

GreatSchools, Inc.

Consolidated Financial Statements

December 31, 2016
(With Comparative Totals for 2015)



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
GreatSchools, Inc.
Oakland, California

We have audited the accompanying consolidated financial statements of GreatSchools, Inc. (a California nonprofit corporation) (the "Organization"), which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of GreatSchools, Inc. as of December 31, 2016, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited GreatSchools, Inc.'s 2015 consolidated financial statements, and our report dated September 13, 2016 expressed an unmodified opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino^{LLP}
San Francisco, California

November 17, 2017

GreatSchools, Inc.
Consolidated Statement of Financial Position
December 31, 2016
(With Comparative Totals for 2015)

	2016	2015
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,283,424	\$ 3,712,944
Investments	483,472	483,278
Accounts receivable, net	899,211	1,152,334
Grants receivable	329,600	29,699
Prepaid expenses	320,181	227,430
Total current assets	4,315,888	5,605,685
Noncurrent assets		
Property and equipment, net	205,519	267,920
Deposits	37,858	37,858
Total noncurrent assets	243,377	305,778
Total assets	\$ 4,559,265	\$ 5,911,463
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 62,497	\$ 219,368
Accrued expenses	156,898	423,035
Accrued vacation payable	177,633	232,660
Deferred revenue	488,815	972,198
Total current liabilities	885,843	1,847,261
Net assets		
Unrestricted	2,508,943	2,742,479
Temporarily restricted	1,164,479	1,321,723
Total net assets	3,673,422	4,064,202
Total liabilities and net assets	\$ 4,559,265	\$ 5,911,463

The accompanying notes are an integral part of these consolidated financial statements.

GreatSchools, Inc.
Consolidated Statement of Activities
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2016 Total</u>	<u>2015 Total</u>
Revenues, gains and other support				
Contributions	\$ 1,972,717	\$ 2,949,754	\$ 4,922,471	\$ 5,684,778
Donated services	107,477	-	107,477	128,542
Licensing/royalty/co-branding	1,451,116	-	1,451,116	1,378,695
Website activity	1,586,206	-	1,586,206	2,189,384
Fees for service	872,582	-	872,582	1,507,030
Other	1,590	-	1,590	438
Net assets released from restriction	<u>3,106,998</u>	<u>(3,106,998)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	<u>9,098,686</u>	<u>(157,244)</u>	<u>8,941,442</u>	<u>10,888,867</u>
Functional expenses				
Program services	7,753,884	-	7,753,884	9,393,570
Management and general	1,133,480	-	1,133,480	1,142,451
Fundraising	<u>444,858</u>	<u>-</u>	<u>444,858</u>	<u>515,002</u>
Total functional expenses	<u>9,332,222</u>	<u>-</u>	<u>9,332,222</u>	<u>11,051,023</u>
Change in net assets	(233,536)	(157,244)	(390,780)	(162,156)
Net assets, beginning of year	<u>2,742,479</u>	<u>1,321,723</u>	<u>4,064,202</u>	<u>4,226,358</u>
Net assets, end of year	<u>\$ 2,508,943</u>	<u>\$ 1,164,479</u>	<u>\$ 3,673,422</u>	<u>\$ 4,064,202</u>

The accompanying notes are an integral part of these consolidated financial statements.

GreatSchools, Inc.
Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2016 Total</u>	<u>2015 Total</u>
Salaries and benefits	\$ 5,263,804	\$ 640,042	\$ 387,550	\$ 6,291,396	\$ 7,535,599
Consultants	597,934	22,240	1,000	621,174	593,014
Travel and events	93,611	50,710	3,932	148,253	213,511
Content	208,994	-	210	209,204	339,197
Data center and web hosting	189,917	881	483	191,281	131,639
Technology and software	71,508	44,633	1,951	118,092	122,970
Advertising and marketing	465,646	-	-	465,646	596,795
Research and analytics	201,193	-	-	201,193	285,802
Printing	9,659	1,005	692	11,356	38,518
Professional fees	81,336	174,497	6,532	262,365	206,663
Rent and occupancy	392,082	45,142	30,475	467,699	473,870
Office expense	7,580	30,359	470	38,409	40,092
Professional development	1,666	34,220	-	35,886	43,323
Recruiting	-	45,039	-	45,039	132,289
Insurance, fees and other	41,970	30,262	2,410	74,642	152,744
Phones and internet	32,473	4,312	2,301	39,086	42,648
Depreciation expense	94,511	10,138	6,852	111,501	102,349
	<u>\$ 7,753,884</u>	<u>\$ 1,133,480</u>	<u>\$ 444,858</u>	<u>\$ 9,332,222</u>	<u>\$ 11,051,023</u>

The accompanying notes are an integral part of these consolidated financial statements.

GreatSchools, Inc.
Consolidated Statement of Cash Flows
For the Year Ended December 31, 2016
(With Comparative Totals for 2015)

	2016	2015
Cash flows from operating activities		
Change in net assets	\$ (390,780)	\$ (162,156)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	111,501	102,349
Changes in operating assets and liabilities		
Accounts receivable, net	253,123	951,243
Grant receivables	(299,901)	250,301
Prepaid expenses	(92,751)	112,337
Accounts payable	(156,871)	(85,377)
Accrued expenses	(266,137)	(45,236)
Accrued vacation payable	(55,027)	(15,834)
Deferred revenue	(483,383)	(192,495)
Net cash provided by (used in) operating activities	(1,380,226)	915,132
Cash flows from investing activities		
Redemption of certificates of deposit	483,278	483,053
Purchase of certificates of deposit	(483,472)	(483,278)
Acquisition of property of equipment	(49,100)	(32,752)
Net cash used in investing activities	(49,294)	(32,977)
Net increase (decrease) in cash and cash equivalents	(1,429,520)	882,155
Cash and cash equivalents, beginning of year	3,712,944	2,830,789
Cash and cash equivalents, end of year	\$ 2,283,424	\$ 3,712,944

The accompanying notes are an integral part of these consolidated financial statements.

GreatSchools, Inc.
Notes to Consolidated Financial Statements
December 31, 2016

1. NATURE OF OPERATIONS

GreatSchools, Inc. (the "Organization" or "GreatSchools") is a nonprofit corporation that was organized in the State of California in 1998. The mission of the Organization, a 501(c)(3) tax-exempt entity, is to provide parents with the information and resources they need to choose schools, support their children's education and advocate for educational excellence. The Organization provides, via its web site, an online guide to elementary, middle and high schools in addition to resources (like Guided Search and "Milestones") for parents to choose better schools and help their children be more successful in school.

GreatSchools is the leading national source of school information for parents. With a Webby-award winning website, GreatSchools.org reached over 50 million unique visitors and almost half of American families with school-age children in 2016. The GreatSchools.org website contains in-depth profiles of over 200,000 Pre K-12 schools and more than 1.3 million parent and community ratings and reviews of schools.

GreatSchools also provides a personalized education guide that helps parents see how their kids are progressing in their education via the GreatKids section of the website. GreatKids contains videos that help parents understand what educational excellence looks like at each step of their child's learning journey and address both academic and social and emotional development by providing parents with tips about what their children should be learning, how to cultivate character strengths such as persistence and character development, and how to partner effectively with teachers.

Millions of parents come to GreatSchools for advice, and our thousands of articles, worksheets, and videos answer their questions and help them encourage and support learning.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

The accompanying financial statements are prepared on the accrual basis of accounting. The Organization reports information regarding its financial position and activities in three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

- *Unrestricted net assets* - represent the portion of net assets that is neither temporarily nor permanently restricted by donor-imposed stipulations. These net assets are intended for use by management and the Board of Directors for general operations.
- *Temporarily restricted net assets* - represent the portion of net assets for which use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization.
- *Permanently restricted net assets* - represent the portion of net assets for which use is permanently limited by donor-imposed stipulations that neither expire by passage of time nor can be removed by actions of the Organization. There were no permanently restricted net assets at December 31, 2016.

GreatSchools, Inc.
Notes to Consolidated Financial Statements
December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Principles of consolidation

The consolidated financial statements include the accounts of GreatSchools and its wholly-owned subsidiary, Family Engagement Labs, LLC. Family Engagement Labs, LLC was formed during 2016 in order to better promote the creation of digital tools and publishing information for families, schools and education related to improving the collaboration between families and schools to improve student outcomes. All significant inter-entity transactions and accounts have been eliminated upon consolidation.

Cash and cash equivalents

For purposes of the statement of cash flows, all highly liquid investments with original maturity dates of three months or less are considered to be cash and cash equivalents. The Organization maintains its cash in bank deposit accounts which, at times, may be in excess of federally insured limits. Management believes it is not exposed to any significant risks on cash accounts.

Investments

Debt and equity securities with readily determinable fair values are carried at estimated fair value, using quoted market prices. Investments which consist of certificates of deposit are valued at their fair values as determined primarily by quoted market prices. Investments received through gifts are recorded at estimated fair value at date of donation. Gains and losses that result from market fluctuations are recognized in the period such fluctuations occur. Realized and unrealized gains or losses are calculated on an adjusted cost basis. Dividend and interest income are accrued when earned. Investments at December 31, 2016 amounted to \$483,472 and consisted of certificates of deposit.

Receivables

Website and licensing receivables are stated at the amount management expects to collect from outstanding balances. An allowance for doubtful accounts is maintained, based on past experiences and other circumstances. Account balances are charged off against the allowance for doubtful accounts after all means of collection have been exhausted and the potential for recovery is considered remote. The allowance for doubtful accounts amounted to \$96,977 at December 31, 2016.

Property and equipment

Purchased property and equipment is carried at cost. Donated property and equipment is recorded at fair value as of the date of receipt. Assets acquired with a cost or fair value greater than \$1,500 are capitalized. Maintenance and repairs are expensed as incurred. Assets retired or sold are removed from the property accounts, with gains or losses on disposal included in income.

GreatSchools, Inc.
Notes to Consolidated Financial Statements
December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

Depreciation of property and equipment is provided by use of the straight-line method over the lesser of the estimated three to seven year useful lives of the equipment or the related lease term. Purchased intangible assets are carried at cost. These assets include the domain name and web site development costs. Amortization of intangible assets is provided by use of the straight-line method over the estimated three to five year useful lives of the intangibles. Intangible assets are fully amortized as of December 31, 2016.

The Organization reviews long-lived tangible and intangible assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable. Impairment is recognized if the fair value of the asset is less than the carrying value. When an impairment loss is recognized, the asset's carrying value is reduced to its estimated fair value.

Deferred revenues

Program service fee revenue received that relates to future periods is recorded as deferred revenue and amortized into income as earned.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. Contributions, including unconditional promises to give, are recognized as revenues in the period the promise is received. Conditional promises to give are not recognized until they become unconditional; that is when the conditions on which they depend are substantially met. Contributions that are promised in one year but are not expected to be collected until after the end of that year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of any such discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for doubtful contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and current aging of contributions receivable. Management has determined that an allowance for doubtful contributions receivable is not necessary at December 31, 2016.

Donated goods and services

Donated goods and services that would typically need to be purchased if not donated are recognized in the accompanying financial statements as contributions when such goods and services (a) enhance non-financial assets or (b) require specialized skills that are provided by individuals possessing those skills. Usually the Organization receives such donated goods and services for software, computer parts and legal services.

GreatSchools, Inc.
Notes to Consolidated Financial Statements
December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Website activity income and expense

Website activity income generated on the Organization's website from advertisement placements is a function of website page views and price. The Organization's current partners are education-related firms, real estate and mortgage professionals, consumer companies, and Google. Website activity income is recognized as it is earned and for the year ended December 31, 2016 amounted to \$1,511,206. Related website activity expenses are recognized as incurred and consist of expenses allocable against website activity income based on managerial assumptions.

The Organization also incurs website development costs and has determined that no website development costs were eligible for capitalization. Website development costs amounted to approximately \$2,100,000 for the year ended December 31, 2016.

Revenue recognition

Licensing/royalty/co-branding revenue and fees for service are recognized as revenue when earned. Payments received related to future periods are reported as deferred revenue.

Functional expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated amongst program services and supporting services based on management estimates.

Advertising costs

Advertising costs are charged to expense as incurred and amounted to \$446,082 for the year ended December 31, 2016.

Income taxes

There is no provision for federal or state taxes on income since the Organization is a tax-exempt entity under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code 23701(d). The Organization has evaluated its current tax positions and has concluded that as of December 31, 2016, the Organization does not have any significant uncertain tax positions for which a reserve would be necessary and no unrelated business taxable income arising from its website activity subject to taxation.

Use of estimates

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

GreatSchools, Inc.
Notes to Consolidated Financial Statements
December 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Prior year summarized information

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such summarized information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2015, from which the summarized information was derived.

Subsequent events

The Organization has evaluated subsequent events through November 17, 2017, the date the financial statements were available to be issued. No other subsequent events have occurred that would have a material impact on the presentation of the Organization's financial statements.

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Equipment	\$ 552,048
Software	27,848
Leasehold improvements	52,969
Less accumulated depreciation and amortization	<u>(427,346)</u>
	<u>\$ 205,519</u>

Depreciation and amortization expense for 2016 amounted to \$111,501.

4. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were restricted by donors to the following purposes:

Common Core project	\$ 164,479
GreatKids educational projects	700,000
GreatSchools education projects	100,000
Family Engagement Labs	<u>200,000</u>
	<u>\$ 1,164,479</u>

GreatSchools, Inc.
Notes to Consolidated Financial Statements
December 31, 2016

4. TEMPORARILY RESTRICTED NET ASSETS (continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors as follows:

Common Core project	\$ 2,152,700
GreatKids educational projects	450,000
GreatSchools education projects	<u>504,298</u>
	<u><u>\$ 3,106,998</u></u>

5. DONATED SERVICES

The Organization received donated legal services with a fair value of \$107,477 during the year ended December 31, 2016.

6. RETIREMENT PLAN

The Organization has a defined contribution savings plan under the salary deferral provision of Internal Revenue Code Section 403(b). Employees can choose to have a specified dollar amount or a percentage of their salaries invested in mutual funds or a managed plan of their choice each pay period. The Organization provides a matching contribution of \$0.50 for each \$1.00 up to a maximum of \$1,000 per employee per year. The total matching contribution expense for the year ended December 31, 2016 was \$39,132.

7. COMMITMENTS AND CONTINGENCIES

Lease commitments

The Organization leases equipment and facilities under long-term operating leases expiring in various years.

The scheduled minimum lease payments under the lease terms are as follows:

<u>Year ending December 31,</u>	
2017	\$ 502,262
2018	518,533
2019	138,846
2020	<u>1,410</u>
	<u><u>\$ 1,161,051</u></u>

Rental expense under all operating leases for the year ended December 31, 2016 was \$467,699.

GreatSchools, Inc.
Notes to Consolidated Financial Statements
December 31, 2016

7. COMMITMENTS AND CONTINGENCIES (continued)

Risks and uncertainties

The Organization depends heavily on contributions, fundraising events and grants for its revenue. The ability of the Organization to attract support and revenues that are comparable to prior years may be dependent upon current and future overall economic conditions and the continued deductibility for income tax purposes of donations to the Organization. While the Organization's Board of Directors believes the Organization has the resources to continue its programs, its ability to do so and the extent to which it continues, may be dependent on the above factors.

8. CONCENTRATIONS

The Organization's total support and revenues for 2016 includes \$2,000,000 from the Walton Family Foundation. This amount is approximately 22% of the total support and revenues for the year ended December 31, 2016.

Approximately 11% of the Organization's outstanding accounts receivable balance at December 31, 2016 was due from one customer.

Credit risk

Financial instruments, which potentially subject the Organization to concentrations of credit risk, consist principally of cash investments and short term investments. The potential concentration of credit risk pertaining to cash investments will vary throughout the year depending upon the level of cash deposits versus amounts insured.

9. CONDITIONAL PROMISES TO GIVE

The Organization has a conditional promise from a foundation that is contingent upon the Organization meeting agreed upon milestones. Since this grant represents a conditional promise to give, it is not recorded as contribution revenue until donor conditions are met. The conditional promise to give outstanding totals \$4,000,000 as of December 31, 2016.