Financial Statements Together with
Report of Independent Certified Public Accountants

MDRC

December 31, 2014, with comparative information for 2013

MDRC

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
MDRC:

We have audited the accompanying financial statements of MDRC, which comprise the statement of financial position as of December 31, 2014, and the related statements of activities and cash flows 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 MDRC'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 MDRC'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 MDRC as of December 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matter

We have previously audited MDRC's 2013 financial statements (not presented herein), and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 30, 2014. In our opinion, the accompanying summarized comparative information as of and for the year ended December 31, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Grant Thornton LLP

New York, New York
June 29, 2015

MDRC
Statement of Financial Position
As of December 31, 2014, with comparative information for 2013

ASSETS	**2014**	**2013**
Cash and cash equivalents	$ 4,081,864	$ 2,565,790
Restricted cash	6,018,363	5,936,497
Contracts receivable	18,463,287	17,874,862
Receivables and other assets	1,659,961	1,812,863
Contributions receivable, net (Note 4)	26,466,816	13,327,428
Investments (Note 3)	75,617,929	59,483,314
457(b) plan participant assets (Note 9)	1,621,916	1,482,017
Fixed assets, net (Note 5)	1,879,558	2,144,326
Total assets	$ 135,809,694	$ 104,627,097
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 10,395,288	$ 9,445,435
Grant advances (Notes 6 and 7)	6,013,073	5,930,000
Deferred rent (Note 8)	787,527	960,428
457(b) plan participant liability (Note 9)	1,621,916	1,482,017
Loan payable (Note 7)	6,430,000	3,980,000
Total liabilities	25,247,804	21,797,880
Commitments (Note 8)		
NET ASSETS		
Unrestricted:		
Undesignated	21,757,614	23,343,030
Plant funds	1,879,558	2,144,326
Board designated - endowment fund (Note 10)	11,964,079	10,598,647
Total unrestricted net assets	35,601,251	36,086,003
Temporarily restricted (Note 11):		
Program purposes	53,992,894	25,348,577
Term endowment (Note 10)	12,017,745	12,444,637
Total temporarily restricted net assets	66,010,639	37,793,214
Permanently restricted - endowment fund (Note 10)	8,950,000	8,950,000
Total net assets	110,561,890	82,829,217
Total liabilities and net assets	$ 135,809,694	$ 104,627,097

The accompanying notes are an integral part of this financial statement.

MDRC
Statement of Activities
For the year ended December 31, 2014, with comparative totals for 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Total	2013 Total
OPERATING ACTIVITIES					
Revenues and support:					
Government contracts and grants:					
Federal	$ 40,752,908	$ -	$ -	$ 40,752,908	$ 37,938,358
New York City	796,627	-	-	796,627	703,272
Foreign government	3,939	-	-	3,939	16,748
Contributions, contracts and grants:					
Foundations	4,527,730	48,060,165	-	52,587,895	25,877,291
Universities and other	9,088,414	-	-	9,088,414	7,349,060
Spending policy withdrawal (Note 10)	1,182,374	-	-	1,182,374	1,143,566
Management fees	1,934,473	-	-	1,934,473	1,751,626
Net assets released from restrictions (Note 12)	19,429,074	(19,429,074)	-	-	-
Total revenues and support	77,715,539	28,631,091	-	106,346,630	74,779,921
EXPENSES					
Program services:					
Low-wage workers and communities	12,251,933	-	-	12,251,933	8,991,951
K-12 education	10,448,669	-	-	10,448,669	9,981,589
Health and barriers to employment	15,683,373	-	-	15,683,373	15,568,262
Family well-being and child development	22,184,955	-	-	22,184,955	20,759,489
Young adults and postsecondary education	5,407,502	-	-	5,407,502	4,186,577
Information dissemination, program development, methodology and strategic initiatives	2,622,742	-	-	2,622,742	2,551,904
Total program services	68,599,174	-	-	68,599,174	62,039,772
Supporting services:					
Fundraising	8,367	-	-	8,367	35,174
General and administrative	10,511,993	-	-	10,511,993	9,475,392
Total supporting services	10,520,360	-	-	10,520,360	9,510,566
Total expenses	79,119,534	-	-	79,119,534	71,550,338
Changes in net assets from operating activities	(1,403,995)	28,631,091	-	27,227,096	3,229,583
NONOPERATING ACTIVITIES					
Interest and dividends, net	652,993	446,723	-	1,099,716	937,308
Realized and unrealized appreciation in fair value of investments	266,250	321,985	-	588,235	2,850,384
	919,243	768,708	-	1,687,951	3,787,692
Spending policy withdrawal (Note 10)	-	(1,182,374)	-	(1,182,374)	(1,143,566)
Changes in net assets from nonoperating activities	919,243	(413,666)	-	505,577	2,644,126
Changes in net assets	(484,752)	28,217,425	-	27,732,673	5,873,709
Net assets, beginning of year	36,086,003	37,793,214	8,950,000	82,829,217	76,955,508
Net assets, end of year	$ 35,601,251	$ 66,010,639	$ 8,950,000	$ 110,561,890	$ 82,829,217

The accompanying notes are an integral part of this financial statement.

MDRC
Statement of Cash Flows
For the year ended December 31, 2014, with comparative information for 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ 27,732,673	$ 5,873,709
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	829,451	613,210
Realized and unrealized appreciation in fair value of investments	(588,235)	(2,850,384)
Change in operating assets and liabilities:		
Increase in contracts receivable	(588,425)	(2,717,037)
Decrease (increase) in receivables and other assets	152,902	(479,800)
Increase in contributions receivable	(13,139,388)	(5,155,885)
Increase in 457(b) plan participant assets	(139,899)	(238,267)
Increase in accounts payable and accrued expenses	949,853	291,243
Increase in grant advances	83,073	2,571,111
(Decrease) increase in deferred rent	(172,901)	383,555
Increase in 457(b) plan participant liability	139,899	238,267
Net cash provided by (used in) operating activities	15,259,003	(1,470,278)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furniture and equipment	(564,683)	(1,168,974)
Purchase of investments	(23,924,513)	(10,927,253)
Proceeds from sales of investments	8,378,133	14,259,581
Net cash (used in) provided by investing activities	(16,111,063)	2,163,354
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in restricted cash	(81,866)	(2,606,497)
Proceeds from loan payable	2,450,000	3,980,000
Net cash provided by financing activities	2,368,134	1,373,503
Increase in cash and cash equivalents	1,516,074	2,066,579
Cash and cash equivalents, beginning of year	2,565,790	499,211
Cash and cash equivalents, end of year	$ 4,081,864	$ 2,565,790

The accompanying notes are an integral part of this financial statement.

1. ORGANIZATION

MDRC is a publicly supported, not-for-profit Delaware corporation, exempt from federal income tax under Section 501(a) of the U.S. Internal Revenue Code as a Section 501(c)(3) organization. MDRC designs, manages, and evaluates new and existing educational and social policies and programs for disadvantaged populations with the goal of improving their effectiveness.

Founded in 1974 and located in New York City, and Oakland, California, MDRC is best known for mounting rigorous, large-scale, real-world tests of new and existing policies and programs. Its projects are a mix of demonstrations (field tests of promising new program approaches) and evaluations of ongoing government and community initiatives. MDRC's staff brings an unusual combination of research and organizational experience to their work, providing expertise on the latest in qualitative and quantitative methods and on program design, development, implementation and management. MDRC seeks to learn not just whether a program is effective, but also, how and why the program's effects occur. In addition, it tries to place each project's findings in the broader context of related research in order to build knowledge about what works across the social and education policy fields. MDRC's findings, lessons, and best practices are proactively shared with a broad audience in the policy and practitioner community, as well as with the general public and the media.

Over the years, MDRC has brought its unique approach to an ever-growing range of policy areas and target populations. Once known primarily for evaluations of state welfare-to-work programs, today MDRC is also studying public school reforms, employment programs for ex-offenders and people with disabilities, and programs to help low-income students succeed in college. MDRC's projects are organized into six areas:

- Low-wage workers and communities
- K-12 education
- Health and barriers to employment
- Family well-being and child development
- Young adults and postsecondary education
- Information dissemination, program development, methodology and strategic initiatives

Working in almost every state, all of the nation's largest cities, and the United Kingdom, MDRC conducts its projects in partnership with national, state, and local governments, public school systems, community organizations, and numerous private philanthropies.

MDRC is substantially funded through grants and contracts awarded by government agencies, private foundations, universities, and corporations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared using the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("US GAAP"). MDRC reports information regarding its financial position and changes in net assets in accordance with the existence or absence of donor-imposed restrictions, as follows:

Unrestricted net assets

Unrestricted net assets consist of the following:

Undesignated funds - include all funds that are expendable, at the discretion of MDRC, for carrying on daily operations. These funds have neither been restricted by donors nor set aside for any specific purpose(s) by the Board of Directors.

MDRC's Board of Directors created an Endowment Fund in May 1999 (see Note 10) comprised of certain unrestricted contributions designated by MDRC's governing board, together with permanently restricted contributions, and certain temporarily restricted contributions received for this purpose in the form of term endowments and all earnings therefrom.

Plant funds - include the property, plant and equipment owned by MDRC, net of accumulated depreciation and amortization.

Board-designated funds – Endowment Fund - include amounts designated by MDRC's governing board as an endowment fund for purposes of satisfying a $7 million, five-year challenge grant given to MDRC by the organization presently known as The Atlantic Philanthropies, Inc. It is the intention of MDRC's governing Board that the designation of these unrestricted net assets will remain as a fund of permanent duration. However, the use of these resources is not externally restricted.

Temporarily restricted net assets - include resources that have been limited by donor-imposed stipulations that either expire with the passage of time and/or can be fulfilled and removed by actions of MDRC pursuant to those stipulations. 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 on the statement of activities as net assets released from restrictions.

Term endowment refers to contributions that are similar in nature to a permanent endowment, except that its terms and conditions give the donor the right to decide on the future use of those funds after an established period of time, or when the donor allows for invasion of the principal after a predetermined period of time. The donor has authorized MDRC, on an annual basis, to withdraw funds from the fund in support of its core operating activities based on 5% of the portfolio's average fair value over the preceding 12 quarters. As of December 31, 2014 and 2013, these funds along with earnings thereon, net of annual disbursements, have not been classified by the donor as permanently restricted and are therefore reflected as part of temporarily restricted net assets on the statement of financial position (see also Note 10).

Permanently restricted net assets - include funds whereby the donors have stipulated that the principal contributed be invested and maintained in perpetuity. Income earned from these investments is available for expenditures according to restrictions, if any, imposed by donors and a standard of prudence required by Delaware State UPMIFA (see also Note 10).

Cash and Cash Equivalents

MDRC includes in cash and cash equivalents all highly liquid short-term investments with original maturities of three months or less at the date of purchase, except for such amounts considered to be held for long-term investment purposes.

Restricted Cash

As of December 31, 2014 and 2013, MDRC had on deposit $6,018,363 and $5,936,497, respectively, from Bloomberg Philanthropies, within a controlled account that is not accessible until the completion of a certain MDRC program (see Note 7).

Investments

Investments, which consist of fixed income securities, equity and fixed income mutual funds, are stated at fair value, and a certificate of deposit, which is carried at cost. Limited partnership investments and similar interests are stated at estimated fair value. The values assigned to limited partnership investments and similar interests, which may include investments in both non-exchange traded and market-traded securities, are provided by the respective general partner or investment manager as of the reporting date. Values may be based on historical cost, appraisals, fair values based on concentration of ownership or other estimates that require varying degrees of judgment. Therefore, such investments are subject to volatility in market conditions. Accordingly, it is reasonably possible that the reported fair value of such investments could substantially change in the near term and such changes could be material.

All investments with readily determinable market values are reported on the financial statements at fair value. The statement of activities recognizes unrealized gains and losses on investments as increases or decreases, respectively, in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations. Investment purchase and sale transactions are recorded on a trade date basis. Interest is recognized when earned. Dividends are recognized as of the ex-dividend date.

Fixed Assets

Furniture and equipment are recorded at cost and depreciated on a straight-line basis over the estimated useful lives of the related assets, which range from three to five years. Leasehold improvements are recorded at cost and amortized over the life of the related asset or the remaining life of the lease, whichever is shorter. MDRC capitalizes furniture and equipment with a cost of $5,000 or more and with useful lives greater than three years.

Revenue Recognition

<u>Contributions</u>
Contributions (including unconditional promises to give) are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or absence of donor-imposed restrictions.

Donor support is reported as an increase in unrestricted, temporarily restricted or permanently restricted net assets, depending on the nature of donor stipulated time or use restrictions, if any. MDRC records contributions of cash and other assets when an unconditional promise to give is received from a donor.

Contracts and Grants

Federal, state and other grant and contract awards received are recognized as unrestricted support to the extent that related expenses are incurred or services are rendered in accordance with the terms of the relevant grant or contract agreement. Any unexpended funds are reported as grant advances on the statement of financial position. MDRC uses the specific identification method to determine whether an allowance for doubtful receivables is necessary.

Certain contract awards provide management fees that may be fixed at the inception of the contract, included in billing rates, or awarded based on the funders evaluation of performance. MDRC recognizes revenue for fixed fees and fees included in billing rates over the term of the contract as work is performed. MDRC recognizes performance-based award fees at the time awarded.

Operating Measure

MDRC classifies its statement of activities into operating and nonoperating activities. Operating activities include all income and expenses related to carrying out MDRC's mission. Nonoperating activities are limited to income (losses) from investments, including amounts pertaining to the MDRC Endowment Fund.

Spending Policy Withdrawal

On a yearly basis, a transfer is made from the Endowment Fund for general support purposes. The amount of the withdrawal is determined by applying the Board approved spending policy, which is 4% of a moving average of the fair value of the endowment for the 12 preceding quarters. A spending collar of 6% over or under the previous year's withdrawal is applied, but may be waived by the Board of Directors.

Functional Allocation of Expenses

MDRC allocates the direct costs of its operations to its programs and supporting services based upon the percentage of direct labor costs charged to each program and supporting service by MDRC's staff.

Presentation of Certain Prior Year Information

The accompanying financial statements include certain prior year summarized comparative information in total but not by net asset or functional expense class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with MDRC's financial statements as of and for the year ended December 31, 2013, from which the summarized information was derived.

Use of Estimates

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

Fair Value Measurements

The FASB issued ASC Topic 820 which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The standard provides a consistent definition of fair value, which focuses on an exit price between market participants in an orderly transaction. The standard also prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information and establishes a three-level hierarchy for fair value measurements based on the transparency of information used in the valuation of an asset or liability as of the measurement date.

Assets and liabilities, subject to the standard, measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the measurement date.

Level 2 - Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the measurement date, and fair value is determined through the use of models or other valuation methodologies. Also included in Level 2 are investments reported at fair value using a net asset value ("NAV") per share, or its equivalent, that may be redeemed at NAV at the reporting date or in the near term, which MDRC has determined to be within 90 days.

Level 3 - Pricing inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include privately held investments and limited partnership interests. Also included in Level 3 are investments measured at fair value using a NAV per share, or its equivalent, that can never be redeemed at NAV at the reporting date or in the near term or for which redemption at NAV is uncertain due to lock-up periods or other investment restrictions.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets.

The carrying amounts of cash and cash equivalents, receivables, other assets and accounts payable, accrued expenses and other liabilities approximate fair value due to the short-term maturity of these financial instruments.

Income Taxes

MDRC adopted ASC 740-10 as of January 1, 2009. ASC 740-10 clarifies the accounting for uncertainty for income tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This section provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged. MDRC is exempt from income tax under IRC Section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Internal Revenue Code. The tax years ending 2011, 2012, 2013 and 2014 are still open to audit for both federal and state purposes. The adoption of ASC 740-10 has not had an impact on MDRC's financial statements.

Subsequent Events

MDRC evaluated its December 31, 2014 financial statements for subsequent events through June 29, 2015, the date the financial statements were available to be issued. MDRC is not aware of any subsequent events which require recognition or disclosure in its financial statements.

3. INVESTMENTS

Investments, at fair value, at December 31, 2014 and 2013, consist of the following:

	2014	2013
Cash and cash equivalents	$ 10,072,374	$ 8,071,454
Equity mutual funds	22,715,071	21,921,548
Fixed income mutual funds	30,676,085	16,395,918
All asset mutual fund	3,145,104	3,120,079
Limited partnerships	8,820,261	9,785,659
Certificate of deposit	189,034	188,656
	$ 75,617,929	$ 59,483,314

The following tables present MDRC's investments classified within the FASB's fair value hierarchy as of December 31, 2014 and 2013. At December 31, 2014 and 2013, Level 3 investments comprise approximately 6% and 9%, respectively, of MDRC's total investments.

	2014			
	Fair Value	Level 1	Level 2	Level 3
Equity mutual funds	$ 22,715,071	$ 10,596,479	$ 12,118,592	$ -
Fixed income mutual funds	30,676,085	30,676,085	-	-
All asset mutual fund	3,145,104	3,145,104	-	-
Limited partnerships	8,820,261	552,979	3,730,981	4,536,301

	2013			
	Fair Value	Level 1	Level 2	Level 3
Equity mutual funds	$ 21,921,548	$ 9,876,591	$ 12,044,957	$ -
Fixed income mutual funds	16,395,918	16,395,918	-	-
All asset mutual fund	3,120,079	3,120,079	-	-
Limited partnerships	9,785,659	-	4,503,616	5,282,043

The following table presents a reconciliation for Level 3 investments measured at fair value for the year ended December 31, 2014:

	Level 3 Investments
Beginning balance, January 1, 2014	$ 5,282,043
Net realized and unrealized appreciation	169,591
Purchases	127,510
Sales	(1,042,843)
Ending balance, December 31, 2014	$ 4,536,301

The following table presents a reconciliation for Level 3 investments measured at fair value for the year ended December 31, 2013:

	Level 3 Investments
Beginning balance, January 1, 2013	$ 4,779,320
Net realized and unrealized appreciation	283,910
Purchases	311,507
Sales	(92,694)
Ending balance, December 31, 2013	$ 5,282,043

MDRC uses NAV to report the fair value of all underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The following tables list investments by major category which have a reported fair value using a NAV as of December 31, 2014 and 2013:

2014

Alternative Investment Strategy	Number of Funds	NAV in Funds	Remaining Life	$ Amount of Unfunded Commitments	Timing to Draw Down Commitments	Redemption Terms	Redemption Restrictions	Level
Alternative Investments:								
Multi-strategy (limited partnership and equity mutual fund)	2	$ 15,206,809	N/A	$ -	N/A	One fund is monthly with 14 days notice and the other fund is monthly with five days notice.	N/A	2
Real Assets (limited partnerships)	4	2,898,274	1 to 5 years with extension option	-	N/A	Three of the funds liquidate as underlying investments are sold. One fund is annual with 180 days notice after 3 year lock-up period lapses.	N/A	3
Equity Long/Short	1	642,764	N/A	-	N/A	Quarterly redemption with 60 days notice.	N/A	2
Private Equity (limited partnerships)	2	1,638,027	4 - 8 years with extension option	1,378,590	2019	As underlying investments are sold.	N/A	3
Total Alternative Investments	9	$ 20,385,874		$ 1,378,590				

2013								
Alternative Investment Strategy	**Number of Funds**	**NAV in Funds**	**Remaining Life**	**$ Amount of Unfunded Commitments**	**Timing to Draw Down Commitments**	**Redemption Terms**	**Redemption Restrictions**	**Level**
Alternative Investments:								
Multi-strategy (limited partnership and equity mutual fund)	2	$ 14,893,191	N/A	$ -	N/A	One fund is monthly with 14 days notice and the other fund is monthly with five days notice.	N/A	2
Real Assets (limited partnerships)	5	2,937,358	2 to 6 years with extension option	-	N/A	Four of the funds liquidate as underlying investments are sold. One fund is annual with 180 days notice after 3 year lock-up period lapses.	N/A	3
Equity Long/Short	2	1,655,382	N/A	-	N/A	One fund is quarterly redemption with 60 days notice and the other fund is semi-annual redemption with 75 days notice.	N/A	2
Private Equity (limited partnerships)	2	2,344,685	5 - 9 years with extension option	1,510,497	2019	As underlying investments are sold.	N/A	3
Total Alternative Investments	11	$ 21,830,616		$ 1,510,497				

Investment management fees are netted against interest and dividends and totaled $122,000 and $127,700 in 2014 and 2013, respectively.

The fair value of investments is based on quoted market prices, except for MDRC's investment in limited partnerships, private equities, hedge funds and similar interests which collectively represent alternative investments, for which quoted market prices are not available. The estimated fair value of these investments is based on the reported NAV provided by the respective general partner or investment manager as of the measurement date. For those positions that may report NAV as of a measurement date that differs from MDRC's year-end, NAV for those respective funds is adjusted for capital additions, withdrawals, fees and performance through December 31st.

Because the alternative investments are not readily marketable, their estimated fair value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed. Such difference could be material.

Investments, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investments, it is possible that changes in the values of investments could occur in the near term and such changes could materially affect the amounts reported on the accompanying financial statements.

MDRC's remaining capital call commitments on its alternative investments at December 31, 2014 and 2013 totaled $1,378,590 and $1,510,497, respectively, and are expected to be satisfied within 1 to 5 years.

4. CONTRIBUTIONS RECEIVABLE, NET

MDRC recognizes all contributions receivable at the present value of their estimated future cash flows, discounted using credit adjusted discount rates applicable to the years in which the promises were received and which articulate with the collection period of the respective receivable. Such discount rates ranged from 1.82 % to 0.78 % at December 31, 2014 and 2013, respectively. MDRC uses the specific identification method to determine whether an allowance for doubtful contributions receivables is needed. It was determined that no allowance was needed at December 31, 2014 and 2013.

Contributions receivable from foundations, corporations, and individuals at December 31, 2014 and 2013, are expected to be collected as follows:

	2014	2013
Amounts expected to be collected in:		
One year	$ 16,240,886	$ 7,628,765
One to four years	10,522,151	5,853,681
	26,763,037	13,482,446
Less discount to present value	(296,221)	(155,018)
	$ 26,466,816	$ 13,327,428

5. FIXED ASSETS, NET

Fixed assets, net, at December 31, 2014 and 2013, consist of the following:

	2014	2013
Leasehold improvements	$ 2,432,919	$ 2,172,549
Furniture and equipment	10,907,088	10,602,775
	13,340,007	12,775,324
Less accumulated depreciation and amortization	(11,460,449)	(10,630,998)
	$ 1,879,558	$ 2,144,326

Depreciation and amortization expense for the years ended December 31, 2014 and 2013 totaled $829,451 and $613,210, respectively.

6. GRANT ADVANCES

Grant advances totaling $6,013,073 and $5,930,000 at December 31, 2014 and 2013, respectively, consist of unexpended grant funds from Bloomberg Philanthropies and James Bell Associates.

7. ADOLESCENT BEHAVIORAL LEARNING EXPERIENCE

MDRC is engaged in a critical and immersive way as an intermediary organization in the nation's first Social Impact Bond, which creates an innovative way to fund promising new programs for which some evidence exists in support of their effectiveness, at no cost to taxpayers. With this Social Impact Bond, private investors fund the intervention through a nonprofit contractor and the government pays the contractor only if the program achieves certain goals. MDRC is directing and implementing a cognitive behavioral therapy program known as Adolescent Behavioral Learning Experience ("ABLE") for 16 to 18 year-olds detained at New York City's Rikers Island jail complex with the goal of reducing recidivism for this population by focusing on personal responsibility education, training, and counseling. MDRC has designed the program and has contracted with Osborne Association ("Osborne") and Friends of the Island Academy to deliver the program.

Goldman Sachs Bank USA (GS) is providing financing for the ABLE program's delivery and operation through an interest-bearing loan of up to $9,600,000 to MDRC. Bloomberg Philanthropies (BP) has provided a grant of up to $7,200,000 to MDRC to guarantee a portion of the loan proceeds received from GS. Funds received from BP are held by MDRC in a guarantee fund. MDRC received $6,000,000 from BP, of the total amount committed, which is reflected as both restricted cash and part of grant advances within the accompanying 2014 statement of financial position. Loan payments from GS to MDRC, to advance fund the cost of the ABLE program, totaled $6,430,000 for the year ended December 31, 2014. Program expenses incurred by Osborne in delivering the program for the years ended December 31, 2014 and 2013 totaled $2,218,279 and $2,420,463, respectively, and are included in health and barriers to employment on the statement of activities.

Coincident with the execution of the agreements described above with BP and GS, MDRC also entered into a contract with the Department of Correction ("DOC") of New York City, whereby MDRC will be reimbursed for all or a portion of the costs of the program, depending on whether targeted reductions in reincarcerations are achieved. Such targets are more fully defined in the details of the related agreements, and the achievements of such targets will be determined by Vera Institute of Justice, an independent evaluator. DOC will also pay a performance fee, if the target percentage needed for full coverage of costs is exceeded. If the program does not meet its target percentages for reducing reincarcerations, DOC is not obligated to make any payments to MDRC. Payments received from DOC by MDRC will be used to pay back the loan from GS and a performance fee, if earned. If payments from DOC are not sufficient to repay the loan, the BP grant funds held in the guarantee fund will be used to repay GS. No performance fee will be retained by MDRC, regardless of program outcomes. Once the loan from GS is repaid, any remaining grant funds from BP in the guarantee fund shall be used by MDRC for future social impact bond program(s), as mutually agreed upon by MDRC and BP. Expenses of the ABLE program will be recognized over the term of the program, which has an initial three-year term, with a one-year extension option and a final expiration date of August 31, 2016. If the program is successful, the funds received from DOC to repay GS for amounts borrowed by MDRC, to deliver and operate the program, will be recognized as revenue. If the program is unsuccessful, the loan to GS will be satisfied with the funds in the guarantee fund.

8. COMMITMENTS/DEFERRED RENT

Operating Leases

On January 31, 2007, MDRC amended its New York office lease, which extended the lease from August 31, 2008 to August 31, 2018. On September 23, 2013, MDRC entered into a second amendment of its New York office lease to add additional space. On June 11, 2010, MDRC amended its lease for its California Regional Office, which extended the lease from February 28, 2011 to February 28, 2019. On April 10, 2014, MDRC enterered into a secod amendment of is California Regional Office lease to add additional space. On July 1, 2014, MDRC entered into a lease for office space in Los Angeles, the term of which ends on August 30, 2014.

The terms of the leases include certain rent escalations and concessions that are being recognized over the terms of the respective leases. The deferred rent balances totaled $787,527 and $960,428 at December 31, 2014 and 2013, respectively.

In connection with its New York office lease, MDRC has an outstanding irrevocable letter of credit in the amount of $186,946 that serves as a security deposit.

Future base rentals due under all lease agreements are as follows:

Year ending December 31:	
2015	$ 3,024,906
2016	3,001,124
2017	3,011,550
2018	2,137,609
2019	62,141
	$ 11,237,330

Occupancy costs (including utilities, storage, repairs and maintenance, and other costs) for the years ended December 31, 2014 and 2013 totaled $3,580,546 and $3,072,001, respectively.

9. EMPLOYEE BENEFIT PLANS

Retirement Plan

MDRC sponsors a defined contribution pension plan covering all full-time employees with one year of service. MDRC contributes 6% of gross salaries of the plan participants and an additional 5.7% of gross salaries in excess of the Social Security wage base of $117,000 and $113,700 for 2014 and 2013, respectively. Pension expense for the years ended December 31, 2014 and 2013, which is included in fringe benefits cost, totaled $1,391,450 and $1,347,011, respectively.

Savings Plan

MDRC also sponsors a qualified savings plan under Section 403(b) of the U.S. Internal Revenue Code. Employees may elect to contribute a portion of their earnings directly to this plan.

Flexible Benefits Plan

MDRC has a flexible benefits plan under Section 125 of the Internal Revenue Code. This plan allows employees to contribute up to $7,500 of their salary annually to the plan. Employees may use their contributions to pay for certain medical, dental and employment-related dependent-care expenses, which are not reimbursed under any employee benefit plan. All MDRC employees are eligible to participate.

Deferred Compensation Plans – 457(b)

In 1990, MDRC created a single participant 457(b) plan to facilitate a key hire. The person hired transferred assets from an existing 457(b) plan to the MDRC plan. Effective July 2002, MDRC implemented a 457(b) plan for certain highly compensated senior employees. The plan is funded solely by employee contributions. Eligible employees may elect to contribute up to the maximum dollar amount under section 457(e) (15) of the Internal Revenue Code. The assets of the plans are the legal assets of MDRC until theyare distributed to participants, and therefore the plan assets and corresponding liability are reported in the statement of financial position. Plan assets, at fair value, at December 31, 2014 and 2013 totaled $1,621,916 and $1,482,017, respectively. Assets at December 31, 2014 are classified within the FASB's fair value hierarchy at Level 1 and Level 3 in the amounts of $488,258 and $1,133,658, respectively. Assets at December 31, 2013 are classified within the FASB's fair value hierarchy at Level 1 and Level 3 in the amounts of $657,762 and $824,255, respectively. At December 31, 2014 and 2013, the Level 1 assets were invested in mutual funds and the Level 3 assets were invested in insurance company guaranteed rate contracts. Prior to 2014, the assets and liabilities pertaining to the 457(b) plans had previously not been reflected on the financial statements of MDRC. During calendar 2014, MDRC made a decision to include such assets and liabilities on its financial statements and further to adjust the accompanying summarized and comparative 2013 financial information presented to likewise reflect the value of the 457(b) plans' assets and liabilities. The inclusion of such additional information as part of the 2013 summarized and comparative 2013 financial information was deemed to be an immaterial correction.

The following table presents a reconciliation for Level 3 investments measured at fair value for the year ended December 31, 2014:

	Level 3 Investments
Beginning balance, January 1, 2014	$ 824,255
Employee contributions and deductions	49,026
Purchases	230,924
Investment return	29,453
Ending balance, December 31, 2014	$ 1,133,658

The following table presents a reconciliation for Level 3 investments measured at fair value for the year ended December 31, 2013:

	Level 3 Investments
Beginning balance, January 1, 2013	$ 651,393
Employee contributions and deductions	31,767
Purchases	119,382
Investment return	21,713
Ending balance, December 31, 2013	$ 824,255

10. ENDOWMENT FUND

The Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as enacted by the State of Delaware applies to all institutional funds of MDRC unless the donor has specifically directed otherwise. As a result of such interpretation, MDRC, as a Delaware State corporation, classifies as permanently restricted net assets the original value of donor-restricted endowment funds, the original value of subsequent gifts to donor-restricted endowment funds and the value of accumulations to such funds, made in accordance with the direction of the applicable gift instrument at the time the relevant accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund, not classified as permanently restricted net assets, is classified as part of temporarily restricted net assets until such amounts are appropriated for expenditure by MDRC in a manner consistent with the uses, benefits, purposes and duration for which the endowment is established and the standard of prudence prescribed by UPMIFA.

The following tables present the composition of MDRC's endowment fund as of December 31, 2014 and 2013 and the changes in the endowment fund for the years then ended:

	2014			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ -	$ 12,017,745	$ 8,950,000	$ 20,967,745
Board-designated endowment fund	11,964,079	-	-	11,964,079
Total	$ 11,964,079	$ 12,017,745	$ 8,950,000	$ 32,931,824
Endowment net assets, beginning of year	10,598,647	12,444,637	8,950,000	$ 31,993,284
Investment return:				
Interest and dividends	230,259	433,497	-	663,756
Net realized and unrealized appreciation	190,173	321,985	-	512,158
Total investment return	420,432	755,482	-	1,175,914
Spending policy withdrawal	-	(1,182,374)	-	(1,182,374)
Transfer to endowment	945,000	-	-	945,000
Endowment net assets, end of year	$ 11,964,079	$ 12,017,745	$ 8,950,000	$ 32,931,824

	2013			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ -	$ 12,444,637	$ 8,950,000	$ 21,394,637
Board-designated endowment fund	10,598,647	-	-	10,598,647
Total	$ 10,598,647	$ 12,444,637	$ 8,950,000	$ 31,993,284
Endowment net assets, beginning of year	$ 9,553,729	$ 11,695,977	$ 8,950,000	$ 30,199,706
Investment return:				
Interest and dividends	192,148	363,326	-	555,474
Net realized and unrealized appreciation	852,770	1,528,900	-	2,381,670
Total investment return	1,044,918	1,892,226	-	2,937,144
Spending policy withdrawal	-	(1,143,566)	-	(1,143,566)
Endowment net assets, end of year	$ 10,598,647	$ 12,444,637	$ 8,950,000	$ 31,993,284

During fiscal 2014 and 2013, MDRC did not appropriate any earnings from its unrestricted board-designated endowment fund. In December 2014, the Board passed a resolution to transfer undesignated net assets to the Board-designated endowment fund.

11. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2014 and 2013 consist of the following:

	2014	2013
Low-wage workers and communities	$ 12,989,041	$ 7,911,312
K-12 education	6,063,743	6,771,547
Health and barriers to employment	12,362,780	2,498,414
Family well-being and child development	9,310,221	5,508,247
Young adults and postsecondary education	11,685,623	2,624,411
Information dissemination, program development, methodology and strategic initiatives	1,581,486	34,646
Program services	53,992,894	25,348,577
Term endowment	12,017,745	12,444,637
	$ 66,010,639	$ 37,793,214

Term endowment includes contributions from several funders received towards MDRC's 25th Anniversary Campaign (1999 through 2003). The intent of these contributions was to match a challenge grant from a then anonymous donor to establish an endowment. Either because the donors could not make a permanently restricted contribution, or preferred to attach specific stipulations to the contributions requiring that these amounts be invested for a specified number of years, these temporarily restricted contributions are classified as term endowment.

12. NET ASSETS RELEASED FROM RESTRICTIONS

Temporarily restricted net assets were released from restrictions during the years ended December 31, 2014 and 2013 in satisfaction of donor time or use restrictions as follows:

	2014	2013
Low-wage workers and communities	$ 2,763,266	$ 2,241,592
K-12 education	2,577,451	2,180,996
Health and barriers to employment	1,463,358	2,924,713
Family well-being and child development	7,718,130	6,529,773
Young adults and postsecondary education	3,291,705	2,962,535
Information dissemination, program development, methodology and strategic initiatives	1,615,164	306,874
	$ 19,429,074	$ 17,146,483

The earnings associated with term endowment funds totaling $1,182,374 and $1,143,566 were appropriated for expenditure by MDRC and released from restrictions during 2014 and 2013, respectively.

13. CONCENTRATIONS OF CREDIT RISK

MDRC maintains its cash in various bank deposit accounts which, at times, may exceed federally insured limits. MDRC has not experienced, nor does it anticipate, any losses with respect to such accounts.

Support from the U.S. federal government represented approximately 38% and 51% of MDRC's total revenues and support in 2014 and 2013, respectively, of which the U.S. Department of Health and Human Services and the U.S. Department of Education represented 53% and 20% of federal government support for 2014 and 53% and 21% of federal government support for 2013, respectively.

14. LINE OF CREDIT

In September 2012, MDRC obtained a $5,000,000 commercial line of credit (on demand) with a major bank. There were no drawings on the line of credit during the years ended December 31, 2014 and 2013. The terms of the credit agreement state that future drawings, if any, will be subject to interest at the bank's prime rate minus a margin of 1.00%.