

DonorsChoose.org

FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021



INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
DonorsChoose.org

Opinion

We have audited the accompanying financial statements of DonorsChoose.org (a nonprofit organization), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of DonorsChoose.org and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 DonorsChoose.org's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' 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 auditors' 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 generally accepted auditing standards 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 generally accepted auditing standards, 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 DonorsChoose.org'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 DonorsChoose.org'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.

Lotz + Carr, LLP

New York, New York
November 1, 2022

DonorsChoose.org

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Assets		
Cash and cash equivalents (Notes 2c and 5a)	\$ 74,981,787	\$ 71,883,729
Certificates of deposit (Notes 2d, 2e, 5a and 7)	15,161,049	10,150,986
Unconditional promises to give (Notes 2g and 6)		
Without donor restrictions	3,058,195	5,080,227
With donor restrictions	11,198,694	18,327,938
Prepaid expenses and other current assets	1,303,438	1,017,627
Property and equipment, at cost, net of accumulated depreciation and amortization (Notes 2h and 8)	4,036,376	4,071,454
Investments (Notes 2d, 2f and 9)	21,139,250	12,785,859
Security deposits	<u>371,250</u>	<u>371,250</u>
Total Assets	<u><u>\$131,250,039</u></u>	<u><u>\$123,689,070</u></u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 1,850,000	\$ 3,351,708
Accrued vacation payable	<u>518,474</u>	<u>464,647</u>
Total Liabilities	<u><u>2,368,474</u></u>	<u><u>3,816,355</u></u>
Commitments and Contingency (Notes 9, 11 and 12)		
Net Assets		
Without Donor Restrictions (Note 4a)		
Operating	53,836,761	50,155,796
Operating reserve	19,867,746	12,126,655
Classroom assistance fund	14,060,500	16,500,000
Strategic project reserve	<u>1,500,000</u>	<u>1,500,000</u>
Total Without Donor Restrictions	89,265,007	80,282,451
With Donor Restrictions (Note 4b)	<u>39,616,558</u>	<u>39,590,264</u>
Total Net Assets	<u><u>128,881,565</u></u>	<u><u>119,872,715</u></u>
Total Liabilities and Net Assets	<u><u>\$131,250,039</u></u>	<u><u>\$123,689,070</u></u>

See notes to financial statements.

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STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2022 AND 2021

	2022			2021		
	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	\$ -	\$114,104,415	\$114,104,415	\$ -	\$105,936,493	\$105,936,493
Contributions for operating expenses	30,863,637	65,000	30,928,637	28,246,699	2,123,615	30,370,314
Government grant contracts for classroom projects (Note 5c)	-	34,273,681	34,273,681	-	1,057,609	1,057,609
Government grant contracts for operating expenses (Note 5c)	7,080,204	-	7,080,204	265,449	-	265,449
Contributions for program services and supporting services	337,198	-	337,198	20,001,674	-	20,001,674
Donated services and materials (Note 10)	30,303,670	-	30,303,670	70,959,779	-	70,959,779
Net investment income (loss) (Note 9)	(2,337,537)	-	(2,337,537)	2,254,816	-	2,254,816
Net assets released from restrictions	148,416,802	(148,416,802)	-	115,558,078	(115,558,078)	-
Total Revenue	214,663,974	26,294	214,690,268	237,286,495	(6,440,361)	230,846,134
Expenses						
Program Services						
Classroom projects fulfillment expense	165,917,488	-	165,917,488	131,973,877	-	131,973,877
Supporting Services						
General and administrative	1,952,313	-	1,952,313	1,405,175	-	1,405,175
Fundraising	37,811,617	-	37,811,617	77,014,721	-	77,014,721
Total Supporting Services	39,763,930	-	39,763,930	78,419,896	-	78,419,896
Total Expenses	205,681,418	-	205,681,418	210,393,773	-	210,393,773
Increase (decrease) in net assets	8,982,556	26,294	9,008,850	26,892,722	(6,440,361)	20,452,361
Net assets, beginning of year	80,282,451	39,590,264	119,872,715	53,389,729	46,030,625	99,420,354
Net Assets, End of Year	\$ 89,265,007	\$ 39,616,558	\$128,881,565	\$ 80,282,451	\$ 39,590,264	\$119,872,715

See notes to financial statements.

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SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2022 WITH COMPARATIVE TOTALS FOR 2021

	2022				2021
	Supporting Services			Total Expenses	Total Expenses
Program Services	General and Administrative	Fundraising	Total		
Classroom project materials	\$150,058,252	\$ -	\$ -	\$150,058,252	\$117,875,298
Donor thank you package and delivery	42,028	-	-	42,028	8,336
Credit card fees	1,665,469	-	-	1,665,469	1,526,134
Direct shipping and fulfillment costs	139,975	-	-	139,975	6,354
Subtotal Classroom Project Expense	151,905,724	-	-	151,905,724	119,416,122
Salaries	7,000,461	907,240	5,044,886	12,952,587	10,627,448
Payroll taxes and benefits	2,295,212	235,642	1,321,423	3,852,277	3,045,488
Travel and meetings	120,996	14,861	78,384	214,241	32,452
Occupancy	681,867	61,074	345,410	1,088,351	1,086,012
Communications	87,470	7,439	43,059	137,968	119,034
Office supplies and equipment	190,072	17,024	96,284	303,380	217,702
Legal	-	162,623	-	162,623	21,695
Consulting and professional services	501,875	73,090	411,828	986,793	943,588
Audit	-	75,000	-	75,000	66,105
Insurance	-	77,881	-	77,881	74,515
Website and IT	1,113,043	128,362	332,342	1,573,747	1,611,768
Gift card production	-	-	8,589	8,589	7,620
Marketing	-	-	146,675	146,675	168,869
Donated marketing (Note 10)	-	-	29,907,663	29,907,663	70,767,973
Bad debt	-	126,011	-	126,011	91,000
Registration Fees	-	12,892	-	12,892	12,703
Bank fees	-	4,898	-	4,898	1,932
Miscellaneous	-	35,002	-	35,002	34,786
Depreciation and amortization	2,020,768	13,274	75,074	2,109,116	2,046,961
Total Expenses, 2022	<u>\$165,917,488</u>	<u>\$ 1,952,313</u>	<u>\$37,811,617</u>	<u>\$205,681,418</u>	
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>

See notes to financial statements.

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STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2021

	Program Services	Supporting Services			Total Expenses
		General and Administrative	Fundraising	Total	
Classroom project materials	\$117,875,298	\$ -	\$ -	\$ -	\$117,875,298
Donor thank you package and delivery	8,336	-	-	-	8,336
Credit card fees	1,526,134	-	-	-	1,526,134
Direct shipping and fulfillment costs	6,354	-	-	-	6,354
Subtotal Classroom Project Expense	119,416,122	-	-	-	119,416,122
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	2,012	32,774	-	32,774	34,786
Depreciation and amortization	1,928,168	14,394	104,399	118,793	2,046,961
Total Expenses	<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>

See notes to financial statements.

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STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Cash Flows From Operating Activities		
Increase in net assets	\$ 9,008,850	\$20,452,361
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,109,116	2,046,961
Realized (gain) loss on investments	56,112	(130,501)
Unrealized (gain) loss on investments	2,685,148	(1,902,578)
Bad debt expense	126,011	91,000
(Increase) decrease in:		
Unconditional promises to give	9,025,265	(9,885,276)
Prepaid expenses and other current assets	(285,811)	(550,717)
Increase (decrease) in:		
Accounts payable and accrued expenses	(1,501,708)	793,023
Accrued vacation payable	53,827	(42,123)
Net Cash Provided By Operating Activities	<u>21,276,810</u>	<u>10,872,150</u>
Cash Flows From Investing Activities		
Purchase of property and equipment	(2,074,038)	(1,879,196)
Proceeds from maturity of certificates of deposit	30,306,126	25,587,337
Purchase of certificates of deposit	(35,316,189)	(25,460,894)
Purchase of investments	(13,108,238)	(2,352,420)
Proceeds from sale of investments	1,989,353	1,546,780
Proceeds from sale of investments for payment of investment management fees	24,234	14,138
Net Cash Used By Investing Activities	<u>(18,178,752)</u>	<u>(2,544,255)</u>
Net increase in cash and cash equivalents	3,098,058	8,327,895
Cash and cash equivalents, beginning of year	<u>71,883,729</u>	<u>63,555,834</u>
Cash and Cash Equivalents, End of Year	<u><u>\$74,981,787</u></u>	<u><u>\$71,883,729</u></u>

See notes to financial statements.

DonorsChoose.org**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2022 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 “TOON in to a Love for Reading” (\$600) to “STEMulate Young Innovators” (\$291) to “Let’s Look at Literature Through the Lens of Diverse Perspectives” (\$336). 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, 2022 AND 2021

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, materials 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, 2022 AND 2021

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, 2022 AND 2021

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, and cost-reimbursement government grant contracts that are conditional on incurring eligible expenses, 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, 2022 AND 2021

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, 2022 AND 2021

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 1, 2022, the date that the financial statements are considered available to be issued.

o - Prior Year Information

For comparability, certain 2021 amounts have been reclassified, where appropriate, to conform to the financial statement presentation used in 2022.

p - New Accounting Standard

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, 2022 AND 2021

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>2022</u>	<u>2021</u>
Financial Assets at Year End:		
Cash and cash equivalents	\$ 74,981,787	\$ 71,883,729
Certificates of deposit	15,161,049	10,150,986
Unconditional promises to give	14,256,889	23,408,165
Investments	<u>21,139,250</u>	<u>12,785,859</u>
Total Financial Assets	125,538,975	118,228,739
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	(39,616,558)	(39,590,264)
Operating reserve	(19,867,746)	(12,126,655)
Classroom assistance fund	(14,060,500)	(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>\$ 50,494,171</u>	<u>\$ 48,511,820</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) An operating reserve of \$19,867,746, 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 \$18,280,525 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, 2022 AND 2021

Note 3 - Information Regarding Liquidity and Availability (continued)

- 2) A Classroom Assistance Fund of \$14,060,500, 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) A Strategic Project Reserve of \$1,500,000, 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.

Strategic 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.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

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, 2022, approximately 12% of total revenue was received from two government agencies. For the year ended June 30, 2021, approximately 9% of total revenue was received from a different donor.
- c - Revenue from government grant contracts, which accounted for approximately 19% and 1% of total revenue for years ended June 30, 2022 and 2021, respectively, consists of funds awarded to DonorsChoose.org by several state departments of education to fund classroom projects in those states.

Note 6 - Unconditional Promises to Give

Unconditional promises to give at June 30, 2022 are due within one year.

Unconditional promises to give at June 30, 2021 are due as follows:

	<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>

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 24% of unconditional promises to give as of June 30, 2022 is from a single grant. Approximately 21% of unconditional promises to give as of June 30, 2021 was from a different single grant.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 7 - Certificates of Deposit

At June 30, 2022, 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, 2022 and 2021 totaled \$10,419 and \$26,796, respectively.

Note 8 - Property and Equipment

Property and equipment consist of the following:

	<u>Life</u>	<u>2022</u>	<u>2021</u>
Internet platform	3 years	\$5,797,698	\$5,365,729
Furniture and equipment	2-5 years	481,550	472,233
Leasehold improvements	Life of lease	<u>2,994,860</u>	<u>2,994,860</u>
		9,274,108	8,832,822
Less: Accumulated depreciation and amortization		<u>(5,237,732)</u>	<u>(4,761,368)</u>
		<u>\$4,036,376</u>	<u>\$4,071,454</u>

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 9 - Investments

Investments consist of the following at June 30:

	2022		2021	
	Cost	Fair Value	Cost	Fair Value
Cash	\$ 106,454	\$ 106,454	\$ 97,297	\$ 97,297
Mutual Funds:				
Real estate	78,310	77,823	37,455	47,395
Bond funds	2,402,796	2,220,248	784,403	826,529
Stock funds	576,624	370,088	250,020	253,508
Common stock	3,711,508	3,683,034	1,760,249	2,444,257
Preferred stock	5,809	5,460	2,509	2,102
Corporate bonds	787,211	731,378	599,256	619,854
Municipal bonds	160,134	153,728	89,299	94,343
US Treasury Notes and asset backed securities	1,139,641	1,093,481	643,757	656,819
Investment Funds:				
Global equities	3,414,735	3,121,539	1,304,915	2,162,817
Fixed income	949,997	1,518,631	649,997	1,201,369
Middle market lending	481,250	481,032	481,250	497,791
Sustainable investing	222,335	227,873	129,068	132,924
Growth stage private equity	1,280,208	1,271,504	625,026	659,204
Private equity partnership	676,028	878,316	-	-
Alternative Investment - absolute return	<u>4,600,000</u>	<u>5,198,661</u>	<u>2,100,000</u>	<u>3,089,650</u>
	<u>\$20,593,040</u>	<u>\$21,139,250</u>	<u>\$9,554,501</u>	<u>\$12,785,859</u>

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

	2022	2021
Interest and dividends	\$ 246,417	\$ 140,168
Limited partnership income	198,068	40,446
Realized (loss) gain on investments	(56,112)	130,501
Unrealized (loss) gain on investments	(2,685,148)	1,902,578
Investment fees	<u>(110,727)</u>	<u>(66,349)</u>
	(2,407,502)	2,147,344
Net investment income on cash and certificates of deposit	<u>69,965</u>	<u>107,472</u>
Net Investment (Loss) Income	<u>\$(2,337,537)</u>	<u>\$2,254,816</u>

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 9 - Investments (continued)

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

	2022				Measured at Net Asset Value
	Total	Level 1	Level 2	Level 3	
Cash	\$ 106,454	\$ 106,454	\$ -	\$ -	\$ -
Mutual Funds:					
Real estate	77,823	77,823	-	-	-
Bond funds	2,220,248	-	2,220,248	-	-
Stock funds	370,088	-	370,088	-	-
Common stock	3,683,034	3,683,034	-	-	-
Preferred stock	5,460	-	5,460	-	-
Corporate bonds	731,378	-	731,378	-	-
Municipal bonds	153,728	-	153,728	-	-
US Treasury Notes and asset backed securities	1,093,481	-	1,093,481	-	-
Investment Funds:					
Global equities	3,121,539	-	-	-	3,121,539
Fixed income	1,518,631	-	-	-	1,518,631
Middle market lending	481,032	-	-	-	481,032
Sustainable investing	227,873	-	-	-	227,873
Growth stage private equity	1,271,504	-	-	-	1,271,504
Private equity partnership	878,316	-	-	-	878,316
Alternative Investment - absolute return	<u>5,198,661</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,198,661</u>
Total Investments	<u>\$21,139,250</u>	<u>\$3,867,311</u>	<u>\$4,574,383</u>	<u>\$ -</u>	<u>\$12,697,556</u>

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 9 - Investments (continued)

	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	<u>3,089,650</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,089,650</u>
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, 2022 AND 2021

Note 9 - Investments (continued)

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, 2022:

Global Equities:	
Monthly redemption with 30 days' notice	\$ 3,121,539
Fixed Income:	
Monthly redemption with 45 days' notice (subject to initial one-year lockup period)	1,518,631
Middle Market Lending:	
Redemption ten years from final close with two possible one-year extensions at the discretion of the general partner	481,032
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	227,873
Growth Stage Private Equity:	
Redemptions permitted with at least 20 days written notice	1,271,504
Absolute Return:	
Semi-annual redemption with 100 days' notice	5,198,661
Private Equity Partnership:	
No opportunity for redemption; only distributions made at fund's discretion	<u>878,316</u>
	<u>\$12,697,556</u>

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.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 9 - Investments (continued)*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.

Private Equity Partnership

This partnership invests in a diversified portfolio of private equity investment partnerships purchased in the secondary market and co-investments.

DonorsChoose.org has committed to invest a total of \$4,050,000 in limited partnerships which make periodic capital calls. As of June 30, 2022, \$2,597,704 of this commitment has been invested, leaving an outstanding commitment of \$1,452,296.

Note 10 - Donated Services and Materials

During the years ended June 30, 2022 and 2021, DonorsChoose.org received donated services as follows:

	<u>2022</u>	<u>2021</u>
Marketing	\$29,907,663	\$70,767,973
Website and hosted services	143,144	178,339
Classroom project materials	134,555	-
Legal services	<u>118,308</u>	<u>13,467</u>
	<u>\$30,303,670</u>	<u>\$70,959,779</u>

Donated legal services for both 2022 and 2021 were related to organizational and administrative matters, including consultation regarding business registrations, contract review and other corporate and organizational policies.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 10 - Donated Services (continued)

In October 2021, DonorsChoose.org launched a new internal portal as an additional source from which teachers can find classroom materials for their projects. In addition to items that are difficult to source, this portal offers representative and inclusive resources from diverse suppliers. In order to support the portal, DonorsChoose.org purchases, stores, and manages distribution of a limited amount of classroom project materials. For the year ended June 30, 2022, DonorsChoose.org also accepted a limited amount of donated classroom project materials.

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, 2022, \$29,835,221 of the donated marketing services of \$29,907,663 were related to PSAs. For the year ended June 30, 2021, \$70,523,912 of the donated marketing services of \$70,767,973 were related to PSAs.

Note 11 - Commitments and Contingency

- a - 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 \$283,125 and \$280,408 as of June 30, 2022 and 2021, 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 \$2,956 and \$4,405 as of June 30, 2022 and 2021, respectively. There are no plans to renew.

Future minimum lease payments under noncancelable leases are as follows:

<u>Year Ending June 30,</u>	
2023	\$ 902,620
2024	824,135
2025	848,859
2026	874,325
Through December 31, 2026	<u>443,623</u>
	<u>\$3,893,562</u>

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

Note 11 - Commitments and Contingency (continued)

a - (continued)

Other office space is occupied on a month-to-month basis. Office rent expense for the years ended June 30, 2022 and 2021 totaled \$932,608 and \$932,902, respectively.

b - Government supported projects are subject to audit by the respective government agencies.

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, 2022 and 2021 were \$456,549 and \$209,801 respectively.

Note 13 - Related Party Transaction

The Founder and Former Chief Executive Officer of DonorsChoose.org 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 Former Chief Executive Officer for public speaking engagements. The Former 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 \$2,065 and \$1,475 were made during the years ended June 30, 2022 and 2021, respectively. The Former Chief Executive Officer stepped down from the role in June 2022.