

Discovery Learning Alliance, Inc. and Affiliate

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

December 31, 2017 and 2016

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, 2017 and 2016, the related consolidated statements of activities and change in net assets, consolidated statements of functional expenses and consolidated statements of 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, 2017 and 2016, 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 11, 2018

Discovery Learning Alliance, Inc. and Affiliate

**Consolidated Statements of Financial Position
December 31, 2017 and 2016**

Assets

	<u>2017</u>	<u>2016</u>
Current assets		
Cash and cash equivalents	\$ 1,719,789	\$ 1,180,605
Investments	1,790,397	3,725,727
Accounts receivable	1,622	626,136
Contributions and grants receivable	2,945,869	239,890
Advances	11,632	3,205
Prepaid expenses	6,512	8,840
Deposits	293,157	94,472
	<u>6,768,978</u>	<u>5,878,875</u>
Equipment and website, at cost		
Equipment and website	54,770	54,770
Less: accumulated depreciation and amortization	(51,645)	(39,145)
	<u>3,125</u>	<u>15,625</u>
	<u><u>\$ 6,772,103</u></u>	<u><u>\$ 5,894,500</u></u>

Liabilities and Net Assets

Current liabilities		
Accounts payable and accrued expenses	\$ 716,995	\$ 230,295
Refundable advance	1,386,710	-
	<u>2,103,705</u>	<u>230,295</u>
Net assets		
Unrestricted		
Operating	3,637,598	4,128,535
Board designated - operating reserve	425,000	425,000
	<u>4,062,598</u>	<u>4,553,535</u>
Temporarily restricted	605,800	1,110,670
	<u>4,668,398</u>	<u>5,664,205</u>
	<u><u>\$ 6,772,103</u></u>	<u><u>\$ 5,894,500</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, 2017 and 2016**

	2017			2016		
	Unrestricted	Temporarily restricted	Total	Unrestricted	Temporarily restricted	Total
Revenue and support						
Contributions and grants	\$ 156,902	\$ 80,059	\$ 236,961	\$ -	\$ 8,915	\$ 8,915
Foundation grants	106	-	106	43	-	43
Subcontract revenue	881,352	-	881,352	5,081,714	-	5,081,714
Contract revenue	5,454,636	-	5,454,636	88,960	-	88,960
In-kind contributions	1,022,542	-	1,022,542	1,351,223	308,535	1,659,758
Investment income	47,748	-	47,748	41,515	-	41,515
Other income (loss)	(10,519)	-	(10,519)	31,585	3,028	34,613
Net assets released from restrictions	584,929	(584,929)	-	3,414,771	(3,414,771)	-
Total revenue and support	8,137,696	(504,870)	7,632,826	10,009,811	(3,094,293)	6,915,518
Expenses						
Program services	6,986,829	-	6,986,829	7,785,735	-	7,785,735
General administration	1,635,612	-	1,635,612	1,743,295	-	1,743,295
Fundraising	6,192	-	6,192	7,306	-	7,306
Total expenses	8,628,633	-	8,628,633	9,536,336	-	9,536,336
Change in net assets	(490,937)	(504,870)	(995,807)	473,475	(3,094,293)	(2,620,818)
Net assets, beginning of year	4,553,535	1,110,670	5,664,205	4,080,060	4,204,963	8,285,023
Net assets, end of year	<u>\$ 4,062,598</u>	<u>\$ 605,800</u>	<u>\$ 4,668,398</u>	<u>\$ 4,553,535</u>	<u>\$ 1,110,670</u>	<u>\$ 5,664,205</u>

See Notes to Consolidated Financial Statements.

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	26,881	948	30,492
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>\$ 1,635,612</u>	<u>\$ 6,192</u>	<u>\$ 8,628,633</u>

Discovery Learning Alliance, Inc. and Affiliate
Consolidated Statement of Functional Expenses
Year Ended December 31, 2016

	Program services	General administration	Fundraising	Total expenses
Consultants	\$ 3,101,826	\$ 88,366	\$ 3,900	\$ 3,194,092
Production of video programs	1,732,435	3,750	-	1,736,185
Salaries	513,592	558,377	-	1,071,969
In-kind program management	409,257	370,244	917	780,418
Travel	731,876	42,782	-	774,658
Equipment purchase and maintenance	460,575	447	-	461,022
Rent	87,005	279,817	-	366,822
Conferences, meetings and training	310,992	32,237	1,541	344,770
Payroll taxes and benefits	102,729	98,360	-	201,089
Postage and shipping	170,890	2,379	-	173,269
Accounting fees	45,440	41,895	-	87,335
Telephone and internet	71,743	10,583	-	82,326
Insurance	-	66,002	-	66,002
Legal fees	939	64,618	-	65,557
Office supplies and expenses	37,080	13,369	-	50,449
Bank fees	4,147	26,873	948	31,968
Dues and memberships	199	27,595	-	27,794
Depreciation and amortization	-	12,500	-	12,500
Printing, publications and website	5,010	3,101	-	8,111
Total expenses	<u>\$ 7,785,735</u>	<u>\$ 1,743,295</u>	<u>\$ 7,306</u>	<u>\$ 9,536,336</u>

See Notes to Consolidated Financial Statements.

Discovery Learning Alliance, Inc. and Affiliate

Consolidated Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets	\$ (995,807)	\$ (2,620,818)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	12,500	12,500
Unrealized (gain) loss on investments	(1,094)	13,815
Realized (gain) loss on investments	3,914	(4,199)
Amortization of bond premiums, net	11,078	25,877
Changes in:		
Accounts receivable	624,514	(380,796)
Contributions and grants receivable	(2,705,979)	1,996,337
Advances	(8,427)	13,020
Prepaid expenses	2,328	12,235
Deposits	(198,685)	349,296
Accounts payable and accrued expenses	486,700	(50,436)
Deferred revenue	-	(8,484)
Refundable advance	<u>1,386,710</u>	<u>(456,290)</u>
Net cash used in operating activities	(1,382,248)	(1,097,943)
Cash flows from investing activities		
Proceeds from redemptions/sales of investments	2,617,647	2,305,683
Purchases of investments	<u>(696,215)</u>	<u>(2,297,888)</u>
Net cash provided by investing activities	<u>1,921,432</u>	<u>7,795</u>
Net increase (decrease) in cash and cash equivalents	539,184	(1,090,148)
Cash and cash equivalents, beginning of year	<u>1,180,605</u>	<u>2,270,753</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,719,789</u></u>	<u><u>\$ 1,180,605</u></u>

See Notes to Consolidated Financial Statements.

Discovery Learning Alliance, Inc. and Affiliate

Notes to Consolidated Financial Statements December 31, 2017 and 2016

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 has 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 has not made and has no requirement to make any capital contributions and has 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 receives fees for services provided to TLSP, 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 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.

Principles of consolidation

The consolidated financial statements include the accounts of DLA and TLSP (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.

Interest in affiliate

DLA and TLSP entered into an agreement for professional services in connection with the planning and production of the film, *The Lucky Specials* (the "Movie"). TLSP retains copyright of the Movie, as required by law for participation in the rebate program of the South African Department of Trade and Industry. DLA has a worldwide, paid-up license for all use and distribution of the film and its footage. For the year ended December 31, 2016, DLA provided \$850,000 in capital contributions to fund the costs of the Movie. There were no capital contributions made for the year ended December 31, 2017. For the year ended December 31, 2016, TLSP spent \$904,401 on production expenses for the Movie. There was no activity for TLSP for the year ended December 31, 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

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Notes to Consolidated Financial Statements December 31, 2017 and 2016

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, 2017 and 2016, 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 loss of \$35,839 in 2017 and a gain of \$29,681 in 2016, 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 temporarily restricted net assets is classified as temporarily restricted net assets if specified by the donor. Upon appropriation for expenditure, subject to any purpose restrictions, the amounts for current year expenditures are reclassified from temporarily restricted to unrestricted net assets. Any other investment income is reported as increases or decreases in unrestricted net assets 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, 2017 and 2016, capitalized website development costs totaled \$37,500. Amortization expense was \$12,500 in 2017 and 2016. Total accumulated amortization at December 31, 2017 and 2016 was \$34,375 and \$21,875, respectively. Future amortization expense is expected to be \$3,125 for the year ending December 31, 2018.

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, 2017 and 2016. TLSP is subject to tax

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Notes to Consolidated Financial Statements December 31, 2017 and 2016

laws of South Africa and had no taxable income to report in accordance with South African tax laws for the years ended December 31, 2017 and 2016.

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, 2017 and 2016. Tax years prior to 2014 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 temporarily restricted contributions and grants receivable 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, 2017 and 2016, 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, 2017 and 2016, 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 unrestricted use unless specifically restricted by the donor. Temporarily restricted net assets 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.

Temporarily restricted net assets become unrestricted 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 restrictions. The Alliance had no permanently restricted net assets for the years ended December 31, 2017 and 2016.

Revenues from governmental and other contract/subcontract funding sources are recognized when the related expenses are incurred. Contract/subcontract expenses incurred before the related

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Notes to Consolidated Financial Statements December 31, 2017 and 2016

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 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.

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.

Subsequent events

The Alliance has evaluated events and transactions for potential recognition or disclosure through June 11, 2018, the date the consolidated financial statements were available to be issued.

Note 2 - Investments

Investments at December 31, 2017 and 2016, consist of fixed income securities as follows:

	2017	2016
Corporate bonds	\$ 790,347	\$ 1,872,558
Government and agency bonds	1,000,050	1,853,169
	<u>\$ 1,790,397</u>	<u>\$ 3,725,727</u>

Investment income consists of the following for the years ended December 31, 2017 and 2016:

	2017	2016
Interest and dividend income	\$ 50,568	\$ 51,131
Realized gain (loss) on investments	(3,914)	4,199
Unrealized gain (loss) on investments	1,094	(13,815)
	<u>\$ 47,748</u>	<u>\$ 41,515</u>

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**Notes to Consolidated Financial Statements
December 31, 2017 and 2016**

Note 3 - Net assets

Temporarily restricted net assets consist of the unexpended portion of restricted contributions received by the Alliance. These contributions are restricted for the following programs at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Chevron Nigeria Limited	\$ 295,441	\$ 421,015
Discovery Girls	-	43,924
Shell Petroleum Development Nigeria	229,795	382,394
The Lucky Specials	564	263,337
Standard Chartered: Goal Employability Programme	<u>80,000</u>	<u>-</u>
	<u>\$ 605,800</u>	<u>\$ 1,110,670</u>

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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Time Restrictions		
DCL Pledge	\$ -	\$ 853,987
DCL - Supervising Producer	-	130,000
Program Restrictions:		
Avanti Education Initiative	-	8,640
Chevron Nigeria Limited	125,574	198,478
Discovery Girls	43,924	766,614
Shell Petroleum Development Nigeria	152,599	219,766
The Lucky Specials	<u>262,832</u>	<u>1,237,286</u>
	<u>\$ 584,929</u>	<u>\$ 3,414,771</u>

Board designated net assets consist of an operating reserve fund of \$425,000 at December 31, 2017 and 2016.

Note 4 - Transactions with Discovery, Inc.

Discovery, Inc., which founded DLA in 1997, provides staffing and related benefits, 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 \$778,978 and \$983,987 for the years ended December 31, 2017 and 2016, 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

Discovery Learning Alliance, Inc. and Affiliate

Notes to Consolidated Financial Statements December 31, 2017 and 2016

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 7 percent fee on all DLA's direct costs incurred for the DFID Project. The amount due from Discovery, Inc. for unreimbursed costs, including the fee at December 31, 2016 was \$622,411 and is included in accounts receivable on the consolidated statements of financial position. Revenue related to the DFID Project through Discovery, Inc. is included in subcontract revenue on the consolidated statements of activities and change in net assets. 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.:

	2017	2016
Program management, rent and shared services	\$ 392,504	\$ 1,089,019
Production of video programs	2,740	516,075
	<u>\$ 395,244</u>	<u>\$ 1,605,094</u>

Note 5 - In-kind contributions

In addition to the in-kind contributions that were received from Discovery, Inc. (Note 4), the Alliance received in-kind contributions for services from various vendors. For the years ended December 31, 2017 and 2016, these contributions totaled \$627,298 and \$54,664, respectively. The majority of these contributions are reflected as part of program and general administration expenses for the years ended December 31, 2017 and 2016.

Note 6 - 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 \$67,948 and \$49,466 for the years ended December 31, 2017 and 2016, respectively.

Discovery Learning Alliance, Inc. and Affiliate

Notes to Consolidated Financial Statements December 31, 2017 and 2016

Note 7 - 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, 2017 and 2016 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, 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>
<u>December 31, 2016</u>				
Assets:				
Corporate bonds	\$ 1,872,558	\$ -	\$ 1,872,558	\$ -
Government and agency bonds	1,853,169	-	1,853,169	-
	<u>\$ 3,725,727</u>	<u>\$ -</u>	<u>\$ 3,725,727</u>	<u>\$ -</u>

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

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, 2017 and 2016, and our report thereon dated June 11, 2018, 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 (GEC1) and 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.

CohnReznick LLP

Bethesda, Maryland
June 11, 2018

Discovery Learning Alliance, Inc. and Affiliate

Schedule of Activity for Girls Education Challenge (GEC1) Year Ended December 31, 2017

	DFID Spend Ghana	DFID Spend Kenya	DFID Spend Nigeria	Total DFID Spend	LP Match Ghana	LP Match Kenya	LP Match Nigeria	Total LP Match	2017 Total
Fees Local									
Accounting Fees	\$ 3,704	\$ -	\$ 2,084	\$ 5,788	\$ -	\$ -	\$ -	\$ -	\$ 5,788
Management Fees	4,903	32,538	9,365	46,806	-	-	-	-	46,806
Project Directors	9,832	18,086	-	27,918	-	-	-	-	27,918
Training & Outreach Managers	6,862	10,329	6,878	24,069	-	-	-	-	24,069
Girl's Club Coordinators	1,004	7,179	-	8,183	-	-	-	-	8,183
Community Action Mobilizers	7,338	13,180	16,190	36,708	-	-	-	-	36,708
Procurement & Logistics Coordinators	2,194	4,570	3,000	9,764	-	-	-	-	9,764
Office Administrators	2,270	4,419	3,152	9,841	-	-	-	-	9,841
Trainers	31,932	61,079	51,156	144,167	-	-	-	-	144,167
Director	2,159	2,506	3,209	7,874	-	-	-	-	7,874
Total Fees Local	72,198	153,886	95,034	321,118	-	-	-	-	321,118
Fees International									
Wages, Taxes & Benefits	20,246	21,058	43,830	85,134	15,300	15,345	15,376	46,021	131,155
Regional Management	8,484	10,490	3,176	22,150	15,702	20,925	7,630	44,257	66,407
Consulting Evaluations	10,023	10,023	10,023	30,069	-	-	-	-	30,069
Consulting	4,022	4,022	4,021	12,065	-	-	-	-	12,065
Security	880	880	880	2,640	-	-	-	-	2,640
Total Fees International	43,655	46,473	61,930	152,058	31,002	36,270	23,006	90,278	242,336
IT and Office Equipment									
Office Equipment Purchase	-	341	-	341	-	-	-	-	341
Office Repairs and Maintenance	257	32	13	302	-	-	-	-	302
Total IT and Office Equipment	257	373	13	643	-	-	-	-	643
Travel - Local									
Domestic Travel	1,176	15,395	12,535	29,106	-	-	-	-	29,106
Auto Lease Expense	2,673	12,797	-	15,470	-	-	-	-	15,470
Auto Fuel Expense	3,086	3,240	560	6,886	-	-	-	-	6,886
Auto Repair Expense	1,063	-	-	1,063	-	-	-	-	1,063
Total Travel - Local	7,998	31,432	13,095	52,525	-	-	-	-	52,525
Travel - International									
International Travel	723	609	1,401	2,733	-	-	-	-	2,733
Hotel and Sustenance									
Hotel and Accommodation Domestic	269	1,250	953	2,472	-	-	-	-	2,472
Hotel and Accommodation International	236	869	119	1,224	-	-	-	-	1,224
Meals and per diem Domestic	1,289	3,500	160	4,949	-	-	-	-	4,949
Meals and per diem International	387	651	617	1,655	-	-	-	-	1,655
Total Hotel and Sustenance	2,181	6,270	1,849	10,300	-	-	-	-	10,300

This schedule represents total costs of DCL's Discovery Girls Project, not of DLA's share of project costs.

Discovery Learning Alliance, Inc. and Affiliate

Schedule of Activity for Girls Education Challenge (GEC1) Year Ended December 31, 2017

	DFID Spend Ghana	DFID Spend Kenya	DFID Spend Nigeria	Total DFID Spend	LP Match Ghana	LP Match Kenya	LP Match Nigeria	Total LP Match	2017 Total
Education Supplies									
Video Program Duplication and Replication	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,000	\$ 17,000	\$ 17,000
Training Material Costs									
Workshop Venue and Catering	130	-	557	687	-	-	-	-	687
Workshop Materials and Supplies	761	22	633	1,416	-	-	-	-	1,416
Staff Workshop Travel	1,533	4,580	1,216	7,329	-	-	-	-	7,329
Participant Workshop Travel	-	-	1,818	1,818	-	-	-	-	1,818
Total Training Material Costs	2,424	4,602	4,224	11,250	-	-	-	-	11,250
Overheads									
Audit Fees	2,600	2,600	2,601	7,801	-	-	-	-	7,801
Office Supplies & Expenses	239	1,524	1,514	3,277	-	-	-	-	3,277
Rent & Utilities	1,917	9,307	5,634	16,858	-	-	-	-	16,858
Bank Fees	115	201	191	507	-	-	-	-	507
Postage/Shipping & Courier	1,218	154	413	1,785	-	-	-	-	1,785
Telephone/Fax/Internet	2,452	5,230	4,932	12,614	-	-	-	-	12,614
Recruiting	569	-	-	569	-	-	-	-	569
Photocopy & Printing	-	-	95	95	-	-	-	-	95
Other Taxes & Licenses	45	-	-	45	-	-	-	-	45
Total Overheads	9,155	19,016	15,380	43,551	-	-	-	-	43,551
Total Direct Expenses	138,591	262,661	192,926	594,178	31,002	36,270	40,006	107,278	701,456
Indirect Costs (7%)	11,872	20,925	16,305	49,102	-	-	-	-	49,102
Total expenses	<u>\$ 150,463</u>	<u>\$ 283,586</u>	<u>\$ 209,231</u>	<u>\$ 643,280</u>	<u>\$ 31,002</u>	<u>\$ 36,270</u>	<u>\$ 40,006</u>	<u>\$ 107,278</u>	<u>\$ 750,558</u>

This schedule represents total costs of DCL's Discovery Girls Project, not of DLA's share of project costs.

See Independent Auditor's Report on Supplementary Information.

Discovery Learning Alliance, Inc. and Affiliate

Schedule of Activity for Girls Education Challenge Transition (GECT) Year Ended December 31, 2017

	DFID Spend Ghana	DFID Spend Kenya	DFID Spend Nigeria	Total DFID Spend	LP Match Ghana	LP Match Kenya	LP Match Nigeria	Total LP Match	2017 Total
Fees Local									
Management Fees	\$ 18,749	\$ 105,675	\$ 35,238	\$ 159,662	\$ -	\$ -	\$ -	\$ -	\$ 159,662
Project Directors	31,835	48,629	8,352	88,816	-	-	-	-	88,816
Training & Outreach Mgrs	21,629	27,257	28,118	77,004	-	-	-	-	77,004
Girls' Club Coordinators	-	19,029	4,615	23,644	-	-	-	-	23,644
Community Action Mobilizers	48,330	61,487	68,788	178,605	-	-	-	-	178,605
Procurement & Logistics Coordinators	11,569	11,827	9,626	33,022	-	-	-	-	33,022
Office Administrators	6,885	10,353	13,824	31,062	-	-	-	-	31,062
Trainers	84,605	157,723	166,547	408,875	-	-	-	-	408,875
Contracted Staff	16,567	4,989	10,701	32,257	-	-	-	-	32,257
Drivers	10,149	5,233	10,342	25,724	-	-	-	-	25,724
Total Fees Local	250,318	452,202	356,151	1,058,671	-	-	-	-	1,058,671
Fees International									
Wages, Taxes & Benefits	177,870	138,122	205,295	521,287	-	-	-	-	521,287
Regional Management	92,485	138,236	93,031	323,752	-	-	-	-	323,752
Consulting	39,111	40,467	39,073	118,651	-	-	-	-	118,651
Evaluators	92,946	92,946	92,946	278,838	-	-	-	-	278,838
Security	3,281	8,762	3,278	15,321	-	-	-	-	15,321
Total Fees International	405,693	418,533	433,623	1,257,849	-	-	-	-	1,257,849
IT and Office Equipment									
Office Equipment	22,914	28,549	5,788	57,251	-	-	-	-	57,251
Travel - Local									
Domestic Travel	2,406	3,376	18,623	24,405	-	-	-	-	24,405
Auto Lease Expense	4,397	26,197	-	30,594	-	-	-	-	30,594
Auto Fuel Expense	6,764	3,150	1,860	11,774	-	-	-	-	11,774
Auto Repair Expense	4,054	1	360	4,415	-	-	-	-	4,415
Total Travel - Local	17,621	32,724	20,843	71,188	-	-	-	-	71,188
Travel - International									
International Travel	14,887	10,708	15,622	41,217	-	-	-	-	41,217
Hotel and Sustenance									
Hotel and Accommodation Domestic	889	4,856	7,412	13,157	-	-	-	-	13,157
Hotel and Accommodation International	16,237	11,147	11,843	39,227	-	-	-	-	39,227
Meals and per diem Domestic	2,614	1,544	2,728	6,886	-	-	-	-	6,886
Meals and per diem International	7,774	5,725	9,675	23,174	-	-	-	-	23,174
Total Hotel and Sustenance	27,514	23,272	31,658	82,444	-	-	-	-	82,444

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

Discovery Learning Alliance, Inc. and Affiliate

Schedule of Activity for Girls Education Challenge Transition (GECT) Year Ended December 31, 2017

	DFID Spend Ghana	DFID Spend Kenya	DFID Spend Nigeria	Total DFID Spend	LP Match Ghana	LP Match Kenya	LP Match Nigeria	Total LP Match	2017 Total
Education Supplies									
LC Equipment Purchase	228,361	-	123,294	351,655	144,000	144,000	144,000	432,000	783,655
Program Duplication & Replication	154,958	124,030	124,904	403,892	-	-	1,394,276	1,394,276	1,798,168
Distribution/Shipping	107,611	29,891	42,690	180,192	4,856,147	4,856,147	4,856,147	14,568,441	14,748,633
Video & Audio Production	73,065	85,535	75,151	233,751	36,667	36,667	36,667	110,001	343,752
Program Customization	-	6,195	-	6,195	-	-	-	-	6,195
Script & Content Review Committees	1,062	1,472	-	2,534	-	-	-	-	2,534
Total Education Supplies	565,057	247,123	366,039	1,178,219	5,036,814	5,036,814	6,431,090	16,504,718	17,682,937
Training Material Costs									
Workshop Venue and Catering	147,321	16,278	88,142	251,741	-	-	-	-	251,741
Workshop Materials and Supplies	23,566	2,416	18,704	44,686	-	-	-	-	44,686
Staff Workshop Travel	75,748	87,434	21,180	184,362	-	-	-	-	184,362
Participant Workshop Travel	88,677	606	40,763	130,046	-	-	-	-	130,046
Subcontractor: Cell-Ed	117,479	117,479	117,479	352,437	-	-	-	-	352,437
Total Training Material Costs	452,791	224,213	286,268	963,272	-	-	-	-	963,272
Support Costs									
Audit Fees	2,301	2,727	13,317	18,345	-	-	-	-	18,345
Office Supplies and Expenses	1,607	8,472	8,553	18,632	-	-	-	-	18,632
Rent and Utilities	18,889	62,770	17,896	99,555	40,239	51,031	51,312	142,582	242,137
Bank Fees	446	822	567	1,835	-	-	-	-	1,835
Postage/Shipping and Courier	361	432	479	1,272	-	-	-	-	1,272
Telephone/Fax/Internet	10,061	21,262	16,473	47,796	-	-	-	-	47,796
Dues and Memberships	371	372	371	1,114	-	-	-	-	1,114
Recruiting	2,211	550	1,262	4,023	-	-	-	-	4,023
Photocopy and Printing	404	2,225	2,220	4,849	-	-	-	-	4,849
Office Repairs & Maintenance	992	99	1,040	2,131	-	-	-	-	2,131
Total Support Costs	37,643	99,731	62,178	199,552	40,239	51,031	51,312	142,582	342,134
Total Direct Expenses	1,794,438	1,537,055	1,578,170	4,909,663	5,077,053	5,087,845	6,482,402	16,647,300	21,556,963
Overhead (11%)	199,183	170,613	175,177	544,973	-	-	-	-	544,973
Total expenses	<u>\$ 1,993,621</u>	<u>\$ 1,707,668</u>	<u>\$ 1,753,347</u>	<u>\$ 5,454,636</u>	<u>\$ 5,077,053</u>	<u>\$ 5,087,845</u>	<u>\$ 6,482,402</u>	<u>\$ 16,647,300</u>	<u>\$ 22,101,936</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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