



**RAW ART WORKS, INC.**

**REPORT ON AUDIT OF FINANCIAL STATEMENTS**

**JUNE 30, 2011 AND 2010**

**RAW ART WORKS, INC.**

REPORT ON AUDIT OF FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

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**Bernard, Johnson & Company, P.C.**  
Certified Public Accountants and Business Advisors

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Raw Art Works, Inc.

We have audited the accompanying statement of financial position of Raw Art Works, Inc., (a Massachusetts corporation, not-for-profit) ("RAW") as of June 30, 2011 and the related statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of RAW's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from RAW's 2010 financial statements and, in our report dated October 29, 2010, we expressed an unqualified opinion on those statements.

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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of RAW as of June 30, 2011 and the results of its activities and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of RAW taken as a whole. The accompanying supplementary information on page 12 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Bernard Johnson & Company P.C.*

Topsfield, Massachusetts  
January 9, 2012

RAW ART WORKS, INC.

STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2011 AND 2010

ASSETS

	<u>2011</u>	<u>2010</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 474,064	\$ 563,432
Accounts receivable	23,454	45,728
Current portion of grants receivable	264,211	212,625
Prepaid expenses	8,356	3,792
	<hr/>	<hr/>
Total current assets	770,085	825,577
	<hr/>	<hr/>
PROPERTY AND EQUIPMENT, net	787,780	680,113
	<hr/>	<hr/>
OTHER ASSETS:		
Cash restricted to building repairs & improvements and funding new program initiatives	108,975	108,975
Grants receivable, net of current portion	5,000	35,000
	<hr/>	<hr/>
Total other assets	113,975	143,975
	<hr/>	<hr/>
Total assets	\$ 1,671,840	\$ 1,649,665
	<hr/>	<hr/>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Accounts payable	\$ 22,837	\$ 18,957
Accrued expenses	74,756	72,622
	<hr/>	<hr/>
Total current liabilities	97,593	91,579
	<hr/>	<hr/>
NET ASSETS:		
Unrestricted	1,194,322	1,179,658
Temporarily restricted	379,925	378,428
	<hr/>	<hr/>
Total net assets	1,574,247	1,558,086
	<hr/>	<hr/>
Total liabilities and net assets	\$ 1,671,840	\$ 1,649,665
	<hr/>	<hr/>

*The accompanying notes are an integral part of these financial statements.*

**RAW ART WORKS, INC.**

STATEMENTS OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2011  
*(with comparative totals for 2010)*

	Unrestricted	Temporarily Restricted	2011 Total	2010 Total
Grants and contributions	\$ 498,567	\$ 477,950	\$ 976,517	\$ 987,900
Special events	125,170	-	125,170	206,526
Program fees	106,184	-	106,184	106,484
Other income	792	-	792	12,395
Net assets released from restrictions	476,453	(476,453)	-	-
Total revenue and support	1,207,166	1,497	1,208,663	1,313,305
Program services	779,956	-	779,956	759,459
Management and general	167,933	-	167,933	129,589
Fundraising	244,613	-	244,613	221,607
Total expenses	1,192,502	-	1,192,502	1,110,655
Change in net assets	14,664	1,497	16,161	202,650
Net assets at beginning of year	1,179,658	378,428	1,558,086	1,355,436
Net assets at end of year	\$ 1,194,322	\$ 379,925	\$ 1,574,247	\$ 1,558,086

*The accompanying notes are an integral part of these financial statements.*

**RAW ART WORKS, INC.**

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 16,161	\$ 202,650
Adjustments to reconcile change in net assets to net cash provided by operating activities -		
Depreciation	44,215	49,169
Cash provided by (used in) changes in:		
Accounts receivable	22,274	(28,655)
Grants receivable	(21,586)	(23,075)
Prepaid expenses	(4,564)	(750)
Accounts payable	3,880	(4,953)
Accrued expenses	2,134	2,720
	<u>62,514</u>	<u>197,106</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(151,882)	-
Cash restricted to building repairs & improvements and funding of new program initiatives	-	4,600
	<u>(151,882)</u>	<u>4,600</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
RESULTING IN A NET INCREASE (DECREASE) IN CASH	(89,368)	201,706
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>563,432</u>	<u>361,726</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 474,064</u>	<u>\$ 563,432</u>

*The accompanying notes are an integral part of these financial statements.*

**RAW ART WORKS, INC.**

STATEMENTS OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2011  
*(with comparative totals for 2010)*

	Total Program Services	Management and General	Fundraising	Total 2011	Total 2010
Personnel	\$ 586,930	\$ 139,348	\$ 203,019	\$ 929,297	\$ 868,873
Facilities	84,328	3,978	4,826	93,132	94,876
Consumable materials and supplies	33,887	771	1,791	36,449	31,623
Travel and transportation	11,047	1,715	2,873	15,635	16,921
Training, conferences and meetings	14,968	2,514	21,957	39,439	37,543
Printing and reproduction	9,305	2,005	3,101	14,411	13,752
Computer and office equipment	23,188	1,816	4,217	29,221	11,396
Communications	12,881	1,320	1,809	16,010	15,067
Administrative costs	404	12,909	14	13,327	16,982
Miscellaneous	3,018	1,557	1,006	5,581	3,622
Total expenses	<u>\$ 779,956</u>	<u>\$ 167,933</u>	<u>\$ 244,613</u>	<u>\$1,192,502</u>	<u>\$1,110,655</u>

*The accompanying notes are an integral part of these financial statements.*

## RAW ART WORKS, INC.

### NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

#### I. ORGANIZATION

Raw Art Works, Inc. ("RAW") is a not-for-profit, youth arts organization founded in 1988 and located in Lynn, Massachusetts. RAW offers a continuum of programs that help at-risk youth develop artistic and life skills, form positive relationships with peers, adults, and the community, and gain an understanding of who they are and who they can be. Nationally recognized in its field, RAW equips children and teens with the tools and the confidence to make life-affirming decisions. RAW is a unique program where arts therapists, professional artists and filmmakers integrate their practice.

RAW operates the following major programs:

#### **High School Programs**

- *RAW Chiefs*  
RAW Chiefs meets the need of younger children to have strong mentors and the need of teens to motivate themselves and succeed with high expectations. RAW Chiefs (ages 15-20) participate in ongoing training as leaders and artists through a weekly RAW Chief meeting.
- *Adventures in Fine Arts*  
Adventures in Fine Arts is a skill-based group for teens who are highly art-motivated and interested in creating art that enhances their appreciation for its limitless possibilities.
- *Reel 2 Reel*  
Reel 2 Reel program participants learn how to creatively and constructively approach the art of visual storytelling and filmmaking.

#### **Middle School Programs**

- *Boyz Lync*  
Boyz Lync helps young men find a place to belong and succeed by focusing on building self-esteem and acting responsibly in their communities.
- *Art4Girlz*  
Art4Girlz members collaborate to develop group rules and norms through a focus on storytelling and making art projects relevant to building identity and their own strength, while challenging stereotypes.

#### **Elementary School Programs**

- *POP Art*  
POP Art allows youth to explore a Playground of Possibilities (POP) in the arts. Children gain art skills, work with themes, build friendships, and strengthen their confidence.
- *RAW Energy*  
RAW Energy focuses on helping each child gain a strong sense of their individuality, learn problem solving skills through the arts, and deepen their relationships through practicing conflict-resolution skills.

(Continued)



RAW ART WORKS, INC.

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010  
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

RAW reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. These classifications are related to the existence or absence of donor imposed restrictions as follows:

Unrestricted net assets represent the portion of RAW's net assets that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Contributions of goods to be used in program operations are reported as revenues and expenses of the unrestricted net asset class at the time the goods are received. Contributions of property and equipment without donor stipulations concerning the issue of such long-lived assets are reported as revenues of the unrestricted net asset class.

Temporarily restricted net assets represent contributions and revenues whose use by RAW is limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of RAW pursuant to those stipulations. When material, contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. Contributions of cash or other assets to be used to acquire property and equipment with donor stipulations are reported as revenues of the temporarily restricted net asset class, and the restrictions are considered to be released at the time of acquisition of such long-lived assets.

Permanently restricted net assets represent contributions and other inflows of assets whose use by RAW is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled and removed by actions of RAW pursuant to those stipulations. No permanently restricted assets were held during 2011 and 2010 and accordingly, these statements do not reflect any activity related to this class of net assets.

Summarized Comparative Financial Statements

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information excludes sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the RAW June 30, 2010 financial statements, from which the summarized information was derived.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

*(Continued)*

RAW ART WORKS, INC.

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010  
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Management's Review

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through January 9, 2012, the date the financial statements were available to be issued.

Cash and Cash Equivalents

RAW considers all liquid investments with a maturity of less than three months to be cash or cash equivalents. RAW maintains cash balances in various financial institutions and balances are federal-insured up to \$250,000 per institution. A portion of cash balances may exceed insured limits from time to time.

Accounts Receivable

Accounts receivable are carried at original invoice amount. Management determines collectability by regularly evaluating individual receivables and considering financial condition, credit history, and current economic conditions. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received. There were no accounts deemed uncollectible at June 30, 2011 and 2010.

Grants Receivable

Unconditional grants are recognized as revenues or gains in the period awarded and as assets, decreases of liabilities or expenses depending on the form of benefits received. Conditional grants are recognized only when the conditions on which they depend are substantially met and the grants become unconditional.

Property and Equipment

Property and equipment acquisitions in excess of \$3,000 are recorded at cost on the date of acquisition or fair value on date of donation. Expenditures for major renewals and improvements are capitalized, while expenditures for maintenance and repairs are expensed as incurred.

Depreciation

Depreciation is computed over estimated useful lives using the straight-line method. The estimated useful lives used in the computation of depreciation are as follows:

<u>Classification</u>	<u>Estimated Life</u>
Building and improvements	20-40 years
Equipment	3-5 years
Vehicles	3 years

Depreciation expense for the years ended June 30, 2011 and 2010 was \$44,215 and \$49,169, respectively.  
*(Continued)*

RAW ART WORKS, INC.

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010  
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of Long-Lived Assets

RAW has given consideration to the Financial Accounting Standards Board ASC 360, *Accounting for the Impairment or Disposal of Long-Lived Assets* in its presentation of these financial statements. As of June 30, 2011, RAW has not recognized any reduction in the carrying value of its property when considering FASB ASC 360.

Cash Restricted to Building Repairs & Improvements and Funding New Program Initiatives

Restricted cash represents capital campaign fund contributions restricted for the purchase of long-lived assets, improvements and major repairs and maintenance.

Donated Goods and Services

Contributions of services are reported as revenues and expenses of the unrestricted net asset class at the fair value of the services received only if the services create or enhance a non-financial asset or would typically need to be purchased by RAW if they had not been provided by the individuals with those skills. Contributions of goods to be used in program operations are reported as revenues and expenses of the unrestricted net asset class at the time the goods are received.

Functional Expenses

RAW allocates its expenses on a functional basis among its various programs. Expenses that can be identified with a specific program are allocated directly according to their natural expense classification. Indirect expenses are allocated based upon estimates made by management.

Income Tax Status and Uncertainty of Income Taxes

RAW is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to its tax-exempt purpose is subject to taxation as unrelated business income. In addition, RAW qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

Management has evaluated its tax positions applying a "more likely than not" standard, and believes there are no material uncertainties in income taxes.

Compensated Absences

Employees are entitled to paid vacation, sick and personal days off depending on job classification, length of service and other factors.

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RAW ART WORKS, INC.

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010  
(Continued)

3. GRANTS RECEIVABLE

Grants receivable consists of the following:

	2011	2010
Grants receivable due in less than one year	\$ 264,211	\$ 212,625
Grants receivable due in one to five years	5,000	35,000
Total grants receivable	<u>\$ 269,211</u>	<u>\$ 247,625</u>

During the year ended June 30, 2010, a grant of \$75,000 over three years was made to RAW. During the year ended June 30, 2009, a grant of \$25,000 over five years was made to RAW. The discount to present value of these grants is immaterial.

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	2011	2010
Land	\$ 73,600	\$ 73,600
Building and improvements	839,479	698,191
Equipment	166,006	155,412
Vehicles	16,900	16,900
	<u>1,095,985</u>	<u>944,103</u>
Less - accumulated depreciation	<u>(308,205)</u>	<u>(263,990)</u>
Net property and equipment	<u>\$ 787,780</u>	<u>\$ 680,113</u>

5. LINE OF CREDIT

At June 30, 2011, RAW had available a secured \$35,000 line of credit with a bank. The line matures May 31, 2012 and bears interest at the bank's prime lending rate plus 1% with a floor rate of 4.25%. The line is secured by all business assets. Payments on outstanding balances are due monthly or immediately upon demand. There were no borrowings outstanding on this line at June 30, 2011 and 2010.

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**RAW ART WORKS, INC.**

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010  
(Continued)

6. RESTRICTED NET ASSETS

Restricted net assets are funds that have been restricted by time or as to use by donor or grant requirements. Temporarily restricted net assets consist of:

	<u>2011</u>	<u>2010</u>
Program restricted	\$ 88,300	\$ 30,453
Time restricted	182,650	239,000
Long-lived assets and new program initiatives	<u>108,975</u>	<u>108,975</u>
Total	<u>\$ 379,925</u>	<u>\$ 378,428</u>

7. DEFINED CONTRIBUTION RETIREMENT PLAN

On January 1, 2009, RAW established a 401(K) retirement plan for eligible employees. Participants may make voluntary salary deferrals to the plan up to the maximum amount allowed by the Internal Revenue Code. RAW may make discretionary matching and/or profit-sharing contributions. No employer contributions were made to the plan for the years ended June 30, 2011 and 2010.

8. DONATED GOODS AND SERVICES

Donated goods and services received in support of programs and administrative functions and included as contributions in the Statement of Activities totaled \$740 and \$1,280, for the years ended June 30, 2011 and 2010, respectively.

SUPPLEMENTARY INFORMATION

RAW ART WORKS, INC.

STATEMENTS OF PROGRAM EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2011  
*(with comparative totals for 2010)*

	Elementary School	Middle School	High School	Total 2011	Total 2010
Personnel	\$ 78,189	\$ 76,338	\$ 432,403	\$ 586,930	\$ 575,053
Facilities	11,182	11,075	62,071	84,328	86,039
Consumable materials and supplies	5,477	5,704	22,706	33,887	29,225
Travel and transportation	1,173	1,134	8,740	11,047	11,942
Training, conferences and meetings	1,911	1,888	11,169	14,968	25,059
Printing and reproduction	1,211	1,195	6,899	9,305	9,142
Computer and office equipment	1,608	1,593	19,987	23,188	7,931
Communications	1,708	1,692	9,481	12,881	12,370
Administrative costs	197	31	176	404	290
Miscellaneous	393	388	2,237	3,018	2,408
Total expenses	\$ 103,049	\$ 101,038	\$ 575,869	\$ 779,956	\$ 759,459