GreatSchools, Inc.

Consolidated Financial Statements

December 31, 2017
(With Comparative Totals for 2016)

armanino

TABLE OF CONTENTS

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, 2017, 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, 2017, 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 2016 consolidated financial statements, and our report dated November 17, 2017 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, 2016, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Armanino LLP

Armanino LLP
San Francisco, California

July 16, 2018

GreatSchools, Inc.
Consolidated Statement of Financial Position
December 31, 2017
(With Comparative Totals for 2016)

	2017	2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,123,626	$ 2,283,424
Investments	483,665	483,472
Accounts receivable, net	873,409	899,211
Grants receivable	1,495,000	329,600
Prepaid expenses	176,229	320,181
Total current assets	5,151,929	4,315,888
Non-current assets		
Property and equipment, net	116,980	205,519
Deposits	37,858	37,858
Grants receivable, net of current portion	362,000	-
Total non-current assets	516,838	243,377
Total assets	$ 5,668,767	$ 4,559,265
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$ 79,747	$ 62,497
Security deposits	12,000	-
Accrued expenses	88,897	156,898
Accrued vacation payable	182,260	177,633
Deferred revenue	460,494	488,815
Total current liabilities	823,398	885,843
Net assets		
Unrestricted	2,054,246	2,508,943
Temporarily restricted	2,791,123	1,164,479
Total net assets	4,845,369	3,673,422
Total liabilities and net assets	$ 5,668,767	$ 4,559,265

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

GreatSchools, Inc.
Consolidated Statement of Activities
For the Year Ended December 31, 2017
(With Comparative Totals for 2016)

	Unrestricted	Temporarily Restricted	2017 Total	2016 Total
Revenues, gains and other support				
Contributions	$ 2,023,145	$ 3,212,000	$ 5,235,145	$ 4,922,471
Donated services	120,000	-	120,000	107,477
Licensing/royalty/co-branding	1,579,654	-	1,579,654	1,451,116
Website activity	1,121,858	-	1,121,858	1,586,206
Fees for service	189,667	-	189,667	872,582
Other	100,772	-	100,772	1,590
Net assets released from restriction	1,585,356	(1,585,356)	-	-
Total revenues, gains and other support	6,720,452	1,626,644	8,347,096	8,941,442
Functional expenses				
Program services	6,361,386	-	6,361,386	7,753,884
Management and general	545,755	-	545,755	1,133,480
Fundraising	268,008	-	268,008	444,858
Total functional expenses	7,175,149	-	7,175,149	9,332,222
Change in net assets	(454,697)	1,626,644	1,171,947	(390,780)
Net assets, beginning of year	2,508,943	1,164,479	3,673,422	4,064,202
Net assets, end of year	$ 2,054,246	$ 2,791,123	$ 4,845,369	$ 3,673,422

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, 2017
(With Comparative Totals for 2016)

	Program Services	Management and General	Fundraising	2017 Total	2016 Total
Salaries and benefits	$ 4,508,688	$ 241,246	$ 184,345	$ 4,934,279	$ 6,291,396
Consultants	561,072	-	-	561,072	621,174
Travel and events	50,986	46,055	10,480	107,521	148,253
Content	67,651	-	-	67,651	209,204
Data center and web hosting	257,818	10,324	9,063	277,205	191,281
Technology and software	111,722	35,355	595	147,672	118,092
Advertising and marketing	32,978	-	-	32,978	465,646
Research and analytics	31,682	149	-	31,831	201,193
Printing	8,998	715	640	10,353	11,356
Professional fees	142,709	54,751	10,478	207,938	262,365
Rent and occupancy	433,597	45,057	39,471	518,125	467,699
Office expense	3,879	19,125	140	23,144	38,409
Professional development	453	10,286	38	10,777	35,886
Recruiting	5,383	13,502	-	18,885	45,039
Insurance, fees and other	30,043	55,185	2,233	87,461	74,642
Phones and internet	26,855	4,998	2,554	34,407	39,086
Depreciation expense	86,872	9,007	7,971	103,850	111,501
	$ 6,361,386	$ 545,755	$ 268,008	$ 7,175,149	$ 9,332,222

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, 2017
(With Comparative Totals for 2016)

	2017	2016
Cash flows from operating activities		
Change in net assets	$ 1,171,947	$ (390,780)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	103,850	111,501
Changes in operating assets and liabilities		
Accounts receivable, net	25,802	253,123
Grant receivables	(1,527,400)	(299,901)
Prepaid expenses	143,952	(92,751)
Accounts payable	17,250	(156,871)
Deposits payable	12,000	-
Accrued expenses	(68,001)	(266,137)
Accrued vacation payable	4,627	(55,027)
Deferred revenue	(28,321)	(483,383)
Net cash used in operating activities	(144,294)	(1,380,226)
Cash flows from investing activities		
Redemption of certificates of deposit	483,472	483,278
Purchase of certificates of deposit	(483,665)	(483,472)
Acquisition of property of equipment	(15,311)	(49,100)
Net cash used in investing activities	(15,504)	(49,294)
Net decrease in cash and cash equivalents	(159,798)	(1,429,520)
Cash and cash equivalents, beginning of year	2,283,424	3,712,944
Cash and cash equivalents, end of year	$ 2,123,626	$ 2,283,424

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

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 50l(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 2017. GreatSchools.org contains in-depth profiles of over 200,000 Pre K-12 schools and more than 1.5 million parent and community ratings and reviews of schools.

GreatSchools.org also provides resources for parents to see how their kids are progressing in their education. These parenting resources contain videos, articles, and other resources that help parents understand what educational excellence looks like at each step of their child's learning journey and address both academic, 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, 2017.

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

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 the 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, 2017 amounted to $483,665 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 $79,822 at December 31, 2017.

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.

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, 2017.

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 factors such 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, 2017.

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.

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, 2017 amounted to $1,121,858. 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 $2,300,000 for the year ended December 31, 2017.

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 $21,051 for the year ended December 31, 2017.

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, 2017, the Organization does not have any significant uncertain tax positions for which a reserve would be necessary and that no unrelated business taxable income arising from its website activity is 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.

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, 2016, from which the summarized information was derived.

Subsequent events

The Organization has evaluated subsequent events through July 16, 2018, 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. GRANTS RECEIVABLE

Grants receivable consist of the following:

Receivable in less than one year	$ 1,495,000
Receivable in one to five years	362,000
	$ 1,857,000

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Equipment	$ 564,227
Software	30,979
Leasehold improvements	52,969
Less accumulated depreciation and amortization	(531,195)
	$ 116,980

Depreciation and amortization expense for 2017 amounted to $103,850.

5. TEMPORARILY RESTRICTED NET ASSETS

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

General support - time restricted	$ 1,000,000
GreatSchools Grade by Grade Newsletter	844,043
GreatSchools College Success Award	564,028
Family Engagement Labs	383,052
	$ 2,791,123

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	$ 164,479
GreatKids educational projects	800,000
GreatSchools Grade by Grade Newsletter	17,957
GreatSchools College Success Award	235,972
Family Engagement Labs	366,948
	$ 1,585,356

6. DONATED SERVICES

The Organization received donated legal services with a fair value of $120,000 during the year ended December 31, 2017.

7. 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, 2017 was $22,295.

8. COMMITMENTS AND CONTINGENCIES

Lease commitments

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

8. COMMITMENTS AND CONTINGENCIES (continued)

Lease commitments (continued)

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

Year ending December 31,		
2018	$	518,532
2019		138,846
2020		1,410
	$	658,788

Rental expense under all operating leases for the year ended December 31, 2017 was $518,125.

During 2017, the Organization entered into short term sublease agreements to lease a portion of its office space. The sublease terms include monthly payments ranging from $2,000 to $10,000 and expire through March 2018. Rental income for the year ended December 31, 2017 was $98,525 and is included in other income in the accompanying consolidated statement of activities.

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.

9. CONCENTRATIONS

The Organization's total revenues for 2017 includes $3,300,000 received from two foundations. This amount represents approximately 40% of total revenues for the year ended December 31, 2017.

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.

10. 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 $2,000,000 as of December 31, 2017.