



RAW ART WORKS, INC.

REPORT ON AUDIT OF FINANCIAL STATEMENTS

JUNE 30, 2009

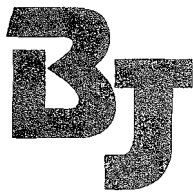
RAW ART WORKS, INC.

REPORT ON AUDIT OF FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

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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., as of June 30, 2009 and the related statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of Raw Art Works, Inc.'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 Art Works, Inc.'s 2008 financial statements and, in our report dated December 10, 2008, 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 Art Works, Inc. as of June 30, 2009 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 Art Works, Inc. taken as a whole. The accompanying supplemental information 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
December 17, 2009

RAW ART WORKS, INC.

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2009 and 2008

| ASSETS | 2009 | 2008 |
|---|---------------------|---------------------|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 361,726 | \$ 454,389 |
| Accounts receivable | 17,074 | 30,588 |
| Current portion of grants receivable | 209,550 | 93,400 |
| Prepaid expenses | 3,042 | 3,418 |
| Total current assets | <u>591,392</u> | <u>581,795</u> |
| PROPERTY AND EQUIPMENT - NET | <u>729,281</u> | <u>765,391</u> |
| OTHER ASSETS: | | |
| Cash restricted for long-term investment | 113,575 | 161,717 |
| Grants receivable, net of current portion | 15,000 | - |
| Total other assets | <u>128,575</u> | <u>161,717</u> |
| Total assets | <u>\$ 1,449,248</u> | <u>\$ 1,508,903</u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 23,910 | \$ 43,342 |
| Accrued expenses | 69,902 | 96,296 |
| Total current liabilities | <u>93,812</u> | <u>139,638</u> |
| NET ASSETS: | | |
| Unrestricted | 1,084,660 | 1,177,548 |
| Temporarily restricted | 270,776 | 191,717 |
| Total net assets | <u>1,355,436</u> | <u>1,369,265</u> |
| Total liabilities and net assets | <u>\$ 1,449,248</u> | <u>\$ 1,508,903</u> |

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

RAW ART WORKS, INC.

STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009
(with comparative totals for 2008)

| | Unrestricted | Temporarily Restricted | 2009 Total | 2008 Total |
|--|--------------|---------------------------|---------------|---------------|
| Grants and contributions | \$ 517,249 | \$ 466,124 | \$ 983,373 | \$ 1,151,330 |
| Special events | 170,211 | - | 170,211 | 162,807 |
| Program fees | 81,186 | - | 81,186 | 121,827 |
| Other income | 11,504 | - | 11,504 | 21,312 |
| Net assets released from restrictions | 387,065 | (387,065) | - | - |
| | | | | |
| Total revenue and support | 1,167,215 | 79,059 | 1,246,274 | 1,457,276 |
| | | | | |
| Program services | 891,821 | - | 891,821 | 776,051 |
| Management and general | 129,964 | - | 129,964 | 125,652 |
| Fundraising | 238,318 | - | 238,318 | 172,110 |
| | | | | |
| Total expenses | 1,260,103 | - | 1,260,103 | 1,073,813 |
| | | | | |
| Change in net assets | (92,888) | 79,059 | (13,829) | 383,463 |
| | | | | |
| Net assets at beginning of year, as previously reported | 1,140,618 | 228,647 | 1,369,265 | 985,802 |
| | | | | |
| Restatement for release of restriction | 36,930 | (36,930) | - | - |
| | | | | |
| Net assets at beginning of year, as restated | 1,177,548 | 191,717 | 1,369,265 | 985,802 |
| | | | | |
| Net assets at end of year | \$ 1,084,660 | \$ 270,776 | \$ 1,355,436 | \$ 1,369,265 |

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, 2009 AND 2008

| | <u>2009</u> | <u>2008</u> |
|--|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$ (13,829) | \$ 383,463 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities - | | |
| Depreciation | 49,885 | 42,218 |
| Cash provided by (used in) changes in: | | |
| Accounts receivable | 13,514 | (14,585) |
| Grants receivable | (131,150) | - |
| Prepaid expenses | 376 | (5) |
| Accounts payable | (19,432) | 11,682 |
| Accrued expenses | (26,394) | 25,961 |
| | <u>(127,030)</u> | <u>448,734</u> |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | (13,775) | (256,903) |
| Cash restricted for long-term investment | 48,142 | 140,712 |
| | <u>34,367</u> | <u>(116,191)</u> |
| NET CASH USED IN INVESTING ACTIVITIES | | |
| RESULTING IN A NET INCREASE (DECREASE) IN CASH | (92,663) | 332,543 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | <u>454,389</u> | <u>121,846</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>\$ 361,726</u> | <u>\$ 454,389</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, 2009
(with comparative totals for 2008)

| | Total Program Services | Management and General | Fundraising | Total 2009 | Total 2008 |
|------------------------------------|------------------------------|------------------------------|-------------------|--------------------|--------------------|
| Personnel | \$ 637,973 | \$ 96,809 | \$ 206,623 | \$ 941,405 | \$ 783,394 |
| Facilities | 117,054 | 8,537 | 6,336 | 131,927 | 95,396 |
| Consumable materials and supplies | 36,611 | 427 | 1,886 | 38,924 | 58,353 |
| Travel and transportation | 26,881 | 2,421 | 8,826 | 38,128 | 32,406 |
| Training, conferences and meetings | 21,236 | 3,442 | 4,529 | 29,207 | 36,624 |
| Printing and reproduction | 14,833 | 2,988 | 1,694 | 19,515 | 14,627 |
| Office expense | 17,645 | 958 | 2,687 | 21,290 | 17,444 |
| Communications | 16,061 | 1,128 | 109 | 17,298 | 15,917 |
| Administrative costs | 619 | 12,713 | 4,764 | 18,096 | 14,928 |
| Miscellaneous | 2,908 | 541 | 864 | 4,313 | 4,724 |
| Total expenses | <u>\$ 891,821</u> | <u>\$ 129,964</u> | <u>\$ 238,318</u> | <u>\$1,260,103</u> | <u>\$1,073,813</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, 2009 AND 2008

1. ORGANIZATION

Raw Art Works, Inc. (RAW) is a not-for-profit youth arts organization founded in 1988 and located in Lynn, Massachusetts. RAW aids those persons emotionally, mentally, or physically challenged in the creation and appreciation of arts; to utilize painting, sculpting, muraling, storytelling, video, drama and movement as means of personal therapy; to develop creative therapeutic modalities by establishing new techniques for institutionalized and therapeutically in need persons to gain creative and artistic skills which will encourage decision making, problem solving and coping and; to enhance public awareness of the creative capabilities of the above described persons.

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, 2009 AND 2008 (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements have been prepared in accordance with Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Made*, and SFAS No. 117, *Financial Statements of Not-For-Profit Organizations*. SFAS 117 establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset categories (unrestricted, temporarily restricted, and permanently restricted) according to donor imposed restrictions. SFAS No.116 requires that unconditional grants be recorded as receivables and revenues and requires the organization to distinguish between contributions received for each net asset category in accordance with donor imposed restrictions. Accordingly, the net assets of RAW and changes therein are classified and reported as follows:

Unrestricted – Net assets that are not subject to donor-imposed restrictions. 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 subject to donor imposed stipulations that limit the use of the donated assets. When a donor 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 statement of activities as net assets released from restrictions. 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 acquired 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.

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 GAAP. Accordingly, such information should be read in conjunction with the RAW 2008 financial statements, from which the summarized information was derived. Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

(Continued)

RAW ART WORKS, INC.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008
(Continued)

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

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.

Cash and Cash Equivalents

RAW considers all liquid investments with a maturity of less than three months to be cash or cash equivalents.

Accounts Receivable

RAW uses the reserve method for recognizing doubtful accounts receivable. There were no accounts deemed uncollectible at June 30, 2009 and 2008.

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 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 | 5-7 years |
| Vehicles | 3 years |

Depreciation expense for the years ended June 30, 2009 and 2008 was \$49,885 and \$42,218, respectively.

(Continued)

RAW ART WORKS, INC.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008
(Continued)

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

Impairment of Long-Lived Assets

RAW has given consideration to the Financial Accounting Standards Board Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS No. 144) in its presentation of these financial statements. As of June 30, 2009, RAW has not recognized any reduction in the carrying value of its property when considering SFAS No. 144.

Cash Restricted for Long-Term Investment

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

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 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).

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, 2009 AND 2008
(Continued)

3. GRANTS RECEIVABLE

Grants receivable consists of the following:

| | <u>2009</u> | <u>2008</u> |
|---|-------------------|------------------|
| Grants receivable due in less than one year | \$ 209,550 | \$ 93,400 |
| Grants receivable due in one to five years | <u>15,000</u> | <u>-</u> |
| Total grants receivable | <u>\$ 224,550</u> | <u>\$ 93,400</u> |

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 the grant is immaterial.

4. PROPERTY AND EQUIPMENT

At June 30, 2009 and 2008 property and equipment consists of the following:

| | | |
|---------------------------------|-------------------|-------------------|
| Land | \$ 73,600 | \$ 73,600 |
| Building and improvements | 698,191 | 684,416 |
| Equipment | 155,412 | 155,412 |
| Vehicles | <u>16,900</u> | <u>16,900</u> |
| | 944,103 | 930,328 |
| Less - accumulated depreciation | <u>(214,822)</u> | <u>(164,937)</u> |
| Net property and equipment | <u>\$ 729,281</u> | <u>\$ 765,391</u> |

5. LINE OF CREDIT

At June 30, 2009, RAW had an unused \$35,000 line of credit agreement. The line matures May 31, 2010 and bears interest at the bank's prime lending rate plus 1% with a floor rate of 5.25%. The line is secured by all business assets. Payments on outstanding balances are due monthly or immediately upon demand.

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RAW ART WORKS, INC.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008
(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:

| | 2009 | 2008 |
|--------------------|-------------------|-------------------|
| Program restricted | \$ 29,876 | \$ 30,000 |
| Time restricted | 127,325 | - |
| Long-lived assets | 113,575 | 161,717 |
| Total | <u>\$ 270,776</u> | <u>\$ 191,717</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 contributions were made by the Organization to the plan through June 30, 2009.

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 \$8,120 and \$10,247, for the years ended June 30, 2009 and 2008, respectively.

9. SIGNIFICANT CONCENTRATIONS OF RISK

Approximately 79% of RAW's promises to give at June 30, 2009 were due from three donors.

10. RESTATEMENT OF NET ASSETS

During the year ended June 30, 2009, RAW determined that additional net assets should have been released from restrictions related to the purchase of long-lived assets. Capital expenditures totaling \$36,930 restricted for this purpose were not properly released from donor restrictions during the year ended June 30, 2008 resulting in temporarily restricted net assets being overstated and unrestricted net assets being understated by this amount.

SUPPLEMENTARY INFORMATION

RAW ART WORKS, INC.

STATEMENTS OF PROGRAM EXPENSES
FOR THE YEAR ENDED JUNE 30, 2009
(with comparative totals for 2008)

| | RAW Artists | REAL Artists | RARE Artists | Radar Artists | Works in Art | Total 2009 | Total 2008 |
|------------------------------------|-------------------|-------------------|-------------------|------------------|-----------------|-------------------|-------------------|
| Personnel | \$ 116,054 | \$ 365,069 | \$ 102,301 | \$ 51,425 | \$ 3,124 | \$ 637,973 | \$ 561,666 |
| Facilities | 20,326 | 69,335 | 17,884 | 8,955 | 554 | 117,054 | 70,921 |
| Consumable materials and supplies | 6,411 | 18,967 | 4,125 | 7,082 | 26 | 36,611 | 55,839 |
| Training, conferences and meetings | 4,818 | 15,493 | 4,244 | 2,197 | 129 | 26,881 | 22,699 |
| Office expense | 2,070 | 16,215 | 1,981 | 913 | 57 | 21,236 | 14,614 |
| Travel and transportation | 2,812 | 10,460 | 3,086 | 1,218 | 69 | 17,645 | 24,498 |
| Printing and reproduction | 2,827 | 9,323 | 2,494 | 1,343 | 74 | 16,061 | 10,136 |
| Communications | 2,694 | 8,507 | 2,371 | 1,187 | 74 | 14,833 | 11,800 |
| Miscellaneous | 512 | 1,688 | 452 | 243 | 13 | 2,908 | 3,251 |
| Administrative costs | 111 | 357 | 97 | 51 | 3 | 619 | 627 |
| Total expenses | <u>\$ 158,635</u> | <u>\$ 515,414</u> | <u>\$ 139,035</u> | <u>\$ 74,614</u> | <u>\$ 4,123</u> | <u>\$ 891,821</u> | <u>\$ 776,051</u> |