

Publicolor, Inc.

Financial Statements

June 30, 2023 and 2022

Independent Auditors' Report

Board of Directors Publicolor, Inc.

Opinion

We have audited the accompanying financial statements of Publicolor, Inc. (the "Organization"), which comprise the statements of financial position as of June 30, 2023 and 2022 and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Change in Accounting Policy

As discussed in Note 2 to the financial statements, the Organization adopted Financial Accounting Standards Board ("FASB"), Leases, and Accounting Standards Update, Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958) ("ASU 2020-07"), using the effective date method with July 1, 2022, as the date of initial adoption. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

PKF O'Connor Davies, LLP

February 15, 2024

Publicolor, Inc.

Statements of Financial Position

	June 30	
	2023	2022
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 2,843,871	\$ 2,991,590
Investments	138,166	14,568
Receivables, net	1,226,071	852,611
Paint inventory	26,395	15,867
Prepaid expenses, inventory and other	170,152	147,459
Total Current Assets	4,404,655	4,022,095
Receivables, long-term	373,845	-
Security deposits	108,477	105,896
Property and equipment, net	182,027	235,150
Right of use asset	789,266	-
Total Assets	\$ 5,858,270	\$ 4,363,141
 LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 79,432	\$ 90,341
Deferred rent payable, current	-	31,468
Short term lease liability	299,394	-
Total Current Liabilities	378,826	121,809
Deferred rent payable, non-current	-	131,426
Long term lease liability	622,830	-
Total Liabilities	1,001,656	253,235
Net Assets		
Without Donor Restrictions		
Current	2,107,417	2,171,326
Board-directed (reserve fund)	1,250,000	977,170
Total Without Donor Restrictions	3,357,417	3,148,496
With donor restrictions	1,499,197	961,410
Total Net Assets	4,856,614	4,109,906
Total Liabilities and Net Assets	\$ 5,858,270	\$ 4,363,141

See notes to financial statements

Publicolor, Inc.

Statements of Activities

	Year Ended					
	June 30, 2023			June 30, 2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING						
Public Support and Revenue:						
Contributions	\$ 1,175,012	\$ 1,540,084	\$ 2,715,096	\$ 846,850	\$ 1,623,068	\$ 2,469,918
Fundraising campaign, net of direct costs of \$195,814 and \$177,486	927,701	158,405	1,086,106	1,111,275	79,058	1,190,333
Paycheck Protection Program loan forgiveness	-	-	-	371,700	-	371,700
Contract and service revenue	223,479	-	223,479	248,935	-	248,935
Donated goods and services	129,726	-	129,726	75,475	-	75,475
Investment return	94,958	2,184	97,142	11,087	-	11,087
Net assets released from restrictions	<u>1,162,886</u>	<u>(1,162,886)</u>	<u>-</u>	<u>1,242,859</u>	<u>(1,242,859)</u>	<u>-</u>
Total Public Support and Revenue	<u>3,713,762</u>	<u>537,787</u>	<u>4,251,549</u>	<u>3,908,181</u>	<u>459,267</u>	<u>4,367,448</u>
Expenses						
Program services	2,916,491	-	2,916,491	2,543,009	-	2,543,009
Management and general	472,952	-	472,952	472,146	-	472,146
Fundraising	<u>633,261</u>	<u>-</u>	<u>633,261</u>	<u>630,256</u>	<u>-</u>	<u>630,256</u>
Total Expenses	<u>4,022,704</u>	<u>-</u>	<u>4,022,704</u>	<u>3,645,411</u>	<u>-</u>	<u>3,645,411</u>
Change in Net Assets from Operations	<u>(308,942)</u>	<u>537,787</u>	<u>228,845</u>	<u>262,770</u>	<u>459,267</u>	<u>722,037</u>
NON-OPERATING ACTIVITY						
Employee Retention Credit	517,863	-	517,863	-	-	-
Donated Services, Legal Revenue	-	-	-	99,802	-	99,802
Expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>(217,530)</u>	<u>-</u>	<u>(217,530)</u>
	<u>517,863</u>	<u>-</u>	<u>517,863</u>	<u>99,802</u>	<u>-</u>	<u>99,802</u>
Change in Net Assets	208,921	537,787	746,708	362,572	459,267	821,839
NET ASSETS						
Beginning of year	<u>3,148,496</u>	<u>961,410</u>	<u>4,109,906</u>	<u>2,785,924</u>	<u>502,143</u>	<u>3,288,067</u>
End of year	<u>\$ 3,357,417</u>	<u>\$ 1,499,197</u>	<u>\$ 4,856,614</u>	<u>\$ 3,148,496</u>	<u>\$ 961,410</u>	<u>\$ 4,109,906</u>

See notes to financial statements

Publicolor, Inc.

Statements of Functional Expenses

	Year Ended							
	June 30, 2023				June 30, 2022			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries	\$ 1,454,814	\$ 229,942	\$ 428,089	\$ 2,112,845	\$ 1,398,176	\$ 213,217	\$ 457,621	\$ 2,069,014
Payroll taxes and employee benefits	272,188	43,021	80,093	395,302	250,904	38,262	82,121	371,287
Student stipends	203,348	-	2,120	205,468	132,242	-	2,812	135,054
Professional fees	81,478	35,502	2,488	119,468	45,594	110,320	-	155,914
Scholarships, college tours and workshops	103,169	-	-	103,169	102,136	-	-	102,136
Food and onsite project costs	121,873	2,052	2,373	126,298	62,990	37	2,441	65,468
Project travel and auto	83,311	323	772	84,406	48,773	66	612	49,451
Paint and project supplies	165,434	-	13,433	178,867	105,078	-	8,690	113,768
Paint and other project supplies - in-kind	28,748	245	254	29,247	19,989	-	-	19,989
Legal services - in-kind	-	76,292	-	76,292	-	-	-	-
Events	70	-	219,131	219,201	1,695	-	180,063	181,758
Occupancy	269,847	22,097	20,562	312,506	259,537	19,581	19,581	298,699
Depreciation and amortization	56,698	4,801	4,801	66,300	59,383	5,193	5,554	70,130
Office	41,188	3,421	4,397	49,006	31,153	7,982	4,288	43,423
Insurance	26,991	2,571	2,571	32,133	19,016	1,811	1,811	22,638
Subscription, payroll services, recruitment and miscellaneous	7,066	9,768	16,702	33,536	6,343	50,632	21,040	78,015
Development and cultivation	268	100	31,289	31,657	-	1,045	21,108	22,153
Loss on disposal of prepaid expenses, inventory and other	-	18,817	-	18,817	-	-	-	-
Provision for bad debts	-	24,000	-	24,000	-	24,000	-	24,000
	<u>2,916,491</u>	<u>472,952</u>	<u>829,075</u>	<u>4,218,518</u>	<u>2,543,009</u>	<u>472,146</u>	<u>807,742</u>	<u>3,822,897</u>
Less expenses of direct benefit to donors	-	-	(195,814)	(195,814)	-	-	(177,486)	(177,486)
	<u>\$ 2,916,491</u>	<u>\$ 472,952</u>	<u>\$ 633,261</u>	<u>\$ 4,022,704</u>	<u>\$ 2,543,009</u>	<u>\$ 472,146</u>	<u>\$ 630,256</u>	<u>\$ 3,645,411</u>

See notes to financial statements

Publicolor, Inc.

Statements of Cash Flows

	Year Ended June 30	
	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 746,708	\$ 821,839
Adjustments to reconcile change in net assets to net cash from operating activities		
Paycheck Protection Program loan forgiveness	-	(371,700)
Net realized and unrealized (gain) loss on investments	(13,763)	1,923
Depreciation and amortization	66,300	70,130
Loss on disposal of prepaid expenses, inventory and other	18,817	-
Provision for bad debts	24,000	24,000
Change in deferred rent payable	-	(24,432)
Amortization of right of use asset	284,394	-
Changes in Assets and Liabilities		
Receivables	(771,305)	170,368
Paint inventory	(10,528)	(3,357)
Prepaid expenses and other	(41,510)	(13,098)
Security deposits	(2,581)	(2,519)
Accounts payable and accrued expenses	(10,909)	(33,520)
Payments on lease liability	<u>(314,330)</u>	<u>-</u>
Net Cash From Operating Activities	<u>(24,707)</u>	<u>639,634</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	241,966	276,650
Purchase of investments	(351,801)	(16,442)
Purchase of property and equipment	<u>(13,177)</u>	<u>(57,989)</u>
Net Cash From Investing Activities	<u>(123,012)</u>	<u>202,219</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(147,719)	841,853
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>2,991,590</u>	<u>2,149,737</u>
End of year	<u>\$ 2,843,871</u>	<u>\$ 2,991,590</u>

See notes to financial statements

Publicolor, Inc.

Notes to Financial Statements
June 30, 2023 and 2022

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, 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 disaffected 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 and 9th 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.

Next Steps

A three-year, three-day-a-week college and career preparation program for 10th, 11th and 12th graders for approximately 85 high school juniors and seniors, 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.

Publicolor, Inc.

Notes to Financial Statements
June 30, 2023 and 2022

1. Organization and Tax Status (*continued*)

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 120-130 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.

Design Studio

Publicolor developed the Design Studio program in 2020 in order to provide rigorous programming for students in an on-line learning environment. Based on the Summer Design Studio program, Design Studio is a six-week, up to four-days a week project-based-learning program that can take place during the school day or after-school. The program encourages students to develop graphic design skills to communicate complex ideas, and can be adapted to work with academic curricula in a variety of subject areas. Students also learn to use online design software tools. While initially developed to serve students when health restrictions limited in-person painting projects, the strengths of the program have demonstrated its value even as schools have fully reopened.

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. During the years ended June 30, 2023 and 2022, they transformed 23 and 17 community sites, and had the opportunity to work next to one of the approximately 1,100 volunteers annually 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 or career training and certification.

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, 2023 and 2022

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.

Change in Accounting Policy

Leases

The Organization adopted Financial Accounting Standards Board (“FASB”) Topic 842, Leases, using the effective date method with July 1, 2022, as the date of initial adoption. In adopting Topic 842, the Organization elected to use the modified retrospective transition method, which applies the provisions of the standard at the effective date without any adjustment to the comparative periods presented. The Organization adopted the following practical expedients and elected the following accounting policies related to this standard: Carry forward of historical lease classifications and accounting treatment. Accordingly, the Organization will recognize lease payments on a straight-line basis over the lease term and variable payments in the period when the corresponding obligation is incurred.

As a result of the adoption of the new lease accounting guidance, on July 1, 2022, the Organization recognized a lease liability of \$1,205,028, that represents the present value of the remaining operating lease payments of \$1,276,770, discounted using the normalized risk-free rate of 3.00% and a right-of-use asset of \$1,042,134 which represents the lease liability less deferred rent of \$162,894. Adoption of the standard had a material impact on the Organization’s statement of financial position but did not have an impact on the statements of activities and cash flows. The most significant impact was the recognition of the right-of-use asset and lease liability for operating leases.

Net Asset Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the Organization’s net assets are classified as with or without donor restrictions.

Net assets without donor restrictions include funds having no restrictions as to time or purpose imposed by the donors and are currently available at the discretion of the Organization for use in its programs and general operations. In addition, the Board of Directors designates certain net assets as a contingency fund.

Net assets with donor restrictions are those that will be met either by actions of the Organization or the passage of time. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Publicolor, Inc.

Notes to Financial Statements
June 30, 2023 and 2022

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

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash held in checking, savings and money market accounts and cash maintained in money market funds.

Measure of Operations

The Organization includes in its measure of operations all revenues and expenses that are an integral part of its program and supporting activities and excludes other non-operating income and expense.

Concentration of Credit Risk and Other

Financial instruments that potentially subject the Organization to concentrations of credit and market risk consist principally of receivables which are expected to be collected in the normal course of business, cash and cash equivalents on deposit with financial institutions and investments held at financial institutions. Deposits held at financial institutions are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. Investment holdings at financial institutions are insured by the Securities Investor Protection Corporation ("SIPC") up to \$500,000 (\$250,000 for cash holdings) as a result of brokerage firm failures. At times balances may exceed the FDIC and/or the SIPC limit. As of June 30, 2023 and 2022, the Organization's uninsured cash balances on deposits totaled approximately \$1,134,000 and \$2,097,000. As of June 30, 2023 and 2022, the Organization's uninsured investment holdings totaled approximately \$22,000 and \$-0-.

Approximately 22% and 20% of the Organization's total public support and revenue of \$4,251,549 and \$4,367,448 was received from two sources during the years ended June 30, 2023 and 2022. The amount due from these sources was approximately \$888,000 and \$341,000 as of June 30, 2023 and 2022.

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, 2023 consist of approximately \$119,000 in a mutual fund which invests in equities in the S&P 500 Index, and approximately \$19,000 of treasury bills. Investments as of June 30, 2022 consist of a mutual fund which invests in stocks in the S&P 500 Index. All investments are carried at fair value and valued using level 1 inputs.

Publicolor, Inc.

Notes to Financial Statements
June 30, 2023 and 2022

2. Summary of Significant Accounting Policies (continued)

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.

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 receivables on the statements of financial position. Conditional pledges are not included as support until such time as the conditions are substantially met.

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. Allowance for doubtful accounts as of June 30, 2023 and 2022 was \$59,351 and \$40,922, respectively.

Paint Inventory

Inventory from in-kind donations is recorded at fair value when received. Inventories are stated at the lower of cost or net realizable value on a specific identification 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 eight 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 net assets without donor restrictions 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.

Publicolor, Inc.

Notes to Financial Statements
June 30, 2023 and 2022

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

Contributions

All contributions are recorded as support upon receipt of cash or unconditional pledges and are considered to be available for general 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 support with donor restrictions that increases this net asset class. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Contract and Service Revenue

Contract revenue is recognized as revenue upon the commencement of a space transformation as specified within contracts with the New York City Department of Education, community-based nonprofit and for-profit organizations. These contracts are typically completed within a ten-week period and within the same fiscal year in which they were commenced.

Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* requires a disclosure of contract assets at the beginning of the earliest period presented in the financial statements. As such, contract revenue receivables as of July 1, 2021 totaled \$32,500.

Scholarships

Scholarships to students are recognized as expenses when awarded by the Organization's management for the purpose of helping qualified students fill the monetary gap between the financial aid they receive and the real cost of college. Direct scholarship expense in the amount of \$96,806 and \$102,136 for the years ended June 30, 2023 and 2022 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; these expenses include student stipends, scholarships, college tours, and workshops, and paint and project supplies.

Costs that are common to several functions are allocated among the program and supporting services based on time and effort records and estimates made by the Organization's management; these include salaries, payroll taxes and employee benefits, professional fees and occupancy.

Publicolor, Inc.

Notes to Financial Statements
June 30, 2023 and 2022

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

Leases

As of July 1, 2022, the Organization has a lease for office space and determines if the arrangement is a lease at inception. The operating lease is included in operating lease right-of-use asset ("ROU asset") and lease liability on the accompanying statement of financial position.

ROU asset represents the right to use an underlying asset for the lease term and lease liability represents the obligation to make lease payments arising from the lease. Operating lease ROU asset and liability are recognized at the lease commencement date based on the present value of lease payments over the lease term. When a lease does not provide an implicit borrowing rate, the Organization uses a risk-free rate based on the information available at the commencement date in determining the present value of lease payments. The operating lease ROU asset includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease. When it is reasonably certain that the Organization will exercise that option, such amounts are included in ROU assets and lease liabilities. Lease expense for the lease payments is recognized on a straight-line basis of the lease term.

The Organization's lease agreement does not contain any material residual value guarantees or material restrictive covenants.

For the year ended June 30, 2022, operating lease payments were charged to occupancy expense, following Topic 840, Lease guidance. Occupancy expense was recorded on a straight-line basis over the life of the lease, unless another systematic and rational basis was more representative of the time pattern in which the benefit is derived from leased property, in which case that basis was used.

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 2020.

Reclassifications

Certain items in the 2022 financial statements were reclassified to conform to the 2023 financial statements.

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 February 15, 2024, the date these financial statements were available for issuance.

Publicolor, Inc.

Notes to Financial Statements
June 30, 2023 and 2022

3. Receivables

Receivables consists of the following at June 30:

	<u>2023</u>	<u>2022</u>
Contract revenue	\$ 66,167	\$ 111,000
Pledges	1,352,800	671,970
Event income	240,300	110,100
Accounts and other	-	463
	<u>1,659,267</u>	<u>893,533</u>
Less: allowance for doubtful accounts	<u>59,351</u>	<u>40,922</u>
	<u>\$ 1,599,916</u>	<u>\$ 852,611</u>

4. Property and Equipment

Property and equipment consists of the following at June 30:

	<u>2023</u>	<u>2022</u>
Leasehold improvements	\$ 519,696	\$ 519,696
Equipment	112,211	99,034
Autos	50,374	50,374
	<u>682,281</u>	<u>669,104</u>
Less: accumulated depreciation and amortization	<u>500,254</u>	<u>433,954</u>
	<u>\$ 182,027</u>	<u>\$ 235,150</u>

During the year ended June 30, 2022, approximately \$206,000 of fully depreciated equipment was written off.

5. Grants and Loans Payable to Government

Paycheck Protection Program Loans

In February 2021, the Organization received a \$371,700 Paycheck Protection Program loan (the "PPP Loan") from the Small Business Administration ("SBA"). This loan has an interest of 1.00% per annum, no payments due until December 2021, and scheduled to mature in February 2026. If certain defined conditions are met, the loan may be forgiven, otherwise the Organization will be required to repay this loan in full.

In November 2021, the defined conditions were met, and as a result, the SBA notified the Organization that the PPP loan was forgiven and recognized the full amount of the proceeds as PPP loan forgiveness in the 2022 statement of activities.

Publicolor, Inc.

Notes to Financial Statements
June 30, 2023 and 2022

5. Grants and Loans Payable to Government (*continued*)

Employee Retention Credit

The CARES Act provides for a fully refundable tax credit, the Employee Retention Credit (“ERC”), for employers equal to 50 percent of qualified wages (including qualified health plan expenses) that employers pay their employees. Employers are eligible for the ERC if their activities have been fully or partially suspended during any calendar quarter in 2020 as a result of governmental orders due to COVID-19 or experienced a significant decline in gross receipts during any calendar quarter during 2020.

In June 2022, the Organization filed for approximately \$497,000 in ERC benefits pertaining to qualified wages paid. The Organization had elected not to record a receivable and corresponding credit as the likelihood of receiving the remaining amount was uncertain at the time of filing due to government backlog and delays in processing. The Organization will record the benefit of the ERC credits in its financial statements in the year the proceeds from the filing are received. In September 2022, the Organization received approximately \$518,000, including approximately \$21,000 of interest related to these qualifying wages and reflected the total proceeds within non-operating activity in the 2023 statement of activities.

6. Donated Goods and Services

Contributions of services are 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 Organization uses donated goods received in support of its programs, including paint, supplies, storage and transportation for students. Gifts of artwork, fashion, jewelry and vacations are monetized through silent and live auctions at the Organization’s annual gala and other special events. Donated food and beverage items may be used at events or provided directly to students based on the nature of the donation. In-kind legal services relate to donated services performed by legal professionals. All donated goods and services are valued based on usual and customary rates of the vendor or actual costs incurred by the donor and are without donor restrictions. The value of donated goods recorded in operating public support and revenue in the accompanying financial statements was approximately \$53,000 and \$75,000 for the years ended June 30, 2023 and 2022. The value of donated legal services recorded in the accompanying financial statements was approximately \$77,000 and \$218,000 for the years ended June 30, 2023 and 2022.

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 \$179,000 and \$364,000 for the years ended June 30, 2023 and 2022 for such services has been determined by management to be reasonable for obtaining such services, but is not reflected in the accompanying financial statements, as they do not meet the criteria outlined above.

Publicolor, Inc.

Notes to Financial Statements June 30, 2023 and 2022

7. Net Assets with Donor Restrictions

Net assets with donor restrictions at June 30 consist of the following:

	<u>2023</u>	<u>2022</u>
Subject to expenditure for time and specified purpose		
Scholarship Program	\$ 563,020	\$ 494,125
Mental Health Program	14,840	34,000
Witty Career Scholarship Fund	25,226	25,211
Time restriction	865,190	375,515
Other	5,921	7,559
	<u>1,474,197</u>	<u>936,410</u>
Endowment		
Witty Career Scholarship Fund	25,000	25,000
	<u>\$ 1,499,197</u>	<u>\$ 961,410</u>

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>2023</u>	<u>2022</u>
Paint Club	\$ 405,000	\$ 635,106
COLOR Club/Next Steps	139,755	279,063
Summer Design Studio Program	307,451	137,435
Scholarship Program	120,847	127,332
Mental Health Program	44,160	16,000
Witty Career Scholarship Fund	2,169	270
Time restriction	92,500	-
Other	51,004	47,653
	<u>\$ 1,162,886</u>	<u>\$ 1,242,859</u>

Endowments

General

In October 2021, the Organization received approximately \$50,000 of assets from the Sidney H. Witty Award of Excellence Endowment Fund from the Federation Employment and Guidance Service, Inc., (aka "FEGS"), which previously administered these donor-restricted funds. In keeping with the original donor's intent, the Organization will maintain these assets as an endowment of \$25,000, with the balance to be used for the purpose of awarding scholarships to students who are pursuing a career certification program at a community college or other institution. Prospectively, the Organization will refer to these funds as the Witty Career Scholarship Funds. The Organization anticipates awarding approximately three scholarships annually of up to \$2,000 per student.

Publicolor, Inc.

Notes to Financial Statements
June 30, 2023 and 2022

7. Net Assets with Donor Restrictions (*continued*)

Endowments (continued)

Interpretation of Relevant Law

The General Assembly and the Board of Directors of the Organization have adopted the New York Prudent Management of Institutional Funds Act (NYPMIFA). NYPMIFA moves away from the “historic dollar value” standard and permits charities to apply a spending policy to endowments based on certain specified standards of prudence. The Organization is now governed by the NYPMIFA spending policy, which establishes a standard maximum prudent spending limit of 7 percent of the average of its previous five years’ balance. As a result of this interpretation, the Organization classifies as restricted net assets - endowment (a) the original value of gifts donated to the endowment subject to perpetuity, (b) the original value of subsequent gifts to the endowment subject to perpetuity, and (c) accumulations to the endowment subject to perpetuity 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 donor-restricted endowment fund that is not classified in restricted net assets - endowments is classified as restricted net assets purpose until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standards of prudence prescribed by NYPMIFA.

Return Objectives, Strategies Employed and Spending Policy

The primary objective of the endowment fund is income consistent with current yield and liquidity in a money market fund. A secondary objective is long-term capital appreciation through investment in an equity fund. A total return strategy is emphasized through a balanced investment approach.

8. Commitments and Contingencies

Operating Lease

In June 2015, the Organization entered into a ten year operating lease agreement to conduct its office operations. The 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 was reflected in deferred rent payable in the 2022 statement of financial position and was amortized on a straight-line basis over the term of the lease.

Deferred rent payable of \$162,894 at June 30, 2022 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, 2022. Upon the adoption of Topic 842, deferred rent was netted with the ROU asset.

Publicolor, Inc.

Notes to Financial Statements
June 30, 2023 and 2022

8. Commitments and Contingencies (continued)

Operating Lease (continued)

In September 2020, the Organization entered into a Rent Abatement Agreement (the "Agreement") with the landlord as a result of the financial hardship caused by the Coronavirus pandemic ("COVID-19"). The Agreement was retroactive to April 2020 and provides for abatement of rent from April 2020 through March 2021, equivalent to six months at the current escalated rent, extending the current lease agreement through May 31, 2026.

The components of occupancy expense on the accompanying statement of functional expenses for the year ended June 30, 2023 are shown below:

Lease expense	
Operating lease cost	\$ 284,394
Variable lease cost	<u>28,112</u>
	<u>\$ 312,506</u>

Occupancy expense totaled approximately \$299,000 for the year ended June 30, 2022.

The right-of-use asset and corresponding liability associated with future lease payments on the above noted lease as of June 30, 2023 are shown below:

Right-of-use asset	\$ 789,266
Lease liability	922,224
Weighted Average:	
Discount rate	3%
Remaining lease term in years	2.92

ROU asset is net of \$284,394 accumulated amortization at June 30, 2023.

Future minimum rental payments under the lease arrangement are as follows:

	<u>Years Ending June 30:</u>	
2024		\$ 322,200
2025		330,200
2026		<u>310,000</u>
Total Future Minimum Lease Payments		962,403
Less Imputed Interest		<u>(40,179)</u>
Total Operating Lease Liability		<u>\$ 922,224</u>

Publicolor, Inc.

Notes to Financial Statements
June 30, 2023 and 2022

8. Commitments and Contingencies (continued)

Operating Lease (continued)

Supplemental cash flow information related to operating leases was as follows for the year ended June 30, 2023:

Cash paid for amounts included in the measurement of operating lease liabilities	\$ 282,804
ROU assets recognized upon adoption of new lease guidance	\$ 1,042,134

9. Liquidity and Availability of Financial Assets

The Organization's financial assets and resources available to meet cash needs for general expenditures within one year of the date of the statement of financial position were as follows at June 30:

	<u>2023</u>	<u>2022</u>
Financial assets:		
Cash and cash equivalents	\$ 2,843,871	\$ 2,991,590
Investments	138,166	14,568
Receivables - due within one year, net	<u>1,226,071</u>	<u>852,611</u>
Total Financial Assets	<u>4,208,108</u>	<u>3,858,769</u>
Less:		
Board-directed (reserve fund)	(1,250,000)	(977,170)
Donor restricted for time and purpose	<u>(1,499,197)</u>	<u>(961,410)</u>
	<u>(2,749,197)</u>	<u>(1,938,580)</u>
Add next years release of donor restrictions	<u>1,125,352</u>	<u>873,910</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u>\$ 2,584,263</u>	<u>\$ 2,794,099</u>

The Organization monitors its cash needs regularly and receives contributions and fundraising support throughout the year in addition to contract and service revenue earned from services provided to schools. The Board of Directors can also decide to draw upon the reserve fund if additional funds are needed.

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