

Financial Statements Together with  
Report of Independent Certified Public Accountants

**MDRC**

December 31, 2010, with comparative information for 2009

# MDRC

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of  
**MDRC:**

We have audited the accompanying statement of financial position of MDRC as of December 31, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of MDRC's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from MDRC's 2009 financial statements and, in our report dated June 25, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MDRC as of December 31, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Grant Thornton LLP*

New York, New York

June 10, 2011

# MDRC

## Statement of Financial Position

As of December 31, 2010, with comparative information for 2009

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ASSETS	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 4,385,290	\$ 3,810,084
Contracts receivable	11,736,046	14,153,433
Receivables and other assets	1,010,909	2,455,456
Contributions receivable, net (Note 4)	13,152,589	15,910,043
Investments (Note 3)	55,452,469	53,938,069
Fixed assets, net (Note 5)	860,400	847,829
Total assets	<u>\$ 86,597,703</u>	<u>\$ 91,114,914</u>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 6,708,662	\$ 7,837,405
Grant advances (Note 6)	61,230	108,607
Deferred rent (Note 7)	248,326	152,041
Total liabilities	<u>7,018,218</u>	<u>8,098,053</u>
 Commitments (Note 7)		
<b>NET ASSETS</b>		
Unrestricted:		
Undesignated	21,634,871	20,070,302
Board designated - endowment fund (Note 9)	8,327,793	8,131,219
Total unrestricted net assets	<u>29,962,664</u>	<u>28,201,521</u>
 Temporarily restricted (Note 10):		
Program purposes	29,191,675	34,912,768
Term endowment (Note 9)	11,475,146	10,952,572
Total temporarily restricted net assets	<u>40,666,821</u>	<u>45,865,340</u>
 Permanently restricted - endowment fund (Note 9)		
Total net assets	<u>8,950,000</u>	<u>8,950,000</u>
Total liabilities and net assets	<u>\$ 86,597,703</u>	<u>\$ 91,114,914</u>

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

# MDRC

## Statement of Activities

For the year ended December 31, 2010, with comparative totals for 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2010 Total</u>	<u>2009 Total</u>
<b>OPERATING ACTIVITIES</b>					
Revenues and support:					
Government contracts and grants:					
Federal	\$ 36,054,959	\$ -	\$ -	\$ 36,054,959	\$ 50,014,377
New York City	-	-	-	-	98,408
Foreign government	972,828	-	-	972,828	286,950
Contributions and grants:					
Foundations	-	20,623,912	-	20,623,912	19,349,322
Universities and other	3,059,349	-	-	3,059,349	3,500,117
Spending policy withdrawal	1,166,190	-	-	1,166,190	1,136,558
Management fees	1,248,729	-	-	1,248,729	656,968
Net assets released from restrictions (Note 11)	26,848,737	(26,848,737)	-	-	-
Total revenues and support	<u>69,350,792</u>	<u>(6,224,825)</u>	<u>-</u>	<u>63,125,967</u>	<u>75,042,700</u>
<b>EXPENSES</b>					
Program services:					
Low-wage workers and communities	14,414,053	-	-	14,414,053	19,286,621
K-12 education	4,217,173	-	-	4,217,173	4,336,296
Health and barriers to employment	12,731,755	-	-	12,731,755	26,848,666
Family well-being and child development	18,357,972	-	-	18,357,972	18,325,274
Young adults and postsecondary education	8,905,860	-	-	8,905,860	8,301,846
Information dissemination, program development, methodology and strategic initiatives	2,131,620	-	-	2,131,620	1,997,846
Total program services	<u>60,758,433</u>	<u>-</u>	<u>-</u>	<u>60,758,433</u>	<u>79,096,549</u>
Supporting services:					
Fundraising	5,579	-	-	5,579	3,787
General and administrative	7,344,109	-	-	7,344,109	7,203,407
Total supporting services	<u>7,349,688</u>	<u>-</u>	<u>-</u>	<u>7,349,688</u>	<u>7,207,194</u>
Total expenses	<u>68,108,121</u>	<u>-</u>	<u>-</u>	<u>68,108,121</u>	<u>86,303,743</u>
Changes in net assets from operating activities	<u>1,242,671</u>	<u>(6,224,825)</u>	<u>-</u>	<u>(4,982,154)</u>	<u>(11,261,043)</u>
<b>NONOPERATING ACTIVITIES</b>					
Interest and dividends	581,895	156,729	-	738,624	760,735
Realized and unrealized appreciation in fair market value of investments	1,452,837	519,507	-	1,972,344	3,543,170
	2,034,732	676,236	-	2,710,968	4,303,905
Spending policy withdrawal	(1,166,190)	-	-	(1,166,190)	(1,136,558)
Changes in net assets from nonoperating activities	<u>868,542</u>	<u>676,236</u>	<u>-</u>	<u>1,544,778</u>	<u>3,167,347</u>
Reclassification of net assets due to adoption of Delaware State UPMIFA (Note 9)					
Changes in net assets	(350,070)	350,070	-	-	-
	1,761,143	(5,198,519)	-	(3,437,376)	(8,093,696)
Net assets, beginning of year	<u>28,201,521</u>	<u>45,865,340</u>	<u>8,950,000</u>	<u>83,016,861</u>	<u>91,110,557</u>
Net assets, end of year	<u>\$ 29,962,664</u>	<u>\$ 40,666,821</u>	<u>\$ 8,950,000</u>	<u>\$ 79,579,485</u>	<u>\$ 83,016,861</u>

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

## MDRC

### Statement of Cash Flows

For the year ended December 31, 2010, with comparative information for 2009

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	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ (3,437,376)	\$ (8,093,696)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	306,112	374,187
Realized and unrealized appreciation in fair market value of investments	(1,972,344)	(3,543,170)
Change in operating assets and liabilities:		
Decrease in contracts receivable	2,417,387	190,105
Decrease in receivables and other assets	1,444,547	957,987
Decrease in contributions receivable	2,757,454	9,300,638
Decrease in accounts payable and accrued expenses	(1,128,743)	(2,126,766)
(Decrease) increase in grant advances	(47,377)	106,681
Increase in deferred rent	96,285	74,457
Net cash provided by (used in) operating activities	<u>435,945</u>	<u>(2,759,577)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of furniture and equipment	(318,683)	(449,891)
Purchase of investments	(4,563,441)	(20,637,285)
Proceeds from sales of investments	5,021,385	15,820,173
Net cash provided by (used in) investing activities	<u>139,261</u>	<u>(5,267,003)</u>
Increase (decrease) in cash and cash equivalents	575,206	(8,026,580)
Cash and cash equivalents, beginning of year	<u>3,810,084</u>	<u>11,836,664</u>
Cash and cash equivalents, end of year	<u>\$ 4,385,290</u>	<u>\$ 3,810,084</u>

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

# **MDRC**

## **Notes to Financial Statements**

### **December 31, 2010 and 2009**

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#### **1. ORGANIZATION**

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

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

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

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

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

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

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Accounting Standards Codification**

In June 2009, the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 105 was issued, which established the FASB Accounting Standards Codification as the source of authoritative U.S. generally accepted accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements. MDRC has applied this guidance in the preparation of the accompanying financial statements.

**MDRC**  
**Notes to Financial Statements**  
**December 31, 2010 and 2009**

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**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. MDRC reports information regarding its financial position and changes in net assets in accordance with the existence or absence of donor-imposed restrictions, as follows:

Unrestricted net assets

Unrestricted net assets consist of the following:

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

MDRC's Board of Directors created an Endowment Fund in May 1999 (see Note 9) comprised of certain unrestricted contributions designated by MDRC's governing board together with permanently restricted and certain temporarily restricted contributions received for this purpose.

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

Temporarily restricted net assets - include resources that have been limited by donor-imposed stipulations that either expire with the passage of time and/or can be fulfilled and removed by actions of MDRC pursuant to those stipulations. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported on the statement of activities as net assets released from restrictions.

Term endowment refers to contributions that are similar in nature to a permanent endowment, except that its terms and conditions give the donor the right to decide on the future use of those funds after an established period of time, or when the donor allows for invasion of the principal after a predetermined period of time. The donor has authorized MDRC, on an annual basis, to withdraw funds from the fund in support of its core operating activities based on 5% of the portfolio's average fair value over the prior 12 quarters. As of December 31, 2010 and 2009, these funds along with earnings thereon, net of annual disbursements, have not been classified by the donor as permanently restricted and are therefore reflected as part of temporarily restricted net assets on the statement of financial position (see also Note 10).

Permanently restricted net assets - include funds whereby the donors have stipulated that the principal contributed be invested and maintained in perpetuity. Income earned from these investments is available for expenditures according to restrictions, if any, imposed by donors.

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**Notes to Financial Statements**  
**December 31, 2010 and 2009**

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**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 fixed income securities, equity and fixed income mutual funds, and a certificate of deposit, are stated at fair value. 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. Values may be based on historical cost, appraisals, fair values based on concentration of ownership or other estimates that require varying degrees of judgment. Therefore, such investments are subject to volatility in market conditions. Accordingly, it is reasonably possible that the value of such investments could substantially change in the near term.

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

**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 one year.

**Revenue Recognition**

Contributions

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

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. 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 or contract awards received are recognized as unrestricted support to the extent that related expenses are incurred in compliance with the terms of the relevant grant or contract agreement. Any unexpended funds are reported as grant advances on the statement of financial position.

**MDRC**  
**Notes to Financial Statements**  
**December 31, 2010 and 2009**

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**Operating Measure**

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

**Spending Policy Withdrawal**

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

**Functional Allocation of Expenses**

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

**Presentation of Certain Prior Year Information**

The accompanying financial statements include certain prior year summarized comparative information in total but not by net asset or functional expense class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with MDRC's financial statements as of and for the year ended December 31, 2009, from which the summarized information was derived.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

**Fair Value Measurements**

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

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

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

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**Notes to Financial Statements**  
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- Level 2 - Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the measurement date, and fair value is determined through the use of models or other valuation methodologies. Also included in Level 2 are investments using a net asset value (“NAV”) per share, or its equivalent, that may be redeemed at NAV at the reporting date or in the near term, which MDRC has determined to be within 90 days.
- Level 3 - Pricing inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include privately held investments and partnership interests. Also included in Level 3 are investments measured using a NAV per share, or its equivalent, that can never be redeemed at NAV at the reporting date or in the near term or for which redemption at NAV is uncertain due to lockup periods or other investment restrictions.

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

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

**Income Taxes**

MDRC adopted ASC 740-10 as of January 1, 2009. ASC 740-10 clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This section provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged. MDRC is exempt from income tax under IRC section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. The tax years ending 2007, 2008, 2009 and 2010 are still open to audit for both federal and state purposes. The adoption of ASC 740-10 did not have a material impact on MDRC's financial statements.

**Subsequent Events**

MDRC evaluated its December 31, 2010 financial statements for subsequent events through June 10, 2011, the date the financial statements were available to be issued. MDRC is not aware of any subsequent events which require recognition or disclosure in its financial statements.

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**Notes to Financial Statements**  
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**3. INVESTMENTS**

Investments, at fair value, at December 31, 2010 and 2009, consist of the following:

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 12,061,800	\$ 13,285,784
Fixed income securities	5,083,022	6,150,406
Equity mutual funds	18,782,228	17,571,262
Fixed income mutual funds	11,449,956	10,151,314
Limited partnerships	7,619,291	6,327,041
Certificate of deposit	456,172	452,262
	<u>\$ 55,452,469</u>	<u>\$ 53,938,069</u>

The following tables present MDRC's investments classified within the FASB's fair value hierarchy as of December 31, 2010 and 2009. At December 31, 2010 and 2009, Level 3 investments comprised approximately 6% and 4%, respectively, of MDRC's total investments.

	<u>2010</u>			
	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	\$ 12,061,800	\$ 12,061,800	\$ -	\$ -
Fixed income securities	5,083,022	5,083,022	-	-
Equity mutual funds	18,782,228	18,782,228	-	-
Fixed income mutual funds	11,449,956	11,449,956	-	-
Limited partnerships	7,619,291	-	4,563,046	3,056,245
Certificate of deposit	456,172	456,172	-	-
	<u>\$ 55,452,469</u>	<u>\$ 47,833,178</u>	<u>\$ 4,563,046</u>	<u>\$ 3,056,245</u>
	<u>2009</u>			
	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	\$ 13,285,784	\$ 13,285,784	\$ -	\$ -
Fixed income securities	6,150,406	6,150,406	-	-
Equity mutual funds	17,571,262	17,571,262	-	-
Fixed income mutual funds	10,151,314	10,151,314	-	-
Limited partnerships	6,327,041	-	4,208,505	2,118,536
Certificate of deposit	452,262	452,262	-	-
	<u>\$ 53,938,069</u>	<u>\$ 47,611,028</u>	<u>\$ 4,208,505</u>	<u>\$ 2,118,536</u>

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The following table presents a reconciliation for Level 3 investments measured at fair value for the year January 1, 2010 to December 31, 2010:

	<u><b>Level 3</b></u> <u><b>Assets</b></u>
Beginning balance, January 1, 2010	\$ 2,118,536
Net realized and unrealized appreciation	369,765
Purchases	779,538
Sales	<u>(211,594)</u>
Ending balance, December 31, 2010	<u><u>\$ 3,056,245</u></u>

The following table presents a reconciliation for Level 3 investments measured at fair value for the year January 1, 2009 to December 31, 2009:

	<u><b>Level 3</b></u> <u><b>Assets</b></u>
Beginning balance, January 1, 2009	\$ 1,931,056
Net realized and unrealized depreciation	6,918
Purchases	413,411
Sales	<u>(232,849)</u>
Ending balance, December 31, 2009	<u><u>\$ 2,118,536</u></u>

MDRC uses NAV to determine the fair value of all the underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. In accordance with Accounting Standards Update 2009-12, the following table lists investments by major category which have a reported fair value using a NAV:

<b>2010</b>								
<u>Alternative Investment Strategy</u>	<u>Number of Funds</u>	<u>NAV in Funds</u>	<u>Remaining Life</u>	<u>\$ Amount of Unfunded Commitments</u>	<u>Timing to Draw Down Commitments</u>	<u>Redemption Terms</u>	<u>Redemption Restrictions</u>	<u>Level</u>
Alternative Investments (Limited Partnerships):								
Multi-strategy	1	\$ 2,750,360	N/A	N/A	N/A	Monthly with five days notice	N/A	2
Real Assets	4	1,883,300	4 to 9 years with extension option	\$ 221,910	2019	As underlying investments are sold	N/A	3
Equity Long/Short	2	1,812,686	N/A	N/A	N/A	Quarterly redemption with 60 days notice and semi-annual redemption with 75 days notice	N/A	2
Private Equity	<u>1</u>	<u>1,172,945</u>	8 years with extension option	\$ 662,481	2014	As underlying investments are sold	N/A	3
Total Alternative Investments	<u><u>8</u></u>	<u><u>\$ 7,619,291</u></u>						

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<b>2009</b>		
<b>Alternative Investment Strategy</b>	<b>Number of Funds</b>	<b>NAV in Funds</b>
Alternative Investments (Limited Partnerships):		
Multi-strategy	1	\$ 2,675,623
Real Assets	4	1,811,151
Equity Long/Short	2	1,532,882
Private Equity	<u>1</u>	<u>307,385</u>
Total Alternative Investments	<u>8</u>	<u>\$ 6,327,041</u>

Investment management fees are netted against interest and dividends and totaled \$116,542 and \$107,665 in 2010 and 2009, 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 valuations provided by the respective general partner or investment manager.

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

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

MDRC's remaining capital call commitments on its alternative investments at December 31, 2010 totaled approximately \$884,000 and are expected to be satisfied within 5 to 10 years.

**4. CONTRIBUTIONS RECEIVABLE, NET**

MDRC recognizes all contributions receivable at the present value of their estimated future cash flows, discounted using credit adjusted discount rates applicable to the years in which the promises were received and which articulate with the collection period of the respective receivable. Such discount rates ranged from 0.40% to 3.12% at December 31, 2010 and 2009, respectively. Contributions receivable from foundations, corporations, and individuals at December 31, 2010 and 2009, are expected to be collected as follows:

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	<u>2010</u>	<u>2009</u>
Amounts expected to be collected in:		
One year	\$ 7,141,989	\$ 11,071,537
One to three years	<u>6,097,253</u>	<u>4,938,750</u>
	13,239,242	16,010,287
Less discount to present value	<u>(86,653)</u>	<u>(100,244)</u>
	<u>\$ 13,152,589</u>	<u>\$ 15,910,043</u>

**5. FIXED ASSETS, NET**

Fixed assets, net, at December 31, 2010 and 2009, consist of the following:

	<u>2010</u>	<u>2009</u>
Leasehold improvements	\$ 917,362	\$ 831,189
Furniture and equipment	<u>9,164,926</u>	<u>8,932,416</u>
	10,082,288	9,763,605
Less accumulated depreciation and amortization	<u>(9,221,888)</u>	<u>(8,915,776)</u>
	<u>\$ 860,400</u>	<u>\$ 847,829</u>

Depreciation and amortization expense for the years ended December 31, 2010 and 2009 totaled \$306,112 and \$374,187, respectively.

**6. GRANT ADVANCES**

Grant advances totaling \$61,230 and \$108,607 at December 31, 2010 and 2009, respectively, consist of unexpended grant funds from the University of Texas and from Public Strategies, Inc.

**7. COMMITMENTS/DEFERRED RENT**

**Operating Lease**

On January 31, 2007, MDRC amended its New York office lease, which extended the lease from August 31, 2008 to August 31, 2018. On June 11, 2010, MDRC amended its lease for the California Regional Office, which extended the lease from February 28, 2011 to February 28, 2019. On July 23, 2010, MDRC entered into a sublease as lessee for additional space in its New York office. The sublease terminates on August 31, 2012. The terms of the leases include certain rent escalations and concessions that are being recognized over the terms of the respective leases. The deferred rent balances totaled \$248,326 and \$152,041 at December 31, 2010 and 2009, respectively.

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

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

<b>Year ending December 31:</b>	
2011	\$ 1,986,841
2012	1,956,395
2013	1,947,470
2014	2,082,295
2015	2,089,901
Thereafter	<u>5,756,856</u>
	<u>\$ 15,819,758</u>

Occupancy costs (including utilities, storage, repairs and maintenance, and other costs) for the years ended December 31, 2010 and 2009 totaled \$2,523,748 and \$2,479,195, respectively.

**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 (\$106,800 for 2010 and 2009). Pension expense for the years ended December 31, 2010 and 2009, which is included in fringe benefits cost, totaled \$985,032 and \$972,584, respectively.

**Tax-Sheltered Annuity Plan**

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

**Flexible Benefits Plan**

MDRC has a flexible benefits plan under Section 125 of the Internal Revenue Code. This plan allows employees to contribute up to \$10,000 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.

**9. ENDOWMENT FUND**

The Uniform Prudent Management of Institutional Funds Acts (“UPMIFA”) as enacted by the State of Delaware applies to all institutional funds of MDRC unless the donor has specifically directed otherwise. UPMIFA requires the preservation of the “historic dollar value” of the original gift as of the gift date for donor-restricted endowment funds in the absence of explicit donor stipulations to the contrary. As a result of such interpretation, MDRC, as a Delaware State corporation, classifies as permanently restricted net assets the original value of donor-restricted endowment funds, the original value of subsequent gifts to donor-restricted endowment funds and the value of accumulations to such funds, made in accordance with the applicable gift instrument at the time the relevant accumulation was added to the fund.

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

In August 2008, the FASB issued new accounting guidance related to the disclosure of endowment funds and addresses the net asset classification of donor-restricted endowment funds for organizations subject to an enacted version of the 2006 Uniform Prudent Management of Institutional Funds Act. A key component of this guidance is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure.

The following tables illustrate the composition of MDRC's endowment fund as of December 31, 2010 and 2009 and the changes in the endowment fund for the years then ended:

	<b>2010</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ -	\$ 11,475,146	\$ 8,950,000	\$ 20,425,146
Board-designated endowment funds	<u>8,327,793</u>	<u>-</u>	<u>-</u>	<u>8,327,793</u>
Total	<u>\$ 8,327,793</u>	<u>\$ 11,475,146</u>	<u>\$ 8,950,000</u>	<u>\$ 28,752,939</u>
Endowment net assets, beginning of year	\$ 8,131,219	\$ 10,952,572	\$ 8,950,000	\$ 28,033,791
Net asset reclassification based on change in law (Delaware State UPMIFA adoption)	<u>(350,070)</u>	<u>350,070</u>	<u>-</u>	<u>-</u>
Endowment net assets after reclassification	<u>7,781,149</u>	<u>11,302,642</u>	<u>8,950,000</u>	<u>28,033,791</u>
Investment return:				
Interest and dividends	263,755	133,124	-	396,879
Net realized and unrealized appreciation	<u>968,952</u>	<u>519,507</u>	<u>-</u>	<u>1,488,459</u>
Total investment return	1,232,707	652,631	-	1,885,338
Net assets released from restrictions	480,127	(480,127)	-	-
Spending policy withdrawal	<u>(1,166,190)</u>	<u>-</u>	<u>-</u>	<u>(1,166,190)</u>
Endowment net assets, end of year	<u>\$ 8,327,793</u>	<u>\$ 11,475,146</u>	<u>\$ 8,950,000</u>	<u>\$ 28,752,939</u>

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	<b>2009</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ -	\$ 10,952,572	\$ 8,950,000	\$ 19,902,572
Board-designated endowment funds	8,131,219	-	-	8,131,219
Total	<u>\$ 8,131,219</u>	<u>\$ 10,952,572</u>	<u>\$ 8,950,000</u>	<u>\$ 28,033,791</u>
Endowment net assets, beginning of year	\$ 6,633,048	\$ 10,250,503	\$ 8,950,000	\$ 25,833,551
Investment return:				
Interest and dividends	334,050	180,454	-	514,504
Net realized and unrealized appreciation	1,799,566	1,022,728	-	2,822,294
Total investment loss	2,133,616	1,203,182	-	3,336,798
Net assets released from restrictions	501,113	(501,113)	-	-
Spending policy withdrawal	(1,136,558)	-	-	(1,136,558)
Endowment net assets, end of year	<u>\$ 8,131,219</u>	<u>\$ 10,952,572</u>	<u>\$ 8,950,000</u>	<u>\$ 28,033,791</u>

**10. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets at December 31, 2010 and 2009 consist of the following:

	<b>2010</b>	<b>2009</b>
Low-wage workers and communities	\$ 8,409,135	\$ 12,284,819
K-12 education	2,720,297	67,166
Health and barriers to employment	3,754,560	2,690,349
Family well-being and child development	743,994	730,379
Young adults and postsecondary education	13,312,432	18,146,182
Information dissemination, program development, methodology and strategic initiatives	<u>251,257</u>	<u>993,873</u>
Program purposes	29,191,675	34,912,768
Term endowment	<u>11,475,146</u>	<u>10,952,572</u>
	<u>\$ 40,666,821</u>	<u>\$ 45,865,340</u>

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

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**11. NET ASSETS RELEASED FROM RESTRICTIONS**

Temporarily restricted net assets were released from restrictions during the years ended December 31, 2010 and 2009 in satisfaction of donor time or use restrictions as follows:

	<u>2010</u>	<u>2009</u>
Low-wage workers and communities	\$ 13,257,292	\$ 18,679,728
K-12 education	852,334	310,990
Health and barriers to employment	1,772,465	2,251,019
Family well-being and child development	415,459	768,939
Young adults and postsecondary education	9,159,032	8,610,968
Information dissemination, program development, methodology and strategic initiatives	1,392,155	1,057,100
	<u>\$ 26,848,737</u>	<u>\$ 31,678,744</u>

**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 57% and 67% of MDRC's total revenues and support in 2010 and 2009, respectively, of which the U.S. Department of Health and Human Services and the Social Security Administration represented 63% and 21% of federal government support for 2010 and 47% and 45% of federal government support for 2009, respectively.