

**Publicolor, Inc.**

Financial Statements

June 30, 2014

## Independent Auditors' Report

**Board of Directors  
Publicolor, Inc.**

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of Publicolor, Inc., which comprise the statement of financial position as of June 30, 2014 and the related statements of activities, functional expenses and cash flows for the year 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 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 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, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*O'Connor Davies, LLP*

October 28, 2014

O'CONNOR DAVIES, LLP

665 Fifth Avenue, New York, NY 10022 | Tel: 212.286.2600 | Fax: 212.286.4080 | [www.odpkf.com](http://www.odpkf.com)

**Publicolor, Inc.**

Statement of Financial Position  
June 30, 2014

**ASSETS**

Current Assets	
Cash	<u>\$ 1,309,466</u>
Receivables	
Contract revenue	145,000
Pledges	262,400
Event income	76,100
Other	<u>92,089</u>
Total Receivables	575,589
Less allowance for doubtful accounts	<u>12,000</u>
Receivables, net	<u>563,589</u>
Paint Inventory	<u>82,857</u>
Prepaid expenses and other	<u>55,579</u>
Total Current Assets	2,011,491
Pledges receivable, long-term	159,750
Security deposits	62,165
Property and equipment, net	<u>67,226</u>
 Total Assets	 <u><u>\$ 2,300,632</u></u>

**LIABILITIES AND NET ASSETS**

Current Liabilities	
Accounts payable and accrued expenses	\$ 55,169
Deferred rent	<u>11,911</u>
Total Current Liabilities	67,080
Deferred rent payable	<u>8,298</u>
Total Liabilities	<u>75,378</u>
 Net Assets	
Unrestricted	
Current	670,777
Board-directed (reserve fund)	<u>964,195</u>
Total Unrestricted	1,634,972
Temporarily restricted	<u>590,282</u>
Total Net Assets	<u>2,225,254</u>
 Total Liabilities and Net Assets	 <u><u>\$ 2,300,632</u></u>

See notes to financial statements

**Publicolor, Inc.**

Statement of Activities  
Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>PUBLIC SUPPORT AND REVENUE</b>			
Contributions	\$ 467,956	\$ 1,680,808	\$ 2,148,764
Donated goods	<u>179,600</u>	<u>-</u>	<u>179,600</u>
Total Contributions	<u>647,556</u>	<u>1,680,808</u>	<u>2,328,364</u>
Fundraising campaign	1,000,582	-	1,000,582
Less: direct costs			
In-kind	19,249	-	19,249
Other	<u>115,489</u>	<u>-</u>	<u>115,489</u>
Fundraising campaign, net	<u>865,844</u>	<u>-</u>	<u>865,844</u>
Contract and service revenue	296,494	-	296,494
Interest and other income	3,349	-	3,349
Net assets released from restrictions	<u>1,341,817</u>	<u>(1,341,817)</u>	<u>-</u>
Total Public Support and Revenue	<u>3,155,060</u>	<u>338,991</u>	<u>3,494,051</u>
 <b>EXPENSES</b>			
Program services	2,424,634	-	2,424,634
Management and general	292,810	-	292,810
Fundraising	<u>451,467</u>	<u>-</u>	<u>451,467</u>
Total Expenses	<u>3,168,911</u>	<u>-</u>	<u>3,168,911</u>
Change in Net Assets	(13,851)	338,991	325,140
 <b>NET ASSETS</b>			
Beginning of year	<u>1,648,823</u>	<u>251,291</u>	<u>1,900,114</u>
End of year	<u>\$ 1,634,972</u>	<u>\$ 590,282</u>	<u>\$ 2,225,254</u>

See notes to financial statements

**Publicolor, Inc.**

Statement of Functional Expenses  
Year Ended June 30, 2014

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 1,039,644	\$ 189,501	\$ 250,758	\$ 1,479,903
Payroll taxes and employee benefits	186,504	33,535	45,848	265,887
Students Stipends	211,604	-	-	211,604
Professional fees	97,497	32,592	43,482	173,571
Scholarships, college tours, & workshops	200,201	-	-	200,201
Food and onsite project costs	105,654	-	-	105,654
Project travel & auto expenses	107,872	261	783	108,916
Paint and project supplies	62,362	-	-	62,362
Inkind-paint and other project supplies	146,747	-	-	146,747
Event expense	26,187	-	73,924	100,111
Occupancy	118,441	10,710	9,639	138,790
Depreciation and amortization	20,966	2,152	1,937	25,055
Office expenses	45,007	5,556	5,001	55,564
Insurance	32,455	3,764	3,388	39,607
Subscription, payroll services, recruitment, and misc exp	6,118	1,159	4,071	11,348
Development and cultivation expense	17,375	1,580	12,636	31,591
Provision for bad debts	-	12,000	-	12,000
	<u>\$ 2,424,634</u>	<u>\$ 292,810</u>	<u>\$ 451,467</u>	<u>\$ 3,168,911</u>

See notes to financial statements

**Publicolor, Inc.**

Statement of Cash Flows  
Year Ended June 30, 2014

**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in Net Assets	\$ 325,140
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation and amortization	25,055
Provision for bad debts	12,000
Deferred rent	(8,009)
Changes in Assets and Liabilities	
Receivables	(264,426)
Paint Inventory	(13,604)
Prepaid expenses and other	(15,734)
Accounts payable and accrued expenses	<u>20,939</u>
Net Cash From Operating Activities	81,361

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchase of property and equipment	<u>(66,828)</u>
Net Increase in Cash	14,533

**CASH**

Cash at beginning of year	<u>1,294,933</u>
Cash at end of year	<u>\$ 1,309,466</u>

See notes to financial statements

## **Publicolor, Inc.**

### Notes to Financial Statements

June 30, 2014

#### **1. Organization and Tax Status**

##### ***Organization***

Publicolor, Inc. (the "Organization"), is a nonprofit organization whose mission is to counter the alarming school dropout rate by engaging underperforming high-risk students, ages 12-21, in their education through a continuum of design-based programs and academic support. Unique to the Organization and central to its mission is the beautification and revitalization of public and civic spaces through the power of color and design, the affordable medium of paint, and community collaborations that engage students and the community as a whole. The Organization directly addresses two of the root causes of poverty; the under-education of inner-city public school students and their lack of preparedness for the workforce. The Organization's programs are described as follows:

##### ***Paint Club***

The program is an innovative, multilayered afterschool program that has tangible effects on the students and their schools, bringing energy into their communities, and pride and a sense of ownership into their lives. The Organization changes environments marked by fear and hopelessness into ones charged with a new sense of focus, determination, and energized environments of learning.

##### ***Community of Leaders Organizing Revitalization ("COLOR") Club***

This is a multi-year three-day-a-week apprenticeship program for Paint Club graduates 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.

##### ***Next Steps***

This is a three-day-a-week college and career preparatory program for approximately 150 high school juniors and seniors, college students, as well as students who are transitioning to college or post-secondary options. Weekly career and college preparation activities include resume preparation, job shadowing, mock interviews, college applications, S.A.T. preparation, and multi-day, multi-campus college tours. Next Steps students also attend weekly workshops, tutoring sessions, and regularly paint on Saturdays.

##### ***COLOR Club/Next Step***

This is a seven-week summer literacy and numeracy intensive program. The program teaches literacy and math through the scaffold of product design and purposely hold its design and S.A.T. preparation classes on Pratt Institute's campus, so its students can experience the reality of college.

## **Publicolor, Inc.**

Notes to Financial Statements  
June 30, 2014

### **1. Organization and Tax Status (continued)**

#### ***COLOR Club/Next Step (continued)***

Summer Design Studio offers disadvantaged youth crucial employment and work experience every afternoon by involving them in painting under-resourced but vital neighborhood facilities.

#### ***Fresh Coat***

This is a semi-professional painting crew of Next Steps students. The program offers students job training to enhance their work-readiness as they regularly touch up previously Publicolored schools, community sites, museums, gallery spaces, not-for-profit offices, as well as health clinics, thereby extending the power of transformation for thousands more to experience.

#### ***Publicolor College Scholarships for Community Service***

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

#### ***Paint Club +***

The Organization's newest program helps over-aged, under-credited students prepare for college and career in the growing green-collar job sector. The program teaches students the marketable skill of commercial painting, crucial work habits, as well as offering a credit-bearing, science-based sustainability curriculum.

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

### **2. Summary of Significant Accounting Policies**

The financial statements have been prepared on the accrual basis of accounting.

#### ***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.

## Publicolor, Inc.

Notes to Financial Statements  
June 30, 2014

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

#### ***Net Assets 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, 2014.

#### ***Cash***

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

#### ***Concentration of Credit Risk***

The Organization maintains its cash in bank deposits in one financial institution which, at times, exceeded the federally insured limit during fiscal year 2014, 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 \$974,000. The Organization has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on cash.

#### ***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 statement 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 statement 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.

#### ***Paint Inventory***

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

## **Publicolor, Inc.**

Notes to Financial Statements  
June 30, 2014

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

#### ***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 seven years for furniture and fixtures, and equipment.

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 financial committee and/or the board.

#### ***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.

Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

#### ***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, 2014

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

***Scholarship***

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 expense in the amount of \$165,843 for the year ended June 30, 2014 was included in scholarships, college tours, workshops and enrichment in the statement 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 and 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. The Organization is no longer subject to examinations by the applicable tax jurisdictions for periods prior to fiscal 2011.

***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 October 28, 2014, the date these financial statements were available for issuance.

**3. Pledges Receivable**

The Organization received multi-year pledges from six donors to support its fiscal operations and related programs. These pledges obligate the donors to make annual payments against these pledges in installments which are due as follows for the year ended June 30:

2015	\$ 139,750
2016	<u>20,000</u>
	<u>\$ 159,750</u>

**Publicolor, Inc.**

Notes to Financial Statements  
June 30, 2014

**4. Property and Equipment**

Property and equipment, net, at cost or fair value at date of donation, consists of the following at June 30, 2014:

Leasehold improvements	\$ 288,217
Equipment	166,183
Accounting Software	22,873
Auto/Van	<u>35,075</u>
	512,348
Less: accumulated depreciation and amortization	<u>445,122</u>
	<u>\$ 67,226</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 and goods recorded in the accompanying financial statements was approximately \$180,000 for the year ended June 30, 2014.

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 \$171,000 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, 2014 consist of the following:

	<u>2014</u>
Scholarship Program	\$ 360,032
Other	3,000
Time Restriction	<u>227,250</u>
	<u>\$ 590,282</u>

**Publicolor, Inc.**

Notes to Financial Statements  
June 30, 2014

**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 year ended June 30, 2014:

Paint Club	\$ 352,971
Paint Club +	231,114
COLOR Club/Next Steps	188,565
Summer Design Studio Program	242,209
Scholarship Program	198,808
Time Restriction	43,750
Other	84,400
	<u>\$ 1,341,817</u>

In 2014, in addition to program expenses of \$1,298,607 resulting from the release of donor restrictions, the Organization spent approximately \$296,272 of its unrestricted net assets for the above programs.

**7. Commitments and Contingencies**

**Operating lease**

The Organization conducts its office operations under an operating lease agreement (the "Lease") effective February 1, 2011, and scheduled to end on January 31, 2016. Monthly lease payments on the lease started at approximately \$7,700, with annual increases of 3% during the five-year term. The lease remains subject to customary escalation clauses for real estate taxes, electricity usage and building operating expenses.

The Organization also leases additional office space at the same building location from which it currently operates. This lease commenced on October 1, 2010 and is scheduled to end on January 31, 2016. Monthly lease payments started at approximately \$2,400, with annual increases of 3% during the five-year lease term, and is also subject to customary escalation clauses for real estate taxes, electricity usage and building operating expenses.

**Publicolor, Inc.**

Notes to Financial Statements  
June 30, 2014

**7. Commitments and Contingencies (continued)**

Future annual minimum lease commitments (excluding escalations) under these leases are approximately as follows for years ended June 30:

2015	\$ 134,000
2016	<u>79,500</u>
	<u>\$ 213,500</u>

Deferred rent payable of \$20,209 is the difference between the cumulative amounts recorded for occupancy expense on a straight-line basis over the term of the leases, as compared to the cumulative required amounts paid under the leases as of the end of June 30, 2014. Occupancy expense was approximately \$139,000 for the year ended June 30, 2014.

**Litigation**

During the year ended June 30, 2012, a personal injury claim was filed against the Organization and two unrelated parties in the U.S. Supreme Court, State of New York, New York County. During the year ended June 30, 2014, this claim settled for \$375,000 with full payment to the plaintiff by the Organization's liability insurance carrier.

\* \* \* \* \*