

**DONORSCHOOSE, INC.**

**FINANCIAL STATEMENTS  
AND  
ADDITIONAL INFORMATION**

**JUNE 30, 2006 AND 2005**

**DONORSCHOOSE, INC.**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
DonorsChoose, Inc.

We have audited the accompanying statements of financial position of DonorsChoose, Inc. (a not-for-profit corporation) as of June 30, 2006 and 2005, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of DonorsChoose, Inc. as of June 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Lutz + Carr, LLP*

New York, New York  
September 2, 2006, except for Note 8, as to  
which the date is January 19, 2007

**DONORSCHOOSE, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2006 AND 2005**

	<b>2006</b>	<b>2005</b>
<b>Assets</b>		
Cash (Note 3)		
Unrestricted	\$ 786,311	\$1,070,014
Board designated to student resources and delivery	866,776	119,981
Restricted to student resources and delivery	942,547	537,007
Restricted to future program services and supporting services	<u>1,621,873</u>	<u>606,128</u>
	4,217,507	2,333,130
Accounts receivable	15,000	8,862
Unconditional promises to give (Notes 1b and 4)		
Unrestricted	83,000	10,000
Restricted	1,022,500	549,942
Prepaid expenses	5,881	27,468
Property and equipment, at cost, net of accumulated depreciation (Notes 1c and 5)	570,283	336,038
Security deposits	<u>9,818</u>	<u>9,435</u>
<b>Total Assets</b>	<b><u>\$5,923,989</u></b>	<b><u>\$3,274,875</u></b>
<b>Liabilities and Net Assets</b>		
Liabilities		
Accounts payable and accrued expenses	<u>\$ 129,098</u>	<u>\$ 44,706</u>
Commitment (Note 7)		
Net Assets		
Unrestricted	1,341,195	1,417,111
Board designated (Note 2a)	866,776	119,981
Total Unrestricted	<u>2,207,971</u>	<u>1,537,092</u>
Temporarily restricted (Note 2b)	<u>3,586,920</u>	<u>1,693,077</u>
Total Net Assets	<u>5,794,891</u>	<u>3,230,169</u>
<b>Total Liabilities and Net Assets</b>	<b><u>\$5,923,989</u></b>	<b><u>\$3,274,875</u></b>

See notes to financial statements.

## DONORSCHOOSE, INC.

## STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2006 AND 2005

	2006			2005		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Changes in Net Assets</b>						
Revenue						
Contributions for student resources and delivery	\$ 221,463	\$ 3,265,261	\$3,486,724	\$ 146,186	\$ 1,540,092	\$ 1,686,278
Contributions for program services and supporting services	922,654	3,384,863	4,307,517	1,295,459	1,619,878	2,915,337
Donated services and facilities	201,938	-	201,938	332,403	-	332,403
Interest income	88,218	-	88,218	5,488	-	5,488
Other revenue	-	-	-	8,473	-	8,473
Net assets released from restriction	4,756,281	(4,756,281)	-	2,489,036	(2,489,036)	-
Total Revenue	<u>6,190,554</u>	<u>1,893,843</u>	<u>8,084,397</u>	<u>4,277,045</u>	<u>670,934</u>	<u>4,947,979</u>
Expenses						
Program Services						
Student resources and delivery	3,567,435	-	3,567,435	2,063,579	-	2,063,579
Student resource advocacy	966,886	-	966,886	379,424	-	379,424
Total Program Services	<u>4,534,321</u>	<u>-</u>	<u>4,534,321</u>	<u>2,443,003</u>	<u>-</u>	<u>2,443,003</u>
Supporting Services						
General and administrative	590,351	-	590,351	557,621	-	557,621
Fundraising	395,003	-	395,003	242,028	-	242,028
Total Supporting Services	<u>985,354</u>	<u>-</u>	<u>985,354</u>	<u>799,649</u>	<u>-</u>	<u>799,649</u>
Total Expenses	<u>5,519,675</u>	<u>-</u>	<u>5,519,675</u>	<u>3,242,652</u>	<u>-</u>	<u>3,242,652</u>
Increase in net assets	670,879	1,893,843	2,564,722	1,034,393	670,934	1,705,327
Net assets, beginning of year	<u>1,537,092</u>	<u>1,693,077</u>	<u>3,230,169</u>	<u>502,699</u>	<u>1,022,143</u>	<u>1,524,842</u>
<b>Net Assets, End of Year</b>	<u>\$ 2,207,971</u>	<u>\$ 3,586,920</u>	<u>\$5,794,891</u>	<u>\$ 1,537,092</u>	<u>\$ 1,693,077</u>	<u>\$ 3,230,169</u>

See notes to financial statements.

## DONORSCHOOSE, INC.

## STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
<b>Cash Flows From Operating Activities</b>		
Increase in net assets	\$2,564,722	\$1,705,327
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	258,716	119,291
Write-off of fixed asset	-	1,613
(Increase) decrease in:		
Accounts receivable	(6,138)	(8,862)
Unconditional promises to give	(545,558)	(249,942)
Prepaid expenses	21,587	56,486
Security deposits	(383)	(550)
Increase (decrease) in:		
Accounts payable and accrued expenses	84,392	5,764
Refundable advance	-	(270,620)
Net Cash Provided By Operating Activities	<u>2,377,338</u>	<u>1,358,507</u>
<b>Cash Flows From Investing Activities</b>		
Purchase of property and equipment	<u>(492,961)</u>	<u>(333,113)</u>
Increase in cash	1,884,377	1,025,394
Cash, beginning of year	<u>2,333,130</u>	<u>1,307,736</u>
<b>Cash, End of Year</b>	<u><u>\$4,217,507</u></u>	<u><u>\$2,333,130</u></u>

See notes to financial statements.

**DONORSCHOOSE, INC.****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2006 AND 2005****Note 1 - Summary of Significant Accounting Policies****a - Organization**

DonorsChoose is an Organization that provides a simple way to provide students in need with resources that our public schools often lack. At its not-for-profit web site, teachers submit proposals for materials or experiences their students need to learn. These ideas become classroom reality when concerned individuals, referred to as Citizen Philanthropists, fund a proposal.

Proposals range from "Magical Math Centers" (\$200) to "Big Book Bonanza" (\$320), to "Cooking Across the Curriculum" (\$1,100). 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 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 feedback 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.

Contributions are recorded as revenue. Revenue is classified as contributions to pay for student resources and delivery, contributions to pay for program services and supporting services, and where applicable, as donated services.

Program Services include student resources and delivery, and student resource advocacy. Student resources and delivery are amounts paid to process proposals, acquire and deliver project materials to the classroom, and to provide feedback to the donor. Student resource advocacy consists of outreach to schools and to citizen philanthropists.

**b - Unconditional Promises to Give and Contributions**

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

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

**c - Property and Equipment**

Property and equipment are recorded at cost and are being depreciated using the straight-line method over the estimated useful lives of the assets.

## DONORSCHOOSE, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

**Note 1 - Summary of Significant Accounting Policies (continued)**d - Financial Statement Presentation

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

e - 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.

f - Tax Status

The Organization 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.

**Note 2 - Restrictions on Assets**a - Board Designated

The Organization designates unrestricted contribution revenue to cover the costs of student resources and delivery. At June 30, 2006 and 2005, amounts designated and not yet expended totaled \$866,776 and \$119,981, respectively.

b - Temporarily Restricted

Temporarily restricted net assets as of June 30 are restricted for future programs as follows:

	<u>2006</u>	<u>2005</u>
Student resources and delivery	\$ 927,547	\$ 537,007
Program services and supporting services, including unconditional promises to give of \$1,022,500 (2006) and \$549,942 (2005)	<u>2,659,373</u>	<u>1,156,070</u>
	<u>\$3,586,920</u>	<u>\$1,693,077</u>

**Note 3 - Concentration**

The Organization had a significant concentration of cash on deposit at one financial institution.

## DONORSCHOOSE, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

**Note 4 - Unconditional Promises to Give**

Unconditional promises to give at June 30, 2006 are due within one year. Uncollectible promises to give are expected to be insignificant.

**Note 5 - Property and Equipment**

Property and equipment consist of the following:

	<u>Life</u>	<u>2006</u>	<u>2005</u>
Website	3 years	\$ 780,809	\$363,423
Computers and software	3-5 years	218,025	152,127
Furniture and equipment	5 years	<u>23,847</u>	<u>14,170</u>
		1,022,681	529,720
Less: Accumulated depreciation		<u>452,398</u>	<u>193,682</u>
		<u>\$ 570,283</u>	<u>\$336,038</u>

Depreciation expense for the years ended June 30, 2006 and 2005 was \$258,716 and \$119,292, respectively.

**Note 6 - Donated Services and Facilities**

During the years ended June 30, 2006 and 2005, the Organization received donated services and facilities as follows:

	<u>2006</u>	<u>2005</u>
Legal services	\$119,248	\$281,643
Public relations	66,260	44,760
Occupancy	13,900	-
Office supplies	2,530	-
Accounting services	<u>-</u>	<u>6,000</u>
	<u>\$201,938</u>	<u>\$332,403</u>

Donated legal services for both 2006 and 2005 related to organizational and administrative matters, including consultation regarding business registrations, contract review, and other corporate and organizational policies.

**DONORSCHOOSE, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006 AND 2005**

**Note 7 - Commitment**

The Organization occupies office space at various locations under leases which provide for future minimum rental payments as follows:

Year ending June 30, 2007	\$33,589
Year ending June 30, 2008	25,600
Period ending August 31, 2008	3,000

The Organization also occupies other office space on a month-to-month basis.

Rent expense for the years ended June 30, 2006 and 2005 totaled \$57,389 and \$44,818, respectively.

**Note 8 - Subsequent Events**

In October 2006, the Organization's Board of Directors approved a plan for merger with Means for Dreams, Inc. ("MFD"), another non-profit organization conducting activities similar to DonorsChoose in the District of Columbia area. The effective date of the merger is to be January 31, 2007 and will involve the Organization, as the surviving entity, assuming certain assets and liabilities of MFD, the amount of which are not material to the accompanying financial statements.

The Organization has received a significant commitment from Omidyar Network to provide support for its national expansion efforts. The commitment provides for a \$2 million contribution upon the Organization raising \$1 million in matching funds, as well as a further \$4 million contribution if the Organization raises an additional \$7 million in matching funds by September 30, 2007. As of January 19, 2007 the Organization has received a \$2 million contribution from Omidyar Network, based upon its receiving the first \$1 million in matching funds, as discussed above.

## DONORSCHOOSE, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

**Note 9 - Functional Allocation of Expenses**

The cost of providing the program services and supporting services has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program services and supporting services benefited.

Expenses by their function for the years ended June 30, 2006 and 2005 can be summarized as follows:

	<b>2006</b>				
	<b>Program Services</b>	<b>Supporting Services</b>			<b>Total Expenses</b>
		<b>General and Administrative</b>	<b>Fundraising</b>	<b>Total Supporting Services</b>	
Total Expenses	<u>\$4,534,321</u> 82.1%	<u>\$590,351</u> 10.7%	<u>\$395,003</u> 7.2%	<u>\$985,354</u> 17.9%	<u>\$5,519,675</u> 100%
Total Expenses, Excluding Donated Services and Facilities (\$201,938)	<u>\$4,458,609</u> 83.8%	<u>\$465,932</u> 8.8%	<u>\$393,196</u> 7.4%	<u>\$859,128</u> 16.2%	<u>\$5,317,737</u> 100%
	<b>2005</b>				
	<b>Program Services</b>	<b>Supporting Services</b>			<b>Total Expenses</b>
	<b>General and Administrative</b>	<b>Fundraising</b>	<b>Total Supporting Services</b>		
Total Expenses	<u>\$2,443,003</u> 75.3%	<u>\$557,621</u> 17.2%	<u>\$242,028</u> 7.5%	<u>\$799,649</u> 24.7%	<u>\$3,242,652</u> 100%
Total Expenses, Excluding Donated Services and Facilities (\$332,403)	<u>\$2,398,243</u> 82.4%	<u>\$269,978</u> 9.3%	<u>\$242,028</u> 8.3%	<u>\$512,006</u> 17.6%	<u>\$2,910,249</u> 100%

**ADDITIONAL INFORMATION**



**INDEPENDENT AUDITOR'S REPORT ON  
ADDITIONAL INFORMATION**

To the Board of Directors of  
DonorsChoose, Inc.

Our report on our audits of the basic financial statements of DonorsChoose, Inc. for 2006 and 2005 appears on page 1. We conducted our audits in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Functional Expenses for the year ended June 30, 2006 with comparative totals for 2005 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Lutz + Carr, LLP*

New York, New York  
September 2, 2006

## DONORSCHOOSE, INC.

## SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2006 WITH COMPARATIVE TOTALS FOR 2005

	Program Services			Supporting Services			2006	2005 *
	Student Resources and Delivery	Student Resource Advocacy	Total	General and Administrative	Fundraising	Total	Total Expenses	Total Expenses
Salaries	\$ 415,780	\$ 369,582	\$ 785,362	\$ 219,439	\$ 150,143	\$ 369,582	\$1,154,944	\$ 663,168
Payroll taxes and employee benefits	83,255	74,005	157,260	43,940	30,065	74,005	231,265	99,440
Student resources	2,589,756	-	2,589,756	-	-	-	2,589,756	1,565,215
Student resources delivery	93,399	-	93,399	-	-	-	93,399	52,230
Teacher awards	-	-	-	-	-	-	-	10,400
Occupancy, including donated facilities of \$13,900 (2006)	25,664	22,812	48,476	13,545	9,268	22,813	71,289	50,328
Travel	-	53,631	53,631	13,408	22,346	35,754	89,385	37,291
Accounting and audit	-	-	-	26,384	-	26,384	26,384	33,053
Legal services-donated	-	-	-	119,248	-	119,248	119,248	281,643
Consultants and professional services	110,518	-	110,518	52,709	6,801	59,510	170,028	65,673
Office supplies, including donated materials of \$2,530 (2006)	11,885	7,131	19,016	16,792	14,262	31,054	50,070	20,094
Communications	9,325	5,329	14,654	6,661	5,329	11,990	26,644	22,666
Postage and delivery	11,175	699	11,874	1,397	697	2,094	13,968	18,313
Website	75,133	18,783	93,916	18,783	12,522	31,305	125,221	47,018
Marketing, including donated services of \$66,260 (2006) and \$44,760 (2005)	-	320,784	320,784	-	109,082	109,082	429,866	112,199
Insurance	2,368	2,105	4,473	1,250	855	2,105	6,578	4,653
Credit card and bank fees	46,039	-	46,039	1,375	-	1,375	47,414	27,489
Registration fees	-	9,236	9,236	2,309	-	2,309	11,545	7,827
Miscellaneous	-	-	-	3,955	-	3,955	3,955	4,661
Depreciation	93,138	82,789	175,927	49,156	33,633	82,789	258,716	119,291
Total Expenses, 2006	3,567,435	966,886	4,534,321	590,351	395,003	985,354	5,519,675	
Less: Donated services and facilities	(5,004)	(70,708)	(75,712)	(124,419)	(1,807)	(126,226)	(201,938)	
	<u>\$ 3,562,431</u>	<u>\$896,178</u>	<u>\$4,458,609</u>	<u>\$ 465,932</u>	<u>\$ 393,196</u>	<u>\$ 859,128</u>	<u>\$5,317,737</u>	
Total Expenses, 2005	\$ 2,063,579	\$379,424	\$2,443,003	\$ 557,621	\$ 242,028	\$ 799,649		\$3,242,652
Less: Donated services and facilities	-	(44,760)	(44,760)	(287,643)	-	(287,643)		(332,403)
	<u>\$ 2,063,579</u>	<u>\$334,664</u>	<u>\$2,398,243</u>	<u>\$ 269,978</u>	<u>\$ 242,028</u>	<u>\$ 512,006</u>		<u>\$2,910,249</u>

\* Certain amounts have been reclassified for comparative purposes.

See independent auditor's report on additional information.