

Discovery Learning Alliance, Inc. and Affiliate

**Consolidated Financial Statements
with Supplementary Information
and Independent Auditors' Report**

December 31, 2014 and 2013

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Independent Auditors' 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 statement of financial position as of December 31, 2014, the related consolidated statement of activities and change in net assets, consolidated statement of functional expenses and consolidated statement of cash flows for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free 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 auditors' 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 auditors consider 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 consolidated financial position of Discovery Learning Alliance, Inc. and Affiliate as of December 31, 2014, and the change in their consolidated net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Consolidated Financial Statements

The consolidated financial statements of Discovery Learning Alliance, Inc. and Affiliate as of December 31, 2013 were audited by other auditors, whose report dated June 18, 2014 expressed an unmodified opinion on those statements.



Bethesda, Maryland
May 21, 2015

DISCOVERY LEARNING ALLIANCE, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2014	2013
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 2,959,296	\$ 1,922,754
Investments	3,513,797	3,500,028
Accounts Receivable	147,882	976,586
Contributions and Grants Receivable	1,692,749	2,357,953
Advances	6,479	5,010
Prepaid Expenses	46,225	8,275
Deposits	536,070	264,726
Total Current Assets	8,902,498	9,035,332
EQUIPMENT, at Cost		
Equipment	76,120	64,870
Less: Accumulated Depreciation	(47,369)	(47,264)
	28,751	17,606
LONG-TERM ASSET		
Contributions and Grants Receivable, Net of Current Portion	829,114	1,971,981
	\$ 9,760,363	\$ 11,024,919
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 322,188	\$ 177,005
Refundable Advance	952,328	276,667
Total Current Liabilities	1,274,516	453,672
NET ASSETS		
Unrestricted		
Operating	4,029,292	4,615,780
Board Designated – Operating Reserve	425,000	425,000
Total Unrestricted	4,454,292	5,040,780
Temporarily Restricted	4,031,555	5,530,467
Total Net Assets	8,485,847	10,571,247
	\$ 9,760,363	\$ 11,024,919

DISCOVERY LEARNING ALLIANCE, INC. AND AFFILIATE

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

	Year Ended December 31,					
	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT						
Contributions and Grants	\$ 1,020	\$ 330,000	\$ 331,020	\$ 27,446	\$ 1,589,212	\$ 1,616,658
Foundation Grants	5,600	-	5,600	25,000	-	25,000
Subcontract Revenue	6,423,874	-	6,423,874	1,144,551	-	1,144,551
Contracts	-	-	-	104,947	-	104,947
Discount on Multi-Year Contributions and Grants	-	63,782	63,782	-	53,947	53,947
In-Kind Contributions	942,203	541,592	1,483,795	1,595,058	-	1,595,058
Investment Income	38,954	127	39,081	10,436	12,322	22,758
Other Income (Loss)	32,248	(44,443)	(12,195)	15,611	(16,722)	(1,111)
Net Assets Released from Restrictions	2,389,970	(2,389,970)	-	2,586,766	(2,586,766)	-
Total Revenue and Support	9,833,869	(1,498,912)	8,334,957	5,509,815	(948,007)	4,561,808
EXPENSES						
Program Services	9,228,576	-	9,228,576	3,407,951	-	3,407,951
General Administration	1,184,300	-	1,184,300	910,559	-	910,559
Fundraising	7,481	-	7,481	118,231	-	118,231
Total Expenses	10,420,357	-	10,420,357	4,436,741	-	4,436,741
CHANGE IN NET ASSETS	(586,488)	(1,498,912)	(2,085,400)	1,073,074	(948,007)	125,067
NET ASSETS, Beginning of Year	5,040,780	5,530,467	10,571,247	3,967,706	6,478,474	10,446,180
NET ASSETS, End of Year	\$ 4,454,292	\$ 4,031,555	\$ 8,485,847	\$ 5,040,780	\$ 5,530,467	\$ 10,571,247

DISCOVERY LEARNING ALLIANCE, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2014

	<u>Program Services</u>	<u>General Administration</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Consultants	\$ 2,626,164	\$ 22,584	\$ 1,050	\$ 2,649,798
Production of Video Programs	2,372,674	5,918	-	2,378,592
Travel	1,144,155	15,645	48	1,159,848
Salaries	437,302	487,046	-	924,348
Equipment Purchase and Maintenance	798,574	-	-	798,574
In-Kind Program Management	553,036	198,488	5,733	757,257
Conferences, Meetings and Training	534,425	2,518	-	536,943
Rent	189,103	92,163	-	281,266
Office Supplies and Expenses	177,643	12,339	-	189,982
Payroll Taxes and Benefits	87,814	100,974	-	188,788
Postage and Shipping	175,075	1,858	-	176,933
Legal Fees	8,357	90,493	-	98,850
Accounting Fees	47,550	46,503	-	94,053
Telephone and Internet	46,666	10,043	-	56,709
Insurance	-	38,490	-	38,490
Bank Fees	4,197	28,717	650	33,564
Printing, Publications and Website	25,841	6,427	-	32,268
Dues and Memberships	-	23,989	-	23,989
Depreciation	-	105	-	105
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Expenses	<u>\$ 9,228,576</u>	<u>\$ 1,184,300</u>	<u>\$ 7,481</u>	<u>\$ 10,420,357</u>

DISCOVERY LEARNING ALLIANCE, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2013

	<u>Program Services</u>	<u>General Administration</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Consultants	\$ 1,018,920	\$ 52,748	\$ 66,298	\$ 1,137,966
Production of Video Programs	673,617	-	-	673,617
Travel	349,059	30,535	16,865	396,459
Salaries	235,882	314,350	10,413	560,645
Equipment Purchase and Maintenance	29,375	2,870	-	32,245
In-Kind Program Management	764,847	99,062	22,013	885,922
Conferences, Meetings and Training	90,020	-	235	90,255
Rent	40,415	79,904	-	120,319
Office Supplies and Expenses	73,419	29,675	159	103,253
Payroll Taxes and Benefits	36,785	55,883	958	93,626
Postage and Shipping	13,186	1,120	209	14,515
Legal Fees	6,215	93,121	-	99,336
Accounting Fees	3,760	41,108	385	45,253
Telephone and Internet	25,839	28,735	93	54,667
Insurance	4,274	19,384	-	23,658
Bank Fees	7,008	21,570	603	29,181
Printing, Publications and Website	25,935	38,955	-	64,890
Depreciation	-	1,100	-	1,100
Special Events	9,395	-	-	9,395
Board Expenses	-	439	-	439
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Expenses	<u>\$ 3,407,951</u>	<u>\$ 910,559</u>	<u>\$ 118,231</u>	<u>\$ 4,436,741</u>

DISCOVERY LEARNING ALLIANCE, INC. AND AFFILIATE

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (2,085,400)	\$ 125,067
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities		
Depreciation	105	1,100
Unrealized (Gain) Loss on Investments	(8,820)	28,217
Realized (Gain) Loss on Investments	(4,092)	5,719
Amortization of Bond Premiums, Net	72,057	37,740
Decrease in Discount on Contributions and Grants Receivable	(63,782)	(53,947)
Changes in:		
Accounts Receivable	828,704	(940,041)
Contributions and Grants Receivable	1,871,853	(355,811)
Advances	(1,469)	(3,978)
Prepaid Expenses	(37,950)	(8,275)
Deposits	(271,344)	50,667
Accounts Payable and Accrued Expenses	145,183	118,830
Deferred Revenue	-	(59,548)
Refundable Advance	675,661	276,667
Net Cash Provided by (Used in) Operating Activities	1,120,706	(777,593)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Redemptions/Sales of Investments	1,367,124	957,418
Purchases of Investments	(1,440,038)	(695,178)
Purchases of Equipment	(11,250)	(17,500)
Net Cash Provided by (Used in) Investing Activities	(84,164)	244,740
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,036,542	(532,853)
CASH AND CASH EQUIVALENTS, Beginning of Year	1,922,754	2,455,607
CASH AND CASH EQUIVALENTS, End of Year	\$ 2,959,296	\$ 1,922,754

DISCOVERY LEARNING ALLIANCE, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

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 July 2010, DLA became a 49-percent owner of a special purpose entity, Ocean Spray Trading 49 (PTY) LTD (the Affiliate), a for-profit, South African Company organized in July 2010, whose sole purpose is to produce, test and distribute *Inside Story* (the Movie). DLA has a controlling financial interest in the Affiliate through an agreement to manage the Affiliate and the requirement to fund all costs of the Movie and losses of the Affiliate. 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 the Affiliate. 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 the Affiliate, 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 the Affiliate. 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. The Affiliate has been transitioned to a dormant state pending the need for future productions in South Africa.

Principles of Consolidation

The consolidated financial statements include the accounts of DLA and Ocean Spray Trading 49 (PTY) LTD (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, 2014 AND 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest in Affiliate

DLA and the Affiliate entered into an agreement for professional services in connection with the planning and production of the film, *Inside Story: The Science of HIV/AIDS* (the Movie). The Affiliate 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. Summarized financial information for the Affiliate is as follows:

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Cash	<u>\$ -</u>	<u>\$ -</u>
Net Equity	<u>\$ -</u>	<u>\$ -</u>
Total Revenue	\$ -	\$ 31,039
Production Expenses	-	3,107
Audit Fees	-	3,760
Legal Fees	-	1,378
Bank Fees	-	635
Loss on Currency	-	6,645
Net Income (Loss)	<u>\$ -</u>	<u>\$ 15,514</u>

For the fiscal years ended December 31, 2014 and 2013, DLA provided \$0 in capital contributions to fund the costs of the Movie. In 2013, the Affiliate refunded \$35,532 to DLA. DLA's investment has been eliminated with the Affiliate's net equity in these consolidated financial statements. The Affiliate's revenue of \$31,039 at December 31, 2013 relates to rebates received from the South African government to fund the Movie costs incurred in South Africa by South African companies. The rebates were received directly by the Affiliate and are included in temporarily restricted contributions and grants and net assets released from restrictions as the purpose for the funds were satisfied in fiscal year 2013. The Affiliate had no activity in 2014.

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, 2014 and 2013 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 were losses of \$15,215 and \$23,388, respectively, and are recognized in the consolidated statements of activities and change in net assets and are included in other income (loss).

DISCOVERY LEARNING ALLIANCE, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, government and agency bonds and certificates of deposit 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 market 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 (\$1,000 for 2013 and prior) 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 will begin once the website is placed in service.

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, 2014 and 2013. Ocean Spray Trading 49 (PTY) LTD 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, 2014 and 2013.

DISCOVERY LEARNING ALLIANCE, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Tax Status (Continued)

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, 2014 and 2013. Tax years prior to 2011 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 risk-adjusted discount rates varying from 3.00-3.25 percent. 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, 2014 and 2013, all receivables are considered to be fully collectible, and, as such, no allowance for doubtful accounts has been provided for in these consolidated financial statements.

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 collectibility 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, 2014 and 2013.

DISCOVERY LEARNING ALLIANCE, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Revenues from federal 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 deferred revenue. Subcontract revenue received from Discovery Communications, LLC 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.

Concentration of Revenue

The Alliance derived approximately 98 percent and 69 percent of its revenue from Discovery Communications, LLC (DCL) for the years ended December 31, 2014 and 2013, respectively. DCL also accounted for 79 percent and 71 percent of the Alliance's accounts, grants and contributions receivable as of December 31, 2014 and 2013, respectively.

Reclassifications

Certain 2013 amounts related to investment income have been reclassified to conform to the 2014 presentation.

Subsequent Events

The Alliance has evaluated events and transactions for potential recognition or disclosure through May 21, 2015, the date the consolidated financial statements were available to be issued.

DISCOVERY LEARNING ALLIANCE, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

NOTE 2 – INVESTMENTS

Investments consist of fixed income securities as follows:

	December 31,	
	2014	2013
Corporate Bonds	\$ 1,897,084	\$ 2,084,713
Government and Agency Bonds	1,616,713	1,415,315
	<u>\$ 3,513,797</u>	<u>\$ 3,500,028</u>

Investment income consists of:

	Year Ended December 31,	
	2014	2013
Interest and Dividend Income	\$ 26,169	\$ 56,694
Realized Gain (Loss) on Investments	4,092	(5,719)
Unrealized Gain (Loss) on Investments	8,820	(28,217)
	<u>\$ 39,081</u>	<u>\$ 22,758</u>

NOTE 3 – CONTRIBUTIONS AND GRANTS RECEIVABLE

Contributions and grants receivable are collectible through 2016 and have been discounted at varying risk-adjusted rates of 3.00-3.25 percent to record the present value of the pledges to be received as of December 31, 2014 and 2013, respectively.

The following is a summary of contributions and grants receivable, by years, as of:

	December 31,	
	2014	2013
Receivable in Less than One Year	\$ 1,692,749	\$ 2,357,953
Receivable in One to Five Years	853,987	2,060,636
Total Contributions and Grants Receivable	2,546,736	4,418,589
Less: Discount to Net Present Value	(24,873)	(88,655)
Net Contributions and Grants Receivable	2,521,863	4,329,934
Less: Current Portion	1,692,749	2,357,953
Long-Term Contributions and Grants Receivable	<u>\$ 829,114</u>	<u>\$ 1,971,981</u>

DISCOVERY LEARNING ALLIANCE, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

NOTE 4 – 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:

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Time Restrictions	\$ 1,350,162	\$ 1,500,393
Program Restrictions:		
CCAF Africa Education Initiative	15,257	181,628
Chevron Brazil/South Africa Education Initiative	-	14,172
Chevron Nigeria Limited	812,741	802,007
Chevron USA	-	184,102
Discovery Girls	988,748	1,747,540
Shell Petroleum Development Nigeria	864,647	1,100,625
	<u>\$ 4,031,555</u>	<u>\$ 5,530,467</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:

	<u>Year Ended December 31,</u>	
	<u>2014</u>	<u>2013</u>
Time Restrictions	\$ 198,297	\$ 759,192
Program Restrictions:		
CCAF Africa Education Initiative	166,396	1,088,538
Chevron Brazil/South Africa Education Initiative	14,172	156,601
Chevron USA	27,498	34,269
Chevron Nigeria Limited	140,005	230,879
Discovery Girls	1,630,384	43,722
Inside Story – Production Fund	-	31,039
Shell Petroleum Development Nigeria	213,218	242,526
	<u>\$ 2,389,970</u>	<u>\$ 2,586,766</u>

Board designated net assets consist of an operating reserve fund of \$425,000 at December 31, 2014 and 2013.

DISCOVERY LEARNING ALLIANCE, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

NOTE 5 – TRANSACTIONS WITH DISCOVERY COMMUNICATIONS, LLC

DCL, which founded the Alliance in 1997, provides staffing and related benefits, office space and office support for the Alliance. The office support provided includes telecommunications, computer software and hardware, copying services, and other office expenses. In addition, DCL provides production services to the Alliance. At times, contributions from DCL have been a major source of the Alliance's revenue. As of December 31, 2014, DCL has committed to providing \$1,980,256 through December 31, 2016. This amount has been recorded as part of the temporarily restricted net assets on the accompanying consolidated statements of activities and change in net assets and as contributions and grants receivable on the accompanying consolidated statements of financial position. Payments received from DCL were \$1,289,559 and \$759,192 for the years ended December 31, 2014 and 2013, respectively.

In 2013, the Alliance signed a subcontract with DCL to implement DCL's education project in Ghana, Kenya and Nigeria titled "Discovery Girls" (the DFID Project). During the DFID Project period-of-performance, DCL advances funds to the Alliance as budgeted to meet direct expenses incurred. Actual direct costs incurred are applied against the advance. The remaining advance left to spend at December 31, 2014 and 2013 was \$952,328 and \$276,667, respectively, and is included as a refundable advance on the consolidated statements of financial position. Additionally, the Alliance receives a 7 percent fee on all Alliance's costs (indirect and direct) incurred for the DFID Project. The amount due from DCL for unreimbursed costs, including the fee at December 31, 2014 and 2013 is \$141,298 and \$921,218, respectively, and is included in accounts receivable on the consolidated statements of financial position. Revenue related to the DFID Project is included in subcontract revenue on the consolidated statements of activities and change in net assets.

The Alliance received the following in-kind contributions from DCL:

	<u>Year Ended December 31,</u>	
	<u>2014</u>	<u>2013</u>
Program Management, Rent and Shared Services	\$ 907,854	\$ 1,003,982
Production of Video Programs	486,225	500,799
	<u>\$ 1,394,079</u>	<u>\$ 1,504,781</u>

NOTE 6 – IN-KIND CONTRIBUTIONS

In addition to the in-kind contributions that were received from DCL (Note 5), the Alliance received in-kind contributions for legal services from other vendors. For the years ended December 31, 2014 and 2013, these contributions totaled approximately \$90,000 each year. The majority of these contributions are reflected as part of general administration for the years ended December 31, 2014 and 2013.

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 \$29,181 and \$15,472 for the years ended December 31, 2014 and 2013, respectively.

DISCOVERY LEARNING ALLIANCE, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013

NOTE 8 – LINE OF CREDIT

The Alliance obtained a \$500,000 line of credit in October 2013. In September 2014, the Alliance signed a note modification agreement which extended the line of credit through October 10, 2015. The line of credit bears interest at the bank's prime rate or 3.25 percent. Beginning November 10, 2014, the Alliance is required to pay monthly payments of interest and all of the outstanding interest and principal is due on October 10, 2015. The line of credit is secured by the Alliance's investments. As of December 31, 2014 and 2013, the line of credit had no outstanding balance.

NOTE 9 – 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, 2014 and 2013 is as follows:

	Fair Value	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)
<u>December 31, 2014</u>				
Assets:				
Corporate Bonds	\$ 1,897,084	\$ -	\$ 1,897,084	\$ -
Government and Agency Bonds	<u>1,616,713</u>	<u>-</u>	<u>1,616,713</u>	<u>-</u>
	<u>\$ 3,513,797</u>	<u>\$ -</u>	<u>\$ 3,513,797</u>	<u>\$ -</u>
<u>December 31, 2013</u>				
Assets:				
Corporate Bonds	\$ 2,084,713	\$ -	\$ 2,084,713	\$ -
Government and Agency Bonds	<u>1,415,315</u>	<u>-</u>	<u>1,415,315</u>	<u>-</u>
	<u>\$ 3,500,028</u>	<u>\$ -</u>	<u>\$ 3,500,028</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.

DISCOVERY LEARNING ALLIANCE, INC. AND AFFILIATE
CONSOLIDATED SUPPLEMENTARY INFORMATION
YEARS ENDED DECEMBER 31, 2014 AND 2013

Independent Auditors' Report on Consolidated 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 year ended December 31, 2014, and our report thereon dated May 21, 2015, which expressed an unmodified opinion on those consolidated financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated schedules of program services and the schedule of activity for discovery girls project are presented for the purposes of additional analysis and are 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. The 2013 schedule of program services was subjected to the auditing procedures applied in the December 31, 2013 audit of the basic consolidated financial statements by other auditors, whose report on such information stated that it was fairly stated in all material respects in relation to the December 31, 2013 consolidated financial statements as a whole.



Bethesda, Maryland
May 21, 2015

DISCOVERY LEARNING ALLIANCE, INC. AND AFFILIATE

CONSOLIDATED SCHEDULES OF PROGRAM SERVICES

	Year Ended December 31,	
	2014	2013
Direct Programs:		
USA	\$ 196,523	\$ 486,400
Latin America		
Brazil	-	41,572
Total Latin America	-	41,572
North Africa		
Egypt	-	134,487
Morocco	2,725	169,206
Total North Africa	2,725	303,693
Southern Africa		
Angola	-	32,705
Namibia	-	1,594
South Africa	46,928	114,447
South Africa – Special Production	108,838	215,323
Total Southern Africa	155,766	364,069
East Africa		
Uganda	-	7,259
Kenya	2,557,618	538,568
Total East Africa	2,557,618	545,827
West Africa		
Ghana	2,209,002	305,370
Nigeria	3,050,817	601,770
Total West Africa	5,259,819	907,140
Direct Program Totals	8,172,451	2,648,701
Indirect Programs:		
Program Development	145,912	115,415
Video Production	910,213	643,835
Indirect Program Totals	1,056,125	759,250
Totals	\$ 9,228,576	\$ 3,407,951

DISCOVERY LEARNING ALLIANCE, INC. AND AFFILIATE

SCHEDULE OF ACTIVITY FOR DISCOVERY GIRLS PROJECT

YEAR ENDED DECEMBER 31, 2014

	DFID Spend Ghana	DFID Spend Kenya	DFID Spend Nigeria	Total DFID Spend	LP Match Ghana	LP Match Kenya	LP Match Nigeria	Total LP Match	2014 Total
Fees Local									
Training Staff	\$ 172,180	\$ 375,492	\$ 315,801	\$ 863,473	-	\$ -	\$ -	\$ -	\$ 863,473
Office Staff	49,380	128,517	109,830	287,727	-	-	-	-	287,727
Production Fees	346,480	305,665	486,802	1,138,947	-	-	-	-	1,138,947
Total Fees Local	568,040	809,674	912,433	2,290,147	-	-	-	-	2,290,147
Fees International									
HQ Staff	106,273	34,081	121,724	262,078	232,627	357,134	236,428	826,189	1,088,267
Production Fees	29,270	29,270	29,270	87,810	-	-	-	-	87,810
Evaluation Fees	352,543	356,520	354,646	1,063,709	-	-	-	-	1,063,709
Security Fees	17,647	18,933	20,694	57,274	-	-	-	-	57,274
Total Fees International	505,733	438,804	526,334	1,470,871	232,627	357,134	236,428	826,189	2,297,060
IT and Office Equipment									
Office Equipment Purchases	40,117	57,175	44,390	141,682	-	-	-	-	141,682
Office Equipment Repairs	469	53	3,737	4,259	-	-	-	-	4,259
Total IT and Office Supplies	40,586	57,228	48,127	145,941	-	-	-	-	145,941
Travel – Local									
Domestic Travel	76,439	58,445	67,882	202,766	-	-	-	-	202,766
Travel – International									
International Travel	34,001	35,647	42,198	111,846	-	-	-	-	111,846
Hotel and Subsistence									
Hotel, Accommodation and Sustenance Domestic	7,781	4,806	10,993	23,580	-	-	-	-	23,580
Hotel, Accommodation and Sustenance International	43,277	59,577	38,262	141,116	-	-	-	-	141,116
Total Hotel and Subsistence	51,058	64,383	49,255	164,696	-	-	-	-	164,696
Education Supplies									
LC Equipment Purchase and Installation	12,581	11,137	10,705	34,423	301,902	174,643	277,953	754,498	788,921
LC Equipment Maintenance	-	1,588	899	2,487	-	-	-	-	2,487
Video Program Duplication	37,763	25,307	37,930	101,000	-	-	-	-	101,000
Video Program Distribution	61,663	40,955	40,539	143,157	-	-	-	-	143,157
Video Library	-	-	-	-	601,839	455,409	559,436	1,616,684	1,616,684
Total Education Supplies	112,007	78,987	90,073	281,067	903,741	630,052	837,389	2,371,182	2,652,249
Training Material Costs									
Workshop Venue and Catering	116,730	143,519	115,517	375,766	-	-	-	-	375,766
Workshop Materials and Supplies	17,596	51,887	23,421	92,904	-	-	-	-	92,904
Workshop Travel	67,294	149,183	195,774	412,251	-	-	-	-	412,251
Curricular Mapping	-	9,115	34	9,149	-	-	-	-	9,149
Total Training Material Costs	201,620	353,704	334,746	890,070	-	-	-	-	890,070
Overhead									
Audit Fees	4,326	6,198	4,419	14,943	-	-	-	-	14,943
Legal Fees	-	1,375	2,524	3,899	-	-	-	-	3,899
Office Supplies and Expenses	10,430	9,066	10,445	29,941	-	-	-	-	29,941
Rent and Utilities	21,338	57,988	49,608	128,934	3,356	3,356	3,356	10,068	139,002
HQ Shared Services	-	-	-	-	16,122	16,122	16,123	48,367	48,367
Bank Fees	501	3,127	368	3,996	-	-	-	-	3,996
Postage/Shipping and Courier	1,035	2,879	2,215	6,129	-	-	-	-	6,129
Telephone/Fax/Internet	6,542	20,327	12,480	39,349	-	-	-	-	39,349
Recruiting	68	164	140	372	-	-	-	-	372
Photocopy and Printing	1,652	1,282	2,700	5,634	-	-	-	-	5,634
Project Photography	-	-	19	19	-	-	-	-	19
Total Overhead	45,892	102,406	84,918	233,216	19,478	19,478	19,479	58,435	291,651
Total Direct Expenses	1,635,376	1,999,278	2,155,966	5,790,620	1,155,846	1,006,664	1,093,296	3,255,806	9,046,426
Indirect Expenses (7%)	114,476	139,949	150,918	405,343	80,909	70,466	76,531	227,906	633,249
Total Expenses	\$ 1,749,852	\$ 2,139,227	\$ 2,306,884	\$ 6,195,963	\$ 1,236,755	\$ 1,077,130	\$ 1,169,827	\$ 3,483,712	\$ 9,679,675

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