

Publicolor, Inc.

Financial Statements

June 30, 2016 and 2015

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, 2016 and 2015 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, 2016 and 2015, 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
October 26, 2016

Publicolor, Inc.

Statements of Financial Position

	June 30	
	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets		
Cash	\$ 965,076	\$ 1,049,774
Investments	<u>322,076</u>	<u>503,503</u>
Receivables		
Contract revenue	223,500	95,000
Pledges	299,100	376,675
Event income	285,518	93,550
Accounts and other	<u>213,711</u>	<u>72,830</u>
Total Receivables	1,021,829	638,055
Less allowance for doubtful accounts	<u>9,875</u>	<u>2,375</u>
Receivables, net	<u>1,011,954</u>	<u>635,680</u>
Paint inventory	<u>32,296</u>	<u>94,727</u>
Prepaid expenses and other	<u>43,868</u>	<u>68,370</u>
Total Current Assets	2,375,270	2,352,054
Pledges receivable, long-term	-	150,000
Security deposits	89,050	151,215
Property and equipment, net	<u>510,811</u>	<u>44,989</u>
Total Assets	<u>\$ 2,975,131</u>	<u>\$ 2,698,258</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 114,647	\$ 61,910
Deferred rent payable	<u>10,275</u>	<u>8,298</u>
Total Current Liabilities	124,922	70,208
Deferred rent payable	<u>241,374</u>	<u>-</u>
Total Liabilities	<u>366,296</u>	<u>70,208</u>
Net Assets		
Unrestricted		
Current	1,125,044	660,644
Board-directed (reserve fund)	<u>764,195</u>	<u>964,195</u>
Total Unrestricted	1,889,239	1,624,839
Temporarily restricted	<u>719,596</u>	<u>1,003,211</u>
Total Net Assets	<u>2,608,835</u>	<u>2,628,050</u>
Total Liabilities and Net Assets	<u>\$ 2,975,131</u>	<u>\$ 2,698,258</u>

See notes to financial statements

Publicolor, Inc.

Statements of Activities

	Year Ended					
	June 30, 2016			June 30, 2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
PUBLIC SUPPORT AND REVENUE						
Contributions, including donated goods of \$221,981 and \$248,982	\$ 62,037	\$ 1,571,316	\$ 1,633,353	\$ 797,200	\$ 1,520,018	\$ 2,317,218
Fundraising campaign, net of direct costs	1,706,179	-	1,706,179	1,154,773	-	1,154,773
Contract and service revenue	323,344	-	323,344	337,455	-	337,455
Interest and other income	25,531	-	25,531	5,218	-	5,218
Net assets released from restrictions	<u>1,854,931</u>	<u>(1,854,931)</u>	<u>-</u>	<u>1,107,089</u>	<u>(1,107,089)</u>	<u>-</u>
Total Public Support and Revenue	<u>3,972,022</u>	<u>(283,615)</u>	<u>3,688,407</u>	<u>3,401,735</u>	<u>412,929</u>	<u>3,814,664</u>
EXPENSES						
Program services	2,949,616	-	2,949,616	2,725,720	-	2,725,720
Management and general	285,688	-	285,688	231,156	-	231,156
Fundraising	<u>472,318</u>	<u>-</u>	<u>472,318</u>	<u>454,992</u>	<u>-</u>	<u>454,992</u>
Total Expenses	<u>3,707,622</u>	<u>-</u>	<u>3,707,622</u>	<u>3,411,868</u>	<u>-</u>	<u>3,411,868</u>
Change in Net Assets	264,400	(283,615)	(19,215)	(10,133)	412,929	402,796
NET ASSETS						
Beginning of year	<u>1,624,839</u>	<u>1,003,211</u>	<u>2,628,050</u>	<u>1,634,972</u>	<u>590,282</u>	<u>2,225,254</u>
End of year	<u>\$ 1,889,239</u>	<u>\$ 719,596</u>	<u>\$ 2,608,835</u>	<u>\$ 1,624,839</u>	<u>\$ 1,003,211</u>	<u>\$ 2,628,050</u>

See notes to financial statements

Publicolor, Inc.

Statements of Functional Expenses

	Year Ended							
	June 30, 2016				June 30, 2015			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries	\$ 1,193,500	\$ 163,948	\$ 330,629	\$ 1,688,077	\$ 1,191,408	\$ 135,267	\$ 267,566	\$ 1,594,241
Payroll taxes and employee benefits	203,999	27,224	50,359	281,582	214,765	26,504	52,430	293,699
Students stipends	197,292	-	-	197,292	176,592	-	-	176,592
Professional fees	87,017	44,797	7,358	139,172	124,082	41,526	2,187	167,795
Scholarships, college tours, and workshops	320,828	-	-	320,828	263,559	-	-	263,559
Food and onsite project costs	89,705	-	-	89,705	108,841	-	-	108,841
Project travel and auto	110,636	297	892	111,825	102,935	353	1,060	104,348
Paint and project supplies	57,293	-	-	57,293	51,927	-	-	51,927
Inkind-paint and other project supplies	284,412	-	-	284,412	220,682	-	-	220,682
Events	10,658	-	37,647	48,305	26,788	-	96,732	123,520
Occupancy	238,989	22,857	22,021	283,867	118,483	10,662	9,596	138,741
Depreciation and amortization	50,666	4,898	4,780	60,344	23,663	2,485	2,236	28,384
Office	50,452	5,777	5,352	61,581	45,913	5,668	5,101	56,682
Insurance	28,954	3,060	2,887	34,901	35,531	4,144	3,730	43,405
Subscription, payroll services, recruitment, and miscellaneous	13,077	4,880	2,211	20,168	5,641	2,172	2,762	10,575
Development and cultivation	12,138	-	8,182	20,320	14,910	-	11,592	26,502
Provision for bad debts	-	7,950	-	7,950	-	2,375	-	2,375
	<u>\$ 2,949,616</u>	<u>\$ 285,688</u>	<u>\$ 472,318</u>	<u>\$ 3,707,622</u>	<u>\$ 2,725,720</u>	<u>\$ 231,156</u>	<u>\$ 454,992</u>	<u>\$ 3,411,868</u>

See notes to financial statements

Publicolor, Inc.

Statements of Cash Flows

	Year Ended June 30	
	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (19,215)	\$ 402,796
Adjustments to reconcile change in net assets to net cash from operating activities		
Net realized and unrealized loss (gain) on investments	3,523	(3,503)
Depreciation and amortization	60,344	28,384
Provision for bad debts	7,950	2,375
Change in deferred rent payable	243,351	(11,911)
Changes in Assets and Liabilities		
Receivables	(234,224)	(64,716)
Paint inventory	62,431	(11,870)
Prepaid expenses and other	24,502	(12,791)
Security deposits	62,165	(89,050)
Accounts payable and accrued expenses	<u>52,737</u>	<u>6,741</u>
Net Cash From Operating Activities	<u>263,564</u>	<u>246,455</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	200,000	-
Purchase of investments	(22,096)	(500,000)
Purchase of property and equipment	<u>(526,166)</u>	<u>(6,147)</u>
Net Cash From Investing Activities	<u>(348,262)</u>	<u>(506,147)</u>
Net Decrease in Cash	(84,698)	(259,692)
CASH		
Beginning of year	<u>1,049,774</u>	<u>1,309,466</u>
End of year	<u>\$ 965,076</u>	<u>\$ 1,049,774</u>

See notes to financial statements

Publicolor, Inc.

Notes to Financial Statements
June 30, 2016 and 2015

1. Organization and Tax Status

Organization

Publicolor, Inc. (the “Organization”), is a nonprofit organization whose mission is to fight poverty by countering inner-city public schools’ alarming dropout rate. The Organization supports youth in their education through a continuum of design-based programs, academic support, and teaching career-readiness skills that mentor them for success in college, career, and life. Unique to the Organization - and central to its mission - is the beautification and revitalization of public schools, under-resourced community facilities, and neglected school playgrounds 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 uses color, community, design thinking and strong work habits including commercial painting to re-engage students in their education, schools and communities and ultimately empowers students to realize their potential and develop into productive members of the workforce.

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 gateway program is an innovative, multi-layered afterschool program that positively affects the students, their schools, the volunteers and the community as a whole. By changing environments, the Organization aims to change attitudes and behaviors with a new sense of focus, determination and energized environments of learning. Publicolor targets highly at-risk students in New York City’s low-performing schools that are identified as such by the NYC Department of Education. Every Publicolor student gains strong, transferable work habits while learning the marketable skills of commercial painting, along with an improvement in life skills such as communication, project management, collaboration, and the importance of initiative.

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, 2016 and 2015

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, as well as students who are transitioning to college or post-secondary options. The program builds upon the COLOR Club model, offering two days a week of academic tutoring and workshops (including college/career guidance and tutoring and one day of on-site painting). 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.

Summer Design Studio (SDS)

A seven-week, five-day a week math and literacy immersion program taught 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 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 the transformations for thousands more to experience.

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, 2016 and 2015

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, 2016 and 2015.

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 2016 and 2015, 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 \$721,000 in 2016 and \$909,000 in 2015. 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, 2016 and 2015

2. Summary of Significant Accounting Policies (continued)

Concentration of Credit Risk and Other (continued)

Approximately 10% of the Organization's total public support and revenue was received from one donor during the year ended June 30, 2015. The amount due from this donor is \$150,000 and \$300,000 as of June 30, 2016 and June 30, 2015.

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, 2016 and 2015 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.

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.

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.

Publicolor, Inc.

Notes to Financial Statements
June 30, 2016 and 2015

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 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.

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 direct expense in the amount of \$295,151 and \$236,548 for the years ended June 30, 2016 and 2015 was included in scholarships, college tours and workshops in the statements of functional expenses.

Publicolor, Inc.

Notes to Financial Statements
June 30, 2016 and 2015

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

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 2013.

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 26, 2016, the date these financial statements were available for issuance.

3. Property and Equipment

Property and equipment consists of the following at June 30:

	<u>2016</u>	<u>2015</u>
Leasehold improvements	\$ 520,696	\$ 288,217
Equipment	177,800	172,330
Accounting software	22,873	22,873
Auto	<u>35,075</u>	<u>35,075</u>
	756,444	518,495
Less: accumulated depreciation and amortization	<u>245,633</u>	<u>473,506</u>
	<u>\$ 510,811</u>	<u>\$ 44,989</u>

Publicolor, Inc.

Notes to Financial Statements June 30, 2016 and 2015

4. 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 \$222,000 and \$249,000 for the years ended June 30, 2016 and 2015.

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 \$234,000 and \$185,000 for the years ended June 30, 2016 and 2015 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.

5. Temporarily Restricted Net Assets

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

	<u>2016</u>	<u>2015</u>
Scholarship Program	\$ 410,889	\$ 427,882
Other	3,709	28,186
Time restriction	<u>304,998</u>	<u>547,143</u>
	<u>\$ 719,596</u>	<u>\$ 1,003,211</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>2016</u>	<u>2015</u>
Paint Club	\$ 411,550	\$ 218,042
COLOR Club/Next Steps	329,695	161,295
Summer Design Studio Program	298,085	236,527
Scholarship Program	330,263	266,251
Time restriction	433,143	207,250
Other	<u>52,195</u>	<u>17,724</u>
	<u>\$ 1,854,931</u>	<u>\$ 1,107,089</u>

Publicolor, Inc.

Notes to Financial Statements
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6. Commitments and Contingencies

Operating Leases

The Organization conducted its office operations under two operating lease agreements which both ended in accordance with the terms of their leases on January 31, 2016. Monthly lease payments in aggregate were \$11,356 through the end of the lease terms. Subsequently, the Organization continued to pay rent on a month-to-month basis until signing its new lease as noted below.

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 \$251,649 and \$8,298 in 2016 and 2015 is the difference between the cumulative amounts recorded for occupancy expense on a straight-line basis over the term of the lease, as compared to the cumulative required amounts paid under the leases as of the end of June 30, 2016 and 2015. Occupancy expense was approximately \$284,000 and \$139,000 for the years ended June 30, 2016 and 2015.

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

2017	\$ 260,500
2018	278,400
2019	285,400
2020	292,500
2021	299,800
Thereafter	<u>1,387,300</u>
	<u>\$ 2,803,900</u>

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