APPLIED RESEARCH CENTER

FINANCIAL STATEMENTS

December 31, 2009

(With Comparative Totals for the Year Ended December 31, 2008)

CROSBY & KANEDA
Certified Public Accountants

Dedicated to Nonprofit Organizations

Applied Research Center

Contents

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Applied Research Center
Oakland, California

We have audited the accompanying statement of financial position of Applied Research Center (a nonprofit California corporation) as of December 31, 2009, and the related statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of the Organization'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 the Applied Research Center's 2008 financial statements and, in our report, dated April 8, 2008; we expressed an unqualified opinion on those financial 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 Applied Research Center as of December 31, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Crosby + Kaneda

Certified Public Accountants
Oakland, California
March 30, 2010

Applied Research Center

Statement of Financial Position
December 31, 2009
(With Comparative Totals for December 31, 2008)

	2009	2008
Assets		
Current Assets		
Cash and cash equivalents	$ 140,058	$ 250,218
Investments (Note 5)	879,483	541,087
Accounts receivable	740,784	652,692
Notes receivable, current portion (Note 3)	-	8,337
Total Current Assets	1,760,325	1,452,334
Property and equipment, net (Note 4)	1,323,235	1,371,480
Note receivable (Note 3)	100,000	100,000
Other assets	31,173	31,173
Total Assets	$ 3,214,733	$ 2,954,987
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	$ 188,223	$ 313,642
Note payable, current portion (Note 6)	11,474	13,084
Total Current Liabilities	199,697	326,726
Note payable, long term portion (Note 6)	21,236	32,711
Total Liabilities	220,933	359,437
Commitments and Contingencies (Notes 7 and 8)		
Net Assets		
Unrestricted	1,445,304	1,440,967
Temporarily restricted (Note 9)	1,548,496	1,154,583
Total Net Assets	2,993,800	2,595,550
Total Liabilities and Net Assets	$ 3,214,733	$ 2,954,987

Applied Research Center

Statement of Activities
Year Ended December 31, 2009
(With Comparative Totals for the Year Ended December 31, 2008)

	Unrestricted	Temporarily Restricted	Totals 2009	Totals 2008
Support and Revenue				
Support				
Contributions	$ 67,907	$	$ 67,907	$ 150,035
Foundation and community grants	72,000	2,087,190	2,159,190	2,045,500
Total support	139,907	2,087,190	2,227,097	2,195,535
Revenue				
Fees and contracts	185,178		185,178	189,014
Sales, royalties and registrations	37,642		37,642	190,018
Interest and dividends	61,307		61,307	65,040
Realized loss	(7,743)		(7,743)	(84,527)
Unrealized gain (loss)	213,633		213,633	(348,954)
Other			-	520
Total revenue	490,017	-	490,017	11,111
Net assets released from restrictions:				
Satisfaction of program restrictions (Note 9)	1,693,277	(1,693,277)	-	-
Total Support and Revenue	2,323,201	393,913	2,717,114	2,206,646
Expenses				
Program	1,809,789		1,809,789	1,999,572
General and administrative	300,139		300,139	452,017
Fundraising	208,936		208,936	204,199
Total Expenses	2,318,864	-	2,318,864	2,655,788
Change in Net Assets	4,337	393,913	398,250	(449,142)
Net Assets, beginning of year	1,440,967	1,154,583	2,595,550	3,044,692
Net Assets, end of year	$ 1,445,304	$ 1,548,496	$ 2,993,800	$ 2,595,550

Applied Research Center

Statement of Cash Flows
Year Ended December 31, 2009
(With Comparative Totals for the Year Ended December 31, 2008)

	2009	2008
Cash flows from operating activities:		
Change in net assets	$ 398,250	$ (449,142)
Adjustments to reconcile change in net assets to cash (used) provided by operating activities:		
Depreciation	48,245	30,110
Donated securities	(159,999)	(1,028)
Realized loss	7,743	84,527
Unrealized (gain) loss	(213,633)	348,954
Change in assets and liabilities:		
Accounts receivable	(88,092)	(564,132)
Other assets	-	9,655
Accounts payable and accrued expenses	(125,419)	286,824
Notes receivable	8,337	(472)
Net cash used by operating activities	(124,568)	(254,704)
Cash flows from investing activities:		
Purchase of property and equipment	-	(52,670)
Purchase of investments	(292,424)	(670,423)
Proceeds from sale of investments	319,917	760,984
Net cash provided by investing activities	27,493	37,891
Cash flows from financing activities:		
Proceeds from borrowings	-	204,905
Repayments on borrowings	(13,085)	(23,116)
Net cash provided (used) by financing activities	(13,085)	181,789
Net change in cash and cash equivalents	(110,160)	(35,024)
Cash and cash equivalents, beginning of year	250,218	285,242
Cash and cash equivalents, end of year	$ 140,058	$ 250,218

Applied Research Center

Statement of Functional Expenses
Year Ended December 31, 2009
(With Comparative Totals for the Year Ended December 31, 2008)

	Program							Totals	
	Research	Network	Media	Special Projects	Total Program	Management and General	Fundraising	2009	2008
Salaries	$ 168,481	$ 238,806	$ 329,266	$ 96,780	$ 833,333	$ 124,553	$ 131,993	$ 1,089,879	$ 1,160,603
Pension	912	12,366	10,143	3,585	27,006	3,284	3,594	33,884	37,631
Other benefits	32,384	33,502	59,531	20,896	146,313	41,344	11,597	199,254	147,912
Payroll taxes	14,941	22,066	26,752	7,890	71,649	9,487	11,736	92,872	95,889
	216,718	306,740	425,692	129,151	1,078,301	178,668	158,920	1,415,889	1,442,035
Fee for service	8,897	32,717	121,585	76,351	239,550	43,532	878	283,960	340,838
Supplies	5,676	10,291	21,365	3,123	40,455	2,306	4,266	47,027	54,374
Telephones	7,305	23,840	15,968	4,818	51,931	2,403	5,607	59,941	57,168
Postage	901	2,367	15,955	570	19,793	360	4,684	24,837	44,117
Occupancy	18,978	27,413	37,956		84,347	9,604	14,761	108,712	92,033
Equipment rental and maintenance	1,369	1,977	3,502		6,848	456	1,065	8,369	27,915
Printing and publications	2,951	4,737	20,690	3,055	31,433	128	2,846	34,407	74,459
Travel	18,845	68,313	20,195	21,985	129,338	6,275	6,711	142,324	216,185
Interest					-	2,058		2,058	1,176
Depreciation	5,183	7,486	10,366		23,035	21,179	4,031	48,245	30,110
Insurance	1,534	2,216	3,068		6,818	3,876	1,193	11,887	11,027
Staff development	347	501	2,269		3,117	373	270	3,760	10,827
Marketing and publicity	495	1,337	9,293	85	11,210	145	1,416	12,771	42,048
Dues and memberships	3,398	2,014	5,472	554	11,438	16,733	1,137	29,308	38,653
Grant					-	8,337		8,337	-
Meeting expenses	1,283	60,799	3,472	6,621	72,175	3,706	1,151	77,032	172,823
Total Expenses	$ 293,880	$ 552,748	$ 716,848	$ 246,313	$ 1,809,789	$ 300,139	$ 208,936	$ 2,318,864	$ 2,655,788

See Notes to the Financial Statements

NOTE 1: NATURE OF ACTIVITIES

The Applied Research Center (ARC) is a California nonprofit public benefit corporation incorporated in 1981. ARC is a racial justice think tank and home for media and activism on racial justice issues, operating out of headquarters in Oakland, California and field offices in New York City and Chicago, Illinois. ARC's goal is to popularize the need for racial justice and prepare people to fight for it. Activities include:

Strategic Research and Policy Analysis program - works to illuminate the ways in which public policy can be shaped to address systemic and institutional inequities. ARC's research works to impact policy through in-depth analysis. Highlights of the 2009 reports we have completed or are developing include: *The Green Jobs Toolkit, Check the Color Line Income Report, The Race and Recession Report, and Underprotected, Undersupported: Low-income Children at Risk.* In addition, ARC released *Racial Justice Legislative Report Cards* in California, Illinois, Minnesota, Colorado, Idaho, Washington and Nevada. ARC worked with partners in New York and Minnesota to release racial equity state budget reports. This collection of state-based report cards is designed to set a racial justice standard for legislation to bridge racial divides and lead to improved equity in health, education, income, and other areas.

Racial Justice Leadership Action Network program - combines leadership development and education with strategic planning that focuses on advancing racial justice. In 2009, the Network program conducted direct, hands-on training and developed interactive educational materials in collaboration with more than 63 organizations across the United States. The Network program also coordinates ARC's national conference, called *Facing Race.*

Media and Journalism program - publishes various platforms for challenging points-of-view and improving the breadth and depth of media coverage on racial justice issues across the nation. ARC's signature publication, *ColorLines,* is an on-line web magazine providing sharp political analysis, provocative explorations of popular culture and insightful coverage of social change efforts.

Special Projects - provides assistance for new projects through infrastructure support and grants for research or educational purposes. In 2009, ARC sponsored the Transnational Institute for Grassroots Research and Action (TIGRA) and Backstory Narratives.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Basis of Presentation

ARC 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. ARC has no permanently restricted net assets.

Revenue Recognition

Contributions are recognized as revenue when received or unconditionally promised. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. 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 statement of activities as net assets released from restrictions.

Income Taxes

The Internal Revenue Service and the California Franchise Tax Board have determined that ARC is exempt from federal and state income taxes under Internal Revenue Code Section 501 (c) (3) and the California Revenue and Taxation Code Section 23701(d).

Donated Services

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by ARC.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Equivalents

For purposes of the statement of cash flows, ARC considers all cash and other highly liquid investments with maturities of three months or less to be cash equivalents.

Property and Equipment

All acquisitions of property and equipment in excess of $2,000 and all expenditures for repairs and maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are stated at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives on the property and equipment.

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Prior Year Summarized Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2008, from which the summarized information was derived.

NOTE 3: NOTE RECEIVABLE

Note receivable at December 31, 2009 consists of the following:

Unsecured loan to Critical Ventures Housing Partnership II with interest at 10%. Interest only payments are payable in monthly installments of $833. The entire balance of the loan is due and payable on August 31, 2011.	$ 100,000

NOTE 4: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2009	2008
Computer equipment	$ 33,134	$ 33,134
Furnishings and equipment	155,144	155,144
Commercial condominium	1,360,605	1,360,605
Less accumulated depreciation	(225,648)	(177,403)
Total	$ 1,323,235	$ 1,371,480

NOTE 5: INVESTMENTS

Investments are stated at fair value and consisted of the following at December 31:

	2009	2008
Equities	$ 410,535	$ 110,978
Mutual fund	-	245,307
Fixed income	468,948	177,124
Other	-	7,678
Total	$ 879,483	$ 541,087

NOTE 6: LONG TERM DEBT

Unsecured note payable to the Sisters of Loretto with interest of 2%, payable in monthly installments of $920, due and payable on September 30, 2012.	$ 32,710
Less current portion	(11,474)
Long-term portion	$ 21,236

The future scheduled maturities of long-term debt are as follows for the years ending December 31:

2010	$ 11,474
2011	11,707
2012	9,529
Total	$ 32,710

NOTE 7: COMMITMENTS

ARC is party to a lease for office space in New York City which expires in August, 2014. At December 31, 2009, future minimum operating lease payments were as follows for the years ending December 31:

2010	$ 78,060
2011	80,004
2012	82,008
2013	84,060
2014	86,160
Total	$ 410,292

Rent for the years ended December 31, 2009 and 2008 was $72,852 and $66,470, respectively.

NOTE 8: CONTINGENCIES

Grant awards require the fulfillment of certain conditions as set forth in the instrument of grant. Failure to fulfill the conditions could result in the return of the funds to the grantors. ARC deems this contingency remote since by accepting the grants and their terms, it has accommodated the objectives of the organization to the provisions of the grants. ARC's management is of the opinion that it has complied with the terms of all grants.

NOTE 9: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available as follows at December 31:

	2009	2008
RAPP	$ -	$ 12,500
Network	100,000	28,333
Media	26,174	23,333
Research	330,833	21,250
Special projects	185,234	102,083
Future periods	906,255	967,084
Total	$ 1,548,496	$ 1,154,583

Temporarily restricted net assets were released from donor restriction by incurring expenses satisfying the purposes specified by donors as follows during the year ended December 31:

	2009	2008
RAPP	$ 12,500	$ 50,000
Network	178,333	59,167
Media	196,249	73,667
Research	275,417	39,250
Special projects	134,949	57,917
Passage of time	895,829	680,833
Total	$ 1,693,277	$ 960,834

NOTE 10: PENSION

ARC has a defined contribution plan as established under Internal Revenue Code Section 403(b) (the Plan). All full time employees are eligible for participation in the Plan and become eligible after one year of employment and vest over the next five years. For each Plan year, the Board of Directors of ARC determines the amount (if any) to be contributed to the Plan by ARC. Total contributions made by ARC for the years ended December 31, 2009 and 2008 were $33,884 and $32,441, respectively.