

DonorsChoose.org

FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022



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, 2023 and 2022, 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, 2023 and 2022, 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.

Lutz + Carr, LLP

New York, New York
November 6, 2023

DonorsChoose.org

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
Assets		
Cash and cash equivalents (Notes 2c and 5a)	\$ 70,737,225	\$ 74,981,787
Certificates of deposit (Notes 2d, 2e, 5a and 7)	15,263,207	15,161,049
Unconditional promises to give (Notes 2g and 6)		
Without donor restrictions	3,432,514	3,058,195
With donor restrictions	12,265,127	11,198,694
Prepaid expenses and other current assets	1,728,512	1,303,438
Property and equipment, at cost, net of accumulated depreciation and amortization (Notes 2h and 8)	4,179,086	4,036,376
Investments (Notes 2d, 2f and 9)	23,019,359	21,139,250
Operating lease right-of-use asset (Notes 2i and 2o)	2,568,207	-
Security deposits	340,000	371,250
	<u> </u>	<u> </u>
Total Assets	<u><u>\$133,533,237</u></u>	<u><u>\$131,250,039</u></u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 1,221,655	\$ 1,850,000
Accrued vacation payable	541,158	518,474
Operating lease liability (Notes 2i, 2o and 11)	2,830,745	-
Total Liabilities	<u>4,593,558</u>	<u>2,368,474</u>
Commitments and Contingency (Notes 9, 12 and 13)		
Net Assets		
Without Donor Restrictions (Note 4a)		
Operating	57,181,814	53,836,761
Operating reserve	21,649,337	19,867,746
Classroom assistance fund	13,205,977	14,060,500
Strategic project reserve	1,500,000	1,500,000
Total Without Donor Restrictions	<u>93,537,128</u>	<u>89,265,007</u>
With Donor Restrictions (Note 4b)	35,402,551	39,616,558
Total Net Assets	<u>128,939,679</u>	<u>128,881,565</u>
	<u> </u>	<u> </u>
Total Liabilities and Net Assets	<u><u>\$133,533,237</u></u>	<u><u>\$131,250,039</u></u>

See notes to financial statements.

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STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2023 AND 2022

	2023			2022		
	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	\$ -	\$ 110,994,421	\$110,994,421	\$ -	\$ 114,104,415	\$114,104,415
Contributions for operating expenses	29,105,170	15,000	29,120,170	30,863,637	65,000	30,928,637
Government grant contracts for classroom projects (Note 5c)	-	9,822,642	9,822,642	-	34,273,681	34,273,681
Government grant contracts for operating expenses (Note 5c)	2,450,369	-	2,450,369	7,080,204	-	7,080,204
Contributions for program services and supporting services	363,260	-	363,260	337,198	-	337,198
Donated services and materials (Note 10)	417,933	-	417,933	30,303,670	-	30,303,670
Net investment income (loss) (Note 9)	2,561,144	-	2,561,144	(2,337,537)	-	(2,337,537)
Net assets released from restrictions	125,046,070	(125,046,070)	-	148,416,802	(148,416,802)	-
Total Revenue	159,943,946	(4,214,007)	155,729,939	214,663,974	26,294	214,690,268
Expenses						
Program Services						
Classroom projects fulfillment expense	143,650,263	-	143,650,263	165,917,488	-	165,917,488
Supporting Services						
General and administrative	2,554,765	-	2,554,765	1,952,313	-	1,952,313
Fundraising	9,466,797	-	9,466,797	37,811,617	-	37,811,617
Total Supporting Services	12,021,562	-	12,021,562	39,763,930	-	39,763,930
Total Expenses	155,671,825	-	155,671,825	205,681,418	-	205,681,418
Increase (decrease) in net assets	4,272,121	(4,214,007)	58,114	8,982,556	26,294	9,008,850
Net assets, beginning of year	89,265,007	39,616,558	128,881,565	80,282,451	39,590,264	119,872,715
Net Assets, End of Year	\$ 93,537,128	\$ 35,402,551	\$128,939,679	\$ 89,265,007	\$ 39,616,558	\$128,881,565

See notes to financial statements.

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STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2023 WITH COMPARATIVE TOTALS FOR 2022

	2023			Total Expenses	2022 Total Expenses	
	Program Services	General and Administrative	Supporting Services Fundraising			Total
Classroom project materials	\$125,582,458	\$ -	\$ -	\$ -	\$125,582,458	\$150,058,252
Donor thank you package and delivery	63,314	-	-	-	63,314	42,028
Credit card fees	1,563,190	-	-	-	1,563,190	1,665,469
Direct shipping and fulfillment costs	231,170	-	-	-	231,170	139,975
Subtotal Classroom Project Expense	127,440,132	-	-	-	127,440,132	151,905,724
Salaries	7,930,843	1,257,150	5,289,597	6,546,747	14,477,590	12,952,587
Payroll taxes and benefits	2,887,487	382,587	1,519,479	1,902,066	4,789,553	3,852,277
Travel and meetings	293,087	56,446	240,946	297,392	590,479	214,241
Occupancy	679,613	75,379	327,010	402,389	1,082,002	1,088,351
Communications	78,485	42,783	32,673	75,456	153,941	137,968
Office supplies and equipment	257,101	28,517	123,710	152,227	409,328	303,380
Legal	-	203,131	-	203,131	203,131	162,623
Consulting and professional services	542,587	127,554	592,018	719,572	1,262,159	986,793
Audit	-	31,736	-	31,736	31,736	75,000
Insurance	-	108,348	-	108,348	108,348	77,881
Website and IT	1,350,455	132,001	385,862	517,863	1,868,318	1,573,747
Gift card production	-	-	18,077	18,077	18,077	8,589
Marketing	-	-	798,467	798,467	798,467	146,675
Donated marketing (Note 10)	-	-	61,000	61,000	61,000	29,907,663
Bad debt	-	49,359	-	49,359	49,359	126,011
Registration fees	-	14,842	-	14,842	14,842	12,892
Bank fees	-	929	-	929	929	4,898
Miscellaneous	-	26,032	-	26,032	26,032	35,002
Depreciation and amortization	2,190,473	17,971	77,958	95,929	2,286,402	2,109,116
Total Expenses, 2023	<u>\$143,650,263</u>	<u>\$ 2,554,765</u>	<u>\$ 9,466,797</u>	<u>\$12,021,562</u>	<u>\$155,671,825</u>	
Total Expenses, 2022	<u>\$165,917,488</u>	<u>\$ 1,952,313</u>	<u>\$37,811,617</u>	<u>\$39,763,930</u>		<u>\$205,681,418</u>

See notes to financial statements.

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STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2022

	Program Services	Supporting Services			Total Expenses
		General and Administrative	Fundraising	Total	
Classroom project materials	\$150,058,252	\$ -	\$ -	\$ -	\$150,058,252
Donor thank you package and delivery	42,028	-	-	-	42,028
Credit card fees	1,665,469	-	-	-	1,665,469
Direct shipping and fulfillment costs	139,975	-	-	-	139,975
Subtotal Classroom Project Expense	151,905,724	-	-	-	151,905,724
Salaries	7,000,461	907,240	5,044,886	5,952,126	12,952,587
Payroll taxes and benefits	2,295,212	235,642	1,321,423	1,557,065	3,852,277
Travel and meetings	120,996	14,861	78,384	93,245	214,241
Occupancy	681,867	61,074	345,410	406,484	1,088,351
Communications	87,470	7,439	43,059	50,498	137,968
Office supplies and equipment	190,072	17,024	96,284	113,308	303,380
Legal	-	162,623	-	162,623	162,623
Consulting and professional services	501,875	73,090	411,828	484,918	986,793
Audit	-	75,000	-	75,000	75,000
Insurance	-	77,881	-	77,881	77,881
Website and IT	1,113,043	128,362	332,342	460,704	1,573,747
Gift card production	-	-	8,589	8,589	8,589
Marketing	-	-	146,675	146,675	146,675
Donated marketing (Note 10)	-	-	29,907,663	29,907,663	29,907,663
Bad debt	-	126,011	-	126,011	126,011
Registration fees	-	12,892	-	12,892	12,892
Bank fees	-	4,898	-	4,898	4,898
Miscellaneous	-	35,002	-	35,002	35,002
Depreciation and amortization	2,020,768	13,274	75,074	88,348	2,109,116
Total Expenses	<u>\$165,917,488</u>	<u>\$ 1,952,313</u>	<u>\$37,811,617</u>	<u>\$39,763,930</u>	<u>\$205,681,418</u>

See notes to financial statements.

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STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
Cash Flows From Operating Activities		
Increase in net assets	\$ 58,114	\$ 9,008,850
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	2,286,402	2,109,116
Realized loss on investments	122,140	56,112
Unrealized (gain) loss on investments	(1,800,605)	2,685,148
Bad debt expense	49,359	126,011
Non-cash operating lease expense	695,345	-
(Increase) decrease in:		
Unconditional promises to give	(1,490,111)	9,025,265
Prepaid expenses and other current assets	(425,074)	(285,811)
Security deposits	31,250	-
Increase (decrease) in:		
Accounts payable and accrued expenses	(342,264)	(1,501,708)
Accrued vacation payable	22,684	53,827
Operating lease liability	(718,888)	-
Net Cash Provided (Used) By Operating Activities	<u>(1,511,648)</u>	<u>21,276,810</u>
Cash Flows From Investing Activities		
Purchase of property and equipment	(2,429,112)	(2,074,038)
Proceeds from maturity of certificates of deposit	30,318,997	30,306,126
Purchase of certificates of deposit	(30,421,155)	(35,316,189)
Purchase of investments	(2,377,061)	(13,108,238)
Proceeds from sale of investments	2,151,838	1,989,353
Proceeds from sale of investments for payment of investment management fees	23,579	24,234
Net Cash Used By Investing Activities	<u>(2,732,914)</u>	<u>(18,178,752)</u>
Net increase (decrease) in cash and cash equivalents	(4,244,562)	3,098,058
Cash and cash equivalents, beginning of year	<u>74,981,787</u>	<u>71,883,729</u>
Cash and Cash Equivalents, End of Year	<u><u>\$70,737,225</u></u>	<u><u>\$74,981,787</u></u>
Supplemental Disclosure		
Operating lease right-of-use asset obtained in exchange for lease liability	<u>\$ 3,263,552</u>	<u>\$ -</u>

See notes to financial statements.

DonorsChoose.org**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2023 AND 2022****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 “Rockin’ Resources” (\$157) to “Little Engineers in the Making” (\$127) to “Let it Glow!” (\$608). 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.

DonorsChoose.org**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2023 AND 2022****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.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

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, 2023 AND 2022

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, 2023 AND 2022

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 - Operating Lease Right-of-Use Asset and Operating Lease Liability

For leases with an initial term greater than twelve months, DonorsChoose.org's operating lease liability is initially recorded at the present value of the unpaid lease payments as of July 1, 2022. DonorsChoose.org's operating lease right-of-use asset is initially recorded at the carrying amount of the lease liability adjusted for initial direct costs, accruals, prepayments and lease incentives, if any. Operating lease cost is recognized on a straight-line basis over the lease term.

For the year ended June 30, 2022, rent expense is recorded on a straight-line basis over the life of the lease. The difference between the straight-line amount and the amount actually paid during the year is recorded as a 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.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

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 6, 2023, the date that the financial statements are considered available to be issued.

o - New Accounting Standard

During 2023, DonorsChoose.org adopted ASU 2016-02, *Leases* (“*Topic 842*”). The core principles of ASU 2016-02 (the “ASU”) change the way organizations account for their leases by recognizing lease assets and related liabilities on the statement of financial position for all leases with terms longer than twelve months and disclosing key information about leasing arrangements. As such, results for 2023 are presented under *Topic 842*, while results for 2022 continue to be reported in accordance with historical accounting practices. The adoption of *Topic 842* did not have a significant impact on DonorsChoose.org’s net assets as of July 1, 2022.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

Note 2 - Significant Accounting Policies (continued)o - New Accounting Standard (continued)

As part of the adoption of the ASU, DonorsChoose.org elected to apply the modified retrospective transition approach as of the date of initial application without restating comparative period financial statements, to use a risk-free rate, equal to the five-year Treasury Bill rate for the discount of the operating lease and to apply the practical expedients which allows DonorsChoose.org to not reassess (i) whether any expired or existing contracts are leases or contain leases (ii) the lease classification for any expired or existing leases (iii) initial direct costs for any existing leases.

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>2023</u>	<u>2022</u>
Financial Assets at Year End:		
Cash and cash equivalents	\$ 70,737,225	\$ 74,981,787
Certificates of deposit	15,263,207	15,161,049
Unconditional promises to give	15,697,641	14,256,889
Investments	<u>23,019,359</u>	<u>21,139,250</u>
Total Financial Assets	124,717,432	125,538,975
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	(35,402,551)	(39,616,558)
Operating reserve	(21,649,337)	(19,867,746)
Classroom assistance fund	(13,205,977)	(14,060,500)
Strategic project reserve	<u>(1,500,000)</u>	<u>(1,500,000)</u>
Financial Assets Available to Meet General Expenditures		
within One Year	<u>\$ 52,959,567</u>	<u>\$ 50,494,171</u>

DonorsChoose.org**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2023 AND 2022****Note 3 - Information Regarding Liquidity and Availability (continued)**

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 \$21,649,337, 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 \$20,155,960 could be made available for use in general operating expenses within one year, with Board approval.
- 2) A Classroom Assistance Fund of \$13,205,977, 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.

DonorsChoose.org**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2023 AND 2022****Note 5 - Concentrations**

- a - Significant concentrations of cash and certificates of deposit are on deposit at five financial institutions. Cash equivalents include money market deposits and U.S. Government money market mutual funds.
- b - For the year ended June 30, 2023, approximately 8% of total revenue was received from two government agencies. For the year ended June 30, 2022, approximately 12% of total revenue was received from two government agencies.
- c - Revenue from government grant contracts, which accounted for approximately 8% and 19% of total revenue for years ended June 30, 2023 and 2022, 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, 2023 and 2022 are due within one year.

Uncollectible amounts are expected to be insignificant. Approximately 39% of unconditional promises to give as of June 30, 2023 are from two grants. Approximately 24% of unconditional promises to give as of June 30, 2022 was from a different single grant.

Note 7 - Certificates of Deposit

At June 30, 2023, 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, 2023 and 2022 totaled \$182,281 and \$10,419, respectively.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

Note 8 - Property and Equipment

Property and equipment consist of the following:

	<u>Life</u>	<u>2023</u>	<u>2022</u>
Internet platform	3 years	\$6,373,032	\$5,797,698
Furniture and equipment	2-5 years	440,432	481,550
Leasehold improvements	Life of lease	<u>2,490,818</u>	<u>2,994,860</u>
		9,304,282	9,274,108
Less: Accumulated depreciation and amortization		<u>(5,125,196)</u>	<u>(5,237,732)</u>
		<u>\$4,179,086</u>	<u>\$4,036,376</u>

During the year ended June 30, 2023, fully depreciated assets in the amount of \$2,398,938 were written off.

Note 9 - Investments

Investments consist of the following at June 30:

	<u>2023</u>		<u>2022</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash	\$ 63,335	\$ 63,335	\$ 106,454	\$ 106,454
Mutual Funds:				
Real estate	84,009	76,203	78,310	77,823
Bond funds	2,249,983	2,037,547	2,402,796	2,220,248
Stock funds	544,237	410,585	576,624	370,088
Common stock	3,713,214	4,327,078	3,711,508	3,683,034
Preferred stock	5,787	6,207	5,809	5,460
Corporate bonds	712,806	660,150	787,211	731,378
Municipal bonds	-	-	160,134	153,728
US Treasury Notes and asset backed securities	1,416,052	1,348,211	1,139,641	1,093,481
Investment Funds:				
Global equities	3,072,096	3,593,944	3,414,735	3,121,539
Fixed income	949,997	1,605,452	949,997	1,518,631
Middle market lending	481,250	496,684	481,250	481,032
Sustainable investing	376,020	391,744	222,335	227,873
Growth stage private equity	1,541,020	1,370,022	1,280,208	1,271,504
Private equity partnership	785,524	955,256	676,028	878,316
Distressed investments	77,214	41,437	-	-
Alternative Investment - absolute return	<u>4,600,000</u>	<u>5,635,504</u>	<u>4,600,000</u>	<u>5,198,661</u>
	<u>\$20,672,544</u>	<u>\$23,019,359</u>	<u>\$20,593,040</u>	<u>\$21,139,250</u>

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

Note 9 - Investments (continued)

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

	<u>2023</u>	<u>2022</u>
Interest and dividends	\$ 286,065	\$ 246,417
Limited partnership income	(364,235)	198,068
Realized loss on investments	(122,140)	(56,112)
Unrealized (loss) gain on investments	1,800,605	(2,685,148)
Investment fees	<u>(125,849)</u>	<u>(110,727)</u>
	1,474,446	(2,407,502)
Net investment income on cash and certificates of deposit	<u>1,086,698</u>	<u>69,965</u>
Net Investment Income (Loss)	<u>\$ 2,561,144</u>	<u>\$(2,337,537)</u>

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

	<u>2023</u>				<u>Measured at</u>
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Net Asset</u>
					<u>Value</u>
Cash	\$ 63,335	\$ 63,335	\$ -	\$ -	\$ -
Mutual Funds:					
Real estate	76,203	76,203	-	-	-
Bond funds	2,037,547	-	2,037,547	-	-
Stock funds	410,585	-	410,585	-	-
Common stock	4,327,078	4,327,078	-	-	-
Preferred stock	6,207	-	6,207	-	-
Corporate bonds	660,150	-	660,150	-	-
US Treasury Notes and asset backed securities	1,348,211	-	1,348,211	-	-
Investment Funds:					
Global equities	3,593,944	-	-	-	3,593,944
Fixed income	1,605,452	-	-	-	1,605,452
Middle market lending	496,684	-	-	-	496,684
Sustainable investing	391,744	-	-	-	391,744
Growth stage private equity	1,370,022	-	-	-	1,370,022
Private equity partnership	955,256	-	-	-	955,256
Distressed Investments	41,437	-	-	-	41,437
Alternative Investment - absolute return	<u>5,635,504</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,635,504</u>
Total Investments	<u>\$23,019,359</u>	<u>\$4,466,616</u>	<u>\$4,462,700</u>	<u>\$ -</u>	<u>\$14,090,043</u>

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

Note 9 - Investments (continued)

	<u>2022</u>				<u>Measured at Net Asset Value</u>
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
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>

DonorsChoose.org

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

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, 2023:

Global Equities:	
Monthly redemption with 30 days' notice	\$ 3,593,944
Fixed Income:	
Monthly redemption with 45 days' notice (subject to initial one-year lockup period)	1,605,452
Middle Market Lending:	
Redemption ten years from final close with two possible one-year extensions at the discretion of the general partner	496,684
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	391,744
Growth Stage Private Equity:	
Redemptions permitted with at least 20 days written notice	1,370,022
Absolute Return:	
Semi-annual redemption with 100 days' notice	5,635,504
Private Equity Partnership:	
No opportunity for redemption; only distributions made at fund's discretion	955,256
Distressed Investments:	
No opportunity for redemption; only distributions made at fund's discretion	<u>41,437</u>
	<u>\$14,090,043</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.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

Note 9 - Investments (continued)*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.

Private Equity Partnership

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

Distressed Investments

This fund invests in distressed investments and situations resulting from capital dislocations and/or arising from motivated sellers.

DonorsChoose.org has committed to invest a total of \$5,050,000 in limited partnerships which make periodic capital calls. As of June 30, 2023, \$3,303,766 of this commitment has been invested, leaving an outstanding commitment of \$1,746,234.

Note 10 - Donated Services and Materials

During the years ended June 30, 2023 and 2022, DonorsChoose.org received donated services as follows:

	<u>2023</u>	<u>2022</u>
Legal services	\$185,806	\$ 118,308
Website and hosted services	168,141	143,144
Marketing	61,000	29,907,663
Classroom project materials	<u>2,986</u>	<u>134,555</u>
	<u>\$417,933</u>	<u>\$30,303,670</u>

DonorsChoose.org

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

Note 10 - Donated Services and Materials (continued)

Donated legal services for both 2023 and 2022 were related to organizational and administrative matters, including consultation regarding business registrations, contract review and other corporate and organizational policies.

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, 2023, DonorsChoose.org also accepted a limited amount of donated classroom project materials.

DonorsChoose.org engaged with a firm to distribute public service announcements (PSAs) nationwide, which are presented by television and radio stations free of charge. This ended in November 2021. 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.

Note 11 - Operating Lease Liability

DonorsChoose.org occupies office space under an operating lease agreement expiring December 2026.

Operating lease costs for the year ended June 30, 2023 totaled \$779,545. There were no variable lease costs incurred. As of June 30, 2023, the remaining term of DonorsChoose.org's operating lease is forty-two months, and the discount rate is 2.88%.

Maturities of DonorsChoose.org's lease liability as of June 30, 2023 are as follows:

<u>Year Ending June 30,</u>	
2024	\$ 824,135
2025	848,859
2026	874,325
Through December 31, 2026	<u>443,623</u>
	2,990,942
Less: Amount attributable to interest	<u>(160,197)</u>
	<u>\$2,830,745</u>

DonorsChoose.org**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2023 AND 2022****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, 2023 and 2022 were \$529,397 and \$456,549, respectively.

Note 13 - Contingency

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

Note 14 - 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 \$1,940 and \$2,065 were made during the years ended June 30, 2023 and 2022, respectively. The Former Chief Executive Officer stepped down from the role in June 2022.