

DonorsChoose.org

FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020



LUTZ AND GARR
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
DonorsChoose.org

We have audited the accompanying financial statements of DonorsChoose.org (a not-for-profit corporation), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of DonorsChoose.org as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 14 to the financial statements, in March 2020, the United States of America declared the global pandemic novel coronavirus COVID-19 outbreak a national emergency. Our opinion is not modified with respect to that matter.

Lotz + Carr, LLP

New York, New York
November 11, 2021

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STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Assets		
Cash and cash equivalents (Notes 2c and 5a)	\$ 71,883,729	\$ 63,555,834
Certificates of deposit (Notes 2d, 2e, 5a, 7)	10,150,986	10,277,429
Unconditional promises to give (Notes 2g and 6)		
Without donor restrictions	5,080,227	2,548,959
With donor restrictions	18,327,938	11,064,930
Prepaid expenses and other current assets	1,017,627	466,910
Property and equipment, at cost, net of accumulated depreciation (Notes 2h and 8)	4,071,454	4,239,219
Investments (Notes 2d, 2f and 9)	12,785,859	9,961,278
Security deposits	<u>371,250</u>	<u>371,250</u>
Total Assets	<u><u>\$123,689,070</u></u>	<u><u>\$102,485,809</u></u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 3,351,708	\$ 2,558,685
Accrued vacation payable	<u>464,647</u>	<u>506,770</u>
Total Liabilities	<u>3,816,355</u>	<u>3,065,455</u>
Commitments and Contingency (Notes 9, 11, 12 and 14)		
Net Assets		
Without Donor Restrictions (Note 4a)		
Operating	50,155,796	25,428,451
Operating reserve	12,126,655	9,961,278
Classroom assistance fund	16,500,000	16,500,000
Strategic project reserve	<u>1,500,000</u>	<u>1,500,000</u>
Total Net Assets Without Donor Restrictions	80,282,451	53,389,729
With Donor Restrictions (Note 4b)	<u>39,590,264</u>	<u>46,030,625</u>
Total Net Assets	<u>119,872,715</u>	<u>99,420,354</u>
Total Liabilities and Net Assets	<u><u>\$123,689,070</u></u>	<u><u>\$102,485,809</u></u>

See notes to financial statements.

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STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2021 AND 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Changes in Net Assets						
Revenue (Note 5b)						
Contributions for classroom projects	\$ -	\$106,994,102	\$106,994,102	\$ -	\$119,557,005	\$119,557,005
Contributions for operating expenses	28,512,148	2,123,615	30,635,763	27,988,457	66,648	28,055,105
Contributions for program services and supporting services	20,001,674	-	20,001,674	165,680	-	165,680
Donated services (Note 10)	70,959,779	-	70,959,779	9,443,631	-	9,443,631
Net investment income (Note 9)	2,254,816	-	2,254,816	897,404	-	897,404
Net assets released from restrictions	115,558,078	(115,558,078)	-	114,428,090	(114,428,090)	-
Total Revenue	237,286,495	(6,440,361)	230,846,134	152,923,262	5,195,563	158,118,825
Expenses						
Program Services						
Classroom projects fulfillment expense	131,973,877	-	131,973,877	132,263,988	-	132,263,988
Supporting Services						
General and administrative	1,405,175	-	1,405,175	1,279,666	-	1,279,666
Fundraising	77,014,721	-	77,014,721	15,630,600	-	15,630,600
Total Supporting Services	78,419,896	-	78,419,896	16,910,266	-	16,910,266
Total Expenses	210,393,773	-	210,393,773	149,174,254	-	149,174,254
Increase (decrease) in net assets	26,892,722	(6,440,361)	20,452,361	3,749,008	5,195,563	8,944,571
Net assets, beginning of year	53,389,729	46,030,625	99,420,354	49,640,721	40,835,062	90,475,783
Net Assets, End of Year	\$ 80,282,451	\$ 39,590,264	\$119,872,715	\$ 53,389,729	\$ 46,030,625	\$ 99,420,354

See notes to financial statements.

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STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2021 WITH COMPARATIVE TOTALS FOR 2020

	2021				2020
	Supporting Services			Total Expenses	Total Expenses
	Program Services	General and Administrative	Fundraising	Total	
Classroom project materials	\$117,883,664	\$ -	\$ -	\$ -	\$117,883,664
Donor thank you package and delivery	8,336	-	-	-	8,336
Credit card fees	1,526,134	-	-	-	1,526,134
Subtotal Classroom Project Expense	119,418,134	-	-	-	119,418,134
Salaries	6,210,161	627,776	3,789,511	4,417,287	10,627,448
Payroll taxes and benefits	1,806,732	188,470	1,050,286	1,238,756	3,045,488
Travel and meetings	19,657	1,599	11,196	12,795	32,452
Occupancy	635,045	54,644	396,323	450,967	1,086,012
Communications	76,255	6,289	36,490	42,779	119,034
Office supplies and equipment	127,300	10,956	79,446	90,402	217,702
Legal	-	21,695	-	21,695	21,695
Consulting and professional services	542,879	92,923	307,786	400,709	943,588
Audit	-	66,105	-	66,105	66,105
Insurance	-	74,515	-	74,515	74,515
Website and IT	1,207,614	109,332	294,822	404,154	1,611,768
Gift card production	-	-	7,620	7,620	7,620
Marketing	-	-	168,869	168,869	168,869
Donated marketing (Note 10)	-	-	70,767,973	70,767,973	70,767,973
Bad debt	-	91,000	-	91,000	91,000
Registration fees	-	12,703	-	12,703	12,703
Bank fees	1,932	-	-	-	1,932
Miscellaneous	-	32,774	-	32,774	32,774
Depreciation and amortization	1,928,168	14,394	104,399	118,793	2,046,961
Total Expenses, 2021	<u>\$131,973,877</u>	<u>\$ 1,405,175</u>	<u>\$77,014,721</u>	<u>\$78,419,896</u>	<u>\$210,393,773</u>
Total Expenses, 2020	<u>\$132,263,988</u>	<u>\$ 1,279,666</u>	<u>\$15,630,600</u>	<u>\$16,910,266</u>	<u>\$149,174,254</u>

See notes to financial statements.

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STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2020

	Program Services	Supporting Services			Total Expenses
		General and Administrative	Fundraising	Total	
Classroom project materials	\$117,659,802	\$ -	\$ -	\$ -	\$117,659,802
Donor thank you package and delivery	200,819	-	-	-	200,819
Credit card fees	1,693,706	-	-	-	1,693,706
Subtotal Classroom Project Expense	119,554,327	-	-	-	119,554,327
Salaries	5,921,029	546,991	3,559,138	4,106,129	10,027,158
Payroll taxes and benefits	2,052,013	186,610	1,149,880	1,336,490	3,388,503
Travel and meetings	86,213	12,801	81,867	94,668	180,881
Occupancy	706,051	60,678	349,131	409,809	1,115,860
Communications	22,571	1,158	9,743	10,901	33,472
Office supplies and equipment	268,881	23,107	132,957	156,064	424,945
Legal	-	75,150	-	75,150	75,150
Consulting and professional services	444,983	77,913	217,139	295,052	740,035
Audit	-	73,084	-	73,084	73,084
Insurance	-	44,337	-	44,337	44,337
Website and IT	1,157,411	79,398	338,926	418,324	1,575,735
Gift card production	-	-	54,233	54,233	54,233
Marketing	-	-	338,641	338,641	338,641
Donated marketing (Note 10)	-	-	9,262,100	9,262,100	9,262,100
Bad debt	-	21,458	-	21,458	21,458
Registration fees	-	30,386	-	30,386	30,386
Bank fees	80,580	3,329	-	3,329	83,909
Miscellaneous	-	19,483	-	19,483	19,483
Depreciation and amortization	1,969,929	23,783	136,845	160,628	2,130,557
Total Expenses	<u>\$132,263,988</u>	<u>\$ 1,279,666</u>	<u>\$15,630,600</u>	<u>\$16,910,266</u>	<u>\$149,174,254</u>

See notes to financial statements.

DonorsChoose.org

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Cash Flows From Operating Activities		
Increase in net assets	\$20,452,361	\$ 8,944,571
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,046,961	2,130,557
Realized gain on investments	(130,501)	(64,476)
Unrealized (gain) loss on investments	(1,902,578)	158,296
Bad debt expense	91,000	21,458
(Increase) decrease in:		
Unconditional promises to give	(9,885,276)	1,814,470
Prepaid expenses and other current assets	(550,717)	153,494
Increase (decrease) in:		
Accounts payable and accrued expenses	793,023	(131,755)
Salaries and payroll taxes payable	-	(43,060)
Accrued vacation payable	(42,123)	235,919
Net Cash Provided By Operating Activities	<u>10,872,150</u>	<u>13,219,474</u>
Cash Flows From Investing Activities		
Purchase of property and equipment	(1,879,196)	(1,856,772)
Proceeds from maturity of certificates of deposit	25,587,337	20,404,332
Purchase of certificates of deposit	(25,460,894)	(20,578,232)
Purchase of investments	(2,352,420)	(2,679,861)
Proceeds from sale of investments	1,546,780	2,411,683
Proceeds from sale of investments for payment of investment management fees	14,138	15,337
Net Cash Used By Investing Activities	<u>(2,544,255)</u>	<u>(2,283,513)</u>
Net increase in cash and cash equivalents	8,327,895	10,935,961
Cash and cash equivalents, beginning of year	<u>63,555,834</u>	<u>52,619,873</u>
Cash and Cash Equivalents, End of Year	<u><u>\$71,883,729</u></u>	<u><u>\$63,555,834</u></u>

See notes to financial statements.

DonorsChoose.org**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2021 AND 2021****Note 1 - Organization**

DonorsChoose.org provides a simple way to supply students in need with resources that public schools often lack. At its not-for-profit website, www.DonorsChoose.org, teachers submit classroom proposals for materials or activities to enhance the learning of their students. These ideas become reality when concerned individuals, referred to as Citizen Philanthropists, fund a proposal.

Proposals range from “LEGO STEAM Fun!” (\$960) to “An Ear-Resistable Approach to Education” (\$234) to “Music On The Big Screen” (\$790). Any individual can search such proposals by areas of interest, learn about classroom needs, and choose to fund the proposal(s) they find most compelling. After a proposal has been funded, DonorsChoose.org purchases the materials or experiences and arranges for delivery to the teacher. A funded proposal is considered a project. In completing a project, donors receive a “thank you” package of student photos and thank-you notes, a teacher impact letter, and an expenditure report showing that their tax-deductible gift was spent as directed.

DonorsChoose.org’s goal is to maximize the dollar value of classroom projects funded and delivered to public schools across America. In addition, the Organization works to expand citizen philanthropy, and to become more efficient in providing its services to donors and teachers.

One of our key financial goals is to continue to be self-sufficient. DonorsChoose.org defines self-sufficiency to be when contributions without donor restrictions equal or exceed operating expenses. Operating expenses are defined as Total Expenses excluding Classroom Project Materials Expense and Donated Services and Equipment.

Note 2 - Significant Accounting Policies**a - Contribution Revenue**

Contributions are recorded as revenue. Contribution revenue is classified as contributions for classroom projects, contributions for operating expenses, contributions for program services and supporting services and, where applicable, as donated services.

Contributions for classroom projects pay for classroom project materials. Classroom project materials include the cost of materials sent to the classroom or the cost of classroom activities. Classroom activities may be a field trip to a museum or a specialized program held in the classroom.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 2 - Significant Accounting Policies (continued)

a - Contribution Revenue (continued)

Contributions for operating expenses pay for all expenses other than classroom project materials. Contributions for operating expense include three components: A \$30 per project fulfillment fee, a payment processing fee, and if included by the donor, an optional donation.

The per project fulfillment fee pays for the labor, materials and postage required to review and authenticate a project, post it on the website, the materials purchasing process, donor and teacher customer service, and for thank you package materials, preparation and delivery. The payment processing fee pays for third party credit card processing costs. The optional donation pays for all other expenses, including general and administrative and fundraising.

Contributions to pay for program services and supporting services are without donor restrictions or with donor restrictions. If without donor restrictions, DonorsChoose.org will decide where the funds will be used. If with donor restrictions, the funds will be used in accordance with the donor's restriction. The donor's restriction may require the funds to be used for one or more of the following types of expenses: classroom project fulfillment, general and administrative or fundraising.

DonorsChoose.org records various types of donated services, facilities and equipment. Contributed services are recognized if the services received: (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized when received. The amounts reflected in the accompanying financial statements as donated services, facilities and equipment are offset by like amounts included in expenses or in the case of long-term assets, over the period benefited.

b - Expenses

Program Services expense is classroom projects fulfillment expense. Classroom projects fulfillment expense are amounts paid to operate the website, review and authenticate classroom proposals, process donations, acquire and deliver project materials to the classroom, donor and teacher customer service, and to provide a thank you package to the donor.

Supporting services expense includes general and administrative expenses and fundraising expenses.

c - Cash and Cash Equivalents

For purposes of the statement of cash flows, all unrestricted highly liquid instruments, purchased with a maturity of three months or less, are considered to be cash equivalents except for those short-term investments managed by the Organization's investment managers as part of their long-term investment strategies.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 2 - Significant Accounting Policies (continued)**d - Fair Value Measurements**

Fair value is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-based measurement. Generally accepted accounting principles establish a framework for measuring fair value which maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those the market participants would use in pricing the asset based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the Organization's assumptions about the inputs market participants would use in pricing the asset developed based on the best information available in the circumstances. Fair value measurements are categorized into three levels as follows:

- Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.
- Level 2 Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 Inputs that are unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

e - Certificates of Deposit

Certificates of Deposit are reported at their fair values in the statement of financial position. Interest income, unrealized gains and unrealized losses are reported as increases or decreases in net assets without donor restrictions in the reporting period in which they are recognized.

The value of certificates of deposit are based on quoted prices in active markets and are, therefore, classified within Level 1.

f - Investments

Investments are measured at fair value on a recurring basis. Investments with fair values that are based on quoted market prices in active markets are classified within Level 1.

Investments that trade in markets that are not considered to be active, but are valued based on quoted process, dealer quotations, or alternative pricing sources by observable inputs are classified within Level 2.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 2 - Significant Accounting Policies (continued)**f - Investments (continued)**

Alternative investments, which do not have readily determinable fair values, are reported based upon the underlying net asset value per share or its equivalent as a practical expedient, and are not required to be classified within the fair value hierarchy. The net asset value is estimated at fair value by the fund manager or general partner in a manner consistent with accounting principles generally accepted in the United States of America ("U.S. GAAP") for investment companies. The Organization reviews and evaluates the values provided by the fund managers and general partners and agrees with the valuation methods and assumptions used in determining the net asset values of these investments. These estimated fair values may differ significantly from the values that would have been used had a ready market for these investments existed.

Interest, dividends and gains and losses on investments are reflected in the statement of activities as increases and decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law. Gains and other investment income that are limited to specific uses by donor-imposed restrictions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

g - Promises to Give and Contributions

Contributions are recognized when the donor makes a promise to give, that is, in substance, unconditional. Donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, these net assets are reclassified to net assets without donor restrictions.

DonorsChoose.org uses the allowance method to determine uncollectible promises to give. The allowance, when necessary, is based on prior years' experience and management's analysis of specific promises made.

Conditional promises to give that have a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met.

h - Property and Equipment

Property and equipment acquisitions greater than \$2,500 are capitalized. Purchased property and equipment are recorded at cost. Donated property and equipment are recorded at their estimated fair value. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, ranging from two to five years. Leasehold improvements are amortized over the remaining lease term. Donated property and equipment are reported as contribution revenue without donor restrictions.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 2 - Significant Accounting Policies (continued)h - Property and Equipment (continued)

DonorsChoose.org develops in-house internet platform software to enable teachers to post projects, to receive and record donations and for other online activities. Personnel costs including salaries, payroll taxes and benefits associated with the development of the software are capitalized and amortized over three years. The allocation of personnel costs is based on development time spent and is evaluated on an annual basis.

i - Rent Expense

DonorsChoose.org records rent expense associated with its office leases (Note 11) on a straight-line basis over the life of the leases. The difference between the straight-line amount and the amount actually paid during the year representing deferred rent is recorded as an accrued expense liability and an expense in the accompanying financial statements.

j - Financial Statement Presentation

The financial statements of DonorsChoose.org have been prepared in accordance with U.S. GAAP, which require DonorsChoose.org to report information regarding its financial position and activities according to the following net asset classifications:

Net Assets Without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the DonorsChoose.org's management and Board of Directors.

Net Assets With Donor Restrictions

Net assets that are subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of DonorsChoose.org or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

k - Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

DonorsChoose.org

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 2 - Significant Accounting Policies (continued)**l - Functional Allocation of Expenses**

DonorsChoose.org allocates expenses on a functional basis among its programs and supporting services. Expenses that can be completely identified with program services or a single supporting service are reported accordingly. Other expenses that are common to more than one function require allocation on a reasonable basis that is consistently applied. DonorsChoose.org performs this allocation based on estimated time and effort devoted to each function, at a department level.

Expenses allocated among more than one program or supporting function on the basis of estimated time and effort devoted to that function include:

- Salaries
- Payroll taxes and benefits
- Travel and meetings
- Occupancy
- Communications
- Office supplies and equipment
- Consulting and professional services
- Website and IT
- Bank Fees
- Depreciation and amortization

m - Tax Status

DonorsChoose.org is a not-for-profit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and has been designated as an organization which is not a private foundation.

n - Subsequent Events

DonorsChoose.org has evaluated subsequent events through November 11, 2021, the date that the financial statements are considered available to be issued.

o - Prior Year Information

For comparability, certain 2020 amounts have been reclassified, where appropriate, to conform to the financial statement presentation used in 2021.

p - New Accounting Pronouncement

In February 2016, the FASB issued ASU 2016-02, "*Leases (Topic 842)*." The core principles of ASU 2016-02 change the way organizations will account for their leases by recognizing lease assets and related liabilities on the statements of financial position for all leases with terms longer than twelve months and disclosing key information about leasing arrangements. ASU 2016-02 is effective for fiscal years beginning after December 15, 2021. DonorsChoose.org is currently evaluating the impact of ASU 2016-02 on its financial statements.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 3 - Information Regarding Liquidity and Availability

DonorsChoose.org structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. DonorsChoose.org endeavors to use excess amounts to fund additional classroom projects.

DonorsChoose.org invests available cash in short-term investments, specifically interest bearing checking accounts, money market funds, and certificates of deposit. Additionally, DonorsChoose.org operates with a balanced budget and anticipates collecting sufficient funds to cover general expenditures, excluding direct classroom project expenses that are not covered by donor-restricted resources.

The following table reflects DonorsChoose.org's financial assets as of June 30 reduced by amounts not available for general operating expenses within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, when donor-restricted to cover direct classroom project expenses, or when designated by the Board for a specific purpose:

	<u>2021</u>	<u>2020</u>
Financial Assets at Year End:		
Cash and cash equivalents	\$71,883,729	\$63,555,834
Certificates of deposit	10,150,986	10,277,429
Unconditional promises to give	23,408,165	13,613,889
Investments	<u>12,785,859</u>	<u>9,961,278</u>
Total Financial Assets	118,228,739	97,408,430
Less: Amounts not Available to be Used within One Year:		
Net assets with donor restrictions, subject to expenditure for specific purposes or passage of time	(39,590,264)	(46,030,625)
Operating reserve	(12,126,655)	(9,961,278)
Classroom assistance fund	(16,500,000)	(16,500,000)
Strategic project reserve	<u>(1,500,000)</u>	<u>(1,500,000)</u>
Financial Assets Available to Meet General Expenditures within One Year	<u>\$48,511,820</u>	<u>\$23,416,527</u>

In addition to the financial assets and other resources available for general expenditures within one year, DonorsChoose.org has three board-designated reserves that could additionally be made available:

- 1) Net assets of \$12,126,655 as an Operating reserve, to be used if DonorsChoose.org is no longer able to operate on a self-sufficient basis. These assets are invested in a mix of short and long-term investments, of which \$11,495,940 could be made available for use in general operating expenses within one year, with Board approval.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 3 - Information Regarding Liquidity and Availability (continued)

- 2) Net assets of \$16,500,000 as a Classroom assistance fund, to be used exclusively to support classroom projects. With Board approval, these funds could be made available for use in general operating expenses within one year.
- 3) Net assets of \$1,500,000 as a Strategic project reserve, to be used to support strategic operating projects within DonorsChoose.org. With Board approval, these funds could be made available for use in general operating expenses within one year.

Note 4 - Net Assets**a - Without Donor Restrictions**

Operating net assets without donor restrictions result from the excess of revenue without donor restrictions over total expenses. A portion of operating net assets without donor restrictions is generally spent on classroom projects via programs designed to acquire new teachers and new donors. An example of this is to provide matching funds for donations to projects posted by teachers using the DonorsChoose.org site for the first time.

The purpose of the operating reserve is to retain a sufficient level of funds to be able to operate DonorsChoose.org if a change in conditions creates a situation where DonorsChoose.org is no longer operating on a self-sufficient basis. DonorsChoose.org intends to maintain an Operating Reserve of no less than \$7.5 million.

Classroom Assistance Fund was established to be used exclusively for funding classroom projects in future years. DonorsChoose.org intends to use these funds to directly fund donations to projects and/or match offers to support teachers on the site.

Special Project Reserve was established to be used exclusively for unbudgeted strategic internal projects. An example of this is securing additional office space in the case of rapid unexpected growth.

b - With Donor Restrictions

Substantially all of net assets with donor restrictions consists of contributions restricted towards classroom project expense.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 5 - Concentrations

- a - Significant concentrations of cash and certificates of deposit are on deposit at six financial institutions. Cash equivalents include money market deposits and U.S. Government money market mutual funds.
- b - For the year ended June 30, 2021, approximately 9% of total revenue was received from one donor. For the year ended June 30, 2020, approximately 6% of total revenue was received from one donor.

Note 6 - Unconditional Promises to Give

Unconditional promises to give at June 30 are due as follows:

	2021		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Due within one year	\$4,863,730	\$17,601,839	\$22,465,569
Due in one to five years	<u>216,497</u>	<u>783,503</u>	<u>1,000,000</u>
	5,080,227	18,385,342	23,465,569
Less: Discount to present value	<u>-</u>	<u>(57,404)</u>	<u>(57,404)</u>
Total	<u>\$5,080,227</u>	<u>\$18,327,938</u>	<u>\$23,408,165</u>

	2020		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Due within one year	\$2,494,559	\$10,883,681	\$13,378,240
Due in one to five years	<u>54,400</u>	<u>195,600</u>	<u>250,000</u>
	2,548,959	11,079,281	13,628,240
Less: Discount to present value	<u>-</u>	<u>(14,351)</u>	<u>(14,351)</u>
Total	<u>\$2,548,959</u>	<u>\$11,064,930</u>	<u>\$13,613,889</u>

DonorsChoose.org

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 6 - Unconditional Promises to Give (continued)

Unconditional promises to give due after one year are discounted to present value using a discount rate of 3%. Uncollectible amounts are expected to be insignificant. Approximately 21% of unconditional promises to give as of June 30, 2021 is from a single grant. Approximately 12% of unconditional promises to give as of June 30, 2020 was from a different single grant.

Note 7 - Certificates of Deposit

At June 30, 2021, DonorsChoose.org held certificates of deposit with a cost basis that approximates fair value. Certificates of deposit are FDIC insured instruments, with maturity dates ranging from one month to six months, which are intended to be held to maturity. Upon maturity, the certificates of deposit are expected to be redeemed at cost plus interest earned. No realized losses are expected.

Interest earned on certificates of deposit during the years ended June 30, 2021 and 2020 totaled \$26,796 and \$173,900, respectively.

Note 8 - Property and Equipment

Property and equipment consist of the following:

	<u>Life</u>	<u>2021</u>	<u>2020</u>
Internet platform	3 years	\$5,365,729	\$5,199,582
Furniture and equipment	2-5 years	472,233	472,233
Leasehold improvements	Life of lease	<u>2,994,860</u>	<u>2,994,860</u>
		8,832,822	8,666,675
Less: Accumulated depreciation		<u>(4,761,368)</u>	<u>(4,427,456)</u>
		<u>\$4,071,454</u>	<u>\$4,239,219</u>

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 9 - Investments

Investments consist of the following at June 30:

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Cash	\$ 97,297	\$ 97,297	\$ 112,206	\$ 112,206
Mutual Funds:				
Real estate	37,455	47,395	38,704	40,897
Bond funds	784,403	826,529	757,998	746,426
Stock funds	250,020	253,508	-	-
Common stock	1,760,249	2,444,257	1,845,964	1,935,793
Preferred stock	2,509	2,102	-	-
Corporate bonds	599,256	619,854	662,021	697,290
Municipal bonds	89,299	94,343	210,079	220,339
US Treasury Notes and asset backed securities	643,757	656,819	460,504	487,692
Investment Funds:				
Global equities	1,304,915	2,162,817	1,268,772	1,537,520
Fixed income	649,997	1,201,369	650,000	1,067,705
Middle market lending	481,250	497,791	481,250	486,313
Sustainable investing	129,068	132,924	45,000	45,097
Growth Stage Private Equity	625,026	659,204	-	-
Alternative Investment - absolute return	<u>2,100,000</u>	<u>3,089,650</u>	<u>2,100,000</u>	<u>2,584,000</u>
	<u>\$9,554,501</u>	<u>\$12,785,859</u>	<u>\$8,632,498</u>	<u>\$9,961,278</u>

Net investment income for the years ended June 30 is summarized as follows:

	2021	2020
Interest and dividends	\$ 140,168	\$ 60,313
Limited partnership income	40,446	207,865
Realized gain on investments	130,501	64,476
Unrealized gain (loss) on investments	1,902,578	(158,296)
Investment fees	<u>(66,349)</u>	<u>(64,668)</u>
	2,147,344	109,690
Net investment income on cash and certificates of deposit	<u>107,472</u>	<u>787,714</u>
Net Investment Income	<u>\$2,254,816</u>	<u>\$897,404</u>

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 9 - Investments (continued)

The following summarizes the fair value of investments that are measured on a recurring basis at June 30:

	2021				Measured at
	Total	Level 1	Level 2	Level 3	Net Asset Value
Cash	\$ 97,297	\$ 97,297	\$ -	\$ -	\$ -
Mutual Funds:					
Real estate	47,395	47,395	-	-	-
Bond funds	826,529	-	826,529	-	-
Stock funds	253,508	-	253,508	-	-
Common stock	2,444,257	2,444,257	-	-	-
Preferred stock	2,102	-	2,102	-	-
Corporate bonds	619,854	-	619,854	-	-
Municipal bonds	94,343	-	94,343	-	-
US Treasury Notes and asset backed securities	656,819	-	656,819	-	-
Investment Funds:				-	
Global equities	2,162,817	-	-	-	2,162,817
Fixed income	1,201,369	-	-	-	1,201,369
Middle market lending	497,791	-	-	-	497,791
Sustainable investing	132,924	-	-	-	132,924
Growth stage private equity	659,204	-	-	-	659,204
Alternative Investment - absolute return	3,089,650	-	-	-	3,089,650
Total Investments	<u>\$12,785,859</u>	<u>\$2,588,949</u>	<u>\$2,453,155</u>	<u>\$ -</u>	<u>\$7,743,755</u>

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 9 - Investments (continued)

	2020				Measured at
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Net Asset Value</u>
Cash	\$ 112,206	\$ 112,206	\$ -	\$ -	\$ -
Mutual Funds:					
Real estate	40,897	40,897	-	-	-
Bond funds	746,426	-	746,426	-	-
Common stock	1,935,793	1,935,793	-	-	-
Corporate bonds	697,290	-	697,290	-	-
Municipal bonds	220,339	-	220,339	-	-
US Treasury Notes and asset backed securities	487,692	-	487,692	-	-
Investment Funds:					
Global equities	1,537,520	-	-	-	1,537,520
Fixed income	1,067,705	-	-	-	1,067,705
Middle market lending	486,313	-	-	-	486,313
Sustainable Investing	45,097	-	-	-	45,097
Alternative Investment - absolute return	<u>2,584,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,584,000</u>
Total Investments	<u>\$9,961,278</u>	<u>\$2,088,896</u>	<u>\$2,151,747</u>	<u>\$ -</u>	<u>\$5,720,635</u>

The investments included in DonorsChoose.org's investment portfolio, valued using the net asset value, are redeemable based on the following terms and conditions as of June 30, 2021:

Global Equities:	
Monthly redemption with 30 days' notice	\$2,162,817
Fixed Income:	
Monthly redemption with 45 days' notice (subject to initial one-year lockup period)	1,201,369
Middle Market Lending:	
Redemption ten years from final close with two possible one- year extensions at the discretion of the general partner	497,791
Sustainable Investing:	
Three-year investment period from the final closing with ability to fully recycle plus six-year full term from final closing with multiple one-year period extensions	132,924
Growth Stage Private Equity:	
Redemptions permitted with at least 20 days written notice	659,204
Absolute Return:	
Semi-annual redemption with 100 days' notice	<u>3,089,650</u>
	<u>\$7,743,755</u>

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 9 - Investments (continued)

The following are descriptions of the investment strategies of these investments:

Global Equities

This fund invests through multiple managers each employing a different strategy of investing in primarily domestic and some international equities.

Fixed Income

This fund invests in a diversified portfolio of fixed income securities, including government and corporate bonds, convertible bonds, zero-coupon bonds, and securitized assets.

Middle Market Lending

This fund invests in senior-secured, floating rate loans that are provided to middle market companies.

Sustainable Investing

This fund invests in private, middle-market North American companies, organizations and other entities with the intention to generate positive social and environmental impact without sacrificing a strong financial return.

Growth Stage Private Equity

This fund invests in private, growth companies with an intent to bring diversity to the cap tables of companies that are IPO bound.

Absolute Return

This fund invests in private investment companies managed by fifteen to twenty managers employing a variety of strategies to achieve absolute return.

DonorsChoose.org has committed to invest a total of \$3,050,000 in limited partnerships which make periodic capital calls. As of June 30, 2021, \$1,236,345 of this commitment has been invested, leaving an outstanding commitment of \$1,813,655.

Note 10 - Donated Services

During the years ended June 30, 2021 and 2020, DonorsChoose.org received donated services as follows:

	<u>2021</u>	<u>2020</u>
Marketing	\$70,767,973	\$9,262,100
Website and hosted services	178,339	106,381
Legal services	<u>13,467</u>	<u>75,150</u>
	<u>\$70,959,779</u>	<u>\$9,443,631</u>

DonorsChoose.org

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Note 10 - Donated Services (continued)

Donated legal services for both 2021 and 2020 were related to organizational and administrative matters, including consultation regarding business registrations, contract review and other corporate and organizational policies.

DonorsChoose.org has engaged with a firm to distribute public service announcements (PSAs) nationwide, which are presented by television and radio stations free of charge. The purpose of the PSAs is to inform audiences about the needs of public school classrooms and encourage support for those classrooms via the DonorsChoose platform. The estimated value of the PSAs is based on the date, time, and market of each placement.

For the year ended June 30, 2021, \$70,523,912 of the donated marketing services of \$70,767,973 were related to PSAs. For the year ended June 30, 2020, \$9,084,960 of the donated marketing services of \$9,262,100 were related to PSAs.

Note 11 - Commitments

DonorsChoose.org occupies its primary office space in New York under an operating lease agreement with a term that expires in December 2026. The lease agreement calls for minimum monthly lease payments with annual escalations. Rent expense is recorded on a straight-line basis, and the deferred rent liability was \$280,408 and \$255,064 as of June 30, 2021 and 2020, respectively.

DonorsChoose.org also occupies office space in San Francisco under a term that expires in February 2023. The lease agreement calls for minimum monthly lease payments with annual escalations. Rent expense is recorded on a straight-line basis, and the deferred rent liability was \$4,405 and \$1,464 as of June 30, 2021 and 2020, respectively.

Future minimum lease payments under noncancelable leases are as follows:

<u>Year Ending June 30,</u>	
2022	\$ 927,575
2023	902,620
2024	824,135
2025	848,859
2026	874,325
Thereafter through December 31, 2026	<u>443,623</u>
	<u>\$4,821,137</u>

Other office space is occupied on a month-to-month basis. Office rent expense for the years ended June 30, 2021 and 2020 totaled \$932,902 and \$919,171, respectively.

DonorsChoose.org**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2021 AND 2020****Note 12 - Retirement Plan**

DonorsChoose.org maintains a defined contribution 401(k) plan for all eligible employees. A matching contribution is made to match 100% of the employee's contribution up to 5% of the employee's annual salary, subject to certain restrictions, after an employee has completed 90 days of service. The total contributions to the plan for the years ended June 30, 2021 and 2020 were \$209,801 and \$336,618 respectively.

Note 13 - Related Party Transaction

The Chief Executive Officer of DonorsChoose.org has created RedPen, a Benefit Corporation. The purpose of RedPen is to create an online tool to help improve business writing. This free online tool is available at <http://irregardless.ly>.

RedPen is funded by proceeds earned by the Chief Executive Officer for public speaking engagements. The Chief Executive Officer has contributed to DonorsChoose.org a 20% equity interest in RedPen, which was deemed to have nominal value at the time of donation. Beginning in fiscal year 2014, RedPen began donating at least 30% of its revenue to DonorsChoose.org to fund classroom projects. A donation of \$1,475 was made during the year ended June 30, 2021. No donations were made during the year ended June 30, 2020.

Note 14 - Significant Event

In March 2020, the United States declared the global pandemic novel coronavirus COVID-19 outbreak a national emergency. As the global pandemic continued into fiscal year 2021, DonorsChoose.org launched additional initiatives to put materials in the hands of teachers and students regardless of whether schools were physically open or closed. Management continues to evaluate the potential impact of COVID-19 on DonorsChoose.org's operations.