

Publicolor, Inc.

Financial Statements

June 30, 2017 and 2016

Independent Auditors' Report

Board of Directors Publicolor, Inc.

We have audited the accompanying financial statements of Publicolor, Inc., which comprise the statements of financial position as of June 30, 2017 and 2016 and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Publicolor, Inc. as of June 30, 2017 and 2016, 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.

PKF O'Connor Davies, LLP

November 7, 2017

Publicolor, Inc.

Statements of Financial Position

	June 30	
	2017	2016
ASSETS		
Current Assets		
Cash	\$ 1,155,621	\$ 965,076
Investments	235,397	322,076
Receivables	1,047,253	1,011,954
Paint inventory	18,129	32,296
Prepaid expenses and other	45,794	43,868
Total Current Assets	2,502,194	2,375,270
Receivables, long-term	80,000	-
Security deposits	92,046	89,050
Property and equipment, net	443,909	510,811
 Total Assets	 \$ 3,118,149	 \$ 2,975,131
 LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 75,165	\$ 114,647
Deferred rent payable	23,244	10,275
Total Current Liabilities	98,409	124,922
Deferred rent payable	241,374	241,374
Total Liabilities	339,783	366,296
Net Assets		
Unrestricted		
Current	795,632	1,125,044
Board-directed (reserve fund)	681,945	764,195
Total Unrestricted	1,477,577	1,889,239
Temporarily restricted	1,300,789	719,596
Total Net Assets	2,778,366	2,608,835
 Total Liabilities and Net Assets	 \$ 3,118,149	 \$ 2,975,131

See notes to financial statements

Publicolor, Inc.

Statements of Activities

	Year Ended					
	June 30, 2017			June 30, 2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
PUBLIC SUPPORT AND REVENUE						
Contributions, including donated goods and services of \$68,272 and \$241,127	\$ 235,038	\$ 2,178,940	\$ 2,413,978	\$ 68,220	\$ 1,571,316	\$ 1,639,536
Fundraising campaign, net of direct costs of \$177,337 and \$175,387	1,067,824	-	1,067,824	1,706,179	-	1,706,179
Contract and service revenue	274,558	-	274,558	323,344	-	323,344
Investment return	(3,377)	-	(3,377)	19,348	-	19,348
Net assets released from restrictions	1,597,747	(1,597,747)	-	1,854,931	(1,854,931)	-
Total Public Support and Revenue	3,171,790	581,193	3,752,983	3,972,022	(283,615)	3,688,407
EXPENSES						
Program services	2,787,002	-	2,787,002	2,949,616	-	2,949,616
Management and general	317,272	-	317,272	285,688	-	285,688
Fundraising	479,178	-	479,178	472,318	-	472,318
Total Expenses	3,583,452	-	3,583,452	3,707,622	-	3,707,622
Change in Net Assets	(411,662)	581,193	169,531	264,400	(283,615)	(19,215)
NET ASSETS						
Beginning of year	1,889,239	719,596	2,608,835	1,624,839	1,003,211	2,628,050
End of year	\$ 1,477,577	\$ 1,300,789	\$ 2,778,366	\$ 1,889,239	\$ 719,596	\$ 2,608,835

See notes to financial statements

Publicolor, Inc.

Statements of Functional Expenses

	Year Ended							
	June 30, 2017				June 30, 2016			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries	\$ 1,310,182	\$ 194,754	\$ 355,832	\$ 1,860,768	\$ 1,193,500	\$ 163,948	\$ 330,629	\$ 1,688,077
Payroll taxes and employee benefits	239,916	33,315	59,806	333,037	203,999	27,224	50,359	281,582
Students' stipends	143,410	-	-	143,410	197,292	-	-	197,292
Professional fees	89,874	43,483	2,724	136,081	87,017	44,797	7,358	139,172
Scholarships, college tours, and workshops	266,369	-	-	266,369	320,828	-	-	320,828
Food and onsite project costs	70,344	-	-	70,344	89,705	-	-	89,705
Project travel and auto	98,268	216	648	99,132	110,636	297	892	111,825
Paint and project supplies	67,219	-	-	67,219	57,293	-	-	57,293
In-kind-paint donations and other project supplies	91,506	-	-	91,506	284,412	-	-	284,412
Events	4,596	-	13,359	17,955	10,658	-	37,647	48,305
Occupancy	245,884	23,417	23,418	292,719	238,989	22,857	22,021	283,867
Depreciation and amortization	56,239	5,356	5,356	66,951	50,666	4,898	4,780	60,344
Office	58,981	5,617	5,617	70,215	50,452	5,777	5,352	61,581
Insurance	27,824	2,502	2,502	32,828	28,954	3,060	2,887	34,901
Subscription, payroll services, recruitment, and miscellaneous	5,742	2,909	998	9,649	13,077	4,880	2,211	20,168
Development and cultivation	10,648	-	8,918	19,566	12,138	-	8,182	20,320
Provision for bad debts	-	5,703	-	5,703	-	7,950	-	7,950
	<u>\$ 2,787,002</u>	<u>\$ 317,272</u>	<u>\$ 479,178</u>	<u>\$ 3,583,452</u>	<u>\$ 2,949,616</u>	<u>\$ 285,688</u>	<u>\$ 472,318</u>	<u>\$ 3,707,622</u>

See notes to financial statements

Publicolor, Inc.

Statements of Cash Flows

	Year Ended June 30	
	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 169,531	\$ (19,215)
Adjustments to reconcile change in net assets to net cash from operating activities		
Loss on disposal of asset	1,000	-
Net realized and unrealized loss on investments	4,179	3,523
Depreciation and amortization	66,951	60,344
Provision for bad debts	5,703	7,950
Change in deferred rent payable	12,969	243,351
Changes in Assets and Liabilities		
Receivables	(121,002)	(234,224)
Paint inventory	14,167	62,431
Prepaid expenses and other	(1,926)	24,502
Security deposits	(2,996)	62,165
Accounts payable and accrued expenses	(39,482)	52,737
Net Cash From Operating Activities	<u>109,094</u>	<u>263,564</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	200,000	200,000
Purchase of investments	(117,500)	(22,096)
Purchase of property and equipment	<u>(1,049)</u>	<u>(526,166)</u>
Net Cash From Investing Activities	<u>81,451</u>	<u>(348,262)</u>
Net Increase (Decrease) in Cash	190,545	(84,698)
CASH		
Beginning of year	<u>965,076</u>	<u>1,049,774</u>
End of year	<u>\$ 1,155,621</u>	<u>\$ 965,076</u>

See notes to financial statements

Publicolor, Inc.

Notes to Financial Statements
June 30, 2017 and 2016

1. Organization and Tax Status

Organization

Publicolor, Inc. (the "Organization"), is a nonprofit organization whose mission is to fight poverty by using design-based programming to aggressively address the alarming rate of youth disengagement in New York City. The Organization deliberately targets high-risk, low-income students in a multi-year continuum of programs to encourage academic achievement, college preparation, job readiness, and community service. This unique applied learning model uses design and design thinking to stimulate and inspire students, empowering them to prepare for success in school, work, and life.

The Organization's continuum of creative youth development programs - Paint Club, COLOR Club, Next Steps, Summer Design Studio, Fresh Coat, and the Publicolor College Scholarship for Community Service - are anchored in high expectations and the belief that when students experience daily successes, they build the self-confidence necessary to achieve more in all areas of their life, including school, where risk-taking is inherent to real learning.

Paint Club

The Organization's introductory program, engages at-risk students in the revitalization of low-performing middle and high schools. Participants learn commercial painting skills as well as strong, transferable work habits such as time management, attention to detail, communication, project management, and teamwork. By changing environments, the Organization aims to change attitudes and behaviors with a new sense of focus, determination and energized environments of learning.

COLOR Club (Community Of Leaders Organizing Revitalization)

A multi-year, three-day-a-week apprenticeship program for Paint Club graduates at the 7th, 8th, 9th and 10th grade levels providing them with weekly career exposure and life skills workshops, academic tutoring, and Saturday painting opportunities that hone their work skills. COLOR Club offers rigorous weekly workshops organized into industry-centric modules that allow students to explore different career paths and the skills needed in each. COLOR Club students also learn design thinking skills, which helps them develop critical thinking skills and creative problem solving skills. Design thinking as an approach to education teaches meaningful control over their lives. Engaging in the design process helps the students draw from their own creativity, which in turn, empowers them to be shapers of their world.

Publicolor, Inc.

Notes to Financial Statements
June 30, 2017 and 2016

1. Organization and Tax Status (*continued*)

Next Steps

A two-year, three-day-a-week college and career preparation program for 11th and 12th graders for approximately 180 high school juniors and seniors, college students, and students who are transitioning to college or post-secondary options. The program builds upon the COLOR Club model, offering weekly and college prep workshops, academic tutoring, and Saturday participation at school and community painting sites. Weekly career and college preparation activities include resume preparation, job shadowing, mock interviews, college applications, S.A.T. preparation, financial aid guidance, college search, and multi-day, multi-campus college tours.

Summer Design Studio (SDS)

A seven-week, five-day a week program that immerses students in math and literacy through the scaffold of production design for 70-75 youths, ages 14-21. The Organization created SDS as an antidote to summer learning loss. SDS enrolls students from its continuum of programs that are offered during the school year. The summer months prove to be critical for the low-income, academically struggling students whose families cannot afford to pay for summer enrichment activities. SDS offers the students a rare opportunity to continue their learning in July and August, ensuring that they stay on track for academic success. The SDS program also includes S.A.T. preparation classes and offers disadvantaged youth crucial employment and work experience every afternoon by involving them in painting under-resourced but vital neighborhood facilities.

Fresh Coat

A semi-professional painting crew of Next Steps students. The program offers students job training to enhance their work-readiness and deepen their knowledge of commercial painting. In FY2017, they transformed 18 community sites and had the opportunity to work next to one of the 1,120+ volunteers who informally mentor them by describing their jobs and the education needed to do them.

Publicolor College Scholarships for Community Service

A scholarship program to help fill the monetary gap between students' financial aid packages and the real cost of college.

Tax Status

The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is a publicly supported organization as described in Section 509(a) and is not subject to income taxes

Publicolor, Inc.

Notes to Financial Statements
June 30, 2017 and 2016

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Net Asset Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted net assets represent resources that are not subject to donor-imposed restrictions.

Temporarily restricted net assets represent net assets subject to donor-imposed restrictions that expire by the passage of time, or restrictions by the donor for specific purposes.

Permanently restricted net assets represent net assets restricted by donors to be maintained by the Organization in perpetuity. There were no permanently restricted net assets as of June 30, 2017 and 2016.

Cash

Cash includes cash on hand, and cash held in checking, savings and money market accounts.

Concentration of Credit Risk and Other

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of receivables, which are expected to be collected in the normal course of business, cash and investments. The Organization maintains its cash in bank deposits in one financial institution and its investments in one brokerage account. At times, these accounts may have exceeded the federally and securities protection insurance limits during fiscal 2017 and 2016, and subjected the Organization to a concentration of credit risk. At year-end, the Organization's cash deposits in the financial institution exceeded the federally insured limit by approximately \$865,000 in 2017 and \$721,000 in 2016. The Organization has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on uninsured cash and investments.

Publicolor, Inc.

Notes to Financial Statements
June 30, 2017 and 2016

2. Summary of Significant Accounting Policies (continued)

Concentration of Credit Risk and Other (continued)

Approximately 12% (or \$450,000) of the Organization's total public support and revenue of \$3,752,983 was received from one donor during the year ended June 30, 2017. The amount due from this donor is \$235,000 and \$150,000 as of June 30, 2017 and June 30, 2016.

Fair Value Measurements

The Organization follows U.S. GAAP guidance on Fair Value Measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

Investments as of June 30, 2017 and 2016 consist of an intermediate government fund and an inflation protected bond fund, and are both carried at fair value. These investments were valued using level 1 inputs.

Investment Income Recognition

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the determination of the change in net assets.

The components of investment return for the years ended June 30, are as follows

	<u>2017</u>	<u>2016</u>
Interest on bank accounts	\$ 486	\$ 775
Dividends and net realized and unrealized (loss) gain on investments	<u>(3,863)</u>	<u>18,573</u>
	<u>\$ (3,377)</u>	<u>\$ 19,348</u>

Pledges Receivable

Unconditional pledges that are expected to be collected within one year are recorded at their net realizable value and are reflected in current assets on the statements of financial position. Unconditional pledges that are expected to be collected in future years are recorded at the present value of estimated future cash flows and are reflected as long-term pledges receivable on the statements of financial position. Discounts on those amounts were not material. Conditional pledges are not included as support until such time as the conditions are substantially met.

Publicolor, Inc.

Notes to Financial Statements
June 30, 2017 and 2016

2. Summary of Significant Accounting Policies *(continued)*

Pledges Receivable (continued)

An allowance for doubtful accounts is established for amounts where there exists doubt as to whether an amount will be fully collectible. The determination of this allowance is an estimate based on the Organization's historical experience, review of account balances and expectations relative to collections.

Paint Inventory

Inventory from in-kind donations is recorded at fair value when received. Inventories are stated at weighted-average basis.

Property and Equipment, Depreciation and Amortization

Property and equipment is stated at cost. The Organization capitalizes all purchases of property and equipment in excess of \$1,000. Depreciation is provided on the straight-line method over the estimated useful lives of the assets which are three to five years for equipment, accounting software and autos.

Amortization of leasehold improvements is provided on the straight-line method over the remaining term of the lease or the estimated useful life of the improvements, whichever is shorter.

Board-Directed Reserve Fund

The board of directors has resolved to segregate certain unrestricted net assets as a contingency fund to enable the Organization to withstand the impact of economic downturns as well as to provide adequate funding for unexpected major expenditures. The usage of such funds is dependent upon approval by the finance committee and/or the board of directors.

Contributions

All contributions are recorded as support upon receipt of cash or unconditional pledges and are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction expires (that is, when a stipulated 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 as net assets released from restrictions.

Contract and Service Revenue

Contract revenue is recognized as revenue upon completion of a space transformation based on contracts with the New York City Department of Education and community-based nonprofit organizations.

Publicolor, Inc.

Notes to Financial Statements
June 30, 2017 and 2016

2. Summary of Significant Accounting Policies *(continued)*

Scholarships

Scholarships to students are recognized as expenses when awarded by the Organization's board of directors for the purpose of helping qualified students' fill the monetary gap between the financial aid they receive and the real cost of college. Scholarship direct expense in the amount of \$251,975 and \$295,151 for the years ended June 30, 2017 and 2016 was included in scholarships, college tours and workshops in the statements of functional expenses.

Functional Expenses

The Organization allocates its expenses on a functional basis among its various programs and supporting services. Expenses that can be identified with a specific program or supporting services are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated to each.

Uncertain Tax Positions

The Organization recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the Organization had taken no uncertain tax positions that require financial statement recognition or disclosure.

The Organization is no longer subject to examinations by the applicable tax jurisdictions for periods prior to fiscal 2014.

Subsequent Events Evaluation by Management

The Organization evaluated events occurring after the date of the financial statements to consider whether or not the impact of such events needs to be reflected and/or disclosed in the financial statements. Such evaluation was performed through November 7, 2017, the date these financial statements were available for issuance.

3. Receivables

Receivables consists of the following at June 30:

	2017	2016
Contract revenue	\$ 231,000	\$ 223,500
Pledges	663,664	299,100
Event income	125,550	285,518
Accounts and other	114,714	213,711
	<u>1,134,928</u>	<u>1,021,829</u>
Less: allowance for doubtful accounts	7,675	9,875
	<u>1,127,253</u>	<u>1,011,954</u>
Less: Pledges, long-term	80,000	-
	<u>\$ 1,047,253</u>	<u>\$ 1,011,954</u>

Publicolor, Inc.

Notes to Financial Statements
June 30, 2017 and 2016

4. Property and Equipment

Property and equipment consists of the following at June 30:

	<u>2017</u>	<u>2016</u>
Leasehold improvements	\$ 519,696	\$ 520,696
Equipment	178,849	177,800
Accounting software	22,873	22,873
Autos	<u>35,075</u>	<u>35,075</u>
	756,493	756,444
Less: accumulated depreciation and amortization	<u>312,584</u>	<u>245,633</u>
	<u>\$ 443,909</u>	<u>\$ 510,811</u>

5. Donated Goods and Services

Contributed materials and equipment are reported as contributions in the accompanying financial statements at their estimated fair values at date of receipt. Contributed services are reported in the accompanying financial statements at the fair value of the services received. The contribution of services is recognized if the services rendered (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills that would typically need to be purchased if not provided by donation. The value of donated goods and services recorded in the accompanying financial statements was approximately \$69,000 and \$241,000 for the years ended June 30, 2017 and 2016.

In addition, the Organization receives services from a large number of volunteers who give significant amounts of their time to the Organization's programs, fund-raising campaigns, and management. The compensation equivalent of approximately \$209,000 and \$234,000 for the years ended June 30, 2017 and 2016 for such services has been determined by management to be reasonable for obtaining such services, but this equivalent is not reflected in the accompanying financial statements, as they do not meet the criteria outlined above.

6. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30 consist of the following:

	<u>2017</u>	<u>2016</u>
Scholarship Program	\$ 373,943	\$ 410,889
Other	15,000	3,709
Time restriction	<u>911,846</u>	<u>304,998</u>
	<u>\$ 1,300,789</u>	<u>\$ 719,596</u>

Publicolor, Inc.

Notes to Financial Statements
June 30, 2017 and 2016

6. Temporarily Restricted Net Assets (continued)

Net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors, or by the passage of time. The following net assets were released from donor restrictions during the years ended June 30:

	<u>2017</u>	<u>2016</u>
Paint Club	\$ 603,635	\$ 411,550
COLOR Club/Next Steps	133,000	329,695
Summer Design Studio Program	255,543	298,085
Scholarship Program	291,862	330,263
Time restriction	304,998	433,143
Other	8,709	52,195
	<u>\$ 1,597,747</u>	<u>\$ 1,854,931</u>

7. Commitments and Contingencies

Operating Leases

In June 2015, the Organization entered into a ten year operating lease agreement to conduct its office operations at a new location. This lease commenced in November 2015 and includes a contribution of approximately \$103,000 in the form of leasehold improvements from the landlord as incentive for the Organization to sign the lease. The contribution is reflected in deferred rent payable in the statements of financial position and is amortized on a straight-line basis over the term of the lease.

Deferred rent payable of \$264,618 and \$251,649 at June 30, 2017 and 2016 is the difference between the cumulative amounts recorded for occupancy expense and the aforementioned credit for leasehold improvements on a straight-line basis over the term of the lease, as compared to the cumulative required amounts paid under the leases as of June 30, 2017 and 2016. Occupancy expense was approximately \$293,000 and \$284,000 for the years ended June 30, 2017 and 2016.

Future annual minimum lease commitments under this lease are approximately as follows for years ending June 30:

2018	\$ 278,400
2019	285,400
2020	292,500
2021	299,800
2022	307,300
Thereafter	<u>1,080,000</u>
	<u>\$ 2,543,400</u>

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