

Financial Statements and Report of  
Independent Certified Public  
Accountants

**MDRC**

December 31, 2020, with comparative information  
for 2019

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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, 2020, 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, 2020, 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 matters - report on 2019 summarized comparative information**

We have previously audited MDRC's 2019 financial statements (not presented herein), and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 13, 2020. In our opinion, the accompanying summarized comparative information as of and for the year ended December 31, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.



New York, New York  
May 25, 2021

**MDRC**

**STATEMENT OF FINANCIAL POSITION**

**December 31, 2020, with comparative information for 2019**

	<b>2020</b>	<b>2019</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 7,294,656	\$ 988,668
Contracts and grants receivable	20,672,459	15,676,948
Receivables and other assets	2,147,229	1,891,774
Investments (Note 3)	78,664,215	83,607,317
457(b) plan assets (Note 8)	1,492,365	1,655,088
Fixed assets, net (Note 5)	8,278,667	8,734,549
Total assets	<b>\$ 118,549,591</b>	<b>\$ 112,554,344</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 8,732,119	\$ 10,212,247
Grant advances (Note 6)	11,410,374	12,320,784
Deferred rent (Note 7)	7,495,687	7,724,238
457(b) plan liability (Note 8)	1,492,365	1,655,088
Loans payable - PPP long-term loan (Note 4)	4,648,200	-
Total liabilities	33,778,745	31,912,357
<b>COMMITMENTS AND CONTINGENCIES (NOTE 7)</b>		
<b>NET ASSETS</b>		
Net assets without donor restrictions:		
Undesignated	33,898,547	31,645,430
Plant fund	8,278,667	8,734,549
Board-designated - endowment fund (Note 9)	17,299,895	15,637,139
Total net assets without donor restrictions	59,477,109	56,017,118
Net assets with donor restrictions (Note 10):		
Research purposes	-	1,633,352
Donor-restricted endowment funds (Note 9)	25,293,737	22,991,517
Total donor restricted net assets	25,293,737	24,624,869
Total net assets	84,770,846	80,641,987
Total liabilities and net assets	<b>\$ 118,549,591</b>	<b>\$ 112,554,344</b>

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

MDRC

STATEMENT OF ACTIVITIES

Year ended December 31, 2020, with comparative totals for 2019

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
<b>Operating activities</b>				
Revenues and support:				
Government contracts and grants:				
Federal	\$ 37,566,666	\$ -	\$ 37,566,666	\$ 44,715,928
New York City	118,272	-	118,272	1,196,585
Contributions, contracts and grants:				
Foundations	21,469,081	-	21,469,081	19,754,643
Universities and other	3,314,163	-	3,314,163	2,278,508
Spending policy withdrawal (Note 9)	1,439,581	-	1,439,581	1,369,082
Management fees	1,312,280	-	1,312,280	1,508,606
Net assets released from restrictions (Note 11)	1,633,352	(1,633,352)	-	-
Total revenues and support	<u>66,853,395</u>	<u>(1,633,352)</u>	<u>65,220,043</u>	<u>70,823,352</u>
<b>Expenses</b>				
Research Areas:				
Economic Mobility, Housing, and Communities	7,712,904	-	7,712,904	9,113,811
K-12 Education	5,478,502	-	5,478,502	6,544,246
Youth, Criminal Justice and Employment	11,324,871	-	11,324,871	10,245,836
Family Well-being and Child Development	11,737,132	-	11,737,132	18,147,427
Postsecondary Education	6,792,937	-	6,792,937	7,448,501
Center for Applied Behavior Science	2,015,485	-	2,015,485	2,368,911
Center for Data Insights	3,601,720	-	3,601,720	1,420,517
Information Dissemination, Program Development, Methodology and Strategic Initiatives	3,455,645	-	3,455,645	3,645,546
Total research areas	<u>52,119,196</u>	<u>-</u>	<u>52,119,196</u>	<u>58,934,795</u>
Supporting services:				
Fundraising	13,413	-	13,413	45,785
General and administrative	13,689,500	-	13,689,500	13,737,867
Total supporting services	<u>13,702,913</u>	<u>-</u>	<u>13,702,913</u>	<u>13,783,652</u>
Total expenses	<u>65,822,109</u>	<u>-</u>	<u>65,822,109</u>	<u>72,718,447</u>
Changes in net assets from operating activities	<u>1,031,286</u>	<u>(1,633,352)</u>	<u>(602,066)</u>	<u>(1,895,095)</u>
<b>Nonoperating activities</b>				
Interest and dividends, net	311,067	741,859	1,052,926	1,649,355
Realized and unrealized appreciation in fair value of investments	2,117,638	2,999,942	5,117,580	6,880,386
	<u>2,428,705</u>	<u>3,741,801</u>	<u>6,170,506</u>	<u>8,529,741</u>
Spending policy withdrawal (Note 9)	<u>-</u>	<u>(1,439,581)</u>	<u>(1,439,581)</u>	<u>(1,369,082)</u>
Changes in net assets from nonoperating activities	<u>2,428,705</u>	<u>2,302,220</u>	<u>4,730,925</u>	<u>7,160,659</u>
Changes in net assets	3,459,991	668,868	4,128,859	5,265,564
Net assets, beginning of year	<u>56,017,118</u>	<u>24,624,869</u>	<u>80,641,987</u>	<u>75,376,423</u>
Net assets, end of year	<u>\$ 59,477,109</u>	<u>\$ 25,293,737</u>	<u>\$ 84,770,846</u>	<u>\$ 80,641,987</u>

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

**MDRC**

**STATEMENT OF CASH FLOWS**

**Year ended December 31, 2020, with comparative information for 2019**

	<b>2020</b>	<b>2019</b>
<b>Cash flows from operating activities</b>		
Changes in net assets	\$ 4,128,859	\$ 5,265,564
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	735,124	965,383
Realized and unrealized appreciation in fair value of investments	(5,117,580)	(6,880,386)
Change in operating assets and liabilities:		
(Increase) decrease in contracts receivable	(4,995,511)	924,401
Increase in receivables and other assets	(255,455)	(15,965)
Decrease in 457(b) plan participant assets	162,723	57,428
(Decrease) increase in accounts payable and accrued expenses	(1,480,128)	2,060,735
(Decrease) increase in grant advances	(910,410)	2,283,758
(Decrease) increase in deferred rent	(228,551)	1,221,736
Decrease in 457(b) plan participant liability	(162,723)	(57,428)
	<b>(8,123,652)</b>	<b>5,825,226</b>
<b>Cash flows from investing activities</b>		
Purchase of furniture, equipment, and leasehold improvements	(279,242)	(738,930)
Purchase of investments	(28,766,920)	(45,906,588)
Proceeds from sales of investments	38,827,602	38,812,004
	<b>9,781,440</b>	<b>(7,833,514)</b>
<b>Cash flows from financing activities</b>		
Increase in loans payable - PPP Loan	4,648,200	-
	<b>4,648,200</b>	<b>-</b>
Increase (decrease) in cash and cash equivalents	6,305,988	(2,008,288)
<b>Cash and cash equivalents, beginning of year</b>	<b>988,668</b>	<b>2,996,956</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 7,294,656</b>	<b>\$ 988,668</b>

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

## MDRC

### NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

#### 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 bring 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:

- Economic Mobility, Housing, 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 and all of the nation’s largest cities, 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.



## MDRC

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

#### 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***

Research 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 funds whereby the donors have stipulated that the principal contributed be invested and maintained in perpetuity. Income earned from these investments is available for expenditure 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"). 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, 2020 and 2019, 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).

## MDRC

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

#### ***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 received in advance 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.

## MDRC

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

#### Allowance for Uncollectible Accounts

The carrying value of 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, 2020 and 2019, 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 MDRC's 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 Financial Accounting Standards Board ("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.

## MDRC

### NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

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 February 2016, the FASB issued Accounting Standards Update (“ASU”) 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.

#### ***COVID-19***

The pandemic caused by the SARS CoV-2 virus and its associated disease COVID-19 led to a change in work practices since March 2020; namely all the work being done remotely, with consequent adjustments to research work related to institutions that needed to be open for in-person activities for the work to be conducted. During the first quarter of 2021 MDRC's offices were made available to employees. MDRC continues to monitor its investment portfolio and its liquidity and is actively working to minimize and potential long-term impacts. MDRC is actively working with its research collaborators and funders and does not expect an adverse effect from the pandemic in its future work.

**MDRC**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2020 and 2019**

***Subsequent Events***

MDRC evaluated its December 31, 2020 financial statements for subsequent events through May 25, 2021, 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.

**NOTE 3 - INVESTMENTS**

The composition of MDRC's investments as of December 31, 2020 and 2019 follows:

	2020	
	Level 1	Total
Equity mutual funds	\$ 21,134,656	\$ 21,134,656
Fixed income mutual funds	7,354,265	7,354,265
Bonds	13,754,795	13,754,795
	<b>\$ 42,243,716</b>	<b>42,243,716</b>
Alternative investments reported at NAV		13,311,213
Cash and cash equivalents		22,916,476
Certificate of deposit		192,810
Total		<b>\$ 78,664,215</b>
	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
	<b>\$ 49,341,495</b>	<b>49,341,495</b>
Alternative investments reported at NAV		12,184,790
Cash and cash equivalents		21,889,209
Certificate of deposit		191,823
Total		<b>\$ 83,607,317</b>

**MDRC**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2020 and 2019**

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, 2020 and 2019.

2020							
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	\$ 4,683,041	6 to 8 years with extension option	\$ 437,500	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	968,931	1 to 2 years with extension option	-	N/A	As underlying investments are sold.	N/A
Equity long/short	2	6,764,989	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)	3	894,252	6 to 11 years with extension option	2,347,282	2023	As underlying investments are sold.	N/A
Total alternative investments	<u>12</u>	<u>\$ 13,311,213</u>		<u>\$ 2,784,782</u>			
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	<u>11</u>	<u>\$ 12,184,790</u>		<u>\$ 895,891</u>			

Investment management fees are netted against interest and dividends and totaled \$204,183 and \$369,404 in 2020 and 2019, respectively.

**MDRC**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2020 and 2019**

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 - LOANS PAYABLE - PPP LOAN**

In April 2020, MDRC was granted a loan totaling \$4,648,200 pursuant to the Small Business Administration Paycheck Protection Program under Division A, Title 1 of the CARES Act (the "PPP Loan"). The PPP Loan, which was in the form of a note dated April 20, 2020, matures on April 18, 2022 and bears interest at a rate of 1% per annum. The PPP Loan may be prepaid by MDRC at any time prior to maturity with no repayment penalties. Funds from the PPP Loan may only be used for certain costs, such as payroll costs and occupancy expenses. MDRC used the entire PPP Loan for qualifying expenses during fiscal 2020 and submitted a loan forgiveness request in accordance with the terms of the PPP Loan on May 6, 2021.

**NOTE 5 - FIXED ASSETS, NET**

Fixed assets, net, at December 31, 2020 and 2019 consist of the following:

	<u>2020</u>	<u>2019</u>
Leasehold improvements	\$ 12,249,472	\$ 11,970,230
Furniture and equipment	774,251	774,251
	13,023,723	12,744,481
Less accumulated depreciation and amortization	<u>(4,745,056)</u>	<u>(4,009,932)</u>
	<u>\$ 8,278,667</u>	<u>\$ 8,734,549</u>

Depreciation and amortization for the years ended December 31, 2020 and 2019 totaled \$735,124 and \$965,383, respectively.

**NOTE 6 - GRANT ADVANCES**

Grant advances totaling \$11,410,374 and \$12,320,784 at December 31, 2020 and 2019, 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, that is the stipulated barriers on which entitlement depends are satisfied, in accordance with the terms of the relevant agreements.

**MDRC**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2020 and 2019**

**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 \$7,495,687 and \$7,724,238 at December 31, 2020 and 2019, 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, 2020, future base rentals due under all lease agreements are as follows:

Year Ending December 31,

2021	\$ 3,604,948
2022	3,801,656
2023	3,825,876
2024	4,055,985
2025	4,149,983
Thereafter	<u>27,872,905</u>
	<u>\$ 47,311,353</u>

Occupancy costs (including utilities, storage, repairs and maintenance, and other costs) for the years ended December 31, 2020 and 2019 totaled \$3,192,459 and \$3,668,792, 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 \$137,700 for 2020 and \$132,900 for 2019. Pension expense for the years ended December 31, 2020 and 2019, which is included in fringe benefits cost, totaled \$1,574,096 and \$1,597,993, 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.



**MDRC**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2020 and 2019**

***Flexible Benefits Plan***

MDRC has a flexible benefits plan under Section 125 of the IRC. This plan allows employees to contribute up to \$7,750 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 plan 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, 2020 and 2019 totaled \$1,492,365 and \$1,655,088, respectively. Assets at December 31, 2020 are classified within the FASB's fair value hierarchy at Level 1 and Level 3 in the amounts of \$726,903 and \$765,462, 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. At December 31, 2020 and 2019, 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 as of December 31, 2020 and 2019:

	2020
Beginning balance, January 1, 2020	\$ 966,433
Employee contributions, payouts, and transfers, net	(221,420)
Investment return	20,449
	\$ 765,462
	2019
Beginning balance, January 1, 2019	\$ 1,103,356
Employee contributions, payouts, and transfers, net	(161,002)
Investment return	24,079
	\$ 966,433

**MDRC**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2020 and 2019**

**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, 2020 and 2019 and the changes in the endowment fund for the years then ended:

	2020		
	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	\$ -	\$ 25,293,737	\$ 25,293,737
Board-designated endowment fund	17,299,895	-	17,299,895
Total	<u>\$ 17,299,895</u>	<u>\$ 25,293,737</u>	<u>\$ 42,593,632</u>
Endowment net assets, beginning of year	\$ 15,637,139	\$ 22,991,517	\$ 38,628,656
Investment return:			
Interest and dividends	268,665	741,859	1,010,525
Net realized and unrealized appreciation	<u>1,394,091</u>	<u>2,999,942</u>	<u>4,394,033</u>
Total investment return	1,662,756	3,741,801	5,404,557
Spending policy withdrawal	<u>-</u>	<u>(1,439,581)</u>	<u>(1,439,581)</u>
Endowment net assets, end of year	<u>\$ 17,299,895</u>	<u>\$ 25,293,737</u>	<u>\$ 42,593,632</u>

**MDRC**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2020 and 2019**

	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	<u>\$ 15,637,139</u>	<u>\$ 22,991,517</u>	<u>\$ 38,628,656</u>
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	<u>1,857,526</u>	<u>2,768,403</u>	<u>4,625,929</u>
Total investment return	2,133,730	3,191,073	5,324,803
Other changes	-	(665,262)	(665,262)
Spending policy withdrawal	<u>-</u>	<u>(1,369,082)</u>	<u>(1,369,082)</u>
Endowment net assets, end of year	<u>\$ 15,637,139</u>	<u>\$ 22,991,517</u>	<u>\$ 38,628,656</u>

**NOTE 10 - NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions at December 31, 2020 and 2019 consist of the following:

	2020	2019
Economic Mobility, Housing, and Communities	\$ -	\$ 58,453
K-12 Education	-	16,558
Youth, Criminal Justice and Employment	<u>-</u>	<u>1,558,341</u>
Research purposes	-	1,633,352
Donor-restricted endowment funds (Note 9)	<u>25,293,737</u>	<u>22,991,517</u>
	<u>\$ 25,293,737</u>	<u>\$ 24,624,869</u>

**MDRC**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2020 and 2019**

**NOTE 11 - NET ASSETS RELEASED FROM RESTRICTIONS**

Net assets were released following satisfaction of the following program purposes during the years ended December 2020 and 2019 as follows:

	2020	2019
Economic Mobility, Housing, and Communities	\$ 58,453	\$ 358,604
K-12 Education	16,558	41,748
Youth, Criminal Justice and Employment	1,558,341	2,122,387
Family Well-being and Child Development	-	514,912
Post Secondary Education	-	239,884
Information Dissemination, Program Development, Methodology and Strategic Initiatives	-	39
	\$ 1,633,352	\$ 3,277,574

**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 58% and 63% of MDRC's total revenues and support in 2020 and 2019, respectively, of which the U.S. Department of Health and Human Services and the U.S. Department of Education represented 72% and 22%, respectively, of federal government support for 2020 and 69% and 22%, respectively, of federal government support for 2019.

**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, 2020 and 2019. 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 of 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 2020 and 2019, over 57% and 63%, respectively, 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.

**MDRC**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2020 and 2019**

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, 2020 and 2019, financial assets available within one year for general expenditure are as follows:

	2020	2019
As of December 31st		
Cash and cash equivalents	\$ 7,294,656	\$ 988,668
Contracts and grants receivable, due within one year	20,672,459	15,676,948
Investments	78,664,215	83,607,317
	106,631,330	100,272,933
Less:		
Net assets with donor restrictions:		
Amounts subject to expenditures for specified purposes	-	1,633,352
Amounts subject to appropriation and satisfaction of donor-restricted endowment funds	25,293,737	22,991,517
Total amounts unavailable due to donor restrictions or law	25,293,737	24,624,869
Total financial assets available to management for general expenditure before amounts subject to the Board's approval	81,337,593	75,648,064
Less:		
Board designated - funds functioning as endowment fund	17,299,895	15,637,139
Total financial assets available for general expenditure before endowment draw	64,037,698	60,010,925
Plus:		
Available bank lines of credit (undrawn)	5,000,000	5,000,000
Amounts authorized for appropriation from the endowment for the following year (estimated)	1,522,000	1,440,000
Total financial assets available for general expenditure within one year	\$ 70,559,698	\$ 66,450,925

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 whereby 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.

MDRC

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

**NOTE 15 - FUNCTIONAL EXPENSES**

The following table represents functional expenses by natural expense category reported by research area: economic mobility, housing, 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, 2020 with summarized comparative totals for 2019:

Description	Research Services										Supporting Services		2020 Total	2019 Total
	Economic Mobility, Housing, 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			
	Personnel	\$ 2,701,786	\$ 2,605,464	\$ 4,758,495	\$ 3,235,877	\$ 3,220,899	\$ 1,011,570	\$ 1,157,112	\$ 1,983,264	\$ 20,674,468	\$ 8,913	\$ 7,616,665		
Fringe benefits	786,381	758,328	1,426,905	985,033	914,015	299,691	341,420	563,727	6,075,499	2,544	2,175,649	8,253,692	8,398,748	
Surveys	206,004	10,618	530,550	1,265,368	123,955	-	-	-	2,136,495	-	-	2,136,495	2,726,831	
Subcontracts and professional fees	971,164	864,866	2,790,985	4,371,368	544,340	251,262	776,881	187,328	10,758,195	108	2,236,494	12,994,797	17,561,196	
Site program payments	1,609,412	(7,350)	385,504	346,276	666,017	45,000	880,500	-	3,925,358	-	-	3,925,358	3,843,021	
Participant incentives	8,043	6,382	17,469	59,965	58,789	555	-	-	151,202	-	180	151,382	127,106	
Occupancy	417,365	397,432	351,005	509,217	389,468	143,670	120,266	239,628	2,568,052	-	624,407	3,192,459	3,668,792	
Communications	102,390	85,331	90,385	87,882	78,276	24,505	23,795	40,278	532,842	-	127,054	659,896	603,550	
Supplies	8,770	7,203	8,473	8,066	6,701	2,152	2,096	3,779	47,239	-	10,883	58,122	128,388	
Insurance	25,665	24,750	45,202	30,738	30,596	9,609	10,992	18,839	196,391	85	72,350	268,826	367,704	
Furniture, equipment, and licenses	667,686	532,339	556,603	545,254	493,083	155,811	143,830	257,969	3,352,574	1,473	105,845	3,459,892	3,082,098	
Depreciation and amortization	70,182	67,679	123,607	84,056	83,666	26,277	30,057	51,518	537,042	232	197,850	735,124	965,383	
Travel	16,032	13,444	11,829	47,950	17,028	543	65,545	15,877	188,249	-	127,971	316,220	942,422	
Printing and reproduction	170	318	1,370	4,924	1,136	57	17	1,130	9,122	-	31,669	40,791	203,776	
Professional development	140	1,355	445	3,640	16,832	-	270	10,632	33,314	-	150,220	183,534	99,084	
Miscellaneous	121,714	110,344	226,044	151,519	148,134	44,782	48,939	81,676	933,153	58	212,263	1,145,474	984,517	
<b>Total functional expenses</b>	<b>\$ 7,712,904</b>	<b>\$ 5,478,502</b>	<b>\$ 11,324,871</b>	<b>\$ 11,737,132</b>	<b>\$ 6,792,937</b>	<b>\$ 2,015,485</b>	<b>\$ 3,601,720</b>	<b>\$ 3,455,645</b>	<b>\$ 52,119,196</b>	<b>\$ 13,413</b>	<b>\$ 13,689,500</b>	<b>\$ 65,822,109</b>	<b>\$ 72,718,447</b>	