one to five years	450,000	300,000
	800,000	400,000
Less: discount to net present value (1.89%)	(7,289)	(16,354)
	$ 792,711	$ 383,646

The Organization has two grants payable over multiple years. One of the grants payable is closely tied to the promise to give (see Note 3). Management reviews grants payable quarterly and writes-off the amount of grants payable, if any, it determines to be not payable in the future. A discount rate commensurate with the risks involved in the payment of grants due in future years was used in calculating the present value of future cash flows. There was no allowance for grants payable as of December 31, 2013 and 2012.

7. LINE OF CREDIT

At December 31, 2012, the Organization had a line of credit with a bank in the amount of $3,600,000 which expired on August 31, 2013. The balance on the line of credit as of December 31, 2012 was $-0-.

8. LONG-TERM DEBT

In connection with the merger, the Organization entered into two notes payable with the seller, a related party trust. The senior note matures December 31, 2017 and the junior note matures December 31, 2019. Both notes bear interest at 1% and require quarterly interest payments. Principal payments on the senior note are required based on a formula which takes into account cash flow and revenue of the Organization. No principal payments are due on the junior note until after the senior note is paid in full. The notes contain certain events which could result in an adjustment to the interest rate in the future and acceleration of principal payments. No triggering events have occurred as of December 31, 2013. Both notes are secured by the assets of the Organization.

The balance of the senior note at December 31, 2013 and 2012 was $192,000,000 and $200,000,000, respectively. The balance of the junior note at December 31, 2013 and 2012 was $231,000,000 and $231,000,000, respectively.

The current portion of the notes payable has been calculated based upon management's expectation for payment of principal in accordance with the formula. Projected future minimum principal payments are as follows:

Year ended December 31,	
2014	$ 20,000,000
2015	24,000,000
2016	28,000,000
2017	120,000,000
2018	32,000,000
Thereafter	199,000,000
	$ 423,000,000

Interest expense on the notes for the years ended December 31, 2013 and 2012 was $4,295,239 and $-0-, respectively.

9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of a promise to give (See Note 3). The balance of temporarily restricted net assets as of December 31, 2013 and 2012 was $316,128 and $414,338, respectively.

10. RELATED PARTY TRANSACTIONS

The Organization derives a substantial portion of its revenue from Student Financial Aid (SFA) received by its students under the Title IV programs administered by the U.S. Department of Education pursuant to the Higher Education Act of 1965, as amended (HEA). To continue to participate in the SFA programs, the Organization must comply with the regulations promulgated under the HEA. Those regulations require that all related party transactions be disclosed, regardless of their materiality to the financial statements.

A member of the board of directors owns and operates real estate leasing companies from which the Organization leases some campus facilities. The amounts paid to these companies for the years ended December 31, 2013 and 2012 were as follows:

	2013	2012
Company 1	$ 3,859,487	$ 3,451,292
Company 2	851,564	822,556
Company 3	386,458	369,737
	$ 5,097,509	$ 4,643,585

A member of the board of directors made a cash contribution of $2,000,000 to the Organization during the year ended December 31, 2013 and a cash contribution of $10,075,000 to the Organization during the year ended December 31, 2012. The Organization also has two notes payable to a related party trust (see Note 8).

A member of the board of directors owns a company which provided accounting services to the Organization. During the year ended December 31, 2013, the amount paid to this company was $601,286.

A member of the board of directors owns a company which provided consulting services to the Organization. During the year ended December 31, 2013, the amount paid to this company was $5,000.

In addition, the corporations (which were previously owned by a member of the board of directors) merged into the Organization (see Note 1 and Note 12). The corporations contributed to the Organization some of their accounts receivable. The contribution was recorded net of the allowance for doubtful accounts. The net amount of the contribution was $46,185,367. Also, prior to the merger, the stockholder of the Companies (now a member of the board of directors) operated CollegeAmerica Services, Inc. (CASI), a related party which provided various administrative services to the Companies. During the year ended December 31, 2012, the Companies recorded expense of $28,909,790, for services performed and expenses paid by CASI.

11. ECONOMIC DEPENDENCY

The Organization (SHC, CAD, CAA, and CCSD) receives significant revenue from Title IV sources. Continuing participation in Title IV programs requires compliance with numerous federal regulations. Future noncompliance with these regulations or a change in the laws governing these programs could severely impact the operations of the Organization. Further, ineligibility to participate in Title IV programs would have a material adverse effect on the Organization's enrollment, revenue and results of operations.

12. MERGER

Effective December 31, 2012, Center for Excellence in Higher Education, Inc. executed merger agreements to merge Stevens-Henager College, Inc., CollegeAmerica Denver, Inc., CollegeAmerica Arizona, Inc., California College San Diego, Inc., California College, Inc., and CollegeAmerica Services, Inc. into Center for Excellence in Higher Education, Inc., with Center for Excellence in Higher Education, Inc. as the surviving Organization. As part of the merger, all trade names, domain names, and other intellectual property formerly held by the divisions were acquired by the Organization. The acquisition was recorded at fair value and goodwill was recorded. Total consideration was $480,864,694 which includes liabilities assumed of $49,864,694. Through the transaction, the Organization recognized cash of ($3,725,228), restricted cash of $620,331, net accounts receivable of $32,890,742, deposits of $1,067,099, property and equipment of $6,054,414, and goodwill of $419,042,664.

13. COMMITMENTS AND CONTINGENCIES

Operating lease agreements

The Organization leases its campus facilities under operating lease agreements. The operating lease agreements contain provisions which allow for rent increases on an annual basis, subject to limits. The Organization recognizes rent expense on a straight-line basis over the lease period. Rent expense for the years ended December 31, 2013 and 2012 was $10,913,104 and $10,169,996, respectively. Future minimum lease payments are as follows:

Year Ending December 31,	Amount
2014	$ 7,979,382
2015	7,976,718
2016	6,654,600
2017	5,883,206
2018	4,804,529
Thereafter	5,033,790
	$ 38,332,225

Letters of credit

The Organization has four letters of credit outstanding at December 31, 2013. Three letters of credit are to the Division of Private Occupational Schools, Colorado Department of Education on behalf of CollegeAmerica Denver. One letter of credit is in lieu of a security deposit to a landlord. The amount outstanding under the letters of credit is $2,681,394 at December 31, 2013. As of January 31, 2014, the three letters of credit were reduced to $733,105. The letters of credit are guaranteed to the issuing bank by the chairman of the board of directors of the Organization. All letters of credit will expire in 2014.

The Organization has four letters of credit outstanding at December 31, 2012. Three letters of credit are to the Division of Private Occupational Schools, Colorado Department of Education on behalf of CollegeAmerica Denver. One letter of credit is in lieu of a security deposit to a landlord. The amount outstanding under the letters of credit is $2,731,394 at December 31, 2012.

Legal proceedings

From time to time, the Organization may be involved in various legal proceedings that are incidental to its business. However, to management's knowledge, there currently are no material pending legal proceedings involving the Organization.

14. REGULATORY

The Organization is subject to extensive regulation by federal and state governmental agencies and accrediting bodies. In particular, the Higher Education Act and the regulations promulgated there under by the U.S. Department of Education subject the Organization to significant regulatory scrutiny on the basis of numerous standards that schools must satisfy in order to participate in the various federal student financial assistance programs under Title IV of the Higher Education Act.

To participate in Title IV programs, an institution must be authorized to offer its programs of instruction by the relevant agency of the state in which it is physically located, accredited by an accrediting agency recognized by the U.S. Department of Education and certified as eligible by the U.S. Department of Education. The U.S. Department of Education will certify an institution to participate in Title IV programs only after the institution has demonstrated compliance with the Higher Education Act and the U.S. Department of Education's extensive regulations regarding institutional eligibility. An institution must also demonstrate its compliance to the U.S. Department of Education on an ongoing basis. As of December 31, 2013, management believes the Organization is in compliance with the applicable regulations in all material respects.

The Higher Education Act requires accrediting agencies to review many aspects of an institution's operations in order to ensure that the education offered is of sufficiently high quality to achieve satisfactory outcomes and that the institution is complying with accrediting standards. Failure to demonstrate compliance with accrediting standards may result in the imposition of probation, the requirements to provide periodic reports, the loss of accreditation or other penalties if deficiencies are not remediated.

Student Default Rate

For each federal fiscal year, the U.S. Department of Education calculates a rate of student defaults for each educational institution which is known as a "cohort default rate." An institution may lose its eligibility to participate in some or all Title IV programs if, for each of the three most recent federal fiscal years for which information is available, 25% or more of its students who became subject to a repayment obligation in that federal fiscal year defaulted on such obligation by the end of the following federal fiscal year. In addition, an institution may lose its eligibility to participate in some or all Title IV programs if its cohort default rate exceeds 40% in the most recent federal fiscal year for which default rates have been calculated by the U.S. Department of Education. The divisions' cohort default rates for the 2011, 2010 and 2009 federal fiscal years were the following:

	2011	2010	2009
Stevens Henager College	21.8	18.4	15.0
CollegeAmerica Denver	19.8	26.0	22.7
CollegeAmerica Arizona	23.8	19.9	24.5
California College San Diego	18.3	15.3	19.7

Financial Responsibility

The U.S. Department of Education calculates an institution's composite score for financial responsibility based on its (i) equity ratio, which measures the institution's capital resources, ability to borrow and financial viability; (ii) primary reserve ratio, which measures the institution's ability to support current operations from expendable resources; and (iii) net income ratio, which measures the institution's ability to operate at a profit. An institution that does not meet the U.S. Department of Education's minimum composite score may demonstrate its financial responsibility by posting a letter of credit in favor of the U.S. Department of Education and possibly accepting other conditions on its participation in the Title IV programs. The composite score, using the non-profit ratios, for the Organization for the year ended December 31, 2013 was -0.2.

Because the Organization operates in a highly regulated industry, they, like other industry participants, may be subject from time to time to audits, investigations, claims of noncompliance or lawsuits by governmental agencies or third parties, which allege statutory violations, regulatory infractions or common law causes of action. While there can be no assurance that regulatory agencies or third parties will not undertake investigations or make claims against the Organization, or that such claims, if made, will not have a material adverse effect on the Organization's business, results of operations or financial condition, management believes it has materially complied with all regulatory requirements.

15. FUNCTIONAL EXPENSE ALLOCATION

The Organization's expenses by function for the year ended December 31, 2013 were as follows:

	Program Services		Support Services	
	Colleges	Morality of Capitalism	Management and General	Total
Grants	$ -	$ 759,065	$ -	$ 759,065
Salaries and wages	59,226,341	-	5,363,071	64,589,412
Pension plans	99,161	-	17,514	116,675
Employee benefits	3,320,344	-	303,275	3,623,619
Payroll taxes	5,026,164	-	565,934	5,592,098
Fees for services	2,434,773	-	2,564,537	4,999,310
Advertising	37,184,420	-	-	37,184,420
Office	2,352,973	-	203,495	2,556,468
Technology	1,283,180	-	673,258	1,956,438
Occupancy	10,617,048	-	296,056	10,913,104
Travel	982,587	-	402,791	1,385,378
Conferences	60,440	-	123,057	183,497
Interest	-	-	4,295,239	4,295,239
Depreciation	5,052,929	-	-	5,052,929
Insurance	-	-	364,674	364,674
Accreditation	605,891	-	15,991	621,882
Administrative	251,865	-	282,771	534,636
Student support	10,219,395	-	-	10,219,395
Total	$ 138,717,511	$ 759,065	$ 15,471,663	$ 154,948,239

16. ATTESTATION OF REVENUE SOURCES

Regulations restrict the proportion of cash receipts for tuition and fees from eligible programs to not more than 90 percent from Title IV programs. The failure of the Companies to meet the 90 percent limitation could result in the loss of the Companies' ability to participate in Title IV programs. For the year ended December 31, 2013, the Companies received the following (in thousands):

	Stevens-Henager College	College America Denver	College America Arizona	California College San Diego
Revenue from Title IV sources	$ 93,912	$ 17,995	$ 12,270	$ 14,344
Total cash basis revenue	$ 104,711	$ 21,250	$ 13,772	$ 21,248
Percentage of revenue from Title IV	89.69%	84.68%	89.09%	67.51%
Percentage of revenue from Non-Title IV	10.31%	15.32%	10.91%	32.49%

In accordance with 34 C.F.R. 668.23, further analysis of Title IV revenues and total cash basis revenue for 2013:

	Stevens Henager College		CollegeAmerica Denver		CollegeAmerica Arizona		California College San Diego	
	Amount Disbursed	Adjusted Amount	Amount Disbursed	Adjusted Amount	Amount Disbursed	Adjusted Amount	Amount Disbursed	Adjusted Amount
Adjusted student Title IV revenue								
Subsidized loan	$ 28,104,951	$ 28,104,951	$ 5,537,926	$ 5,537,926	$ 3,670,641	$ 3,670,641	$ 4,177,892	$ 4,177,892
Unsubsidized loan	39,495,495	39,495,495	6,930,786	6,930,786	4,556,888	4,556,888	5,111,242	5,111,242
Federal pell grant	25,756,226	25,756,226	5,326,515	5,326,515	3,995,406	3,995,406	4,917,170	4,917,170
FSEOG (Subject to matching reduction)	555,474	555,474	200,223	200,223	47,790	47,790	137,749	137,749
Federal work study applied to tuition and fees (Subject to matching reduction)	-	-	-	-	-	-	-	-
Student Title IV revenue		93,912,146		17,995,450		12,270,725		14,344,053
Revenue adjustment								
If the amount of Funds Applied First plus Student Title IV Revenue is more than tuition and fees, then reduce Title IV revenue by the amount over tuition and fees	-	-	-	-	-	-	-	-
Adjusted Student Title IV revenue		$ 93,912,146		$ 17,995,450		$ 12,270,725		$ 14,344,053
Student Non Title IV revenue								
Grant funds for the student from nonfederal public agencies or private sources independent of the institution	$ 2,587	$ 2,587	$ 6,496	$ 6,496	$ 3,891	$ 3,891	$ 38,525	$ 38,525
Funds provided for the student under a contractual arrangement with a Federal, State, or Local government agency for the purpose of providing job training to low-income individuals	3,959,687	3,959,687	2,004,957	2,004,957	404,551	404,551	5,729,108	5,729,108
Funds used by a student from savings plans for educational expenses established by or on behalf of the student that qualify for special tax treatment under the Internal Revenue Code	-	-	-	-	-	-		-
School scholarships disbursed to the student	-	-	-	-	-	-		-
Amounts of unsubsidized Loan over the pre-ECASLA loan limits	(5,605)	(5,605)	(8,043)	(8,043)	(1,845)	(1,845)	(995)	(995)
Student payments	6,843,059	6,843,059	1,251,880	1,251,880	1,095,404	1,095,404	1,137,575	1,137,575
Student Non Title IV revenue		$ 10,799,728		$ 3,255,290		$ 1,502,001		$ 6,904,213
Revenue from other sources (Totals for the fiscal year)								
Activities conducted by the school that are necessary for education and training (34 C.F.R. S668.28(a)(3)(ii))	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Funds paid by a student, or on behalf of a student by a party other than a school, for an education or training in a qualified program that is not eligible (34 C.F.R. S668.28(a)(3)(iii))	-	-	-	-	-	-	-	-
The Net Present Value (NPV) of school loans disbursed to students (34 C.F.R. S668.28(a)(5)(i) and (b))	-	-	-	-	-	-	-	-
Revenue from other sources		$ -		$ -		$ -		$ -

SUPPLEMENTARY INFORMATION

AND

COMPLIANCE REPORT

Center for Excellence in Higher Education, Inc.

Detail of Consolidated Statement of Financial Position

December 31, 2013

	Stevens Henager College	CollegeAmerica Denver	CollegeAmerica Arizona	California College San Diego	CASI/CEHE	Eliminations	Totals
ASSETS							
Current assets							
Cash and cash equivalents	$ (41,789)	$ 8,143	$ (3,679)	$ (7,012)	$ 8,299,851	$	$ 8,255,514
Restricted cash	277,192	18,168	33,581	41,046			369,987
Student receivables, current, net of allowance for doubtful accounts	30,763,022	4,720,525	2,604,623	5,856,992			43,945,162
Accounts receivable, intercompany			2,150,857	1,453,846	5,080,165	(8,684,868)	
Promises to give, current portion	-	-	-	-	108,000	-	108,000
Total current assets	30,998,425	4,746,836	4,785,382	7,344,872	13,488,016	(8,684,868)	52,678,663
Fixed assets, at cost, net of accumulated depreciation	4,501,333	438,630	308,931	725,314	3,358,316		9,332,524
Student receivables, noncurrent, net of allowance for doubtful accounts	31,233,373	8,045,283	1,844,420	9,032,844			50,155,920
Promises to give, net of current portion					208,128		208,128
Goodwill					431,000,000	(11,957,336)	419,042,664
Deposits	279,532	91,736	78,691	122,900	891,466	-	1,464,325
Total assets	$ 67,012,663	$ 13,322,485	$ 7,017,424	$ 17,225,930	$ 448,945,926	$ (20,642,204)	$ 532,882,224
LIABILITIES AND NET ASSETS							
Current liabilities							
Accounts payable	$	$	$	$	$ 6,834,814	$	$ 6,834,814
Accounts payable, intercompany	8,418,606	261,774			4,488	(8,684,868)	$
Grants payable, current portion					100,000		100,000
Accrued liabilities	2,159,510	443,059	226,448	296,862	1,404,082		4,529,961
Excess student funds	865,113	73,247	70,968	296,812			1,306,140
Deferred tuition	18,595,243	3,669,428	2,301,640	3,944,194			28,510,505
Current portion of long-term debt	-	-	-	-	20,000,000	-	20,000,000
Total current liabilities	30,038,472	4,447,508	2,599,056	4,537,868	28,343,384	(8,684,868)	61,281,420
Grants payable, net of curent portion					692,711		692,711
Deferred rent	1,961,664	308,761	341,443	480,858	16,564	-	3,109,290
Long term debt, net of current portion					403,000,000		403,000,000
Total liabilities	32,000,136	4,756,269	2,940,499	5,018,726	432,052,659	(8,684,868)	468,083,421
Net assets							
Unrestricted	35,012,527	8,566,216	4,076,925	12,207,204	16,577,139	(11,957,336)	64,482,675
Temporarily restricted					316,128		316,128
Total net assets	35,012,527	8,566,216	4,076,925	12,207,204	16,893,267	(11,957,336)	64,798,803
Total liabilities and net assets	$ 67,012,663	$ 13,322,485	$ 7,017,424	$ 17,225,930	$ 448,945,926	$ (20,642,204)	$ 532,882,224

See independent auditor's report and accompanying notes to consolidated financial statement.

Center for Excellence in Higher Education, Inc.

Detail of Consolidated Statement of Financial Position

December 31, 2012

	Stevens Henager College	CollegeAmerica Denver	CollegeAmerica Arizona	California College San Diego	CASI/CEHE	Eliminations	Totals
ASSETS							
Current assets							
Cash and cash equivalents	$ (111,689)	$ (5,290)	$ (8,007)	$ (36,823)	$ 6,443,736	$ -	$ 6,281,927
Restricted cash	491,846	41,647	47,878	38,960	-	-	620,331
Student receivables, current, net of allowance for doubtful accounts	23,710,605	4,996,608	1,979,626	5,304,336	-	-	35,991,175
Promises to give, current portion	-	-	-	-	108,000	-	108,000
Total current assets	24,090,762	5,032,965	2,019,497	5,306,473	6,551,736	-	43,001,433
Fixed assets, at cost	3,048,997	516,155	302,971	720,433	1,465,858	-	6,054,414
Student receivables, noncurrent, net of allowance for doubtful accounts	25,118,840	7,981,093	1,608,150	8,376,851	-	-	43,084,934
Promises to give, net of current portion	-	-	-	-	306,338	-	306,338
Goodwill	-	-	-	-	431,000,000	(11,957,336)	419,042,664
Deposits	297,797	80,119	84,301	127,690	477,192	-	1,067,099
Total assets	$ 52,556,396	$ 13,610,332	$ 4,014,919	$ 14,531,447	$ 439,801,124	$ (11,957,336)	$ 512,556,882
LIABILITIES AND NET ASSETS							
Current liabilities							
Accounts payable	$ 2,837,398	$ 598,164	$ 336,595	$ 670,809	$ 1,548,649	$ -	$ 5,991,615
Grants payable, current portion	-	-	-	-	100,000	-	100,000
Accrued liabilities	674,695	89,247	62,275	64,761	75,992	-	966,970
Excess student funds	1,133,244	150,773	127,198	541,369	-	-	1,952,584
Deferred tuition	25,087,760	5,277,655	2,669,931	4,947,139	-	-	37,982,485
Current portion of long-term debt	-	-	-	-	32,000,000	-	32,000,000
Total current liabilities	29,733,097	6,115,839	3,195,999	6,224,078	33,724,641	-	78,993,654
Grants payable, net of curent portion	-	-	-	-	283,646	-	283,646
Deferred rent	2,167,110	209,390	301,178	276,798	16,564	-	2,971,040
Long-term debt, net of current portion	-	-	-	-	399,000,000	-	399,000,000
Total liabilities	31,900,207	6,325,229	3,497,177	6,500,876	433,024,851	-	481,248,340
Net assets							
Unrestricted	20,656,189	7,285,103	517,742	8,030,571	6,361,935	(11,957,336)	30,894,204
Temporarily restricted	-	-	-	-	414,338	-	414,338
Total net assets	20,656,189	7,285,103	517,742	8,030,571	6,776,273	(11,957,336)	31,308,542
Total liabilities and net assets	$ 52,556,396	$ 13,610,332	$ 4,014,919	$ 14,531,447	$ 439,801,124	$ (11,957,336)	$ 512,556,882

See independent auditor's report and accompanying notes to consolidated financial statements.

Center for Excellence in Higher Education, Inc.

Detail of Consolidated Statement of Activities

For The Year Ended December 31, 2013

	Stevens Henager College	CollegeAmerica Denver	CollegeAmerica Arizona	California College San Diego	CASI/CEHE	Eliminations	Totals
REVENUES							
Tuition and fees	$ 122,641,678	$ 24,293,670	$ 15,762,407	$ 23,430,517	$ 26,095,718	$ (26,095,719)	$ 186,128,271
Contributions and grants	2,100	-	1,200	1,008	2,009,790	-	2,014,098
Other income	85,409	48,166	13,081	40,115	71,918	-	258,689
Interest income	2,926	5,539	4	26,509	2,464	-	37,442
Total revenues	122,732,113	24,347,375	15,776,692	23,498,149	28,179,890	(26,095,719)	188,438,500
EDUCATIONAL EXPENSES							
Admissions and marketing	46,942,516	6,741,529	4,254,471	6,469,380	782,027	-	65,189,923
Instructional	20,350,686	6,067,747	2,502,294	5,125,177	574,333	-	34,620,237
Administrative	8,518,509	3,380,013	1,066,131	1,277,245	10,846,144	-	25,088,042
Administrative, intercompany	16,948,986	3,393,504	2,264,604	3,488,625	-	(26,095,719)	-
Occupancy	6,030,070	1,715,401	1,278,458	1,608,728	296,055	-	10,928,712
Student expenses	6,005,845	1,319,928	584,697	971,673	131,949	-	9,014,092
Depreciation	3,579,163	448,140	266,854	380,688	378,084	-	5,052,929
Grants		-	-	-	759,065	-	759,065
Interest	-	-	-	-	4,295,239	-	4,295,239
Total expenses	108,375,775	23,066,262	12,217,509	19,321,516	18,062,896	(26,095,719)	154,948,239
Change in net assets	14,356,338	1,281,113	3,559,183	4,176,633	10,116,994	-	33,490,261
Net assets, beginning of year	20,656,189	7,285,103	517,742	8,030,571	6,776,273	(11,957,336)	31,308,542
Net assets, end of year	$ 35,012,527	$ 8,566,216	$ 4,076,925	$ 12,207,204	$ 16,893,267	$ (11,957,336)	$ 64,798,803

See independent auditor's report and accompanying notes to consolidated financial statements.

Center for Excellence in Higher Education, Inc.

Detail of Consolidated Statement of Activities
For The Year Ended December 31, 2012

	Stevens Henager College	CollegeAmerica Denver	CollegeAmerica Arizona	California College San Diego	CASI/CEHE	Eliminations	Totals
REVENUES							
Tuition and fees	$ 112,538,438	$ 29,190,732	$ 16,427,264	$ 25,512,042	$ 28,909,790	$ (28,909,790)	$ 183,668,476
Contributions and gra	-	-	-	-	10,448,458	-	10,448,458
Other income	109,052	39,785	13,174	44,357	-	-	206,368
Interest income	17,720	13,925	3,129	36,419	-	-	71,193
Total revenues	112,665,210	29,244,442	16,443,567	25,592,818	39,358,248	(28,909,790)	194,394,495
EDUCATIONAL EXPENSES							
Admissions and mark	39,950,643	10,559,411	5,539,466	7,929,855	53,085	-	64,032,460
Instructional	21,306,024	7,140,725	2,404,143	5,473,136	19,989	-	36,344,017
Administrative	27,770,641	6,657,130	3,753,595	5,714,086	5,430,115	(28,909,790)	20,415,777
Occupancy	5,796,248	1,696,101	1,144,395	1,517,294	20,579	-	10,174,617
Student expenses	6,228,459	1,601,637	506,103	635,266	26,281	-	8,997,746
Depreciation	3,239,094	602,306	318,380	335,236	132,581	-	4,627,597
Grants	-	-	-	-	841,953	-	841,953
Interest	-	15,952	-	5	229,723	-	245,680
Total expenses	104,291,109	28,273,262	13,666,082	21,604,878	6,754,306	(28,909,790)	145,679,847
Change in net assets	8,374,101	971,180	2,777,485	3,987,940	32,603,942	-	48,714,648
Net assets, beginning of ;	25,365,000	7,703,000	2,680,000	10,147,000	8,467,150	(11,957,336)	42,404,814
Stockholder distributions	(13,082,912)	(1,389,077)	(4,939,743)	(6,104,369)	(34,294,819)	-	(59,810,920)
Net assets, end of year	$ 20,656,189	$ 7,285,103	$ 517,742	$ 8,030,571	$ 6,776,273	$ (11,957,336)	$ 31,308,542

See independent auditor's report and accompanying notes to consolidated financial statements.

shaw & co.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
Center for Excellence in Higher Education, Inc.
Salt Lake City, UT

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Center for Excellence in Higher Education, Inc. (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2013, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated June 6, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Center for Excellence in Higher Education, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Center for Excellence in Higher Education, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Center for Excellence in Higher Education, Inc.'s consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

1564 South 500 West, Ste. 201
Bountiful, UT 84010-7400
Phone: (801) 294-3155
Fax: (801) 294-3190
www.shaw-cpa.com
info@shaw-cpa.com

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bountiful, Utah
June 6, 2014

Center for Excellence in Higher Education, Inc.
Schedule of Findings and Disposition of Prior Year Findings
Year Ended December 31, 2013

Section I - Summary of Auditor's Results

Consolidated Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ____Yes __√_No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ____Yes __√_None reported

Noncompliance material to financial statements noted? ____Yes __√_No

Section II - Financial Statement Findings

No findings related to the consolidated financial statements were noted which are required to be reported in accordance with *Government Auditing Standards* for the year ended December 31, 2013.

Disposition of Prior Year Findings

No findings related to the combined financial statements were noted which are required to be reported in accordance with *Government Auditing Standards* for the year ended December 31, 2012.