
APPLIED RESEARCH CENTER

FINANCIAL STATEMENTS

December 31, 2011

**(With Comparative Totals for the Year Ended
December 31, 2010)**

CROSBY & KANEDA
Certified Public Accountants

Dedicated to Nonprofit Organizations

Applied Research Center

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CROSBY & KANEDA

Certified Public Accountants

Dedicated to Nonprofit Organizations

Latham Square Building
1611 Telegraph Ave. Suite 318
Oakland, CA 94612-2151
Tel: 510 • 835 • CPAS (2727)
Fax: 510 • 835 • 5711
e-mail: info@ckcpa.biz

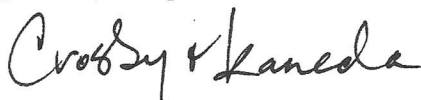
INDEPENDENT AUDITORS' REPORT

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, 2011, 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 2010 financial statements and, in our report dated June 20, 2011 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, 2011, 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.



Certified Public Accountants
Oakland, California
June 15, 2012

Applied Research Center
Statement of Financial Position
December 31, 2011
(With Comparative Totals for December 31, 2010)

	<u>2011</u>	<u>2010</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 111,765	\$ 108,135
Investments (Note 5)	443,392	922,344
Accounts receivable	1,171,439	2,485,298
Due from prior fiscal project	20,287	20,673
Prepaid expenses	111,788	-
Note receivable, current portion (Note 3)	6,627	100,000
Total Current Assets	<u>1,865,298</u>	<u>3,636,450</u>
Property and equipment, net (Note 4)	1,376,933	1,392,441
Note receivable (Note 3)	93,373	-
Deposits	<u>29,318</u>	<u>31,773</u>
Total Assets	<u><u>\$ 3,364,922</u></u>	<u><u>\$ 5,060,664</u></u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 218,163	\$ 126,804
Deferred revenue	21,000	-
Lines of credit (Note 7)	-	476,905
Notes payable, current portion (Note 8)	25,942	96,707
Total Current Liabilities	<u>265,105</u>	<u>700,416</u>
Notes payable, long term portion (Note 8)	<u>82,064</u>	<u>11,856</u>
Total Liabilities	<u>347,169</u>	<u>712,272</u>
Commitments and Contingencies (Notes 9 and 10)		
Net Assets		
Unrestricted		
Board designated (Note 12)	119,173	81,712
Undesignated	1,441,775	1,572,012
Total Unrestricted	<u>1,560,948</u>	<u>1,653,724</u>
Temporarily restricted (Note 11)	1,456,805	2,694,668
Total Net Assets	<u>3,017,753</u>	<u>4,348,392</u>
Total Liabilities and Net Assets	<u><u>\$ 3,364,922</u></u>	<u><u>\$ 5,060,664</u></u>

See Notes to the Financial Statements

Applied Research Center

Statement of Activities
For the Year Ended December 31, 2011
(With Comparative Totals for the Year Ended December 31, 2010)

	Unrestricted	Temporarily Restricted	Totals	
			2011	2010
Support and Revenue				
Support				
Contributions	\$ 45,860	\$	\$ 45,860	\$ 135,384
Foundation and community grants	40,000	812,000	852,000	3,498,280
In-kind contributions	800		800	-
Total Support	86,660	812,000	898,660	3,633,664
Revenue				
Fees and contracts	474,630		474,630	300,814
Sales, royalties and registrations	35,576		35,576	96,759
Interest and dividends	48,274		48,274	52,482
Realized gain	3,477		3,477	5,348
Unrealized gain (loss)	(22,004)		(22,004)	82,683
Other	-		-	1,690
Total Revenue	539,953	-	539,953	539,776
Net assets released from restrictions:				
Satisfaction of program restrictions (Note 11)	2,049,863	(2,049,863)	-	-
Total Support and Revenue	2,676,476	(1,237,863)	1,438,613	4,173,440
Expenses				
Program	2,257,892		2,257,892	2,505,175
General and administrative	314,284		314,284	181,457
Fundraising	197,076		197,076	205,507
Total Expenses	2,769,252	-	2,769,252	2,892,139
Change in Net Assets	(92,776)	(1,237,863)	(1,330,639)	1,281,301
Net Assets, beginning of year	1,653,724	2,694,668	4,348,392	3,067,091
Net Assets, end of year	\$ 1,560,948	\$ 1,456,805	\$ 3,017,753	\$ 4,348,392

See Notes to the Financial Statements

Applied Research Center

Statement of Cash Flows
For the Year Ended December 31, 2011
(With Comparative Totals for the Year Ended December 31, 2010)

	2011	2010
Cash flows from operating activities:		
Change in net assets	\$ (1,330,639)	\$ 1,281,301
Adjustments to reconcile change in net assets to cash provided (used) by operating activities:		
Depreciation	26,604	32,185
Donated securities	(206,594)	-
Realized gain	(3,477)	(5,348)
Unrealized gain (loss)	22,004	(82,683)
Change in assets and liabilities:		
Accounts receivable	1,313,859	(1,744,514)
Due from prior fiscal project	386	52,618
Prepaid expenses	(111,788)	-
Deposits	2,455	(600)
Accounts payable and accrued expenses	91,359	(61,419)
Deferred revenue	21,000	-
Net cash used by operating activities	<u>(174,831)</u>	<u>(528,460)</u>
Cash flows from investing activities:		
Acquisition of property and equipment	(11,096)	(101,391)
Purchase of investments	(263,123)	(681,227)
Proceeds from sale of investments	930,142	726,397
Net cash provided (used) by investing activities	<u>655,923</u>	<u>(56,221)</u>
Cash flows from financing activities:		
Proceeds from borrowings	1,569,096	3,406,406
Repayments on borrowings	(2,046,558)	(2,853,648)
Net cash provided (used) by financing activities	<u>(477,462)</u>	<u>552,758</u>
Net change in cash and cash equivalents	<u>3,630</u>	<u>(31,923)</u>
Cash and cash equivalents, beginning of year	<u>108,135</u>	<u>140,058</u>
Cash and cash equivalents, end of year	<u>\$ 111,765</u>	<u>\$ 108,135</u>
Supplementary information		
Interest paid	<u>\$ 7,352</u>	<u>\$ 6,293</u>

See Notes to the Financial Statements

Applied Research Center

Statement of Functional Expenses
For the Year Ended December 31, 2011
(With Comparative Totals for the Year Ended December 31, 2010)

	Program				General and Administrative	Fundraising	Totals	
	Research	Network	Media	Special Projects	Total Program		2011	2010
Salaries	\$ 239,191	\$ 323,537	\$ 486,215	\$ 75,700	\$ 1,124,643	\$ 105,923	\$ 1,414,706	\$ 1,277,024
Pension	-	-	-	-	-	-	-	34,314
Other benefits	27,761	62,769	90,833	5,156	186,519	10,065	217,922	209,649
Payroll taxes	20,757	29,506	52,021	7,925	110,209	8,372	121,230	109,033
	287,709	415,812	629,069	88,781	1,421,371	124,360	1,753,858	1,630,020
Accounting								
Fee for service	13,275	58,245	133,899	218,582	424,001	28,712	464,891	338,647
Grants								174,675
Office expenses	27,376	40,604	58,979	12,599	139,558	14,726	164,624	273,555
Occupancy	18,219	27,329	44,115		89,663	11,387	114,954	117,360
Travel	33,079	26,237	31,261	34,213	124,790	11,152	143,460	160,971
Conferences, conventions, meetings	2,199	3,143	4,423	4,369	14,134	715	16,038	63,513
Interest							7,352	6,293
Depreciation	4,257	6,385	10,110		20,752	2,660	26,604	32,185
Insurance	1,652	2,478	3,924		8,054	1,033	13,373	12,911
Staff development	449		1,670		2,119	180	3,002	5,504
Marketing and publicity	371	1,432	7,352		9,155	1,349	10,877	18,598
Dues and memberships				135	4,295	802	25,473	11,516
Bank fees, payroll services	1,976	384	1,800				9,573	18,224
Miscellaneous								9,375
Total Expenses	\$ 390,562	\$ 582,049	\$ 926,602	\$ 358,679	\$ 2,257,892	\$ 197,076	\$ 2,769,252	\$ 2,892,139

See Notes to the Financial Statements

APPLIED RESEARCH CENTER

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2010)

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 using media, research, and activism to promote solutions. Our mission is to popularize racial justice ideas and prepare people to achieve them. Activities include:

Strategic Research: Our Research department provides material to help activists, teachers, advocates, and government officials articulate and pursue a racial equity standard in their work on issues such as education, immigration, criminal justice, employment and health. In 2011, ARC released three groundbreaking reports: 1) *Shattered Families*, which explores the extent to which children in foster care are prevented from uniting with their detained or deported parents and the failures of the child welfare system and ICE to adequately work to reunify these families; 2) *Color of Food*, a report that stressed the need for the Food Justice Movement to include workers of color; and 3) *Don't Call Them Post-Racial*, the results of research designed to determine the political beliefs of the millennial generation, specifically their views around race and racial equity.

Leadership Action Network: ARC serves the organizations and institutions that are working to advance racial equity at the local, state, and national levels. In 2011, ARC offered new platforms for training delivery by offering a unique series of webinars to reach new audiences. The Network program also coordinates ARC's national conference, Facing Race, to be held in Baltimore, MD in 2012. The conference draws more than 1,000 policy makers, activists, thinkers, educators, writers, and artists from across the country. In 2011, Network spearheaded the Drop the I-Word Campaign (DTIW), a national call on individuals and media outlets to stop the use of the word "illegal" to describe people. Thus far, the campaign has garnered pledges to "Drop the I-Word" from nearly 13,000 individuals and 21 media outlets, and support from over 30 organizational endorsers.

Media and Journalism: This program has transformed ARC into a strong force for racial justice in the current landscape of media and politics. Our on-line publication, Colorlines.com, publishes daily news content as well as deep investigative features that successfully engages readers on a daily basis. In 2011, we doubled the number of unique visitors to Colorlines, having reached over 2.5 million readers. We also tracked over 1,000 media hits for ARC and Colorlines. Key areas of coverage over the past two years have included immigration, gender and sexuality, health care, media policy, and other related issues.

Sponsored Projects: In keeping with ARC's mission, the Fiscal Sponsorship program provides assistance for new projects through infrastructure support for research, organizing or educational purposes. In 2011, ARC sponsored three projects: BackStory Narratives, the Alliance of Californians for Community Empowerment (ACCE), and El Comité Del Pueblo.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2010)

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). The Organization has evaluated its current tax positions and has concluded that as of December 31, 2011, the Organization does not have any significant uncertain tax positions for which a reserve would be necessary.

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 Cash 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.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2010)

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.

Deferred Revenue

Deferred revenue consists of prepayments on contract fees.

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, 2010, from which the summarized information was derived.

Subsequent Events

The Organization has evaluated subsequent events and has concluded that as of the date that the financial statements were available for distribution there were no significant subsequent events to disclose.

NOTE 3: NOTE RECEIVABLE

Note receivable at December 31, 2011 consisted of the following:

Unsecured 12-year loan to Critical Ventures Housing Partnership II with interest at 4% for the first 5 years, and at 6% thereafter. Monthly payments of \$876 are to be amortized over the life of the loan.	\$ 100,000
Less current portion	(6,627)
Long-term portion	<u>\$ 93,373</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2010)

NOTE 4: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2011</u>	<u>2010</u>
Equipment and furniture	\$ 214,669	\$ 214,669
Commercial condominium	1,371,701	1,360,605
Donated building in Ithaca, NY	15,000	15,000
Donated land in Ithaca, NY	60,000	60,000
Less accumulated depreciation	<u>(284,437)</u>	<u>(257,833)</u>
Total	<u>\$ 1,376,933</u>	<u>\$ 1,392,441</u>

NOTE 5: INVESTMENTS

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

	<u>2011</u>	<u>2010</u>
Equities	\$ 24,665	\$ 216,268
Mutual fund	-	288,650
Fixed income	<u>418,727</u>	<u>417,426</u>
Total	<u>\$ 443,392</u>	<u>\$ 922,344</u>

NOTE 6: FAIR VALUE MEASUREMENTS

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Organization determines the fair values of its assets and liabilities based on a fair value hierarchy that includes three levels of inputs that may be used to measure fair value.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 inputs are inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the assets or liability. Unobservable inputs reflect the Organization's own assumptions about the assumptions market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the Organization's own data.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2010)

Fair values of assets measured on a recurring basis are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Equities	\$ 24,665	\$ -	\$ -
Fixed income	<u>418,727</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 443,392</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 7: LINES OF CREDIT

The Organization uses its investment account at RBC Dain Rauscher for its cash flow needs and pays 12.5 basis points less than the RBD DRI Base Lending Rate. As of December 31, 2011 its rate was 4.875%. There was no balance on this line of credit at December 31, 2011.

NOTE 8: LONG TERM DEBT

The Organization had notes payables as follows as of December 31, 2011:

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. \$ 14,515

Note payable to the Sisters of Loretto with interest of 3% secured by the Organization's investments, payable in monthly installments of \$1,173, due and payable on May 31, 2019. 93,491

Less current portion (25,942)

Long-term portion \$ 82,064

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

2012	\$ 25,942
2013	11,775
2014	12,133
2015	12,502
2016	12,882
2017	13,274
2018	13,678
2019	<u>5,820</u>
Total	<u>\$ 108,006</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2010)

NOTE 9: COMMITMENTS

ARC is party to a lease for office space in New York City which expires in August, 2014. At December 31, 2011, future minimum operating lease payments were as follows for the years ending December 31:

2012	\$ 81,173
2013	83,205
2014	<u>49,385</u>
Total	<u>\$ 213,763</u>

Rent for the years ended December 31, 2011 and 2010 was \$76,314 and \$77,624, respectively.

NOTE 10: 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 11: TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2011</u>	<u>2010</u>
Media	\$ 10,000	\$ 78,750
Research	895,139	639,722
Special projects	67,500	76,250
Future periods	<u>484,166</u>	<u>1,899,946</u>
Total	<u>\$ 1,456,805</u>	<u>\$ 2,694,668</u>

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:

	<u>2011</u>	<u>2010</u>
Network	\$ -	\$ 110,000
Media	133,750	67,424
Research	479,583	296,111
Special projects	20,750	323,834
Passage of time	<u>1,415,780</u>	<u>1,356,309</u>
Total	<u>\$ 2,049,863</u>	<u>\$ 2,153,678</u>

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2010)

NOTE 12: BOARD DESIGNATED NET ASSETS

The Board of Directors of the Organization has designated unspent revenues earned by its fiscally sponsored projects for use by those projects.

NOTE 13: 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, 2011 and 2010 were \$0 and \$34,314, respectively.