
RACE FORWARD

(FORMERLY APPLIED RESEARCH CENTER)

FINANCIAL STATEMENTS

December 31, 2013

**(With Comparative Totals for the Year Ended
December 31, 2012)**

CROSBY & KANEDA
Certified Public Accountants

Dedicated to Nonprofit Organizations



Race Forward

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Race Forward (formerly Applied Research Center)
Oakland, California

Report on the Financial Statements

We have audited the accompanying financial statements of Race Forward (formerly Applied Research Center), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Race Forward as of December 31, 2013, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Race Forward's December 31, 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 30, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.



Certified Public Accountants
Oakland, California
October 2, 2014

Race Forward
(Formerly Applied Research Center)

Statement of Financial Position
December 31, 2013
(With Comparative Totals for December 31, 2012)

Assets	2013	2012
Current Assets		
Cash and cash equivalents	\$ 166,102	\$ 977,744
Investments (Note 3)	1,118,533	1,615,623
Accounts receivable	86,888	185,410
Prepaid expenses	87,821	43,743
Note receivable, current portion (Note 6)	7,178	6,897
Total Current Assets	<u>1,466,522</u>	<u>2,829,417</u>
Grants receivable, long term (Note 5)	1,400,000	1,700,000
Note receivable (Note 6)	79,298	86,476
Property and equipment, net (Note 7)	1,299,679	1,334,008
Deposits	<u>29,318</u>	<u>29,318</u>
Total Assets	<u><u>\$ 4,274,817</u></u>	<u><u>\$ 5,979,219</u></u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 100,790	\$ 112,354
Accrued vacation	46,447	41,758
Accrued sabbatical	34,151	46,835
Notes payable, current portion (Note 9)	11,478	15,440
Total Current Liabilities	<u>192,866</u>	<u>216,387</u>
Notes payable, long term portion (Note 9)	<u>58,156</u>	<u>70,289</u>
Total Liabilities	<u><u>251,022</u></u>	<u><u>286,676</u></u>
Commitments and Contingencies (Notes 10 and 11)		
Net Assets		
Unrestricted		
Board designated (Note 13)	16,928	26,635
Undesignated	1,401,891	1,427,580
Total Unrestricted	<u>1,418,819</u>	<u>1,454,215</u>
Temporarily restricted (Note 12)	2,604,976	4,238,328
Total Net Assets	<u>4,023,795</u>	<u>5,692,543</u>
Total Liabilities and Net Assets	<u><u>\$ 4,274,817</u></u>	<u><u>\$ 5,979,219</u></u>

See Notes to the Financial Statements

Race Forward
(Formerly Applied Research Center)

Statement of Activities
For the Year Ended December 31, 2013
(With Comparative Totals for the Year Ended December 31, 2012)

	Unrestricted	Temporarily Restricted	Totals	
			2013	2012
Support and Revenue				
Support				
Contributions	\$ 68,235	\$	\$ 68,235	\$ 170,674
Foundation and community grants	45,000	678,000	723,000	5,038,000
Total Support	113,235	678,000	791,235	5,208,674
Revenue				
Fees and contracts	329,029		329,029	382,217
Sales, royalties and registrations	9,863		9,863	219,335
Interest and dividends	36,189		36,189	32,558
Realized gain (loss)	3,169		3,169	(15,906)
Unrealized gain (loss)	(27,722)		(27,722)	46,549
Miscellaneous income	9,329		9,329	-
Total Revenue	359,857	-	359,857	664,753
Net assets released from restrictions (Note 12)	2,311,352	(2,311,352)	-	-
Total Support and Revenue	2,784,444	(1,633,352)	1,151,092	5,873,427
Expenses				
Program	2,133,557		2,133,557	2,541,859
General and administrative	370,198		370,198	333,411
Fundraising	316,085		316,085	323,367
Total Expenses	2,819,840	-	2,819,840	3,198,637
Change in Net Assets	(35,396)	(1,633,352)	(1,668,748)	2,674,790
Net Assets, beginning of year	1,454,215	4,238,328	5,692,543	3,017,753
Net Assets, end of year	\$ 1,418,819	\$ 2,604,976	\$ 4,023,795	\$ 5,692,543

See Notes to the Financial Statements

Race Forward
(Formerly Applied Research Center)

Statement of Cash Flows
For the Year Ended December 31, 2013
(With Comparative Totals for the Year Ended December 31, 2012)

	2013	2012
Cash flows from operating activities		
Change in net assets	\$ (1,668,748)	\$ 2,674,790
Adjustments to reconcile change in net assets to cash provided (used) by operating activities:		
Depreciation	40,328	42,926
Donated securities	(196,481)	(199,226)
Realized loss (gain)	(3,169)	15,906
Unrealized loss (gain)	27,722	(46,549)
Change in assets and liabilities:		
Accounts receivable	98,522	985,316
Grants receivable	300,000	(1,700,000)
Prepaid expenses	(44,078)	68,045
Accounts payable	(11,564)	(80,376)
Accrued vacation	4,689	16,325
Accrued sabbatical	(12,684)	46,835
Net cash provided (used) by operating activities	<u>(1,465,463)</u>	<u>1,823,992</u>
Cash flows from investing activities		
Acquisition of property and equipment	(6,000)	-
Repayments on notes receivable	6,897	6,627
Purchase of investments	(912,524)	(1,250,000)
Proceeds from sale of investments	1,581,543	307,637
Net cash provided (used) by investing activities	<u>669,916</u>	<u>(935,736)</u>
Cash flows from financing activities		
Proceeds from borrowings	-	87,718
Repayments on borrowings	(16,095)	(109,995)
Net cash used by financing activities	<u>(16,095)</u>	<u>(22,277)</u>
Net change in cash and cash equivalents	<u>(811,642)</u>	<u>865,979</u>
Cash and cash equivalents, beginning of year	<u>977,744</u>	<u>111,765</u>
Cash and cash equivalents, end of year	<u>\$ 166,102</u>	<u>\$ 977,744</u>
Supplementary information		
Interest paid	<u>\$ 1,654</u>	<u>\$ 2,840</u>

See Notes to the Financial Statements

Race Forward
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Statement of Functional Expenses
For the Year Ended December 31, 2013
(With Comparative Totals for the Year Ended December 31, 2012)

	Program				General and Administrative	Fundraising	Totals	
	Research	Network	New Media	Board Projects	Total Program		2013	2012
Salaries	\$ 182,981	\$ 295,395	\$ 608,531	\$ 66,000	\$ 1,152,907	\$ 203,037	\$ 1,509,920	\$ 1,512,835
Pension	2,944	3,974	7,797	1,979	16,694	4,296	23,670	24,291
Other benefits	22,021	60,425	105,812	10,761	199,019	25,607	251,121	211,998
Payroll taxes	15,845	20,596	52,569	5,391	94,401	20,083	124,343	120,792
Total Personnel	223,791	380,390	774,709	84,131	1,463,021	253,023	1,909,054	1,869,916
Legal					3,112	-	3,112	-
Accounting					11,500	-	11,500	15,895
Fee for service	5,144	76,938	176,834	32,081	290,997	9,716	313,573	292,365
Office expenses	14,101	29,627	74,983	3,382	122,093	19,983	175,085	282,235
Occupancy	9,956	19,911	29,867	1,896	61,630	14,933	101,452	123,878
Travel	13,859	69,211	26,138	11,295	120,503	7,879	136,914	252,789
Conference and meetings	2,046	4,915	7,714	358	15,033	1,287	20,064	225,009
Interest					3,744	-	3,744	2,840
Depreciation	3,097	6,193	9,290		18,580	4,645	40,328	42,926
Insurance	994	1,988	2,983		5,965	1,491	14,133	10,491
Staff development	753	1,688	3,063		5,504	1,130	8,517	21,963
Marketing and publicity	180	159	8,551	27	8,917	74	10,270	29,045
Dues and memberships	3,748	974	13,656	86	18,464	519	19,849	9,709
Bank fees, payroll fees and other	133	266	3	2,448	2,850	200	54,335	19,576
Total Expenses	\$ 277,802	\$ 592,260	\$ 1,127,791	\$ 135,704	\$ 2,133,557	\$ 316,085	\$ 2,819,840	\$ 3,198,637

See Notes to the Financial Statements

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2012)**

NOTE 1: NATURE OF ACTIVITIES

Race Forward: The Center for Racial Justice Innovation (formerly Applied Research Center) is a California based nonprofit incorporated in 1981.

Race Forward seeks to advance racial justice through research, media and practice. Race Forward brings its analysis and approach to complex race issues to help people take effective action toward racial equity.

Our mission is to build awareness, solutions and leadership for racial justice. We envision a vibrant world in which people of all races create, share and enjoy resources and relationships equitably.

Our program areas include the following:

Research

- Conducts research on racial justice issues.
- Covers the intersection of race compounds and other societal issues.
- Describes social change practices

New Media

- Publishes Colorlines, a daily news site of investigative reporting and news analysis
- Uses storytelling and multimedia to amplify covered key issues
- Promotes stories concerning race to other media outlets

Network

- Presents Facing Race, a conference for racial justice movement-making, focused on alliance-building, issue-framing, and advancing solutions
- Offers speakers, trainings, and consulting services.
- Engages in action-oriented campaigns; for example, “Drop the I-Word” to discourage the use of the word “illegal” to describe undocumented immigrants

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
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Basis of Presentation

The Organization presents 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. The three classes are differentiated by donor restrictions.

Unrestricted net assets – consist of resources which have not been specifically restricted by a donor. Unrestricted net assets may be designated for specific purposes by the Organization or may be limited by contractual agreements with outside parties.

Temporarily restricted net assets – represent contributions whose use is limited by donor-imposed stipulations that expire by the passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations.

Permanently restricted net assets – represent contributions whose use is limited by donor-imposed stipulations that require the gift to be invested in perpetuity. The income from such invested assets, including realized and unrealized gains, is generally available to support the activities of the Organization. Donors may also restrict all or part of the income and/or appreciation from these investments to permanently restricted net assets, resulting in increases/decreases to these net assets. There were no permanently restricted net assets as of December 31, 2013.

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period the promise is received. Conditional promises to give are not recognized until they become unconditional; that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of contribution. Contributions to be received after one year are discounted at an appropriate rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Unrestricted contributions and grants are recorded as unrestricted revenue when received. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

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.

Accounts and Grants Receivable

The Organization considers all accounts and grants receivable to be fully collectible at December 31, 2013. Accordingly, no allowance for doubtful accounts was deemed necessary. If amounts become uncollectible, they are charged to expense in the period in which that determination is made.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
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Notes Receivable

Notes receivable are recorded at the amortized amount due. Interest income on the notes receivable is recorded when payments on the notes are received. There are no related fees associated with the notes receivable. Based on management's assessment of the notes receivable there was no allowance for potentially uncollectible notes receivable as of December 31, 2013.

Income Taxes

The Internal Revenue Service and the California Franchise Tax Board have determined that the Organization 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 as of December 31, 2013 and is not aware of any significant uncertain tax positions for which a reserve would be necessary. The Organization's tax returns are generally subject to examination by federal and state taxing authorities for three and four years, respectively after they are filed.

Contributed Services

Contributed services are reflected in the financial statements at the fair value of the services received only 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 the Organization. There were no contributed services that met the criteria for recognition for the year ended December 31, 2013.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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 Equivalents

For purposes of the statement of cash flows, the Organization considers all money market funds and other highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

Concentration of Credit Risk

At times, the Organization may have deposits in excess of federally insured limits. The risk is managed by maintaining all deposits in high quality financial institutions.

Property and Equipment

Property and equipment purchased by the Organization is recorded at cost. The Organization capitalizes all expenditures for property and equipment over \$2,000; the fair value of donated fixed assets is similarly capitalized. Depreciation is computed using the

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straight-line method over the estimated useful lives on the property and equipment or the related lease terms as follows:

Building	39 years
Improvements	39 years
Furniture and equipment	5-7 years

Expenditures for major renewals and betterments that extend the useful lives of the property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Management reviews long-lived assets for impairment when circumstances indicate the carrying amount of the asset may not be recoverable. Impairment is recognized if the sum of the undiscounted estimated future cash flows expected to result from the use of the asset is less than the carrying value. When an impairment loss is recognized, the asset's carrying value is reduced to its estimated fair value.

Functional Allocation of Expenses

The costs of providing various programs and other 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.

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 GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2012, from which the summarized information was derived.

Reclassifications

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

Subsequent Events

The Organization has evaluated subsequent events and has concluded that as of October 2, 2014 the date that the financial statements were available to be issued, there were no significant subsequent events to disclose beyond an update to lease terms described in Note 10.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
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NOTE 3: INVESTMENTS

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

	<u>2013</u>	<u>2012</u>
Fixed income	<u>\$ 1,118,533</u>	<u>\$ 1,615,623</u>

NOTE 4: 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.

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Fixed Income:			
Preferred stock	\$ 53,181	\$ -	\$ 53,181
Certificates of deposit	-	750,040	750,040
Corporate bonds	-	209,817	209,817
Collateralized mortgage obligations	-	105,495	105,495
Total	<u>\$ 53,181</u>	<u>\$ 1,065,352</u>	<u>\$ 1,118,533</u>

NOTE 5: GRANTS RECEIVABLE

Long term grants receivable represent unconditional commitments from two foundations. The Organization expects to collect substantially all of the outstanding balance by December 31, 2015. Management considers the total discount to present value for grants receivable expected after December 31, 2013 to be immaterial to the financial statements and has not recorded any such possible discount.

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**NOTES TO THE FINANCIAL STATEMENTS
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NOTE 6: NOTE RECEIVABLE

Note receivable at December 31, 2013 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.	\$ 86,476
Less current portion	<u>(7,178)</u>
Long-term portion	<u>\$ 79,298</u>

NOTE 7: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2013</u>	<u>2012</u>
Equipment and furniture	\$ 55,174	\$ 49,174
Building and improvements	1,371,701	1,371,701
Donated building in Ithaca, NY	15,000	15,000
Donated land in Ithaca, NY	60,000	60,000
Less accumulated depreciation	<u>(202,196)</u>	<u>(161,867)</u>
Total	<u>\$ 1,299,679</u>	<u>\$ 1,334,008</u>

During the year, the Organization evaluated its fully depreciated equipment balances and reduced equipment and the corresponding accumulated depreciation balances for equipment that was obsolete or no longer in use.

NOTE 8: LINES OF CREDIT

The Organization has a line of credit secured by its investment accounts which it uses for its cash flow needs. The Organization pays interest on any borrowing with the total interest charge varying up to 2.75% above a base rate depending on certain factors such as the balance of the amount outstanding. As of December 31, 2013 the base rate was 5% and there was no balance on the account.

NOTE 9: LONG TERM DEBT

The Organization had notes payables as follows as of December 31, 2013:

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.	\$ 69,634
Less current portion	<u>(11,478)</u>
Long-term portion	<u>\$ 58,156</u>

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

2014	\$ 11,478
2015	12,502
2016	12,882
2017	13,274
2018	13,644
Thereafter	<u>5,854</u>
Total	<u>\$ 69,634</u>

NOTE 10: COMMITMENTS

The Organization was party to a lease for office space in New York City which expired in August, 2014. Subsequent to December 31, 2013 the Organization signed a new lease for office space which expires in December, 2021. At December 31, 2013, future minimum operating lease payments were as follows for the years ending December 31:

2014	\$ 56,390
2015	106,392
2016	109,584
2017	112,871
2018	118,757
Thereafter	<u>380,685</u>
Total	<u>\$ 884,679</u>

Rent for the years ended December 31, 2013 and 2012 was \$83,034 and \$74,209, respectively.

NOTE 11: CONTINGENCIES

Grant awards

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. The Organization 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. The Organization's management is of the opinion that it has complied with the terms of all grants.

NOTE 12: TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2013</u>	<u>2012</u>
Research and New Media	\$ 384,560	\$ 639,862
Network	161,666	77,083
Special projects	-	76,800

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Future periods	<u>2,058,750</u>	<u>3,444,583</u>
Total	<u>\$ 2,604,976</u>	<u>\$ 4,238,328</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>2013</u>	<u>2012</u>
Research and New Media	\$ 657,468	\$ 760,277
Network	31,251	57,917
Special projects	76,800	33,200
Passage of time	<u>1,545,833</u>	<u>1,319,583</u>
Total	<u>\$ 2,311,352</u>	<u>\$ 2,170,977</u>

NOTE 13: 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 14: PENSION

The Organization 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 the Organization determines the amount (if any) to be contributed to the Plan. Total contributions made by the Organization for the years ended December 31, 2013 and 2012 were \$23,670 and \$24,291, respectively.

NOTE 15: CHANGE TO ORGANIZATION NAME

During the year ended December 31, 2013 the Organization changed its corporate name from Applied Research Center to Race Forward.