

GreatSchools, Inc.

Financial Statements

December 31, 2015
(With Comparative Totals for 2014)



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
GreatSchools, Inc.
Oakland, California

We have audited the accompanying financial statements of GreatSchools, Inc. (a non-profit corporation), which comprise the statement of financial position as of December 31, 2015, and the related 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 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of GreatSchools, Inc. as of December 31, 2015, and the changes in its net assets and its 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 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 8, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014 is consistent, in all material respects, with the audited financial statements from which it was derived.

Armanino LLP

Armanino^{LLP}
San Francisco, California

September 13, 2016

GREATSCHOOLS, INC.
Statement of Financial Position
December 31, 2015
(With Comparative Totals for 2014)

ASSETS

	2015	2014
Current assets		
Cash and cash equivalents	\$ 3,712,944	\$ 2,830,789
Investments	483,278	483,053
Accounts receivable, net	1,152,334	2,103,577
Grants receivable	29,699	280,000
Prepaid expenses	227,430	339,767
Total current assets	5,605,685	6,037,186
Noncurrent assets		
Property and equipment, net	267,920	337,517
Deposits	37,858	37,858
Total noncurrent assets	305,778	375,375
 Total assets	 \$ 5,911,463	 \$ 6,412,561

LIABILITIES AND NET ASSETS

Accounts payable	\$ 219,368	\$ 304,745
Accrued expenses	423,035	468,271
Accrued vacation payable	232,660	248,494
Deferred revenues	972,198	1,164,693
 Total current liabilities	 1,847,261	 2,186,203
Net assets		
Unrestricted net assets	2,742,479	2,090,373
Temporarily restricted net assets	1,321,723	2,135,985
 Total net assets	 4,064,202	 4,226,358
 Total liabilities and net assets	 \$ 5,911,463	 \$ 6,412,561

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

GREATSCHOOLS, INC.
Statement of Activities
For the Year Ended December 31, 2015
(With Comparative Totals for 2014)

	2015			2014
	Unrestricted	Temporarily Restricted	Total	Total
Support and revenues				
Contributions				
Foundations	\$ 2,526,579	\$ 3,154,699	\$ 5,681,278	\$ 6,309,531
Corporate	-	-	-	16,773
Individuals	3,500	-	3,500	12,937
Donated goods and services	128,542	-	128,542	284,188
Other income (loss)				
Licensing/royalty/co-branding	1,416,195	-	1,416,195	1,137,833
Website activity	2,151,884	-	2,151,884	2,492,779
Fees for service	1,507,030	-	1,507,030	1,650,542
Investment income	438	-	438	4,505
Loss on disposal	-	-	-	(14,432)
Realized and unrealized loss, net	-	-	-	(696)
Total support and revenues	<u>7,734,168</u>	<u>3,154,699</u>	<u>10,888,867</u>	<u>11,893,960</u>
Net assets released from restrictions	<u>3,968,961</u>	<u>(3,968,961)</u>	<u>-</u>	<u>-</u>
	<u>11,703,129</u>	<u>(814,262)</u>	<u>10,888,867</u>	<u>11,893,960</u>
Expenses				
Program services	9,393,570	-	9,393,570	9,130,504
Management and general	1,142,451	-	1,142,451	996,172
Fundraising	515,002	-	515,002	475,451
Total expenses	<u>11,051,023</u>	<u>-</u>	<u>11,051,023</u>	<u>10,602,127</u>
Change in net assets	<u>652,106</u>	<u>(814,262)</u>	<u>(162,156)</u>	<u>1,291,833</u>
Net assets, beginning of year	<u>2,090,373</u>	<u>2,135,985</u>	<u>4,226,358</u>	<u>2,934,525</u>
Net assets, end of year	<u>\$ 2,742,479</u>	<u>\$ 1,321,723</u>	<u>\$ 4,064,202</u>	<u>\$ 4,226,358</u>

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

GREATSCHOOLS, INC.
Statement of Functional Expenses
For the Year Ended December 31, 2015
(With Comparative Totals for 2014)

	Program Services	Management and General	Fundraising	2015 Total	2014 Total
Salaries and benefits	\$ 6,518,145	\$ 569,288	\$ 448,166	\$ 7,535,599	\$ 7,171,334
Consultants	529,394	50,537	13,083	593,014	1,341,172
Travel and events	162,452	35,371	15,688	213,511	258,015
Content	339,197	-	-	339,197	111,213
Data center and web hosting	130,282	796	561	131,639	69,556
Technology and software	77,234	44,038	1,698	122,970	161,404
Advertising and marketing	596,795	-	-	596,795	108,668
Research and analytics	285,802	-	-	285,802	149,150
Printing	36,996	920	602	38,518	106,514
Professional fees	73,078	129,850	3,735	206,663	205,799
Rent and occupancy	379,314	72,219	22,337	473,870	460,409
Office expenses	9,644	29,927	521	40,092	73,898
Organizational costs	135,502	190,807	2,047	328,356	243,567
Phones and internet	38,036	2,901	1,711	42,648	45,122
Depreciation expense	81,699	15,797	4,853	102,349	96,306
Totals	<u>\$ 9,393,570</u>	<u>\$ 1,142,451</u>	<u>\$ 515,002</u>	<u>\$ 11,051,023</u>	<u>\$ 10,602,127</u>

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

GREATSCHOOLS, INC.
Statement of Cash Flows
For the Year Ended December 31, 2015
(With Comparative Totals for 2014)

	2015	2014
Cash flows from operating activities		
Change in net assets	\$ (162,156)	\$ 1,291,833
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	102,349	96,306
Loss on disposal of property and equipment	-	14,432
Realized and unrealized loss, net	-	696
Change in assets and liabilities		
Accounts receivable, net	951,243	(993,040)
Grant receivables	250,301	(280,000)
Prepaid expenses	112,337	(134,565)
Deposits	-	30,500
Accounts payable	(85,377)	152,561
Accrued expenses	(45,236)	118,414
Accrued vacation payable	(15,834)	40,292
Deferred revenues	(192,495)	556,745
Net cash provided by operating activities	915,132	894,174
Cash flows from investing activities		
Redemption of certificates of deposit	483,053	499,971
Purchase of certificates of deposit	(483,278)	(483,053)
Acquisition of property and equipment	(32,752)	(368,042)
Net cash used in investing activities	(32,977)	(351,124)
Net increase in cash and cash equivalents	882,155	543,050
Cash and cash equivalents, beginning of year	2,830,789	2,287,739
Cash and cash equivalents, end of year	\$ 3,712,944	\$ 2,830,789

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

GREATSCHOOLS, INC.
Notes to Financial Statements
December 31, 2015

1. Organization

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 helps millions of American parents get great educations for their kids. Since the Organization's founding in 1998, GreatSchools has become the nation's leading online resource about PreK-12 schools with profiles of over 225,000 public, public charter, and private schools. In 2015, the Organization had more than 50 million unique visitors to greatschools.org - and reached about half of American families with school-age children.

The Organization is always working to improve the information it provides about schools. During 2015, the Organization continued to expand the data that it includes in the GreatSchools Rating in multiple states. Over 25% of GreatSchools Ratings include information on student academic growth and college readiness in addition to performance on state assessments.

In 2015, the Organization continued its GreatSchools Local program, to partnering with community organizations and city agencies in locations such as Indiana, Oklahoma, Delaware, Ohio and Atlanta. By combining its national information and technology with the knowledge and relationships of our community partners, the Organization can provide families with more detailed, current, and relevant local school information.

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.

Description of net assets

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.

GREATSCHOOLS, INC.
Notes to Financial Statements
December 31, 2015

2. Summary of Significant Accounting Policies (continued)

Description of net assets (continued)

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, 2015.

Cash and cash equivalents

For purposes of the statement of cash flows, all highly liquid investments with remaining maturities 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, 2015 amounted to \$483,278 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 \$98,530 at December 31, 2015.

GREATSCHOOLS, INC.
Notes to Financial Statements
December 31, 2015

2. Summary of Significant Accounting Policies (continued)

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.

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, 2015.

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, 2015.

GREATSCHOOLS, INC.
Notes to Financial Statements
December 31, 2015

2. Summary of Significant Accounting Policies (continued)

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.

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, 2015 amounted to \$2,151,884. 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 \$3,500,000 for the year ended December 31, 2015.

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 expense

Advertising costs are charged to expense as incurred and amounted to \$567,674 for the year ended December 31, 2015.

GREATSCHOOLS, INC.
Notes to Financial Statements
December 31, 2015

2. Summary of Significant Accounting Policies (continued)

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, 2015, 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.

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, 2014, from which the summarized information was derived.

3. Property and Equipment, Net

Property and equipment consists of the following:

Equipment	\$505,934
Software	24,861
Leasehold improvements	52,969
Less accumulated depreciation and amortization	<u>(315,844)</u>
Property and equipment, net	<u>\$267,920</u>

Depreciation and amortization expense for 2015 amounted to \$102,349.

GREATSCHOOLS, INC.
Notes to Financial Statements
December 31, 2015

4. Temporarily Restricted Net Assets

Temporarily restricted net assets were restricted by donors to the following purposes at December 31, 2015:

Common Core project	\$1,162,414
GreatSchools education projects	154,309
Local implementation	<u>5,000</u>
Total	<u>\$1,321,723</u>

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 during the year ended December 31, 2015:

Common Core project	\$1,512,586
GreatKids educational projects	1,772,571
GreatSchools education projects	498,876
Local implementation	<u>184,928</u>
Total	<u>\$3,968,961</u>

5. Donated Goods and Services

Donated goods and services consist of the following:

Software expensed over term of license	\$ 14,370
Legal services	<u>114,172</u>
Total	<u>\$128,542</u>

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, 2015 was \$44,075.

GREATSCHOOLS, INC.
Notes to Financial Statements
December 31, 2015

7. Commitments and Contingencies

Lease commitments

The Organization leases equipment and facilities under long-term operating leases expiring in various years. Future minimum payments under the long-term leases are approximately as follows:

<u>Year Ending December 31</u>	
2016	\$ 482,404
2017	495,211
2018	510,072
2019	<u>130,385</u>
Total minimum operating lease payments	<u>\$1,618,072</u>

Rental expense under all operating leases for the year ended December 31, 2015 was \$453,904.

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

Support and revenues

The Organization's total support and revenues for 2015 includes \$2,500,000 from the Walton Family Foundation. This amount is approximately 23% of the total support and revenues for the year ended December 31, 2015. The Organization's website activity income accounted for approximately 20% of total revenues for the year ended December 31, 2015.

Approximately 14% of the Organization's outstanding accounts receivable balance at December 31, 2015 was due from one customer.

GREATSCHOOLS, INC.
Notes to Financial Statements
December 31, 2015

8. Concentrations (continued)

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 conditional promises from a variety of foundations that are contingent upon the Organization meeting agreed upon milestones. Since these grants represent conditional promises to give, they are not recorded as contribution revenue until donor conditions are met. Conditional promises to give outstanding total approximately \$1,030,000 as of December 31, 2015.

10. Subsequent Events

The Organization has evaluated subsequent events through September 13, 2016, the date the financial statements were available to be issued.

During the second quarter of 2016, the Organization announced a reduction in workforce. As a result, approximately 40% of the employees left the Organization. The Organization will record a charge for severance and related costs of approximately \$360,000 associated with terminated employees in the Organization's results of operations for 2016.

Additionally, on June 30, 2016, the Organization acquired substantially all of the assets of Schoolie.com, Inc. These assets consisted of school data and algorithms for transformation of such data, and various trademarks and copyrights. The acquired data will be used in order to provide a more complete picture of schools for parents nationwide.

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