



RAW ART WORKS, INC.

REPORT ON AUDIT OF FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

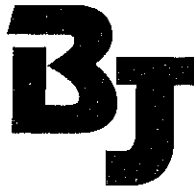
RAW ART WORKS, INC.

REPORT ON AUDIT OF FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

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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, 2012 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 2011 financial statements and, in our report dated January 9, 2012, 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, 2012 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
December 7, 2012

RAW ART WORKS, INC.

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011

ASSETS

	<u>2012</u>	<u>2011</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 720,071	\$ 474,064
Accounts receivable	17,215	23,454
Current portion of grants receivable	35,520	264,211
Prepaid expenses	912	8,356
	<u>773,718</u>	<u>770,085</u>
PROPERTY AND EQUIPMENT, net	<u>788,839</u>	<u>787,780</u>
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
	<u>108,975</u>	<u>113,975</u>
Total other assets	<u>108,975</u>	<u>113,975</u>
Total assets	<u>\$ 1,671,532</u>	<u>\$ 1,671,840</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 27,264	\$ 22,837
Accrued expenses	66,557	74,756
	<u>93,821</u>	<u>97,593</u>
Total current liabilities	<u>93,821</u>	<u>97,593</u>
NET ASSETS:		
Unrestricted	1,377,236	1,194,322
Temporarily restricted	200,475	379,925
	<u>1,577,711</u>	<u>1,574,247</u>
Total net assets	<u>1,577,711</u>	<u>1,574,247</u>
Total liabilities and net assets	<u>\$ 1,671,532</u>	<u>\$ 1,671,840</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, 2012
(with comparative totals for 2011)

	Unrestricted	Temporarily Restricted	2012 Total	2011 Total
Grants and contributions	\$ 532,184	\$ 379,364	\$ 911,548	\$ 976,517
Special events	149,982	-	149,982	125,170
Program fees	100,900	-	100,900	106,184
Other income	6,329	-	6,329	792
Net assets released from restrictions	558,814	(558,814)	-	-
Total operating revenue and support	1,348,209	(179,450)	1,168,759	1,208,663
Program services	865,293	-	865,293	779,956
Management and general	182,823	-	182,823	167,933
Fundraising	255,179	-	255,179	244,613
Total operating expenses	1,303,295	-	1,303,295	1,192,502
Change in net assets from operations	44,914	(179,450)	(134,536)	16,161
Non-operating revenue - capital grant	138,000	-	138,000	-
Change in net assets	182,914	(179,450)	3,464	16,161
Net assets at beginning of year	1,194,322	379,925	1,574,247	1,558,086
Net assets at end of year	\$ 1,377,236	\$ 200,475	\$ 1,577,711	\$ 1,574,247

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, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (134,536)	\$ 16,161
Adjustments to reconcile change in net assets to net cash provided by operating activities -		
Depreciation	38,816	44,215
Cash provided by (used in) changes in:		
Accounts receivable	6,239	22,274
Grants receivable	233,691	(21,586)
Prepaid expenses	7,444	(4,564)
Accounts payable	4,427	3,880
Accrued expenses	(8,199)	2,134
	<u>147,882</u>	<u>62,514</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES -		
Purchases of property and equipment	(39,875)	(151,882)
CASH FLOWS FROM FINANCING ACTIVITIES -		
Capital grant	138,000	-
RESULTING IN A NET INCREASE (DECREASE) IN CASH	246,007	(89,368)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	474,064	563,432
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 720,071</u>	<u>\$ 474,064</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, 2012
(with comparative totals for 2011)

	Total Program Services	Management and General	Fundraising	Total 2012	Total 2011
Personnel	\$ 676,781	\$ 156,548	\$ 223,009	\$1,056,338	\$ 929,297
Facilities	76,081	3,553	4,424	84,058	93,132
Consumable materials and supplies	44,756	600	1,279	46,635	36,449
Travel and transportation	9,923	1,609	2,699	14,231	12,798
Training, conferences and meetings	21,715	3,829	14,779	40,323	18,268
Printing and reproduction	15,980	3,438	5,365	24,783	1,873
Computer and office equipment	5,949	392	835	7,176	29,221
Communications	10,993	970	1,793	13,756	10,398
Administrative costs	199	10,720	18	10,937	13,327
Miscellaneous	2,916	1,164	978	5,058	5,582
Total expenses	\$ 865,293	\$ 182,823	\$ 255,179	\$1,303,295	\$1,150,345

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, 2012 AND 2011

1. 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.
- *Art4Girلز*
Art4Girلز 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

- *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.

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RAW ART WORKS, INC.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(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 2012 and 2011 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, 2011 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, 2012 AND 2011
(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 December 7, 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, 2012 and 2011.

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. The cost and accumulated depreciation of assets retired or sold are removed from the statement of financial position and any gain or loss is credited or charged to income.

(Continued)

RAW ART WORKS, INC.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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	5 years

Depreciation expense for the years ended June 30, 2012 and 2011 was \$35,613 and \$44,215, respectively.

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, 2012, 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.

(Continued)

RAW ART WORKS, INC.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Information returns filed for the years 2011, 2010, and 2009 remain subject to examination by the Internal Revenue Service and the state of Massachusetts.

Compensated Absences

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

3. GRANTS RECEIVABLE

Grants receivable consists of the following:

	<u>2012</u>	<u>2011</u>
Grants receivable due in less than one year	\$ 35,520	\$ 264,211
Grants receivable due in one to five years	-	<u>5,000</u>
Total grants receivable	<u>\$ 35,520</u>	<u>\$ 269,211</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 this grant is immaterial.

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RAW ART WORKS, INC.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(Continued)

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2012</u>	<u>2011</u>
Land	\$ 73,600	\$ 73,600
Building and improvements	842,979	839,479
Equipment	176,136	166,006
Vehicles	26,245	16,900
	<u>1,118,960</u>	<u>1,095,985</u>
Less - accumulated depreciation	(330,121)	(308,205)
Net property and equipment	<u>\$ 788,839</u>	<u>\$ 787,780</u>

5. LINE OF CREDIT

At June 30, 2012, RAW had available a secured \$35,000 line of credit with a bank. The line matures August 31, 2013 and bears interest at the bank's prime lending rate plus 1%. 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, 2012 and 2011.

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>2012</u>	<u>2011</u>
Program restricted	\$ 6,500	\$ 88,300
Time restricted	85,000	182,650
Long-lived assets and new program initiatives	108,975	108,975
Total	<u>\$ 200,475</u>	<u>\$ 379,925</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, 2012 and 2011.

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RAW ART WORKS, INC.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(Continued)

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 \$5,610 and \$740, for the years ended June 30, 2012 and 2011, respectively.

SUPPLEMENTARY INFORMATION

RAW ART WORKS, INC.

STATEMENTS OF PROGRAM EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012
(with comparative totals for 2011)

	Elementary School	Middle School	High School	Total 2012	Total 2011
Personnel	\$ 82,893	\$ 108,630	\$ 485,258	\$ 676,781	\$ 586,930
Facilities	9,092	12,684	54,305	76,081	84,328
Consumable materials and supplies	5,653	6,837	32,266	44,756	33,887
Travel and transportation	967	1,456	7,500	9,923	11,047
Training, conferences and meetings	2,476	3,301	15,938	21,715	14,968
Printing and reproduction	1,940	2,529	11,511	15,980	9,305
Computer and office equipment	291	406	5,252	5,949	23,188
Communications	1,314	1,833	7,846	10,993	12,881
Administrative costs	24	33	142	199	404
Miscellaneous	355	462	2,099	2,916	3,018
Total expenses	<u>\$ 105,005</u>	<u>\$ 138,171</u>	<u>\$ 622,117</u>	<u>\$ 865,293</u>	<u>\$ 779,956</u>