Financial Statements and Report of Independent Certified Public Accountants

MDRC

December 31, 2019, with comparative information for 2018

Contents

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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, 2019, 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, 2019, 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 – report on 2018 summarized comparative information
We have previously audited the MDRC's 2018 financial statements (not presented herein), and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 23, 2019. In our opinion, the accompanying summarized comparative information as of and for the year ended December 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Grant Thornton LLP

New York, New York
November 13, 2020

MDRC

STATEMENT OF FINANCIAL POSITION

December 31, 2019, with comparative totals for 2018

	2019	2018
ASSETS		
Cash and cash equivalents	$ 988,668	$ 2,996,956
Contracts and grants receivable	15,676,948	16,601,349
Receivables and other assets (Note 4)	1,891,774	1,875,809
Investments (Note 3)	83,607,317	69,632,347
457(b) plan assets (Note 8)	1,655,088	1,712,516
Fixed assets, net (Note 5)	8,734,549	8,961,002
Total assets	$ 112,554,344	$ 101,779,979
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 10,212,247	$ 8,151,512
Grant advances (Note 6)	12,320,784	10,037,026
Deferred rent (Note 7)	7,724,238	6,502,502
457(b) plan liability (Note 8)	1,655,088	1,712,516
Total liabilities	31,912,357	26,403,556
NET ASSETS		
Net assets without donor restrictions:		
Undesignated	31,645,430	26,831,560
Plant fund	8,734,549	8,961,002
Board designated - endowment fund (Note 9)	15,637,139	13,503,409
Total net assets without donor restrictions	56,017,118	49,295,971
Net assets with donor restrictions (Note 10):		
Research purposes	1,633,352	4,245,664
Donor-restricted endowment funds (Note 9)	14,041,517	12,884,788
Restricted endowment funds (Note 9)	8,950,000	8,950,000
Total donor restricted net assets	24,624,869	26,080,452
Total net assets	80,641,987	75,376,423
Total liabilities and net assets	$ 112,554,344	$ 101,779,979

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

MDRC

STATEMENT OF ACTIVITIES

Year ended December 31, 2019, with comparative totals for 2018

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
Operating activities				
Revenues and support:				
Government contracts and grants:				
Federal	$ 44,715,928	$ -	$ 44,715,928	$ 45,664,588
New York City	1,196,585	-	1,196,585	115,394
Contributions, contracts and grants:				
Foundations	19,754,643	-	19,754,643	18,054,596
Universities and other	2,278,508	-	2,278,508	1,707,937
Spending policy withdrawal (Note 9)	1,369,082	-	1,369,082	416,356
Management fees	1,508,606	-	1,508,606	1,626,223
Net assets released from restrictions (Note 11)	3,277,574	(3,277,574)	-	-
Total revenues and support	74,100,926	(3,277,574)	70,823,352	67,585,094
Expenses				
Research Areas:				
Low-wage Workers, and Communities	9,113,811	-	9,113,811	10,632,914
K-12 Education	6,544,246	-	6,544,246	9,267,852
Youth, Criminal Justice and Employment	10,245,836	-	10,245,836	14,214,395
Family Well-being and Child Development	18,147,427	-	18,147,427	11,445,350
Postsecondary Education	7,448,501	-	7,448,501	8,140,334
Center for Applied Behavior Science	2,368,911	-	2,368,911	1,630,679
Center for Data Insights	1,420,517	-	1,420,517	-
Information Dissemination, Program Development, Methodology and Strategic Initiatives	3,645,546	-	3,645,546	4,646,788
Total research areas	58,934,795	-	58,934,795	59,978,312
Supporting services:				
Fundraising	45,785	-	45,785	6,817
General and administrative	13,737,867	-	13,737,867	12,194,152
Total supporting services	13,783,652	-	13,783,652	12,200,969
Total expenses	72,718,447	-	72,718,447	72,179,281
Changes in net assets from operating activities	1,382,479	(3,277,574)	(1,895,095)	(4,594,187)
Nonoperating activities				
Interest and dividends, net	1,226,685	422,670	1,649,355	1,537,517
Realized and unrealized appreciation (depreciation) in fair value of investments	4,111,983	2,768,403	6,880,386	(2,130,187)
	5,338,668	3,191,073	8,529,741	(592,670)
Spending policy withdrawal (Note 9)	-	(1,369,082)	(1,369,082)	(416,356)
Changes in net assets from nonoperating activities	5,338,668	1,821,991	7,160,659	(1,009,026)
Changes in net assets	6,721,147	(1,455,583)	5,265,564	(5,603,213)
Net assets, beginning of year	49,295,971	26,080,452	75,376,423	80,979,636
Net assets, end of year	$ 56,017,118	$ 24,624,869	$ 80,641,987	$ 75,376,423

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

MDRC

STATEMENT OF CASH FLOWS

Year ended December 31, 2019, with comparative totals for 2018

	2019	2018
Cash flows from operating activities		
Changes in net assets	$ 5,265,564	$ (5,603,213)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	965,383	807,157
Realized and unrealized (appreciation) depreciation in fair value of investments	(6,880,386)	2,130,187
Change in operating assets and liabilities:		
Decrease in contracts receivable	924,401	1,813,736
Increase in receivables and other assets	(15,965)	1,332,584
Decrease in 457(b) plan participant assets	57,428	101,091
Increase (decrease) in accounts payable and accrued expenses	2,060,735	(654,326)
Increase in grant advances	2,283,758	517,650
Increase in deferred rent	1,221,736	6,325,827
Decrease in 457(b) plan participant liability	(57,428)	(101,091)
Net cash provided by operating activities	5,825,226	6,669,602
Cash flows from investing activities		
Purchase of furniture, equipment, and leasehold improvements	(738,930)	(8,761,794)
Purchase of investments	(45,906,588)	(9,505,789)
Proceeds from sales of investments	38,812,004	10,741,973
Net cash used in investing activities	(7,833,514)	(7,525,610)
Decrease in cash and cash equivalents	(2,008,288)	(856,008)
Cash and cash equivalents, beginning of year	2,996,956	3,852,964
Cash and cash equivalents, end of year	$ 988,668	$ 2,996,956

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

NOTE 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 ("IRC") 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, California, and Washington, D.C., 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 centers and target populations, as described below. 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 eight research areas:

- Low-wage Workers and Communities
- K-12 Education
- Youth Criminal Justice and Employment
- Family Well-being and Child Development
- Postsecondary Education
- Center for Applied Behavioral Science
- Center for Data Insights
- 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, colleges, universities, community organizations, and numerous private philanthropies.

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

NOTE 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:

Net assets without donor restrictions

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.

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

Board-designated - endowment fund - includes 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 that preceded The Atlantic Philanthropies, Inc. It is the intention of MDRC's governing Board that the designation of these net assets without donor restrictions will remain as a fund of permanent duration. However, the use of these resources is not externally/donor-restricted.

MDRC's Board of Directors created an Endowment Fund in May 1999 (see Note 9) comprised of certain contributions without donor restrictions designated by MDRC's governing board, together with donor restricted contributions to be held in perpetuity, and certain donor restricted contributions received for this purpose in the form of term endowments and all earnings therefrom.

Net assets with donor restrictions

Program purposes - 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported on the statement of activities as net assets released from restrictions.

Donor-restricted endowment funds - includes the term endowment and earnings on the donor restricted endowment fund that have not been appropriated for expenditure. The term endowment includes contributions that are similar in nature to a donor restricted endowment to be held in perpetuity, 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 donors have authorized MDRC, on an annual basis, to withdraw funds from the term endowment fund in support of its core operating activities, based on up to 5% of the portfolio's average fair value over the preceding 12 quarters. As of December 31, 2019 and 2018, these funds along with earnings thereon, net of annual disbursements, have not been restricted by the donor in perpetuity. However, since they are still donor restricted for a specified period of time, they are reflected as part of net assets with donor restrictions on the statement of financial position (see also Note 9).

Restricted endowment funds - includes 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 the Delaware State Uniform Prudent Management of Institutional Funds Act ("UPMIFA") (see also Note 9).

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.

Investments

Investments, which consist of equity, fixed income, and 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. 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 net assets without donor restrictions unless their use is 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

Contributions

Contributions (including unconditional promises to give) are recorded as increases to support with or without donor restrictions, depending on the existence or absence of donor-imposed restrictions. 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 (i.e., the barriers to entitlement are satisfied) 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.

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 funder's evaluation of performance. MDRC recognizes revenue for fixed fees and fees included in billing rates ratably over the term of the respective contract as work is performed. MDRC recognizes performance-based award fees at the time awarded.

Allowance for Uncollectible Accounts

The carrying value of contributions, contracts and grants receivable is reduced by an appropriate allowance, if needed, for uncollectible accounts. MDRC determines its allowance using the specific identification method. MDRC writes-off contributions, contracts and grants receivables when they become uncollectible, and payments subsequently received on such receivables are recorded as income in the period received. As of December 31, 2019 and 2018, management did not record an allowance for contributions, contracts or grants receivable, as all balances were deemed collectible in full.

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 and activities pertaining to the MDRC Endowment Fund.

Spending Policy Withdrawal

On a yearly basis, a transfer is made from the Endowment Fund, which is comprised of net assets restricted by donors to be held in perpetuity or over a specified period of time and board-designated net assets, 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 fund investments over 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.

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 Accounting Standards Codification ("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.

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.

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 certain cases, fair value estimates cannot be substantiated by comparison to independent markets.

Income Taxes

MDRC follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance 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 federal 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 IRC. MDRC has processes presently in place to ensure the maintenance of its tax-exempt status, to identify and report unrelated income, to determine its filing and tax obligations in jurisdictions for which it has nexus, and to identify and evaluate other matters that may be considered tax positions. MDRC has determined that there are no material uncertain tax positions that require recognition or disclosure in its financial statements.

New Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which supersedes most of the current revenue recognition requirements. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. In June 2020, the FASB issued ASU 2020-05, which provided for a one-year deferral on the requirements of ASU 2014-09. This guidance is effective for MDRC's annual reporting period beginning January 1, 2020. The guidance permits the use of either a retrospective or cumulative effect transition method. MDRC is currently evaluating the new guidance and has not determined the impact this standard may have on its financial statements.

In February 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842)*, which requires organizations that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statement of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. In June 2020, the FASB issued ASU 2020-05, which provided for a one-year deferral on the requirements of ASU 2016-02. This guidance is effective for MDRC's annual reporting period beginning January 1, 2022. Early adoption is permitted. MDRC is currently evaluating the new guidance and has not determined the impact this standard may have on its financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* ("ASU 2018-08"). ASU 2018-08 requires MDRC to determine whether a contribution is conditional based on whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. If the agreement (or a referenced document) includes both, MDRC is not entitled to the transferred assets (or a future transfer of assets) until it has overcome the barriers in the agreement. The provisions of ASU No. 2018-08 were adopted by MDRC for the year ended December 31, 2019.

Accordingly, MDRC recognizes contributions, contracts and grants as either contributions or exchange transaction revenues, depending on whether the transaction is reciprocal or nonreciprocal. For contributions, revenue is recognized when a contribution becomes unconditional, that is, when the conditions on which they depend are substantially met. Grants are evaluated as to whether they qualify as exchange transactions or contributions. Grants that are treated as exchange transactions are reported as revenue without donor restrictions when expenses are incurred in accordance with the terms of the agreement. The excess of amounts received in exchange transactions over the amount of expenditures incurred are classified as deferred revenue on the statement of financial position. If a contract or grant agreement contains a right of return or right of release from the respective obligation provision on the part of the grantor, and the agreement also contains a barrier to be overcome, MDRC recognizes revenue for these conditional contributions when the related barrier to entitlement has been overcome. Funds received in advance of conditions being met are reported as grant advances within the statement of financial position.

Reclassifications

Certain reclassifications were made to the fiscal 2018 financial statements in order to conform to the fiscal 2019 presentation. Such reclassifications did not change total assets, liabilities, revenues, expenses, or changes in net assets, as reflected in the fiscal 2018 financial statements.

Subsequent Events

MDRC evaluated its December 31, 2019 financial statements for subsequent events through November 13, 2020, the date the financial statements were available to be issued. MDRC is not aware of any material subsequent events which would require recognition or disclosure in the accompanying financial statements, except as follows:

The COVID-19 pandemic, whose effects first became known in January 2020, is having a broad and negative impact on commerce and financial markets around the world. The United States and global markets experienced significant volatility in value resulting from uncertainty caused by the pandemic. MDRC is closely monitoring its investment portfolio and its liquidity and is actively working to minimize the long-term impact. The extent of the impact of COVID-19 on MDRC's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impact on MDRC's customers, employees, and vendors, all of which at present, cannot be determined. Accordingly, the extent to which COVID-19 may impact MDRC's financial position and changes in net assets and cash flows is uncertain and the accompanying financial statements include no adjustments relating to the effects of this pandemic.

NOTE 3 - INVESTMENTS

The composition of MDRC's investments as of December 31, 2019 and 2018 follows:

	2019	
	Level 1	Total
Equity mutual funds	$ 21,153,415	$ 21,153,415
Fixed income mutual funds	17,342,546	17,342,546
Bonds	10,845,534	10,845,534
	$ 49,341,495	49,341,495
Alternative investments at NAV		12,184,790
Cash and cash equivalents		21,889,209
Certificate of deposit		191,823
Total		$ 83,607,317

	2018	
	Level 1	Total
Equity mutual funds	$ 14,327,856	$ 14,327,856
Fixed income mutual funds	35,753,409	35,753,409
Bonds	8,476,171	8,476,171
Limited partnerships	447,608	447,608
	$ 59,005,044	59,005,044
Alternative investments at NAV		9,482,521
Cash and cash equivalents		954,582
Certificate of deposit		190,200
Total		$ 69,632,347

MDRC uses the net asset value ("NAV") per ownership interest to report the fair value of all underlying investments which (a) do not have a readily determinable fair value and (2) 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, 2019 and 2018.

2019

Alternative Investment Strategy	Number of Funds	NAV in Funds	Remaining Life	$ Amount of Unfunded Commitments	Timing to Draw Down Commitments	Redemption Terms	Redemption Restrictions
Alternative investments:							
Middle market lending	4	$ 4,330,105	6 to 8 years with extension option	$ 537,500	2021	Three funds liquidate as underlying investments are sold. One fund is quarterly with 90 days notice.	One fund is subject to a one-year lockup period.
Real assets (limited partnerships)	3	1,019,782	1 to 2 years with extension option	6,229	N/A	As underlying investments are sold.	N/A
Equity long/short	2	5,676,338	N/A	-	N/A	One fund is quarterly with 60 days notice and one fund is monthly with 30 days notice.	N/A
Private equity (limited partnerships)	2	1,158,565	6 to 11 years with extension option	352,162	2020	As underlying investments are sold.	N/A
Total alternative investments	11	$ 12,184,790		$ 895,891			

2018

Alternative Investment Strategy	Number of Funds	NAV in Funds	Remaining Life	$ Amount of Unfunded Commitments	Timing to Draw Down Commitments	Redemption Terms	Redemption Restrictions
Alternative investments:							
Middle market lending	3	$ 3,412,358	6 to 8 years with extension option	$ 187,500	2021	Two funds liquidate as underlying investments are sold. One fund is quarterly with 90 days notice.	One fund is subject to a one-year lockup period.
Real assets (limited partnerships)	3	1,114,977	1 to 2 years with extension option	-	N/A	As underlying investments are sold.	N/A
Equity long/short	2	3,447,901	N/A	-	N/A	One fund is quarterly with 60 days notice and one fund is monthly with 30 days notice.	N/A
Private equity (limited partnerships)	2	1,507,285	6 to 11 years with extension option	393,645	2019	As underlying investments are sold.	N/A
Total alternative investments	10	$ 9,482,521		$ 581,145			

Investment management fees are netted against interest and dividends and totaled $369,404 and $182,651 in 2019 and 2018, 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.

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 systematic and specific investment 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.

NOTE 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 1.00% to 1.50% at December 31, 2019 and 2018.

Contributions receivable from foundations, corporations, and individuals at December 31, 2019 and 2018 are expected to be collected within one year and totaled $8,223 and $9,182, respectively.

Contributions receivable are included in receivables and other assets on the accompanying statements of financial position.

NOTE 5 - FIXED ASSETS, NET

Fixed assets, net, at December 31, 2019 and 2018 consist of the following:

	2019	2018
Leasehold improvements	$ 11,970,230	$ 11,306,400
Furniture and equipment	774,251	7,953,112
	12,744,481	19,259,512
Less accumulated depreciation and amortization	(4,009,932)	(10,298,510)
	$ 8,734,549	$ 8,961,002

Depreciation and amortization expense for the years ended December 31, 2019 and 2018 totaled $965,383 and $807,157, respectively.

NOTE 6 - GRANT ADVANCES

Grant advances totaling $12,320,784 and $10,037,026 at December 31, 2019 and 2018, respectively, consist of unexpended grant funds received from several foundations for multi-year program purposes. Revenue will be recognized as expenses are incurred or services are provided in accordance with the terms of the relevant agreements.

NOTE 7 - COMMITMENTS AND CONTINGENCIES/DEFERRED RENT

Operating Leases

MDRC leases office space in New York, California, and Washington, D.C. under operating leases with various lease terms. The terms of the leases include certain rent escalations and concessions that are being recognized over the terms of the respective leases on a straight-line basis. The deferred rent balances totaled $7,724,238 and $6,502,502 at December 31, 2019 and 2018, 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.

As of December 31, 2019, future base rentals due under all lease agreements are as follows:

Year Ending December 31,	
2020	$ 3,574,553
2021	3,545,784
2022	3,563,515
2023	3,581,765
2024	3,805,772
Thereafter	30,887,555
	$ 48,958,944

Occupancy costs (including utilities, storage, repairs and maintenance, and other costs) for the years ended December 31, 2019 and 2018 totaled $3,668,792 and $5,065,601, respectively.

Other Contingencies

In the normal course of its operations, MDRC may become a party to various legal proceedings and complaints, some of which are covered by insurance. While it is not feasible to predict the ultimate outcomes of such matters, MDRC is not presently aware of any claims or contingencies the resolution of which would have a material adverse effect on MDRC's financial position, changes in net assets or cash flows.

NOTE 8 - 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 $132,900 for 2019 and $128,400 for 2018. Pension expense for the years ended December 31, 2019 and 2018, which is included in fringe benefits cost, totaled $1,597,993 and $1,536,983, respectively.

Savings Plan

MDRC also sponsors a qualified savings plan under Section 403(b) of the IRC. 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 IRC. This plan allows employees to contribute up to $7,700 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)

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 IRC. The assets of the plans are the legal assets of MDRC until they are distributed to the participants, and therefore, the plan assets and a corresponding liability are reported on the statement of financial position. Plan assets, at fair value, at December 31, 2019 and 2018 totaled $1,655,088 and $1,712,516, respectively. Assets at December 31, 2019 are classified within the FASB's fair value hierarchy at Level 1 and Level 3 in the amounts of $688,655 and $966,433, respectively. Plan assets at December 31, 2018 are classified within the FASB's fair value hierarchy at Level 1 and Level 3 in the amounts of $609,160 and $1,103,356, respectively. At December 31, 2019 and 2018, the Level 1 assets were invested in mutual funds and the Level 3 assets were invested in insurance company guaranteed rate contracts.

The following tables present a reconciliation for Level 3 457(b) plan investments measured at fair value on a recurring basis for the years ended December 31, 2019 and 2018:

	2019
Beginning balance, January 1, 2019	$ 1,103,356
Employee contributions, payouts, and transfers, net	(161,002)
Investment return	24,079
Ending balance, December 31, 2019	$ 966,433

	2018
Beginning balance, January 1, 2018	$ 1,308,660
Employee contributions, payouts, and transfers, net	(46,388)
Investment return	25,704
Transfers	(184,620)
Ending balance, December 31, 2018	$ 1,103,356

NOTE 9 - ENDOWMENT FUND

The 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 this interpretation, MDRC classifies as endowment funds within net assets with donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the explicit direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the net assets with donor restrictions within the endowment fund are those net assets that have not yet been appropriated for expenditure by MDRC in a manner consistent with the standard of prudence prescribed by UPMIFA.

The Endowment Fund was created in 1999. Its creation included a contribution from an anonymous donor for MDRC operations with a strict requirement to match its contribution with increases in the endowment. In order to complete the match and meet the requirements of the funding, MDRC's Board designated unrestricted net assets to the Endowment Fund with the intent that such net assets be treated as part of the endowment in perpetuity, subject to the Board undesignating such amounts in the future.

The following tables present the composition of MDRC's endowment fund as of December 31, 2019 and 2018 and the changes in the endowment fund for the years then ended:

	2019		
	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	$ -	$ 22,991,517	$ 22,991,517
Board-designated endowment fund	15,637,139	-	15,637,139
Total	$ 15,637,139	$ 22,991,517	$ 38,628,656
Endowment net assets, beginning of year	$ 13,503,409	$ 21,834,788	$ 35,338,197
Investment return:			
Interest and dividends	276,204	422,670	698,874
Net realized and unrealized appreciation	1,857,526	2,768,403	4,625,929
Total investment return	2,133,730	3,191,073	5,324,803
Other changes		(665,262)	(665,262)
Spending policy withdrawal	-	(1,369,082)	(1,369,082)
Endowment net assets, end of year	$ 15,637,139	$ 22,991,517	$ 38,628,656

	2018		
	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	$ -	$ 21,834,788	$ 21,834,788
Board-designated endowment fund	13,503,409	-	13,503,409
Total	$ 13,503,409	$ 21,834,788	$ 35,338,197
Endowment net assets, beginning of year	$ 14,773,554	$ 22,692,435	$ 37,465,989
Investment return:			
Interest and dividends	412,832	376,125	788,957
Net realized and unrealized depreciation	(823,417)	(817,417)	(1,640,834)
Total investment return (loss)	(410,585)	(441,292)	(851,877)
Other changes	(859,560)	-	(859,560)
Spending policy withdrawal	-	(416,355)	(416,355)
Endowment net assets, end of year	$ 13,503,409	$ 21,834,788	$ 35,338,197

NOTE 10 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at December 31, 2019 and 2018 consist of the following:

	2019	2018
Low-wage Workers, and Communities	$ 58,453	$ 81,675
K-12 Education	16,558	44,163
Youth, Criminal Justice and Employment	1,558,341	3,876,094
Post Secondary Education	-	198,158
Information Dissemination, Program Development, Methodology and Strategic Initiatives	-	45,574
Research purposes	1,633,352	4,245,664
Donor-restricted endowment funds (Note 9)	14,041,517	12,884,788
Restricted endowment funds	8,950,000	8,950,000
	$ 24,624,869	$ 26,080,452

NOTE 11 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released following satisfaction of the following program purposes during the years ended December 2019 and 2018 as follows:

	2019	2018
Low-wage Workers, and Communities	$ 358,604	$ 1,038,618
K-12 Education	41,748	449,169
Youth, Criminal Justice and Employment	2,122,387	4,099,382
Family Well-being and Child Development	514,912	-
Post Secondary Education	239,884	909,188
Information Dissemination, Program Development, Methodology and Strategic Initiatives	39	44,135
	$ 3,277,574	$ 6,540,492

NOTE 12 - 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 63% and 68% of MDRC's total revenues and support in 2019 and 2018, respectively, of which the U.S. Department of Health and Human Services and the U.S. Department of Education represented 69% and 22%, respectively, of federal government support for 2019 and 60% and 30%, respectively, of federal government support for 2018.

NOTE 13 - LINE OF CREDIT

In September 2012, MDRC obtained a $5,000,000 commercial line of credit (on demand) with a major financial institution. There were no drawings on the line of credit during the years ended December 31, 2019 and 2018. 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%.

NOTE 14 - LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

MDRC's principal source of revenues are derived from government contracts. The nature these contracts allow for direct reimbursement of allowable expenses incurred for the performance of services, as stipulated in the terms and conditions of the respective contracts. Certain projects requiring research subject surveys, site payments, and use of specialized subcontractors may have more than one-half of their expenses directed toward other entities (which take the form of pass-through awards/contracts from MDRC). As allowable contract expenses are incurred, subcontractors and sites are paid first by MDRC, and then the government (sponsoring agency) is invoiced, usually within a 35 day period. The federal government typically pays invoices within 30 days, however, other governments (local and state) may have several months lag between invoice submission and eventual payment. In 2019, over 63% of MDRC's revenues were sourced from government agencies. For these reasons, MDRC requires a prudent and sufficient amount of liquidity to be maintained at all times for operating capital to provide for expenses as incurred while awaiting reimbursement. As operating capital, MDRC seeks to maintain two and one-half months of liquidity approximating anticipated expenses pertaining to government contracts in progress and two months for all other sources of revenue, where reimbursement is required.

In addition to managing cash flows relative to programmatic activities, as discussed above, there are other needs for liquidity including, among others, the ability to operate during a potential federal government shutdown, providing for payments to MDRC's self-insured health plan, and capital expenditures.

As of December 31, 2019, financial assets available within one year for general expenditure are as follows:

	2019	2018
As of December 31st		
Cash and cash equivalents	$ 988,668	$ 2,996,956
Contracts and grants receivable, due within one year	15,676,948	16,601,349
Investments	83,607,317	69,623,347
	100,272,933	89,221,652
Less:		
Net assets with donor restrictions:		
Amounts subject to expenditures for specified purposes	1,633,352	4,245,664
Amounts subject to appropriation and satisfaction of donor restrictions	14,041,517	12,884,788
Permanent endowment funds	8,950,000	8,950,000
Total amounts unavailable due to donor restrictions or law	24,624,869	26,080,452
Total financial assets available to management for general expenditure before amounts subject to the Board's approval	75,648,064	63,141,200
Less:		
Board designated - funds functioning as endowment fund	15,637,139	13,503,409
Total financial assets available for general expenditure before endowment draw	60,010,925	49,637,791
Plus:		
Available bank lines of credit (undrawn)	5,000,000	4,261,078
Amounts authorized for appropriation from the endowment for the following year	1,440,000	1,369,082
Total financial assets available for general expenditure within one year	$ 66,450,925	$ 55,267,951

MDRC's Board of Directors has designated a portion of its net assets without donor restrictions to function as an endowment and for other purposes. These amounts are identified in the table above as board-designated endowment fund. These funds were set aside, by way of a board resolution, as part of an agreement with an anonymous donor where by MDRC would match, on a 2 to 1 basis, the contribution of the anonymous donor and would treat the matching funds as part of its endowment. These funds are intended to be invested for long-term appreciation and current income; however, they remain available and could be spent at the discretion of the Board of Directors, if the Board chose to at a future point.

NOTE 15 - FUNCTIONAL EXPENSES

The following table represents functional expenses by natural category reported by research area: low-wage workers and communities, K-12 education, youth, criminal justice and employment, family well-being and child development, postsecondary education, center for applied behavioral science, center for data insights, information dissemination, program development, methodology and strategic initiatives. Depreciation, amortization, and insurance are allocated based on the distribution of personnel expense. These allocations are determined by management to be a reasonable basis and are consistently applied.

The following table presents the functional expenses for the year ended December 31, 2019 with summarized comparative totals for 2018:

	Research Services									Supporting Services			
Description	Low-wage Workers and Communities	K-12 Education	Youth Criminal Justice and Employment	Family Well-being and Child Development	Postsecondary Education	Center for Applied Behavioral Science	Center for Data Insights	Information Dissemination Program Development Methodology and Strategic Initiatives	Total Research Services	Fundraising	General and Administrative	2019 Total	2018 Total
Personnel	$ 3,882,276	$ 3,197,572	$ 4,307,780	$ 3,491,580	$ 3,580,756	$ 1,067,193	$ 337,073	$ 1,969,274	$ 21,833,504	$ 29,172	$ 7,153,155	$ 29,015,831	$ 28,209,657
Fringe benefits	1,112,778	924,814	1,238,431	1,004,037	1,034,418	312,958	104,719	565,229	6,297,384	9,350	2,092,014	8,398,748	7,747,720
Surveys	635,521	4,093	582,605	1,419,105	85,507	-	-	-	2,726,831	-	-	2,726,831	2,775,133
Subcontracts and professional fees	806,572	1,008,943	1,915,865	9,279,150	803,653	537,431	735,732	282,474	15,369,820	6,596	2,184,780	17,561,196	15,619,079
Site program payments	1,098,931	59,050	850,304	1,180,505	653,981	250	-	-	3,843,021	-	-	3,843,021	6,654,796
Participant incentives	17,615	62,126	999	28,155	14,771	3,440	-	-	127,106	-	-	127,106	88,517
Occupancy	471,405	446,146	414,949	596,053	394,944	182,600	115,284	281,561	2,902,942	(640)	766,490	3,668,792	5,065,601
Communications	93,089	78,342	81,811	90,966	71,394	23,781	13,607	38,838	491,828	-	111,722	603,550	694,096
Supplies	17,777	13,716	15,202	27,179	12,716	4,774	2,614	7,851	101,829	-	26,559	128,388	153,846
Insurance	49,198	40,521	54,590	44,247	45,377	13,524	4,272	24,956	276,685	370	90,649	367,704	235,535
Furniture and equipment	513,016	384,541	405,886	442,567	354,700	125,801	75,933	193,411	2,495,855	(330)	586,573	3,082,098	1,765,354
Depreciation and amortization	129,167	106,387	143,324	116,169	119,135	35,507	11,215	65,520	726,424	970	237,989	965,383	807,157
Travel	193,292	67,360	120,177	161,526	156,219	31,272	10,066	123,273	863,185	-	79,237	942,422	928,928
Printing and reproduction	2,105	71,318	1,324	115,332	8,759	2,542	-	2,123	203,503	-	273	203,776	322,571
Professional development	1,719	1,535	2,982	3,990	16,200	-	-	39,155	65,581	-	33,503	99,084	91,999
Miscellaneous	89,350	77,782	109,607	146,866	95,971	27,838	10,002	51,881	609,297	297	374,923	984,517	1,019,292
Total functional expenses	$ 9,113,811	$ 6,544,246	$ 10,245,836	$ 18,147,427	$ 7,448,501	$ 2,368,911	$ 1,420,517	$ 3,645,546	$ 58,934,795	$ 45,785	$ 13,737,867	$ 72,718,447	$ 72,179,281