

Financial Statements and Report of
Independent Certified Public
Accountants

MDRC

For the year ended December 31, 2021, with
comparative information for 2020

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
MDRC

Opinion

We have audited the financial statements of MDRC, which comprise the statement of financial position as of December 31, 2021, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of MDRC as of December 31, 2021, 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.

Basis for opinion

We conducted our audits of the financial statements in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of MDRC and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about MDRC's ability to continue as a going concern for one year after the date the financial statements are issued.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material

misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about MDRC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on 2020 summarized comparative information

We have previously audited MDRC's 2020 financial statements (not presented herein), and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 25, 2021. In our opinion, the accompanying summarized comparative information as of and for the year ended December 31, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Grant Thornton LLP

New York, New York
July 27, 2022

MDRC

STATEMENT OF FINANCIAL POSITION

As of December 31, 2021, with comparative information for 2020

	2021	2020
ASSETS		
Cash and cash equivalents	\$ 3,974,293	\$ 7,294,656
Contracts and grants receivable	25,110,149	20,672,459
Receivables and other assets	1,757,378	2,147,229
Investments (Note 3)	104,178,314	78,664,215
457(b) plan assets (Note 8)	1,333,954	1,492,365
Fixed assets, net (Note 5)	7,565,518	8,278,667
Total assets	\$ 143,919,606	\$ 118,549,591
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 16,083,919	\$ 8,732,119
Grant advances (Note 6)	12,811,241	11,410,374
Deferred rent (Note 7)	7,408,230	7,495,687
457(b) plan liability (Note 8)	1,333,954	1,492,365
Loan payable - PPP long-term loan (Note 4)	-	4,648,200
Total liabilities	37,637,344	33,778,745
Commitments and contingencies (Notes 3, 4, 7)		
Net assets		
Net assets without donor restrictions		
Undesignated	34,438,923	33,898,547
Plant fund	7,565,518	8,278,667
Board-designated - strategic purposes (Note 2)	14,759,779	-
Board-designated - endowment fund (Note 9)	23,042,076	17,299,895
Total net assets without donor restrictions	79,806,296	59,477,109
Net assets with donor restrictions (Note 10)		
Donor-restricted endowment funds (Note 9)	26,475,966	25,293,737
Total net assets	106,282,262	84,770,846
Total liabilities and net assets	\$ 143,919,606	\$ 118,549,591

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

MDRC

STATEMENT OF ACTIVITIES

Year ended December 31, 2021, with comparative totals for 2020

	Without Donor Restrictions	With Donor Restrictions	2021 Total	2020 Total
Operating activities				
Revenues and support				
Government contracts and grants				
Federal	\$ 45,809,880	\$ -	\$ 45,809,880	\$ 37,566,666
New York City	-	-	-	118,272
Contributions, contracts and grants				
Foundations	18,023,741	-	18,023,741	21,469,081
Universities and other	5,731,885	-	5,731,885	3,314,163
Charitable grant	15,000,000	-	15,000,000	-
PPP Loan Forgiveness (Note 4)	4,648,200	-	4,648,200	-
Spending policy withdrawal (Note 9)	1,522,836	-	1,522,836	1,439,581
Management fees	1,435,052	-	1,435,052	1,312,280
Total revenues and support	<u>92,171,594</u>	<u>-</u>	<u>92,171,594</u>	<u>65,220,043</u>
Expenses (Note 15)				
Research areas				
Economic mobility, housing, and communities	5,647,741	-	5,647,741	7,712,904
K-12 Education	6,305,141	-	6,305,141	5,478,502
Youth development, criminal justice, and employment	13,466,286	-	13,466,286	11,324,871
Family well-being and child development	16,783,264	-	16,783,264	11,737,132
Postsecondary education	9,518,011	-	9,518,011	6,792,937
Center for applied behavioral science	1,638,749	-	1,638,749	2,015,485
Center for data insights	4,168,333	-	4,168,333	3,601,720
Information dissemination, program development, methodology and strategic initiatives	3,136,988	-	3,136,988	3,455,645
Total research areas	<u>60,664,513</u>	<u>-</u>	<u>60,664,513</u>	<u>52,119,196</u>
Supporting services				
Fundraising	7,941	-	7,941	13,413
General and administrative	13,903,385	-	13,903,385	13,689,500
Total supporting services	<u>13,911,326</u>	<u>-</u>	<u>13,911,326</u>	<u>13,702,913</u>
Total expenses	<u>74,575,839</u>	<u>-</u>	<u>74,575,839</u>	<u>65,822,109</u>
Change in net assets from operating activities, before transfer	17,595,755	-	17,595,755	(602,066)
Transfer from operations to establish board-designated - strategic purposes	<u>(14,759,779)</u>	<u>-</u>	<u>(14,759,779)</u>	<u>-</u>
Change in net assets from operating activities, after transfer	<u>2,835,976</u>	<u>-</u>	<u>2,835,976</u>	<u>(602,066)</u>
Nonoperating activities				
Interest and dividends, net	389,854	620,522	1,010,376	1,052,926
Realized and unrealized appreciation in fair value of investments	2,343,578	2,084,543	4,428,121	5,117,580
Spending policy withdrawal	-	(1,522,836)	(1,522,836)	(1,439,581)
Transfer from operations to establish board-designated - strategic purposes	14,759,779	-	14,759,779	-
Changes in net assets from nonoperating activities	<u>17,493,211</u>	<u>1,182,229</u>	<u>18,675,440</u>	<u>4,730,925</u>
CHANGES IN NET ASSETS	20,329,187	1,182,229	21,511,416	4,128,859
Net assets, beginning of year	<u>59,477,109</u>	<u>25,293,737</u>	<u>84,770,846</u>	<u>80,641,987</u>
Net assets, end of year	<u>\$ 79,806,296</u>	<u>\$ 26,475,966</u>	<u>\$ 106,282,262</u>	<u>\$ 84,770,846</u>

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

MDRC

STATEMENT OF CASH FLOWS

Year ended December 31, 2021, with comparative information for 2020

	2021	2020
Cash flows from operating activities		
Changes in net assets	\$ 21,511,416	\$ 4,128,859
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	714,668	735,124
Gain on forgiveness of debt	(4,648,200)	-
Realized and unrealized appreciation in fair value of investments	(4,428,121)	(5,117,580)
Change in operating assets and liabilities:		
Increase in contracts receivable	(4,437,690)	(4,995,511)
Decrease (increase) in receivables and other assets	389,851	(255,455)
Decrease in 457(b) plan participant assets	158,411	162,723
Increase (decrease) in accounts payable and accrued expenses	7,351,800	(1,480,128)
Increase (decrease) in grant advances	1,400,867	(910,410)
Decrease in deferred rent	(87,457)	(228,551)
Decrease in 457(b) plan participant liability	(158,411)	(162,723)
Net cash provided by (used in) operating activities	17,767,134	(8,123,652)
Cash flows from investing activities		
Purchase of furniture, equipment, and leasehold improvements	(1,519)	(279,242)
Purchase of investments	(21,674,455)	(28,766,920)
Proceeds from sales of investments	588,477	38,827,602
Net cash (used in) provided by investing activities	(21,087,497)	9,781,440
Cash flows from financing activities		
Increase in long-term loan	-	4,648,200
Net cash provided by financing activities	-	4,648,200
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,320,363)	6,305,988
Cash and cash equivalents, beginning of year	7,294,656	988,668
Cash and cash equivalents, end of year	\$ 3,974,293	\$ 7,294,656

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

MDRC

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

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 Development, 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.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2021 and 2020

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 ("U.S. 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 programmatic and administrative operations. These funds have neither been restricted by donors nor set aside for any specific purpose(s) by the Board of Directors.

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

Board-designed - strategic purposes - includes an unsolicited, unrestricted gift in the amount of \$15 million from MacKenzie Scott and Dan Jewett (the "Gift") received during 2021. The Gift can help secure MDRC's future by accelerating strategic initiatives and innovative ideas that are important for developing new areas of programmatic focus and new approaches to MDRC's work, particularly those for which no external sources of funds are available, and can strengthen MDRC by enhancing the capacity of staff through training and professional development. The Board of Directors has designated the Gift to be used for these strategic purposes. The use of these resources is not externally/donor-restricted.

Board-designated - endowment fund - includes amounts designated by MDRC's Board of Directors 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. Contributions, contracts and grants with donor restrictions, received and utilized in the same year, are reflected in the statement of activities as net assets without donor 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

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2021 and 2020

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, 2021 and 2020, 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).

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, or awarded based on the funder's evaluation of performance. MDRC recognizes revenue for fixed

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2021 and 2020

management fees 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 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, if any, are recorded as income in the period received. As of December 31, 2021 and 2020, 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 along with any reclassifications to establish or utilize any board-designated funds.

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 held for a similar purpose for general support. 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 U.S. 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

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2021 and 2020

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 Pronouncement

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 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.

Presentation of Certain Prior Year Information

The accompanying financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with MDRC’s financial statements as of and for the year ended December 31, 2020, from which the summarized information was derived.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2021 and 2020

COVID-19

The pandemic caused by the SARS CoV-2 virus and its associated disease COVID-19 led to a change in MDRC's work practices since March 2020; specifically, all work was transitioned to being performed 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 the current 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 on its future work.

Subsequent Events

MDRC evaluated its December 31, 2021 financial statements for subsequent events through July 27, 2022, the date the financial statements were available to be issued. With the exception of Russia's invasion of Ukraine, the impacts of which are disclosed further in Note 3, 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, 2021 and 2020 follows:

	2021	
	Level 1	Total
Equity mutual funds	\$ 27,998,221	\$ 27,998,221
Fixed income mutual funds	18,217,464	18,217,464
	\$ 46,215,685	46,215,685
Alternative investments reported at NAV		18,756,707
Cash and cash equivalents		39,012,902
Certificate of deposit		193,020
Total		\$ 104,178,314
	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
	\$ 42,243,716	42,243,716
Alternative investments reported at NAV		13,311,213
Cash and cash equivalents		22,916,476
Certificate of deposit		192,810
Total		\$ 78,664,215

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2021 and 2020

The composition of MDRC's investments, by purpose and investment type, as of December 31, 2021 follows:

	<u>2021</u>
Endowment	
Fixed income mutual funds	\$ 13,000,422
Equity mutual funds	23,444,089
Real assets	916,946
Long and short equity funds	5,317,279
Private equities	1,757,439
Credit instruments	<u>5,081,867</u>
	<u>49,518,042</u>
Board-designated - strategic purposes	
Cash and money market funds	12,230,541
Long and short equity funds	<u>2,529,238</u>
	<u>14,759,779</u>
Undesignated reserve for program initiatives and operational reserves	
Cash and money market funds	26,782,361
Certificate of deposit	193,020
Fixed income mutual funds	5,217,042
Equity mutual funds	4,554,133
Long and short equity funds	<u>3,153,937</u>
	<u>39,900,493</u>
Total investments	<u><u>\$ 104,178,314</u></u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2021 and 2020

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, 2021 and 2020.

Alternative Investment Strategy	Number of Funds	NAV in Funds	2021			
			\$ Amount of Unfunded Commitments	Timing to Draw Down Commitments	Redemption Terms	Redemption Restrictions
Alternative investments:						
Middle market lending	4	\$ 5,081,867	\$ 237,500	2022	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)	2	916,946	-	N/A	As underlying investments are sold.	N/A
Equity long/short	2	11,000,455	-	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	1,757,439	1,404,188	N/A	As underlying investments are sold.	N/A
Total alternative investments	<u>11</u>	<u>\$ 18,756,707</u>	<u>\$ 1,641,688</u>			

Alternative Investment Strategy	Number of Funds	NAV in Funds	2020			
			\$ Amount of Unfunded Commitments	Timing to Draw Down Commitments	Redemption Terms	Redemption Restrictions
Alternative investments:						
Middle market lending	4	\$ 4,683,041	\$ 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	-	N/A	As underlying investments are sold.	N/A
Equity long/short	2	6,764,989	-	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	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>			

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2021 and 2020

Investment management fees are netted against interest and dividends and totaled \$516,438 and \$204,183 in 2021 and 2020, 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.

Russia's Invasion of Ukraine

MDRC's real assets alternative investments, consisting of two funds, include at least one-third of their land set aside for agriculture in Ukraine that is under Russian control and will not be seeded and, accordingly, shipping of grain and seed may not be possible via Odessa. Estimating the asset value post the start of the Russian invasion which commenced in March of 2022, is not presently possible. As a result, MDRC anticipates writing-off the value of these investments in 2022.

One of MDRC's private equity alternative investment funds has been similarly affected because the fund has investments in companies located in Ukraine, but that represents an immaterial percentage of total fund value, estimated at between 2-3%.

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"). 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. The loan was forgiven on August 8, 2021.

A significant portion of MDRC's work is funded by federal contracts, including cost-reimbursement contracts. Under U.S. Federal Government cost principles, a non-federal entity cannot benefit from a 'credit' that results in a reduction of expenditures that offset or reduce expenses that are allocable to (funded by) a Federal award as a direct or indirect cost. The Paycheck Protection Act (PPP) loan, that MDRC benefited from, to fund allowable payroll and related indirect costs allocable to Federal awards constituted such a credit. As further discussed below, the eventual forgiveness of the PPP loan resulted in certain payroll expenses, totaling \$2.8 million, being funded through the loan credit and via reimbursement under certain federal contracts. Another portion of the forgiven loan amount, also funded certain payroll costs that were similarly funded by foundation and other funders, resulting in a \$1.8 million in credits were available to them for the amount of expenses incurred in 2020 that were covered by the PPP loan. As of the date of issuance of these financial statements, none of the foundation funders have made a decision on whether to claim the credit and, accordingly, request reimbursement for amounts previously provided.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

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In accordance with ASC *Debt* (Topic 470), MDRC elected to report the loan forgiveness as an operating gain in its 2021 statement of activities. However, for purposes of determining MDRC's Negotiated Indirect Cost Rate Agreement (NICRA), with the U.S. Dept. of Health and Human Services ("DHHS"), MDRC's cognizant agency, the effect of the loan forgiveness has been credited against current year's expenses, which has been provided in a separate analysis to DHHS.

NOTE 5 - FIXED ASSETS, NET

Fixed assets, net, at December 31, 2021 and 2020 consist of the following:

	<u>2021</u>	<u>2020</u>
Leasehold improvements	\$ 12,250,992	\$ 12,249,472
Furniture and equipment	<u>774,250</u>	<u>774,251</u>
	13,025,242	13,023,723
Less: accumulated depreciation and amortization	<u>(5,459,724)</u>	<u>(4,745,056)</u>
	<u>\$ 7,565,518</u>	<u>\$ 8,278,667</u>

Depreciation and amortization for the years ended December 31, 2021 and 2020 totaled \$714,668 and \$735,124, respectively.

NOTE 6 - GRANT ADVANCES

Grant advances totaling \$12,811,241 and \$11,410,374 at December 31, 2021 and 2020, 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.

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 \$7,408,230 and \$7,495,687 at December 31, 2021 and 2020, respectively.

In connection with its New York office lease, MDRC has an outstanding irrevocable letter of credit in the amount of \$738,923 that serves as a security deposit.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2021 and 2020

As of December 31, 2021, future base rentals due under all lease agreements are as follows:

<u>Year Ending December 31,</u>	
2022	\$ 3,801,656
2023	3,825,876
2024	4,055,985
2025	4,149,983
2026	4,176,340
Thereafter	<u>23,696,565</u>
	<u>\$ 43,706,405</u>

Occupancy costs (including utilities, storage, repairs and maintenance, and other costs) for the years ended December 31, 2021 and 2020 totaled \$3,244,460 and \$3,192,459, respectively.

Other

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 potential 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 \$142,800 for 2021 and \$137,700 for 2020. Pension expense for the years ended December 31, 2021 and 2020, which is included in fringe benefits cost, totaled \$1,625,182 and \$1,574,096, 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 \$8,000 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.

Deferred Compensation Plans - 457(b)

In 1990, MDRC created a single participant 457(b) plan to facilitate a key hire. The person hired transferred assets from an existing 457(b) plan to the MDRC plan. Effective July 2002, MDRC implemented a 457(b) plan for certain highly compensated senior employees. Effective November 1, 2015, both plans were merged into one plan. The plan is funded solely by employee contributions. Eligible employees may elect

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2021 and 2020

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 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, 2021 and 2020 totaled \$1,333,954 and \$1,492,365, respectively. Assets at December 31, 2021 are classified within the FASB's fair value hierarchy at Level 1 and Level 3 in the amounts of \$694,229 and \$639,725. 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. At December 31, 2021 and 2020, 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, 2021 and 2020:

	<u>2021</u>
Beginning balance, January 1, 2021	\$ 765,462
Employee contributions, payouts, and transfers, net	(140,989)
Investment return	<u>15,252</u>
Ending balance, December 31, 2021	<u>\$ 639,725</u>
	<u>2020</u>
Beginning balance, January 1, 2020	\$ 966,433
Employee contributions, payouts, and transfers, net	(221,420)
Investment return	<u>20,449</u>
Ending balance, December 31, 2020	<u>\$ 765,462</u>

NOTE 9 - ENDOWMENT

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 its endowment, (b) the original value of subsequent gifts to its endowment, and (c) accumulations to its 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 certain net assets without donor restrictions to the Endowment Fund with the intent that such net assets be treated as part of the endowment in perpetuity, subject to the Board re-purposing such amounts in the future.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2021 and 2020

The following tables present the composition of MDRC's endowment fund as of December 31, 2021 and 2020 and the changes in the endowment fund for the years then ended:

	2021		
	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	\$ -	\$ 26,475,966	\$ 26,475,966
Board-designated endowment fund	23,042,076	-	23,042,076
Total	<u>\$ 23,042,076</u>	<u>\$ 26,475,966</u>	<u>\$ 49,518,042</u>
Endowment net assets, beginning of year	\$ 17,299,895	\$ 25,293,737	\$ 42,593,632
Investment return:			
Interest and dividends	385,868	620,522	1,006,390
Net realized and unrealized appreciation	1,296,262	2,084,543	3,380,805
Total investment return	1,682,130	2,705,065	4,387,195
Other changes	64,057	-	64,057
Transfer in of accumulated unrestricted investment gains	3,995,994	-	3,995,994
Spending policy withdrawal	-	(1,522,836)	(1,522,836)
Endowment net assets, end of year	<u>\$ 23,042,076</u>	<u>\$ 26,475,966</u>	<u>\$ 49,518,042</u>
	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	1,010,524
Net realized and unrealized appreciation	1,394,091	2,999,942	4,394,033
Total investment return	1,662,756	3,741,801	5,404,557
Spending policy withdrawal	-	(1,439,581)	(1,439,581)
Endowment net assets, end of year	<u>\$ 17,299,895</u>	<u>\$ 25,293,737</u>	<u>\$ 42,593,632</u>

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2021 and 2020

NOTE 10 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at December 31, 2021 and 2020 consist entirely of amounts pertaining to MDRC's donor-restricted endowment funds of \$26,475,966 and \$25,293,737, respectively.

NOTE 11 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released following satisfaction of the following program purposes during the years ended December 2021 and 2020 as follows:

	2021	2020
Economic mobility, housing, and communities	\$ -	\$ 58,453
K-12 education	-	16,558
Youth development, criminal justice, and employment	-	1,558,341
Family well-being and child development	-	-
Post secondary education	-	-
Information dissemination, program development, methodology and strategic initiatives	-	-
	\$ -	\$ 1,633,352

NOTE 12 - CONCENTRATIONS OF 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 50% and 58% of MDRC's total revenues and support in 2021 and 2020, respectively, of which the U.S. Department of Health and Human Services and the U.S. Department of Education represented 74% and 16%, respectively, of federal government support for 2021 and 72% and 22%, respectively, of federal government support for 2020.

Excluding the one-time charitable grant and PPP loan forgiveness from total operating revenues and support, over 63% of the revenue was derived from government agencies in 2021.

NOTE 13 - LINE OF CREDIT

In September 2012, MDRC obtained a \$5,000,000 commercial line of credit (on demand) with a major bank. There were no drawings on the line of credit during the years ended December 31, 2021 and 2020. 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 half (1/2) 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 often paid first by MDRC, and then

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2021 and 2020

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 2021, over 50% of MDRC's revenues were sourced from government agencies. Excluding the one-time charitable grant and PPP loan forgiveness from total operating revenues and support, over 63% of the revenue was derived from government agencies in 2021. 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, 2021 and 2020, financial assets available within one year for general expenditure are as follows:

	2021	2020
As of December 31st		
Cash and cash equivalents	\$ 3,974,293	\$ 7,294,656
Contracts and grants receivable, due within one year	25,110,149	20,672,459
Investments	104,178,314	78,664,215
	133,262,756	106,631,330
Less:		
Net assets with donor restrictions:		
Amounts subject to appropriation and satisfaction of donor-restricted endowment funds	26,475,966	25,293,737
Total amounts unavailable due to donor restrictions or law	26,475,966	25,293,737
Total financial assets available to management for general expenditure before amounts subject to the Board's approval	106,786,790	81,337,593
Less:		
Board designated - strategic purposes	14,759,779	-
Board designated - funds functioning as endowment fund	23,042,076	17,299,895
Total financial assets available for general expenditure before endowment draw	68,984,935	64,037,698
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)	1,613,000	1,522,000
Total financial assets available for general expenditure within one year	\$ 75,597,935	\$ 70,559,698

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2021 and 2020

MDRC's Board of Directors has designated a portion of its net assets without donor restrictions to function as an endowment and for other strategic purposes. These amounts are identified in the table above as board designated for endowment fund and strategic purposes. These funds were set aside, by way of board resolutions. 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.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2021 and 2020

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 development, 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, 2021 with summarized comparative totals for 2020:

Description	Research Areas								Supporting Services		2021 Total	2020 Total	
	Economic Mobility, Housing, and Communities	K-12 Education	Youth Development, 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 Program Services	Fundraising			General and Administrative
Personnel	\$ 2,657,267	\$ 2,968,362	\$ 4,842,591	\$ 3,764,983	\$ 3,352,566	\$ 741,636	\$ 1,154,067	\$ 1,593,317	\$ 21,074,789	\$ 3,142	\$ 7,334,935	\$ 28,412,866	\$ 28,300,046
Fringe benefits	801,554	915,043	1,557,003	1,145,842	1,081,545	292,226	369,536	602,858	6,765,607	1,585	2,299,884	9,067,076	8,253,692
Surveys	184,484	169,804	422,534	413,978	189,100	-	-	-	1,378,900	-	-	1,378,900	2,136,495
Subcontracts and professional fees	807,913	887,725	3,910,109	7,870,299	1,010,382	139,186	1,875,340	113,115	16,614,069	42	2,742,156	19,356,267	12,994,797
Site program payments	(140,703)	27,500	1,166,168	1,243,308	2,444,299	-	315,296	-	5,055,868	-	2,000	5,057,868	3,925,358
Participant incentives	13,980	17,768	6,934	20,775	30,944	-	-	-	92,587	-	46	92,633	151,382
Occupancy	385,400	326,134	331,295	457,395	398,246	173,706	124,751	258,737	2,455,664	-	788,795	3,244,459	3,192,459
Communications	91,398	92,831	99,951	146,989	86,730	28,442	28,517	39,615	614,473	-	157,367	771,840	659,896
Supplies	4,241	3,788	4,071	247,080	3,623	1,117	1,232	1,700	266,852	-	6,035	272,887	58,122
Insurance	24,536	27,992	47,414	37,117	31,990	7,018	11,766	16,170	204,003	28	68,438	272,469	268,826
Software licensing cost and other non capitalized fixed assets	592,803	605,861	617,500	833,577	574,549	176,230	180,276	256,455	3,837,251	2,623	308,024	4,147,898	3,459,892
Depreciation and amortization	64,358	73,422	124,363	97,354	83,907	18,408	30,862	42,412	535,086	73	179,509	714,668	735,124
Travel	-	-	4,455	23,258	3,363	-	585	3,491	35,152	-	8,303	43,455	316,219
Printing and reproduction	595	802	7,021	244,735	77	-	-	1,109	254,339	-	34,714	289,053	40,791
Professional development	94	1,697	(95)	3,865	3,725	1,000	1,410	100,229	111,925	-	140,708	252,633	183,534
Miscellaneous	159,821	187,412	324,972	232,709	222,965	57,594	74,695	107,780	1,367,948	448	(167,529)	1,200,867	1,145,474
Total functional expenses	\$ 5,647,741	\$ 6,305,141	\$13,466,286	\$ 16,783,264	\$ 9,518,011	\$ 1,638,749	\$ 4,168,333	\$ 3,136,988	\$ 60,664,513	\$ 7,941	\$ 13,903,385	\$ 74,575,839	\$ 65,822,109