

Discovery Learning Alliance, Inc. and Affiliate

**Consolidated Financial Statements
(With Supplementary Information)
and Independent Auditor's Report**

December 31, 2018 and 2017

Discovery Learning Alliance, Inc. and Affiliate

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Independent Auditor's Report on Consolidated Financial Statements

To the Board of Directors
Discovery Learning Alliance, Inc.
Silver Spring, Maryland

We have audited the accompanying consolidated financial statements of Discovery Learning Alliance, Inc. and Affiliate (the "Alliance"), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, the related consolidated statements of activities and change in net assets, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of 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 Discovery Learning Alliance, Inc. and Affiliate as of December 31, 2018 and 2017, and the change in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CohnReznick LLP

Bethesda, Maryland
June 24, 2019

Discovery Learning Alliance, Inc. and Affiliate

**Consolidated Statements of Financial Position
December 31, 2018 and 2017**

Assets

	<u>2018</u>	<u>2017</u>
Current assets		
Cash and cash equivalents	\$ 2,562,869	\$ 1,719,789
Investments	1,103,377	1,790,397
Accounts receivable	1,390	1,622
Contributions and grants receivable	2,772,565	2,945,869
Advances	29,097	11,632
Prepaid expenses	24,615	6,512
Deposits	158,789	293,157
	<u>6,652,702</u>	<u>6,768,978</u>
Equipment and website, at cost		
Equipment and website	54,770	54,770
Less accumulated depreciation and amortization	(54,770)	(51,645)
	<u>-</u>	<u>3,125</u>
	<u><u>\$ 6,652,702</u></u>	<u><u>\$ 6,772,103</u></u>

Liabilities and Net Assets

Current liabilities		
Accounts payable and accrued expenses	\$ 826,184	\$ 716,995
Refundable advance	1,308,910	1,386,710
	<u>2,135,094</u>	<u>2,103,705</u>
Net assets		
Net assets without donor restrictions		
Operating	3,802,698	3,637,598
Board designated - operating reserve	425,000	425,000
	<u>4,227,698</u>	<u>4,062,598</u>
Net assets with donor restrictions	<u>289,910</u>	<u>605,800</u>
	<u>4,517,608</u>	<u>4,668,398</u>
	<u><u>\$ 6,652,702</u></u>	<u><u>\$ 6,772,103</u></u>

See Notes to Consolidated Financial Statements.

Discovery Learning Alliance, Inc. and Affiliate

**Consolidated Statements of Activities and Change in Net Assets
Years Ended December 31, 2018 and 2017**

	2018			2017		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Revenue and support						
Contributions and grants	\$ 53,275	\$ 17,303	\$ 70,578	\$ 156,902	\$ 80,059	\$ 236,961
Foundation grants	72	-	72	106	-	106
Subcontract revenue	219,001	-	219,001	881,352	-	881,352
Contract revenue	11,349,299	-	11,349,299	5,454,636	-	5,454,636
In-kind contributions	1,080,186	-	1,080,186	1,022,542	-	1,022,542
Investment income	18,784	-	18,784	28,913	-	28,913
Other income (loss)	295,659	-	295,659	(10,519)	-	(10,519)
Net assets released from restrictions	333,193	(333,193)	-	584,929	(584,929)	-
Total revenue and support	13,349,469	(315,890)	13,033,579	8,118,861	(504,870)	7,613,991
Expenses						
Program services	11,668,510	-	11,668,510	6,986,829	-	6,986,829
General administration	1,514,911	-	1,514,911	1,616,777	-	1,616,777
Fundraising	948	-	948	6,192	-	6,192
Total expenses	13,184,369	-	13,184,369	8,609,798	-	8,609,798
Change in net assets	165,100	(315,890)	(150,790)	(490,937)	(504,870)	(995,807)
Net assets, beginning of year	4,062,598	605,800	4,668,398	4,553,535	1,110,670	5,664,205
Net assets, end of year	<u>\$ 4,227,698</u>	<u>\$ 289,910</u>	<u>\$ 4,517,608</u>	<u>\$ 4,062,598</u>	<u>\$ 605,800</u>	<u>\$ 4,668,398</u>

See Notes to Consolidated Financial Statements.

Discovery Learning Alliance, Inc. and Affiliate
Consolidated Statement of Functional Expenses
Year Ended December 31, 2018

	Program services	General administration	Fundraising	Total expenses
Consultants	\$ 5,499,183	\$ 8,308	\$ -	\$ 5,507,491
Salaries	836,178	922,854	-	1,759,032
Travel	1,471,365	24,901	-	1,496,266
Conferences, meetings and training	1,316,531	3,487	-	1,320,018
Production of video programs	1,031,688	1,147	-	1,032,835
Equipment purchase and maintenance	655,161	-	-	655,161
Rent	366,417	198,068	-	564,485
Payroll taxes and benefits	174,034	160,168	-	334,202
Telephone and internet	94,036	55	-	94,091
Postage and shipping	90,358	836	-	91,194
Office supplies and expenses	82,592	59	-	82,651
Insurance	-	78,781	-	78,781
Accounting fees	29,985	40,192	-	70,177
Legal fees	-	47,417	-	47,417
Dues and memberships	1,413	17,294	-	18,707
Printing, publications and website	9,789	6,119	-	15,908
Bank fees	9,780	2,100	948	12,828
Depreciation and amortization	-	3,125	-	3,125
Total expenses	<u>\$ 11,668,510</u>	<u>\$ 1,514,911</u>	<u>\$ 948</u>	<u>\$ 13,184,369</u>

Discovery Learning Alliance, Inc. and Affiliate
Consolidated Statement of Functional Expenses
Year Ended December 31, 2017

	Program services	General administration	Fundraising	Total expenses
Consultants	\$ 2,861,173	\$ 31,066	\$ 2,480	\$ 2,894,719
Salaries	670,820	910,775	2,260	1,583,855
Production of video programs	837,085	-	-	837,085
Equipment purchase and maintenance	783,654	437	-	784,091
Travel	720,118	31,087	-	751,205
Rent	258,996	243,406	-	502,402
Conferences, meetings and training	321,355	11,975	-	333,330
Payroll taxes and benefits	128,742	134,823	504	264,069
Postage and shipping	193,527	-	-	193,527
Office supplies and expenses	93,859	8,793	-	102,652
Legal fees	-	87,563	-	87,563
Accounting fees	31,934	45,775	-	77,709
Insurance	-	72,835	-	72,835
Telephone and internet	67,669	170	-	67,839
Bank fees	2,663	8,046	948	11,657
Printing, publications and website	13,671	1,058	-	14,729
Depreciation and amortization	-	12,500	-	12,500
In-kind program management	-	9,255	-	9,255
Dues and memberships	1,563	7,213	-	8,776
Total expenses	<u>\$ 6,986,829</u>	<u>\$ 1,616,777</u>	<u>\$ 6,192</u>	<u>\$ 8,609,798</u>

See Notes to Consolidated Financial Statements.

Discovery Learning Alliance, Inc. and Affiliate

Consolidated Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Change in net assets	\$ (150,790)	\$ (995,807)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	3,125	12,500
Unrealized (gain) loss on investments	620	(1,094)
Realized loss on investments	1,524	3,914
Amortization of bond premiums, net	7,025	11,078
Changes in		
Accounts receivable	232	624,514
Contributions and grants receivable	173,304	(2,705,979)
Advances	(17,465)	(8,427)
Prepaid expenses	(18,103)	2,328
Deposits	134,368	(198,685)
Accounts payable and accrued expenses	109,189	486,700
Refundable advance	<u>(77,800)</u>	<u>1,386,710</u>
Net cash provided by (used in) operating activities	<u>165,229</u>	<u>(1,382,248)</u>
Cash flows from investing activities		
Proceeds from redemptions/sales of investments	677,851	2,617,647
Purchases of investments	<u>-</u>	<u>(696,215)</u>
Net cash provided by investing activities	<u>677,851</u>	<u>1,921,432</u>
Net increase in cash and cash equivalents	843,080	539,184
Cash and cash equivalents, beginning of year	<u>1,719,789</u>	<u>1,180,605</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,562,869</u></u>	<u><u>\$ 1,719,789</u></u>

See Notes to Consolidated Financial Statements.

Discovery Learning Alliance, Inc. and Affiliate

Notes to Consolidated Financial Statements December 31, 2018 and 2017

Note 1 - Summary of significant accounting policies

Organization

The Discovery Learning Alliance, Inc. ("DLA") is a nonprofit organization organized in the State of Delaware in 1997 to provide technological resources and training to under-resourced schools and community centers in the developing world. DLA, formerly known as Discovery Channel Global Education Partnership, formally changed its legal name to Discovery Learning Alliance, Inc. in 2013. DLA establishes learning centers in under-resourced schools and community centers through a comprehensive program on use of video in the classroom that includes televisions, DVD equipment, regionally tailored educational videos, access to information from a wide range of sources and long-term training. DLA is supported principally by grants, contracts and contributions.

In October 2015, DLA became a 49 percent owner of a special purpose entity, Inside TB (PTY) Ltd ("Inside TB"), a for-profit, South African Company originally organized in August 2013 under the name Lampoquest (PTY) Ltd, whose sole purpose is to produce, test and distribute The Lucky Specials (the "Movie"). Inside TB changed its name to The Lucky Specials Productions (PTY) LTD ("TLSP"). DLA had a controlling financial interest in TLSP through an agreement to manage TLSP and the requirement to fund all costs of the Movie and losses of TLSP. The 51 percent owner had not made and had no requirement to make any capital contributions and had no obligation to fund any costs associated with the Movie or losses of TLSP. There is no expectation that the Movie will generate net income and the ownership agreement is silent as to any allocation of net income to the members. The 51 percent owner received fees for services provided to TLSP, which were funded by DLA. As a result, the 51 percent owner had no capital at risk or obligation to fund losses throughout the life of TLSP. Therefore, 100 percent of all financial activity related to the Movie is consolidated by DLA without allocating a share of the losses to the 51 percent owner. TLSP was deregistered in South Africa on May 31, 2018.

In October 2018, DLA became a 49 percent owner of a special purpose entity, Amberaw (PTY) Ltd ("Amberaw"), a for-profit, South African Company originally organized in July 2018, whose sole purpose will be to produce, test and distribute movies for DLA. DLA expects to have a controlling financial interest in Amberaw through an agreement, which has not yet been signed, to manage Amberaw and the requirement to fund all costs of movie production and losses of Amberaw. The 51 percent owner has not made and has no requirement to make any capital contributions and has no obligation to fund any costs associated with movie production or losses of Amberaw. There is no expectation that the production of movies will generate net income and the ownership agreement is silent as to any allocation of net income to the members. The 51 percent owner receives fees for services provided to Amberaw, which are funded by DLA. As a result, the 51 percent owner has no capital at risk or obligation to fund losses throughout the life of Amberaw. Therefore, 100 percent of all financial activity related to movie production is consolidated by DLA without allocating a share of the losses to the 51 percent owner. There was no activity in Amberaw during 2018.

Principles of consolidation

The consolidated financial statements include the accounts of DLA and Amberaw (collectively, the "Alliance"). All significant intercompany accounts and transactions between the organizations have been eliminated.

Basis of presentation

The accompanying consolidated financial statements have been prepared using the accrual basis of accounting and, accordingly, revenues are recognized when earned and expenses are recognized when the obligation is incurred.

Discovery Learning Alliance, Inc. and Affiliate

Notes to Consolidated Financial Statements December 31, 2018 and 2017

Functional and presentation currency

Items included in the consolidated financial statements of the Alliance are measured using the currency of the primary economic environment in which the Alliance operates (the "functional currency"). The consolidated financial statements are presented in U.S. dollars, which is the Alliance's functional and presentation currency. Transactions in a currency other than the functional and presentation currency (foreign currency) are translated into the functional currency using the exchange rates prevailing at the date of significant transactions or an exchange rate at the date the Alliance made a cash transfer to the foreign entity using the first-in, first-out method to account for transactions. Currency translation gains and losses for the years ended December 31, 2018 and 2017, resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies was a gain of \$80,429 in 2018 and a loss of \$35,839 in 2017, and are recognized in the consolidated statements of activities and change in net assets and are included in other income (loss).

Cash and cash equivalents

For consolidated financial statements purposes, the Alliance considers cash in operating bank accounts and cash on hand to be cash and cash equivalents. Money market funds held in investment accounts with investment institutions are classified as cash and cash equivalents on the consolidated statements of financial position.

Investments

Investments are recorded at fair value. The Alliance invests in corporate bonds, and government and agency bonds that are considered debt securities and therefore are recorded at fair value. Interest and dividend income and realized and unrealized gains and losses are included in investment income on the consolidated statements of activities and change in net assets. Investment income earned on net assets with donor restrictions is classified as net assets with donor restrictions if specified by the donor. Upon appropriation for expenditure, subject to any purpose restrictions, the amounts for current year expenditures are reclassified from net assets with donor restrictions to net assets without donor restrictions. Any other investment income is reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations. Investments are available to be used to fund Alliance operations. The Alliance invests in a variety of investments that are exposed to various risks, such as fluctuations in market value and credit risk. It is reasonably possible that changes in risks in the near term could result in a change in fair value of the investment balances and amounts reported in the accompanying consolidated financial statements, which could be material.

Equipment

Equipment in excess of \$1,500 with estimated useful lives of greater than one year are capitalized. Equipment is depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to five years.

Website development costs

The Alliance has capitalized certain website development costs incurred during the application development stage. Subsequent costs to maintain and operate the website are expensed as incurred. Capitalized website development costs are being amortized using the straight-line method over three years, and amortization begins once the website is placed in service. At December 31, 2018 and 2017, capitalized website development costs totaled \$37,500. Amortization expense was \$3,125 and \$12,500 for the years ended December 31, 2018 and 2017, respectively. Total accumulated amortization at December 31, 2018 and 2017 was \$37,500 and \$34,375, respectively.

Discovery Learning Alliance, Inc. and Affiliate

Notes to Consolidated Financial Statements December 31, 2018 and 2017

Income tax status

DLA is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the DLA's tax-exempt purpose is subject to taxation as unrelated business income. There has been no unrelated business income or income tax expense reported for the years ended December 31, 2018 and 2017. Amberaw is subject to tax laws of South Africa and had no taxable income to report in accordance with South African tax laws for the years ended December 31, 2018 and 2017.

The Alliance believes that it has appropriate support for any tax positions taken, and, as such, does not have any uncertain tax positions that are material to the consolidated financial statements. The Alliance recognizes interest expense and penalties on income taxes related to uncertain tax positions in general administration expense on the consolidated statements of activities and change in net assets and in accounts payable and accrued expenses in the consolidated statements of financial position. The Alliance reported no penalties or interest on income taxes related to uncertain tax positions for the years ended December 31, 2018 and 2017. Tax years prior to 2015 for the Alliance are no longer subject to examination by the IRS or the tax jurisdictions of Maryland and Delaware.

Contributions and grants receivable

Contributions and grants receivable represent unconditional promises to give and are recorded when the promise is made. Unconditional promises that are expected to be collected within one year are reflected as current contributions and grants receivable and recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are reflected as long-term contributions and grants receivable with donor restrictions and recorded at the present value of their estimated future cash flows using a risk-adjusted discount rate. Amortization of the discount is included in revenue and support in the consolidated statements of activities and change in net assets. Uncollectible amounts are charged off against the allowance for doubtful accounts once management determines a pledge, or a portion thereof, to be uncollectible. At December 31, 2018 and 2017, contributions and grants receivable are considered to be fully collectible, and, as such, no allowance for doubtful accounts has been provided for in these consolidated financial statements. At December 31, 2018 and 2017, all contributions and grants receivable are expected to be collected within one year and are reflected as current assets on the consolidated statements of financial position.

Accounts receivable

The Alliance records accounts receivable, net of an allowance for doubtful accounts when necessary. The need for an allowance is determined based on a review of the estimated collectability of the specific accounts, plus a general provision based on historical loss experience and existing economic conditions. Uncollectible amounts are charged-off against the allowance for doubtful accounts once management determines an account, or a portion thereof, to be uncollectible. Management considers all receivables to be fully collectible.

Revenue recognition

The Alliance records contributions as revenue when they are pledged by the donor or when received in cash if not pledged. All contributions are considered to be available for use without restriction unless specifically restricted by the donor. Net assets with donor restrictions represent resources with temporary, donor-imposed time and/or program-specific restrictions. These temporary restrictions require that resources be used for specific purposes and/or in a certain period.

Discovery Learning Alliance, Inc. and Affiliate

Notes to Consolidated Financial Statements December 31, 2018 and 2017

Net assets with donor restrictions become net assets without donor restrictions when the time restrictions expire or the funds are used for their restricted purposes, and are reported in the consolidated statements of activities and change in net assets as net assets released from restriction.

Revenues from governmental and other contract/subcontract funding sources are recognized when the related expenses are incurred. Contract/subcontract expenses incurred before the related contract/subcontract revenue is received are reported as accounts receivable. Contract revenue received before the expenses are incurred is recorded as refundable advance. Revenues from fixed-price contracts are recognized on the percentage-of-completion method and the revenue recognized is based on the percentage of incurred costs to date to the most recently estimated total completion costs.

Use of estimates

Management uses estimates and assumptions in preparing these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenue and expenses. Actual results could vary from the estimates that were used.

Functional allocation of expenses

The direct costs of supporting the various programs and other activities have been summarized on a functional basis on the consolidated statements of activities and change in net assets. Certain costs have been allocated among program and supporting service classifications on the basis of an analysis made by the Alliance's management. The Alliance reports costs specifically incurred on programmatic activities as "program service" expenses on the statement of functional expenses. The Alliance's general administration costs represent those costs incurred for common or joint objectives and therefore are not identified readily and specifically with a particular project or cost objective. These joint costs include such charges as executive management salaries, accounting staff salaries, audit fees, general office equipment and supplies, IT services, payroll processing fees, state registration and filing fees, and insurance costs.

Change in accounting principle

For the year ended December 31, 2018, the Alliance adopted FASB ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This update addresses the complexity and understandability of net asset classification and provides information about liquidity and availability of resources. A key change under ASU 2016-14 is the terminology of net asset classes used in these consolidated financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted and permanently restricted net assets, if applicable, are now reported as net assets with donor restrictions. Additionally, ASU 2016-14 requires a presentation of expenses on a functional basis. The changes required by the update have been applied retrospectively to all periods presented.

In-kind contributions

Donated goods and services are recorded at their estimated fair value at the time of donation. Donated professional services include services rendered in connection with the Alliance's programs and general administration. These services are recorded at their fair value at the time the service is performed.

Discovery Learning Alliance, Inc. and Affiliate

Notes to Consolidated Financial Statements December 31, 2018 and 2017

Reclassifications

Certain reclassifications have been made to the 2017 amounts to conform to the 2018 presentation.

Subsequent events

The Alliance has evaluated events and transactions for potential recognition or disclosure through June 24, 2019, the date the consolidated financial statements were available to be issued.

Note 2 - Liquidity and availability of resources

Financial assets in excess of daily cash requirements are invested in corporate bonds and government and agency bonds, and are invested according to the Alliance's Board-approved Investment Policy Statement. The following table reflects the Alliance's financial assets as of December 31, 2018 and 2017, reduced by amounts that are not available to meet general expenditures within one year of the consolidated statement of financial position. Amounts not available include net assets with donor imposed restrictions or board designations.

	December 31,	
	2018	2017
Financial assets		
Cash and cash equivalents	\$ 2,562,869	\$ 1,719,789
Accounts receivable	1,390	1,622
Contributions and grants receivable	2,772,565	2,945,869
Deposits	158,789	293,157
Investments	1,103,377	1,790,397
	<u>6,598,990</u>	<u>6,750,834</u>
Less those unavailable for general expenditure within one year due to donor restrictions or board designations		
Contractual or donor-imposed restrictions	(289,910)	(605,800)
Board designations	(425,000)	(425,000)
	<u>(714,910)</u>	<u>(1,030,800)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 5,884,080</u>	<u>\$ 5,720,034</u>

The Alliance is substantially supported by a cost-reimbursable contract with the UK Department for International Development. To meet the cash needs of this contract, the Alliance's goal is to maintain financial assets (which consist of cash, short-term investments, and short-term receivables) on-hand to meet 150 days of normal operational expenses, which are approximately \$485,000 per month. There is a Board designated fund of \$425,000 that may be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities. In the event of an unanticipated liquidity need, the Alliance also could draw upon a \$500,000 line of credit with the bank.

Discovery Learning Alliance, Inc. and Affiliate

**Notes to Consolidated Financial Statements
December 31, 2018 and 2017**

Note 3 - Investments

Investments at December 31, 2018 and 2017, consist of fixed income securities as follows:

	<u>2018</u>	<u>2017</u>
Corporate bonds	\$ 681,453	\$ 790,347
Government and agency bonds	<u>421,924</u>	<u>1,000,050</u>
	<u>\$ 1,103,377</u>	<u>\$ 1,790,397</u>

Investment income consists of the following for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Interest and dividend income, net	\$ 20,928	\$ 31,733
Realized loss on investments	(1,524)	(3,914)
Unrealized gain (loss) on investments	<u>(620)</u>	<u>1,094</u>
	<u>\$ 18,784</u>	<u>\$ 28,913</u>

Note 4 - Net assets

Net assets with donor restrictions consist of the unexpended portion of restricted contributions received by the Alliance. These contributions are restricted for the following programs at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Chevron Nigeria Limited	\$ 160,134	\$ 295,441
Shell Petroleum Development Nigeria	96,419	229,795
The Lucky Specials	-	564
Standard Chartered: Goal Employability Programme	<u>33,357</u>	<u>80,000</u>
	<u>\$ 289,910</u>	<u>\$ 605,800</u>

Discovery Learning Alliance, Inc. and Affiliate

Notes to Consolidated Financial Statements December 31, 2018 and 2017

Net assets were released from donor restrictions by incurring expenses that satisfied the restricted purposes specified by the donors or by the passage of time as follows for the years ended December 31, 2018 and 2017:

	2018	2017
Program Restrictions:		
Chevron Nigeria Limited	\$ 135,307	\$ 125,574
Discovery Girls	-	43,924
Shell Petroleum Development Nigeria	133,376	152,599
The Lucky Specials	564	262,832
Standard Chartered: Goal Employability Programme	46,643	-
DIME Project	17,303	-
	<u>\$ 333,193</u>	<u>\$ 584,929</u>

Board designated net assets consist of an operating reserve fund of \$425,000 at December 31, 2018 and 2017.

Note 5 - Transactions with Discovery, Inc.

Discovery, Inc., which founded DLA in 1997, provides office space and office support for DLA. The office support provided includes telecommunications, computer software and hardware, copying services, and other office expenses. In addition, Discovery, Inc. provides production services to the DLA. At times, contributions from Discovery, Inc. have been a major source of the DLA's revenue. Payments received from Discovery, Inc. were \$50,000 and \$778,978 for the years ended December 31, 2018 and 2017, respectively.

In 2013, the DLA signed a subcontract with Discovery, Inc. to implement Discovery, Inc.'s education project in Ghana, Kenya and Nigeria titled "Discovery Girls" (the "DFID Project"). During the DFID Project period-of-performance, Discovery, Inc. advanced funds to DLA as budgeted to meet direct expenses incurred. Actual direct costs incurred were applied against the advance. Additionally, DLA received a seven percent fee on all DLA's direct costs incurred for the DFID Project. Revenue related to the DFID Project through Discovery, Inc. was included in subcontract revenue on the consolidated statements of activities and change in net assets for the year ended December 31, 2017. The subcontract with Discovery, Inc. terminated March 31, 2017. Thereafter, DLA entered into a contract directly with DFID for the continuation of the DFID project.

The Alliance received the following in-kind contributions from Discovery, Inc. for the years ended December 31, 2018 and 2017:

	2018	2017
Program management, rent and shared services	\$ 469,667	\$ 392,504
Production of video programs	-	2,740
	<u>\$ 469,667</u>	<u>\$ 395,244</u>

Discovery Learning Alliance, Inc. and Affiliate

Notes to Consolidated Financial Statements December 31, 2018 and 2017

Note 6 - In-kind contributions

In addition to the in-kind contributions that were received from Discovery, Inc. (Note 5), the Alliance received in-kind contributions for services from various vendors. For the years ended December 31, 2018 and 2017, these contributions totaled \$610,519 and \$627,298, respectively. The majority of these contributions are reflected as part of program and general administration expenses for the years ended December 31, 2018 and 2017.

Note 7 - Pension plan

The Alliance maintains a 401(k) plan that covers all Alliance employees. The Plan provides for a discretionary profit-sharing contribution, as well as an employer match equal to 100 percent of employee contributions, not to exceed 5 percent of the participant's annual compensation. The Alliance made contributions of \$74,449 and \$67,948 for the years ended December 31, 2018 and 2017, respectively.

Note 8 - Fair value measurements

The Alliance has determined the fair value of certain assets through *Fair Value Measurement* ("Topic 820") of the FASB Accounting Standards Codification. Fair value of assets measured on a recurring basis at December 31, 2018 and 2017 is as follows:

		Fair value measurements at reporting date using		
		Quoted prices in active markets for identical assets/liabilities (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	Fair value			
<u>December 31, 2018</u>				
Assets				
Corporate bonds	\$ 681,453	\$ -	\$ 681,453	\$ -
Government and agency bonds	421,924	-	421,924	-
	<u>\$ 1,103,377</u>	<u>\$ -</u>	<u>\$ 1,103,377</u>	<u>\$ -</u>
<u>December 31, 2017</u>				
Assets				
Corporate bonds	\$ 790,347	\$ -	\$ 790,347	\$ -
Government and agency bonds	1,000,050	-	1,000,050	-
	<u>\$ 1,790,397</u>	<u>\$ -</u>	<u>\$ 1,790,397</u>	<u>\$ -</u>

Discovery Learning Alliance, Inc. and Affiliate

**Notes to Consolidated Financial Statements
December 31, 2018 and 2017**

Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority. Level 2 inputs are based primarily on quoted prices for identical assets in inactive markets or similar assets or liabilities in active or inactive markets as significant other observable inputs. Level 3 inputs provide the lowest quality inputs because there are no significant observable inputs. The Alliance uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Alliance measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 2 investments consist of corporate bonds, and government and agency bonds, and are valued using a market approach from pricing sources utilized by investment managers. There were no changes in the valuation techniques during the current year.

Supplementary Information

Independent Auditor's Report on Supplementary Information

To the Board of Directors
Discovery Learning Alliance, Inc. and Affiliate
Silver Spring, Maryland

We have audited the consolidated financial statements of Discovery Learning Alliance, Inc. and Affiliate as of and for the years ended December 31, 2018 and 2017, and our report thereon dated June 24, 2019, which expressed an unmodified opinion on those consolidated financial statements. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole.

The schedule of activity for Girls Education Challenge Transition ("GECT") is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Bethesda, Maryland
June 24, 2019

Discovery Learning Alliance, Inc. and Affiliate

**Schedule of Activity for Girls Education Challenge Transition ("GECT")
Year Ended December 31, 2018**

	DFID Spend Ghana	DFID Spend Kenya	DFID Spend Nigeria	Total DFID Spend	LP Match Ghana	LP Match Kenya	LP Match Nigeria	Total LP Match	2018 Total
Fees local									
Management fees	\$ 27,390	\$ 138,929	\$ 56,760	\$ 223,079	\$ -	\$ -	\$ -	\$ -	\$ 223,079
Project Directors	42,403	50,925	35,829	129,157	-	-	-	-	129,157
Training and Outreach Managers	41,707	45,806	72,573	160,086	-	-	-	-	160,086
Girls' Club Coordinators	12,369	27,680	19,149	59,198	-	-	-	-	59,198
Community Action Mobilizers	88,326	165,794	137,581	391,701	-	-	-	-	391,701
Procurement and Logistics Coordinators	20,089	18,993	14,803	53,885	-	-	-	-	53,885
MEL Officer	3,360	-	4,433	7,793	-	-	-	-	7,793
Office administrators	9,790	17,267	26,618	53,675	-	-	-	-	53,675
Trainers	130,131	352,893	273,814	756,838	-	-	-	-	756,838
Contracted staff	34,836	6,508	27,525	68,869	-	-	-	-	68,869
Drivers	13,678	9,848	15,397	38,923	-	-	-	-	38,923
Total fees local	424,079	834,643	684,482	1,943,204	-	-	-	-	1,943,204
Fees international									
Wages, taxes and benefits	323,876	251,870	342,546	918,292	-	-	-	-	918,292
Regional management	133,632	237,259	136,397	507,288	-	-	-	-	507,288
Consulting	40,214	40,611	40,214	121,039	-	-	-	-	121,039
Evaluators	288,133	288,133	288,133	864,399	-	-	-	-	864,399
Security	3,500	3,500	3,500	10,500	-	-	-	-	10,500
Total fees international	789,355	821,373	810,790	2,421,518	-	-	-	-	2,421,518
IT and office equipment									
Office equipment	4,472	19,300	13,129	36,901	-	-	-	-	36,901
Travel - local									
Domestic travel	4,694	5,890	17,944	28,528	-	-	-	-	28,528
Auto lease expense	6,954	34,924	5,231	47,109	-	-	-	-	47,109
Auto fuel expense	10,914	5,314	4,616	20,844	-	-	-	-	20,844
Auto repair expense	5,181	405	1,045	6,631	-	-	-	-	6,631
Total travel - local	27,743	46,533	28,836	103,112	-	-	-	-	103,112
Travel - international									
International travel	29,831	25,552	21,407	76,790	-	-	-	-	76,790
Hotel and sustenance									
Hotel and accommodation - domestic	4,885	2,665	9,540	17,090	-	-	-	-	17,090
Hotel and accommodation - international	26,111	25,245	15,361	66,717	-	-	-	-	66,717
Meals and per diem - domestic	2,373	1,273	4,707	8,353	-	-	-	-	8,353
Meals and per diem - international	13,183	15,888	14,721	43,792	-	-	-	-	43,792
Total hotel and sustenance	46,552	45,071	44,329	135,952	-	-	-	-	135,952

Discovery Learning Alliance, Inc. and Affiliate

Schedule of Activity for Girls Education Challenge Transition ("GECT") Year Ended December 31, 2018

	DFID Spend Ghana	DFID Spend Kenya	DFID Spend Nigeria	Total DFID Spend	LP Match Ghana	LP Match Kenya	LP Match Nigeria	Total LP Match	2018 Total
Education supplies									
LC equipment purchase	130,501	100,116	12,689	243,306	129,077	129,077	129,077	387,231	630,537
LC equipment service and maintenance	109	24,515	-	24,624	-	-	-	-	24,624
Program duplication and replication	22,299	20,892	18,524	61,715	3,087,738	1,268,964	57,460	4,414,162	4,475,877
Distribution/shipping	35,626	34,906	12,493	83,025	200,011	200,011	280,011	680,033	763,058
Video and audio production	259,307	259,307	259,307	777,921	-	-	-	-	777,921
Program customization	-	107,609	18,065	125,674	-	-	-	-	125,674
Script and content review committees	2,444	5,011	170	7,625	-	-	-	-	7,625
Total education supplies	450,286	552,356	321,248	1,323,890	3,416,826	1,598,052	466,548	5,481,426	6,805,316
Training material costs									
Workshop venue and catering	299,873	365,470	263,552	928,895	-	-	-	-	928,895
Workshop materials and supplies	62,598	119,265	64,086	245,949	-	-	-	-	245,949
Staff workshop travel	56,259	222,038	121,873	400,170	-	-	-	-	400,170
Participant workshop travel	173,414	336,493	128,592	638,499	-	-	-	-	638,499
Subcontractor: Cell-Ed	173,714	173,714	173,714	521,142	-	-	-	-	521,142
Subcontractor: Camfed	897,321	-	-	897,321	-	-	-	-	897,321
Subcontractor: Avanti iMlango	-	174,741	-	174,741	-	176,181	-	176,181	350,922
Volunteer incentives	52,457	10,097	35,736	98,290	-	-	-	-	98,290
Total training material costs	1,715,636	1,401,818	787,553	3,905,007	-	176,181	-	176,181	4,081,188
Support costs									
Audit fees	7,755	9,848	12,382	29,985	-	-	-	-	29,985
Office supplies and expenses	3,704	15,859	13,353	32,916	-	-	-	-	32,916
Rent and utilities	5,936	70,223	18,659	94,818	-	-	-	-	94,818
Bank fees	2,019	4,288	2,722	9,029	-	-	-	-	9,029
Postage/shipping and courier	1,188	3,142	1,418	5,748	-	-	-	-	5,748
Telephone/fax/internet	18,189	37,993	31,701	87,883	-	-	-	-	87,883
Dues and memberships	193	163	163	519	-	-	-	-	519
Recruiting	1,467	-	-	1,467	-	-	-	-	1,467
Photography	105	105	105	315	-	-	-	-	315
Photocopy and printing	1,042	2,112	622	3,776	-	-	-	-	3,776
Office repairs and maintenance	969	157	1,435	2,561	-	-	-	-	2,561
In-kind rent/shared services	-	-	-	-	91,132	91,521	88,946	271,599	271,599
Total support costs	42,567	143,890	82,560	269,017	91,132	91,521	88,946	271,599	540,616
Total direct expenses	3,530,521	3,890,536	2,794,334	10,215,391	3,507,958	1,865,754	555,494	5,929,206	16,144,597
Overhead (11%)	391,888	431,849	310,171	1,133,908	197,747	169,384	173,914	541,045	1,674,953
Total expenses	<u>\$ 3,922,409</u>	<u>\$ 4,322,385</u>	<u>\$ 3,104,505</u>	<u>\$ 11,349,299</u>	<u>\$ 3,705,705</u>	<u>\$ 2,035,138</u>	<u>\$ 729,408</u>	<u>\$ 6,470,251</u>	<u>\$ 17,819,550</u>

This schedule represents total costs of the GECT Project, not of DLA's share of project costs.

See Independent Auditor's Report on Supplementary Information.

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