GreatSchools, Inc. and Subsidiary

Consolidated Financial Statements

December 31, 2018
(With Comparative Totals for 2017)

armanino

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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. and Subsidiary (collectively, the "Organization"), which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated 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. and Subsidiary as of December 31, 2018, 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.

Change in Accounting Principle

As described in Note 2 to the financial statements, the Organization has adopted ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

Report on Summarized Comparative Information

We have previously audited GreatSchools, Inc.'s 2017 consolidated financial statements, and our report dated July 16, 2018 expressed an unmodified opinion on those audited consolidated financial statements. As part of our audit of the 2018 financial statements, we also audited the adjustments to the 2017 financial statements to apply the change in accounting principle discussed above. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, adjusted for the change in accounting principle discussed above, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived. Also, in our opinion, such adjustments are appropriate and have been properly applied.

Armanino LLP

Armanino[LLP]
San Francisco, California

August 12, 2019

GreatSchools, Inc. and Subsidiary
Consolidated Statement of Financial Position
December 31, 2018
(With Comparative Totals for 2017)

	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,661,016	$ 2,123,626
Investments	483,810	483,665
Accounts receivable, net	972,543	873,409
Grants receivable	1,329,000	1,495,000
Prepaid expenses	258,582	176,229
Total current assets	5,704,951	5,151,929
Non-current assets		
Property and equipment, net	28,943	116,980
Deposits	37,858	37,858
Grants receivable, net of current portion	-	362,000
Total non-current assets	66,801	516,838
Total assets	$ 5,771,752	$ 5,668,767
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$ 145,877	$ 79,747
Security deposits	-	12,000
Accrued expenses	43,408	88,897
Accrued vacation payable	208,991	182,260
Deferred revenue	373,769	460,494
Total current liabilities	772,045	823,398
Net assets		
Without donor restrictions	2,731,317	2,054,246
With donor restrictions	2,268,390	2,791,123
Total net assets	4,999,707	4,845,369
Total liabilities and net assets	$ 5,771,752	$ 5,668,767

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

GreatSchools, Inc. and Subsidiary
Consolidated Statement of Activities
For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

	Without Donor Restrictions	With Donor Restrictions	2018 Total	2017 Total
Revenues, gains and other support				
Contributions and grants	$ 2,082,285	$ 1,926,394	$ 4,008,679	$ 5,235,145
Donated services	55,000	-	55,000	120,000
Licensing/royalty/co-branding	1,949,871	-	1,949,871	1,579,654
Website activity	1,138,987	-	1,138,987	1,121,858
Fees for service	1,500	-	1,500	189,667
Other	139,888	-	139,888	100,772
Net assets released from restriction	2,449,127	(2,449,127)	-	-
Total revenues, gains and other support	7,816,658	(522,733)	7,293,925	8,347,096
Functional expenses				
Program services	5,770,961	-	5,770,961	6,361,386
Management and general	991,226	-	991,226	545,755
Fundraising	377,400	-	377,400	268,008
Total functional expenses	7,139,587	-	7,139,587	7,175,149
Change in net assets	677,071	(522,733)	154,338	1,171,947
Net assets, beginning of year	2,054,246	2,791,123	4,845,369	3,673,422
Net assets, end of year	$ 2,731,317	$ 2,268,390	$ 4,999,707	$ 4,845,369

GreatSchools, Inc. and Subsidiary
Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

	Program Services	Management and General	Fundraising	2018 Total	2017 Total
Salaries and benefits	$ 4,075,868	$ 573,832	$ 275,836	$ 4,925,536	$ 4,934,279
Consultants	489,050	54,508	26,201	569,759	561,072
Travel and events	91,437	28,653	9,375	129,465	107,521
Content	67,815	9,548	4,589	81,952	67,651
Data center and web hosting	225,233	31,026	14,914	271,173	277,205
Technology and software	51,398	7,277	3,292	61,967	147,672
Advertising and marketing	30,278	3,650	1,755	35,683	32,978
Research and analytics	12,917	1,819	874	15,610	31,831
Printing	9,873	1,344	646	11,863	10,353
Professional fees	48,034	95,837	33,226	177,097	207,938
Rent and occupancy	451,444	69,154	371	520,969	518,125
Office expense	7,844	8,839	510	17,193	23,144
Professional development	21,239	2,990	1,437	25,666	10,777
Recruiting	45,747	67,934	-	113,681	18,885
Insurance, fees and other	36,008	18,763	2,437	57,208	87,461
Phones and internet	28,637	4,031	1,937	34,605	34,407
Depreciation expense	78,139	12,021	-	90,160	103,850
	$ 5,770,961	$ 991,226	$ 377,400	$ 7,139,587	$ 7,175,149

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

GreatSchools, Inc. and Subsidiary
Consolidated Statement of Cash Flows
For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

	2018	2017
Cash flows from operating activities		
Change in net assets	$ 154,338	$ 1,171,947
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	90,160	103,850
Changes in operating assets and liabilities		
Accounts receivable, net	(99,134)	25,802
Grants receivables	528,000	(1,527,400)
Prepaid expenses	(82,353)	143,952
Accounts payable	66,130	17,250
Security deposits	(12,000)	12,000
Accrued expenses	(45,489)	(68,001)
Accrued vacation payable	26,731	4,627
Deferred revenue	(86,725)	(28,321)
Net cash provided by (used in) operating activities	539,658	(144,294)
Cash flows from investing activities		
Redemption of certificates of deposit	483,649	483,472
Purchase of certificates of deposit	(483,794)	(483,665)
Acquisition of property of equipment	(2,123)	(15,311)
Net cash used in investing activities	(2,268)	(15,504)
Net increase (decrease) in cash and cash equivalents	537,390	(159,798)
Cash and cash equivalents, beginning of year	2,123,626	2,283,424
Cash and cash equivalents, end of year	$ 2,661,016	$ 2,123,626

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 two classes of net assets: without donor restrictions and with donor restrictions.

- *Net assets without donor restrictions* - represent the portion of net assets which do not have donor-imposed stipulations and are available to support the Organization's operations.
- *Net assets with donor restrictions* - 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. When the purpose or time restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported on the financial statements as net assets released from restriction.

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 cost. Investments received through gifts are recorded at estimated fair value at the date of donation. Dividend and interest income are accrued when earned. Investments at December 31, 2018 amounted to $483,810 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 $47,119 at December 31, 2018.

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, 2018.

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 and grants, including unconditional promises to give, are recognized as revenues in the period the promise is received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. There were no conditional promises to give for the year ended December 31, 2018. Unconditional promises to give that are expected to be collected in excess of one 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, 2018.

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, 2018 amounted to $1,138,987. 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 $2,000,000 for the year ended December 31, 2018.

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 $26,895 for the year ended December 31, 2018.

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, 2018, 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, 2017, from which the summarized information was derived.

Change in accounting principle

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The Organization adopted the provisions of this new standard during the year ended December 31, 2018. ASU 2016-14 makes certain improvements to current reporting requirements, including:

1. Reducing the classes of net assets from three (unrestricted, temporarily restricted, and permanently restricted) to two (with donor restrictions and without donor restrictions).

2. Enhancing disclosures about:

   a. Amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions.

   b. Composition of net assets with donor restrictions and how the restrictions affect the use of resources.

   c. Qualitative information about management of liquid resources and quantitative information about the availability of liquid resources to meet cash needs for general expenditures within one year of the statement of financial position date.

   d. Amounts of expenses by both their natural classification and their functional classification in one location as a separate statement or in the notes to the financial statements.

   e. Methods used to allocate costs among program and support functions.

3. Reporting investment return net of external and direct internal investment expenses.

The amendments have been applied on a retrospective basis in 2018. The 2017 comparative financial information has been adjusted to apply the change in accounting principle for comparative purposes.

3. GRANTS RECEIVABLE

Grants receivable consisted of the following:

Receivable in less than one year	$ 1,329,000

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Equipment	$ 566,351
Software	30,979
Leasehold improvements	52,969
Less accumulated depreciation and amortization	(621,356)
	$ 28,943

Depreciation and amortization expense for 2018 amounted to $90,160.

5. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were restricted by donors to the following purposes:

GreatSchools College Success Award	$ 624,589
Updated data pages	471,600
GreatSchools Grade by Grade Newsletter	413,042
Family Engagement Labs	377,083
General support - time restricted	200,000
Parent and civic engagement	78,600
Character virtues	61,809
Students with disabilities modules	41,667
	$ 2,268,390

5. NET ASSETS WITH DONOR RESTRICTIONS (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:

General support - time restricted	$ 800,000
GreatSchools College Success Award	706,758
GreatSchools Grade by Grade Newsletter	431,000
Family Engagement Labs	371,250
Updated data pages	78,600
Character virtues	37,086
Parent and civic engagement	13,100
Students with disabilities modules	8,333
GreatKids educational projects	3,000
	$ 2,449,127

6. DONATED SERVICES

The Organization received donated legal services with a fair value of $55,000 during the year ended December 31, 2018.

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, 2018 was $43,019.

8. COMMITMENTS AND CONTINGENCIES

Lease commitments

The Organization leases equipment and office space under long-term operating leases expiring in various years. The Organization's office space lease expired March 31, 2019.

The Organization entered into a membership agreement with WeWork in November 2018. The membership agreement includes the use of office space, conference room credits and print and copy credits. The membership fee is $21,280 per month and has a term of April 1, 2019 through March 31, 2021.

8. COMMITMENTS AND CONTINGENCIES (continued)

Lease commitments (continued)

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

Year ending December 31,	
2019	$ 331,776
2020	255,360
2021	63,840
	$ 650,976

Rental expense under all operating leases for the year ended December 31, 2018 was $520,969.

During 2017 and 2018, 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 February 2019. Rental income for the year ended December 31, 2018 was $135,229 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 2018 includes $3,300,000 received from three organizations. This amount represents approximately 45% of total revenues for the year ended December 31, 2018.

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. LIQUIDITY AND FUNDS AVAILABLE

As a part of the Organization's liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Contributions that are considered current will be collected from donors within one year. Funds from current executed grant agreements will be collected upon the date established in the agreement or upon such time as the Organization achieved the metric by which payment of such funds can be initiated.

At a minimum, the Organization's Finance Committee reviews the Organization's financial position on a quarterly basis. The Chief Executive Officer reviews the Organization's financial position monthly.

The following is a quantitative disclosure describing assets available within one year of December 31, 2018, to fund expenditures and other obligations when they become due:

Financial assets	
Cash and cash equivalents	$ 2,661,016
Grants receivable	1,329,000
Accounts receivable, net	972,543
Investments	483,810
	5,446,369
Less: amounts unavailable for general expenditures within one year	
Purpose restricted contributions and grants	(2,068,390)
	$ 3,377,979

The Organization has financial assets available at December 31, 2018 to cover approximately six months of operating expenses based on the Organization's budget for the year ended December 31, 2019.

11. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through August 12, 2019, the date the financial statements were available to be issued.

During March 2019, the Organization entered into a separation agreement with its wholly owned subsidiary, Family Engagement Lab, LLC ("FEL"). The Organization is in the process of revising the terms of the operating agreement with FEL. Once revised, the Organization will no longer be the sole corporate member of FEL. FEL will be deconsolidated from the Organization during 2019.

No other subsequent events have occurred that would have a material impact on the presentation of the Organization's financial statements.