



**PRICHARD COMMITTEE FOR
ACADEMIC EXCELLENCE, INC.**
Lexington, Kentucky

FINANCIAL STATEMENTS
December 31, 2015 and 2014

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Prichard Committee for Academic Excellence, Inc.
Lexington, Kentucky

We have audited the accompanying financial statements of Prichard Committee for Academic Excellence, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015 and 2014, and the related statement of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

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 reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Prichard Committee for Academic Excellence, Inc. as of December 31, 2015 and 2014 and the changes in its net assets and its cash flows for the years then ended in conformity with the accounting principles generally accepted in the United States of America.

Young & Wadlington, PLLC
Lexington, Kentucky
August 24, 2016

PRICHARD COMMITTEE FOR ACADEMIC EXCELLENCE, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31,

ASSETS	<u>2015</u>	<u>2014</u>
Current assets		
Cash and cash equivalents	\$ 377,904	\$ 1,071,667
Accounts receivable	35,199	13,378
Grants and pledges receivable	187,727	64,200
Prepaid expenses	11,518	10,844
Inventory	<u>3,302</u>	<u>3,022</u>
Total current assets	615,650	1,163,111
Property and equipment, net	17,013	21,270
Other assets		
Investments	3,216,828	3,563,461
Grants and pledges receivable	<u>120,779</u>	<u>-</u>
Total other assets	<u>3,337,607</u>	<u>3,563,461</u>
Total assets	<u>\$ 3,970,270</u>	<u>\$ 4,747,842</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 24,083	\$ 26,694
Payroll taxes and related liabilities	39,701	52,833
Accrued compensated absences	31,745	38,644
Deferred grant revenue	<u>-</u>	<u>110,975</u>
Total liabilities	95,529	229,146
Net assets		
Unrestricted	463,334	813,531
Temporarily restricted	762,764	1,069,979
Permanently restricted	<u>2,648,643</u>	<u>2,635,186</u>
Total net assets	<u>3,874,741</u>	<u>4,518,696</u>
Total liabilities and net assets	<u>\$ 3,970,270</u>	<u>\$ 4,747,842</u>

The accompanying notes are an integral
part of the financial statement.

PRICHARD COMMITTEE FOR ACADEMIC EXCELLENCE, INC.
STATEMENT OF ACTIVITIES
for the year ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support				
Grant revenue	\$ 133,661	\$ 679,602	\$ -	\$ 813,263
Contributions	<u>479,767</u>	<u>-</u>	<u>13,457</u>	<u>493,224</u>
Total support	613,428	679,602	13,457	1,306,487
Other Revenue/(Losses)				
Publication sales (net)	7,425	-	-	7,425
Consulting fees	35,469	-	-	35,469
Investment income	55,099	-	-	55,099
Realized gain/(loss) on investments	(3,293)	-	-	(3,293)
Unrealized gain/(loss) on investments	(88,054)	-	-	(88,054)
Gain/(loss) on disposal of assets	<u>(1,403)</u>	<u>-</u>	<u>-</u>	<u>(1,403)</u>
Total other revenue	<u>5,243</u>	<u>-</u>	<u>-</u>	<u>5,243</u>
Total support and revenue	618,671	679,602	13,457	1,311,730
Net assets released from restrictions				
Satisfaction of donor restrictions	986,817	(986,817)	-	-
Satisfaction of time restrictions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support and revenue	1,605,488	(307,215)	13,457	1,311,730
Expenses				
Program services	1,435,900	-	-	1,435,900
Management and general	375,558	-	-	375,558
Fund raising	<u>144,227</u>	<u>-</u>	<u>-</u>	<u>144,227</u>
Total expenses	<u>1,955,685</u>	<u>-</u>	<u>-</u>	<u>1,955,685</u>
Change in net assets	(350,197)	(307,215)	13,457	(643,955)
Net assets, beginning of year	<u>813,531</u>	<u>1,069,979</u>	<u>2,635,186</u>	<u>4,518,696</u>
Net assets, end of year	<u>\$ 463,334</u>	<u>\$ 762,764</u>	<u>\$ 2,648,643</u>	<u>\$ 3,874,741</u>

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part of the financial statement.

PRICHARD COMMITTEE FOR ACADEMIC EXCELLENCE, INC.
STATEMENT OF ACTIVITIES
for the year ended December 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support				
Grant revenue	\$ 54,025	\$ 1,223,493	\$ -	\$ 1,277,518
Contributions	<u>391,319</u>	<u>-</u>	<u>64,907</u>	<u>456,226</u>
Total support	445,344	1,223,493	64,907	1,733,744
Other Revenue/(Losses)				
Publication sales (net)	9,516	-	-	9,516
Consulting fees	63,306	-	-	63,306
Investment income	47,637	-	-	47,637
Realized gain/(loss) on investments	(2,661)	-	-	(2,661)
Unrealized gain/(loss) on investments	153,851	-	-	153,851
Gain/(loss) on disposal of assets	<u>(745)</u>	<u>-</u>	<u>-</u>	<u>(745)</u>
Total other revenue	<u>270,904</u>	<u>-</u>	<u>-</u>	<u>270,904</u>
 Total support and revenue	 716,248	 1,223,493	 64,907	 2,004,648
Net assets released from restrictions				
Satisfaction of donor restrictions	629,100	(629,100)	-	-
Satisfaction of time restrictions	<u>311,183</u>	<u>(311,183)</u>	<u>-</u>	<u>-</u>
 Total support and revenue	 1,656,531	 283,210	 64,907	 2,004,648
Expenses				
Program services	1,099,578	-	-	1,099,578
Management and general	320,535	-	-	320,535
Fund raising	<u>133,747</u>	<u>-</u>	<u>-</u>	<u>133,747</u>
Total expenses	<u>1,553,860</u>	<u>-</u>	<u>-</u>	<u>1,553,860</u>
 Change in net assets	 102,672	 283,210	 64,907	 450,789
 Net assets, beginning of year	 <u>710,859</u>	 <u>786,769</u>	 <u>2,570,279</u>	 <u>4,067,907</u>
 Net assets, end of year	 <u>\$ 813,531</u>	 <u>\$ 1,069,979</u>	 <u>\$ 2,635,186</u>	 <u>\$ 4,518,696</u>

The accompanying notes are an integral
part of the financial statement.

PRICHARD COMMITTEE FOR ACADEMIC EXCELLENCE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
for the year ended December 31, 2015

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total</u>
Expenditures				
Salaries	\$ 577,993	\$ 179,097	\$ 56,985	\$ 814,075
Payroll taxes	50,627	15,687	4,991	71,305
Employee benefits	<u>49,003</u>	<u>15,184</u>	<u>4,831</u>	<u>69,019</u>
Total personnel	677,623	209,968	66,808	954,399
Consultants	170,839	41,781	55,800	268,420
Meeting expenses	102,638	51,931	-	154,569
Grants to others	316,502	-	-	316,502
Travel	43,688	-	4,854	48,542
Rent	32,580	6,516	4,344	43,440
Program and office supplies	20,903	7,248	-	28,150
Printing	15,608	1,332	2,094	19,034
Equipment rental	15,471	3,094	2,063	20,628
Investment fees	-	24,149	-	24,149
Accounting and legal fees	-	15,420	-	15,420
Telephone	11,991	2,398	1,599	15,988
Stipends	6,820	-	-	6,820
Postage	6,670	934	5,737	13,341
Depreciation	5,024	1,005	670	6,698
Insurance	-	5,537	-	5,537
Miscellaneous	1,913	638	-	2,550
Memberships	1,941	-	-	1,941
Professional development	3,859	-	-	3,859
Bank charges	-	1,278	-	1,278
Books and reports	1,051	-	-	1,051
Recognition	-	1,204	-	1,204
Website	778	-	259	1,037
Advertising	<u>-</u>	<u>1,127</u>	<u>-</u>	<u>1,127</u>
Total expenditures	<u>\$ 1,435,900</u>	<u>\$ 375,558</u>	<u>\$ 144,227</u>	<u>\$ 1,955,685</u>

The accompanying notes are an integral
part of the financial statement.

PRICHARD COMMITTEE FOR ACADEMIC EXCELLENCE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
for the year ended December 31, 2014

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total</u>
Expenditures				
Salaries	\$ 510,853	\$ 158,293	\$ 50,366	\$ 719,512
Payroll taxes	38,347	11,882	3,781	54,010
Employee benefits	<u>37,162</u>	<u>11,515</u>	<u>3,664</u>	<u>52,341</u>
Total personnel	586,362	181,690	57,811	825,863
Consultants	184,184	41,781	55,800	281,765
Meeting expenses	149,893	29,484	-	179,377
Grants to others	30,533	-	-	30,533
Travel	55,517	-	6,169	61,686
Rent	32,580	6,516	4,344	43,440
Program and office supplies	6,924	5,483	-	12,407
Printing	7,114	607	954	8,675
Equipment rental	18,274	3,655	2,437	24,366
Investment fees	-	19,408	-	19,408
Accounting and legal fees	-	14,956	-	14,956
Telephone	11,658	2,332	1,554	15,544
Postage	4,687	656	4,031	9,374
Depreciation	4,085	817	545	5,447
Insurance	-	6,793	-	6,793
Miscellaneous	2,588	863	-	3,451
Memberships	2,296	-	-	2,296
Professional development	2,038	-	-	2,038
Bank charges	-	1,386	-	1,386
Books and reports	535	-	-	535
Recognition	-	4,108	-	4,108
Website	<u>310</u>	<u>-</u>	<u>103</u>	<u>413</u>
Total expenditures	<u>\$ 1,099,578</u>	<u>\$ 320,535</u>	<u>\$ 133,747</u>	<u>\$ 1,553,860</u>

The accompanying notes are an integral
part of the financial statement.

PRICHARD COMMITTEE FOR ACADEMIC EXCELLENCE, INC.
STATEMENT OF CASH FLOWS
for the year ended December 31,

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ (643,955)	\$ 450,789
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	6,698	5,447
Unrealized (gain)/loss on investments	88,054	(153,851)
(Gain)/Loss on disposal of fixed assets	1,403	745
(Increase) decrease in operating assets:		
Accounts receivable	(21,821)	73,048
Grants and pledges receivable	(244,306)	727,368
Inventory	(280)	909
Prepaid expenses	(674)	(4,091)
Increase (decrease) in operating liabilities:		
Accounts payable	(2,611)	14,468
Payroll taxes and related liabilities	(13,132)	16,712
Compensated absences	(6,899)	3,406
Deferred grant revenue	<u>(110,975)</u>	<u>110,975</u>
Net cash provided/(used) by operating activities	(948,498)	1,245,925
 Cash flows from investing activities:		
Investments, net	258,872	(388,837)
Purchase of property and equipment	<u>(4,137)</u>	<u>(13,253)</u>
Net cash provided/(used) by investing activities	<u>254,736</u>	<u>(402,090)</u>
 Net increase/(decrease) in cash	(693,763)	843,835
Cash and cash equivalents, beginning of year	<u>1,071,667</u>	<u>227,832</u>
Cash and cash equivalents, end of year	<u>\$ 377,904</u>	<u>\$ 1,071,667</u>

The accompanying notes are an integral part of the financial statement.

PRICHARD COMMITTEE FOR ACADEMIC EXCELLENCE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

1. ORGANIZATION

Nature of Activities

Prichard Committee for Academic Excellence, Inc. (Prichard Committee) was formed in May 1983 as a non-stock, non-profit corporation under the laws of the Commonwealth of Kentucky. The purposes of Prichard Committee are “to provide a public voice advocating continually improved education for all Kentuckians. Prichard Committee listens to and informs the public, elected officials, and educators; performs research, study, and analysis about educational issues and recommends solutions for them; speaks out for progress toward better education, and engages citizens, parents, students, and educators locally and statewide in the process of improving education.”

Programs

The Governor’s Commonwealth Institute for Parent Leadership offers a variety of programs aimed at bringing together parents, teachers, community members, and school administrators for training, information, and experiences that help them work as partners to raise student achievement. The program was developed by the Prichard Committee in 1997 as a way to support informed, skilled parents as effective advocates who are passionate about improving Kentucky public schools. GC IPL offers large-scale consulting, workshops and publications.

Making high-quality preschool available to every Kentucky child is the goal of Strong Start Kentucky: Quality Pre-K for Every Child. Strong Start Kentucky is a nonpartisan, citizen-led effort to ensure that every child has the opportunity to receive the highest-quality education possible. The program targets funding to increase access to pre-k programs for three and four year old children, enhancing the quality of all pre-k programs, support for public and community-based programs and expanding the coalition to create champions for preschool throughout the Commonwealth.

The Student Voice Team (SVT) is comprised of a team of self-selected middle school through college students working closely with the Prichard Committee for Academic Excellence to elevate the voices of Kentucky youth on the classroom impact of education issues and support students as policy partners in improving Kentucky schools. (SVT) looks for opportunities to collaborate with other student and adult leaders to create ways to share youth perspectives on education issues with an intergenerational audience. SVT believes students are largely an untapped resource when it comes to improving our schools. After spending 35 plus hours a week over many years observing school systems up close, many have developed a set of expertise that we are able and more than willing to share to make the education experience better.

Closing the Achievement Gap – the Committee has been committed to excellence for all students since its inception in 1983. While we have increased achievement for all students, we have not yet closed the gap in achievement between different populations of students. Beginning in 2016, we are strengthening our focus on closing the achievement gap by developing recommendations, highlighting the data and developing an action plan to create a sense of urgency and follow through to close these gaps.

Quality in Postsecondary Education – while the Committee has focused its last 30 years of work on preschool – 12th grade education, our roots from the late 1970’s are in research to increase the quality in postsecondary education. With increasing numbers of students now college and career ready we are going back to those roots and beginning a new body of work to increase quality and access in postsecondary.

PRICHARD COMMITTEE FOR ACADEMIC EXCELLENCE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

Prichard Committee prepares its financial statements in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. The net assets of the Prichard Committee are classified and reported as follows:

Unrestricted Net Assets – Net assets not subject to donor-imposed restrictions or stipulations as to purpose or use.

Temporarily Restricted Net Assets – Net assets that are subject to donor-imposed restrictions or stipulations that may or will be met either by actions of Prichard Committee or the passage of time.

Permanently Restricted Net Assets – Net assets that are subject to donor-imposed restrictions of investing the principal contribution in perpetuity and the investment income be used only for Prichard Committee's operations and programs.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Investments

The Organization reports investments at fair value rather than historical or amortized cost. Fair value is based on quoted market prices. Realized gains and losses on the sale of investments are computed using the specific cost of the investment sold.

Promises to Give

Promises to give are recorded as revenue when an unconditional promise to give is received or the condition has been fulfilled for a conditional promise to give. Promises to give are recorded at the present value of expected net proceeds ultimately payable to Prichard Committee. Promises to give are assessed for collection annually and are reflected in the statement of activities as contributions.

Property and Equipment

Property and equipment are stated at cost, if purchased, or market value on the date of gift, if donated. Assets with a cost or market value greater than \$100 are capitalized. Depreciation of property and equipment is provided using the straight-line method over the estimated useful lives of the assets.

The estimated useful lives of property and equipment are as follows:

Equipment	3 – 5 years
Furniture and fixtures	10 years

PRICHARD COMMITTEE FOR ACADEMIC EXCELLENCE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory

Inventory includes publications held for resale. Publications are stated at the lower of cost, determined by using the first-in, first-out method, or market.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Contributions

Contributions include gifts of cash, other assets or unconditional promises to give. Contributions are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Permanently restricted net assets consist of contributions that have been directed to the Endowment Fund by the donors. Contributions that are committed to the Endowment Fund will have the principal held in perpetuity so long as that is permitted by law and by the economic viability of Prichard Committee. All investment and interest income earned from temporarily restricted contributions and permanently restricted contributions is available to the activities of the Prichard Committee without restriction, unless the donor has explicitly stipulated how such income should be used.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

The Prichard Committee is exempt from income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. The organization is classified as "other than a private foundation" by the Internal Revenue Service.

The Organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more likely than not the position will be sustained. The Organization does not believe there are any material uncertain tax positions and, accordingly, it has not recognized any liability for unrecognized tax benefits or possible related interest or penalties. With few exceptions, the Organization is no longer subject to income tax examinations by tax authorities for the years before 2013.

Comparative Financial Statements

Beginning in 2014, the Prichard Committee for Academic Excellence, Inc. presents comparative financial statements. Financial information for the years ending December 31, 2015 and 2014 are shown in the statement of financial position, statement of activities and changes in net assets, statement of functional expenses, statement of cash flows, and the related notes.

PRICHARD COMMITTEE FOR ACADEMIC EXCELLENCE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

3. PROMISES TO GIVE

Included in "Grants and pledges receivable" are the following unconditional promises to give as of December 31, 2015 and 2014:

	<u>2015</u>		<u>2014</u>	
	<u>Pledges</u>	<u>Grants</u>	<u>Pledges</u>	<u>Grants</u>
Due currently	\$ 825	\$ 186,902	\$ 2,653	\$ 61,547
Restricted to future periods	<u>-</u>	<u>123,063</u>	<u>-</u>	<u>-</u>
Unconditional promises to give before unamortized discount and allowance for uncollectible amounts	\$ 825	\$ 309,965	\$ 2,653	\$ 61,547
Less: unamortized discount	<u>-</u>	<u>(2,284)</u>	<u>-</u>	<u>-</u>
Subtotal	\$ 825	\$ 307,681	\$ 2,653	\$ 61,547
Less: allowance for uncollectible amounts	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net unconditional promises to give	<u>\$ 825</u>	<u>\$ 307,681</u>	<u>\$ 2,653</u>	<u>\$ 61,547</u>

An allowance for uncollectible accounts has not been established for the grants and pledges receivable, as they are considered fully collectible.

4. INVESTMENTS

Investments consist of the following at December 31, 2015 and 2014:

	<u>2015</u>		<u>2014</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Money market funds	\$ 633,858	\$ 633,858	\$ 872,140	\$ 872,140
Exchange traded funds	1,986,388	2,349,391	1,889,551	2,436,141
Mutual funds	<u>246,666</u>	<u>233,579</u>	<u>261,289</u>	<u>255,180</u>
	<u>\$ 2,866,912</u>	<u>\$ 3,216,828</u>	<u>\$ 3,022,980</u>	<u>\$ 3,563,461</u>

Money market funds are recorded at cost, which approximates fair value. Stocks, exchange traded funds and mutual funds are recorded at fair value based on quoted market prices.

The following schedule summarizes the investment return including interest earned on money market accounts and its classification in the statement of activities for the years ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Dividend and interest income	\$ 55,099	\$ 47,637
Unrealized gain (loss) on investments	(88,054)	153,851
Realized gain (loss) on investments	<u>(3,293)</u>	<u>(2,661)</u>
	<u>\$ (36,248)</u>	<u>\$ 198,827</u>

PRICHARD COMMITTEE FOR ACADEMIC EXCELLENCE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following assets at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Equipment	\$ 46,972	\$ 60,720
Furniture and fixtures	<u>21,505</u>	<u>21,135</u>
Subtotal	68,477	81,855
Less: accumulated depreciation	<u>(51,463)</u>	<u>(60,585)</u>
Net property and equipment	<u>\$ 17,013</u>	<u>\$ 21,270</u>

6. DEFERRED GRANT REVENUE

In 2014, Prichard Committee entered into a contract with the Commonwealth of Kentucky to assist the Council on Postsecondary Education (“the Council”) in implementing the Vanguard Project. The Vanguard Project is a collaboration between the Council, the Kentucky Department of Education (KDE), the Education Professional Standards Board (EPSB), the public and private universities, and the school districts to give Kentucky’s schools the foundation to compete with the schools of the top-performing countries in the world. Total funds received during 2014 were \$165,000. Prichard Committee maintains these funds in a separate bank account. Total payments for the project during 2014 were \$54,025. As of December 31, 2015, deferred grant revenue totaled \$0. During 2015, this contract was cancelled and all remaining funds were returned to the respective parties.

7. TEMPORARILY RESTRICTED NET ASSETS

Contributions and grants with donor-imposed restrictions are reported as increases in temporarily restricted net assets until Prichard Committee has spent the funds in accordance with the donor or grantor’s agreement. Contributions that are to be received in future periods are recorded as temporarily restricted net assets subject to time restrictions.

The following details temporarily restricted net assets at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Bill and Melinda Gates Foundation	\$ 737,764	\$ 912,020
JG Brown Foundation	25,000	120,098
State Farm Youth Advisory Board	-	32,986
PEW Foundation	<u>-</u>	<u>4,875</u>
	<u>\$ 762,764</u>	<u>\$ 1,069,979</u>

PRICHARD COMMITTEE FOR ACADEMIC EXCELLENCE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

8. ENDOWMENT

The endowment fund is comprised of funds that were established as the result of donors' specifications that the funds be invested and that, generally, only the income thereon be expended. The Board of Directors also designated Robert F. Sexton memorial gifts to the endowment fund. The income earned on the principal may be used for general activities of Prichard Committee. Permanently restricted net assets totaled \$2,648,643 and \$2,635,186 at December 31, 2015 and 2014.

The Organization has adopted the provisions of "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds." This standard provides guidance on classifying the net assets associated with donor restricted endowment funds held by organizations subject to the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), passed by the state of Kentucky, and also requires additional disclosures about endowments for both donor-restricted funds and board-designated funds.

Interpretation of relevant law

The Organization has interpreted the Kentucky UPMIFA as requiring the preservation of the fair value of the original gift, as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, Prichard Committee for Academic Excellence, Inc. classifies as permanently restricted net assets (a) the original gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the endowment fund, not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund.
- 2) The purposes of the organization and the donor-restricted endowment fund.
- 3) General economic conditions.
- 4) The possible effect of inflation and deflation.
- 5) The expected total return from income and the appreciation of investments.
- 6) Other resources of the organization.
- 7) The investment policies of the organization.

Return objectives and risk parameters

The Prichard Committee has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding for operations supported by its endowment while seeking to maintain the purchasing power of the endowment assets. The investment policy establishes an achievable return objective through diversification of asset classes. The long-term return objective is to return no less than an average annual rate of return of the Consumer Price Index plus 5%. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Prichard Committee relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Prichard Committee targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk parameters.

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8. ENDOWMENT (CONTINUED)

Spending policy and how the investment objectives relate to spending policy

The Organization has a policy of appropriating for distribution each year an amount not to exceed 5 percent of its endowment fund's average fair value over the current year and preceding year in which the distribution is planned. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to maintain and/or grow its value from year to year. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return. Changes in endowment fund assets for the year ended December 31, 2015 and 2014 are as follows:

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Endowment, January 1, 2015	\$ 700,658	\$ -	\$ 2,635,186	\$ 3,335,844
Contributions	-	-	13,457	13,457
Investment return:				
Investment income	54,621	-	-	54,621
Investment expense	(24,305)	-	-	(24,305)
Net loss on investments	<u>(91,347)</u>	<u>-</u>	<u>-</u>	<u>(91,347)</u>
Total investment gain	(61,031)	-	-	(61,031)
Transfer from general fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Endowment, December 31, 2015	<u>\$ 639,627</u>	<u>\$ -</u>	<u>\$ 2,648,643</u>	<u>\$ 3,288,270</u>

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Endowment, January 1, 2014	\$ 521,853	\$ -	\$ 2,570,279	\$ 3,092,132
Contributions	-	-	64,907	64,907
Investment return:				
Investment income	47,023	-	-	47,023
Investment expense	(19,408)	-	-	(19,408)
Net gain on investments	<u>151,190</u>	<u>-</u>	<u>-</u>	<u>151,190</u>
Total investment gain	178,805	-	-	178,805
Transfer from general fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Endowment, December 31, 2014	<u>\$ 700,658</u>	<u>\$ -</u>	<u>\$ 2,635,186</u>	<u>\$ 3,335,844</u>

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9. LEASES

Prichard Committee leases office space located at 271 West Short Street, Lexington, Kentucky. The monthly rental is \$3,500 and the lease expires on July 31, 2016. The lease was renewed on June 4, 2015 for a term of five year extension.

Prichard Committee leases office equipment under various agreements. The leases are summarized as follows:

<u>Description</u>	<u>Expiration Date</u>	<u>Monthly Payment</u>
Copier	July 2018	\$ 827
Postage machine	June 2018	\$ 135

A schedule of future minimum rental payments due is as follows:

<u>Year</u>	<u>Future Minimum Lease Payment</u>
2016	\$ 53,541
2017	53,541
2018	48,597
2019	42,000
2020	42,000

10. RETIREMENT PLAN

Prichard Committee adopted a 403(b) plan in 1999. Employees are eligible to participate immediately upon hire. Employees may defer a portion of their own salary. From January 1, 2014 through June 30, 2014 the Prichard Committee matched 25% of employees' salary deferral up to 6% of the employee's salary. After June 30, 2014, the Prichard Committee matched 50% of employees' salary deferral up to 10% of the employee's salary. Prichard Committee contributed \$31,312 and \$15,775 on behalf of employees for the years ended December 31, 2015 and 2014, respectively.

11. FAIR VALUE MEASUREMENT

Prichard Committee's financial instruments consist primarily of cash and cash equivalents, investments, accounts receivable and accounts payable.

The carrying amount of cash and cash equivalents, accounts receivable and accounts payable approximate their fair value due to the short-term nature of such instruments.

Prichard Committee uses the following hierarchical disclosure framework:

Level 1 – Measurement based upon quoted prices for identical assets in an active market as of the reporting date.

Level 2 – Measurement based upon marketplace inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Measurement based on Prichard Committee's assumptions about a hypothetical marketplace because observable market inputs are not available as of the reporting date.

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11. FAIR VALUE MEASUREMENT (CONTINUED)

At December 31, 2015 and 2014, Prichard Committee's investments consist of cash equivalents, common stocks, exchange traded funds and mutual funds. Shares of common stocks, exchange traded funds and mutual funds are valued at quoted market prices for identical assets. The valuations of Prichard Committee's investments according to the fair value hierarchy are Level 1.

12. SUBSEQUENT EVENTS

Prichard Committee has evaluated and considered the need to recognize or disclose subsequent events through August 24, 2016, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the years ended December 31, 2015 and 2014, have not been evaluated by Prichard Committee.