

Discovery Learning Alliance, Inc. and Affiliates

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

December 31, 2015 and 2014

COHN  REZNICK
ACCOUNTING • TAX • ADVISORY

Discovery Learning Alliance, Inc. and Affiliates

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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 Affiliates (the "Alliance"), which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, the related consolidated statements of activities and change in net assets, consolidated statement of functional expenses and consolidated statement 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 Affiliates as of December 31, 2015 and 2014, and the change in their consolidated net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Bethesda, Maryland
August 1, 2016

Discovery Learning Alliance, Inc. and Affiliates

**Consolidated Statements of Financial Position
December 2015 and 2014**

	<u>Assets</u>	
	2015	2014
Current assets		
Cash and cash equivalents	\$ 2,270,753	\$ 2,959,296
Investments	3,769,015	3,513,797
Accounts receivable	245,340	147,882
Contributions and grants receivable	2,236,227	1,692,749
Advances	16,225	6,479
Prepaid expenses	21,075	46,225
Deposits	443,768	536,070
Total current assets	9,002,403	8,902,498
Equipment, at cost		
Equipment	54,770	76,120
Less: accumulated depreciation	(26,645)	(47,369)
	28,125	28,751
Long-term asset		
Contributions and grants receivable, net of current portion	-	829,114
	\$ 9,030,528	\$ 9,760,363
	<u>Liabilities and Net Assets</u>	
Current liabilities		
Accounts payable and accrued expenses	\$ 280,731	\$ 322,188
Deferred revenue	8,484	-
Refundable advance	456,290	952,328
Total current liabilities	745,505	1,274,516
Net assets		
Unrestricted		
Operating	3,655,060	4,029,292
Board designated - operating reserve	425,000	425,000
Total unrestricted	4,080,060	4,454,292
Temporarily restricted	4,204,963	4,031,555
Total net assets	8,285,023	8,485,847
	\$ 9,030,528	\$ 9,760,363

See Notes to Consolidated Financial Statements.

Discovery Learning Alliance, Inc. and Affiliates

**Consolidated Statements of Activities and Change in Net Assets
Years Ended December 2015 and 2014**

	2015			2014		
	Unrestricted	Temporarily restricted	Total	Unrestricted	Temporarily restricted	Total
Revenue and support						
Contributions and grants	\$ 1,850	\$ 1,682,225	\$ 1,684,075	\$ 1,020	\$ 330,000	\$ 331,020
Foundation grants	39	-	39	5,600	-	5,600
Subcontract revenue	6,471,602	-	6,471,602	6,423,874	-	6,423,874
Contract revenue	139,310	-	139,310	-	-	-
Discount on multi-year contributions and grants	-	24,873	24,873	-	63,782	63,782
In-kind contributions	1,094,141	395,410	1,489,551	942,203	541,592	1,483,795
Investment income	38,015	23	38,038	38,954	127	39,081
Other income (loss)	(308,202)	(24,537)	(332,739)	32,248	(44,443)	(12,195)
Net assets released from restrictions	1,904,586	(1,904,586)	-	2,389,970	(2,389,970)	-
Total revenue and support	9,341,341	173,408	9,514,749	9,833,869	(1,498,912)	8,334,957
Expenses						
Program services	8,040,666	-	8,040,666	9,228,576	-	9,228,576
General administration	1,631,694	-	1,631,694	1,184,300	-	1,184,300
Fundraising	43,213	-	43,213	7,481	-	7,481
Total expenses	9,715,573	-	9,715,573	10,420,357	-	10,420,357
Change in net assets	(374,232)	173,408	(200,824)	(586,488)	(1,498,912)	(2,085,400)
Net assets, beginning of year	4,454,292	4,031,555	8,485,847	5,040,780	5,530,467	10,571,247
Net assets, end of year	<u>\$ 4,080,060</u>	<u>\$ 4,204,963</u>	<u>\$ 8,285,023</u>	<u>\$ 4,454,292</u>	<u>\$ 4,031,555</u>	<u>\$ 8,485,847</u>

See Notes to Consolidated Financial Statements.

Discovery Learning Alliance, Inc. and Affiliates

**Consolidated Statement of Functional Expenses
Year Ended December 31, 2015**

	<u>Program services</u>	<u>General administration</u>	<u>Fundraising</u>	<u>Total expenses</u>
Consultants	\$ 2,645,393	\$ 90,781	\$ 29,967	\$ 2,766,141
Production of video programs	1,453,001	-	-	1,453,001
Salaries	459,909	604,393	-	1,064,302
Travel	980,203	56,255	6,571	1,043,029
Equipment purchase and maintenance	831,245	21	-	831,266
Conferences, meetings and training	705,658	4,287	-	709,945
In-kind program management	419,251	210,138	5,918	635,307
Rent	83,925	184,988	-	268,913
Payroll taxes and benefits	83,222	114,701	-	197,923
Legal fees	3,238	138,609	-	141,847
Postage and shipping	136,501	595	-	137,096
Office supplies and expenses	81,857	36,881	-	118,738
Accounting fees	68,313	45,456	-	113,769
Telephone and internet	75,607	11,632	-	87,239
Insurance	-	60,350	-	60,350
Bank fees	5,208	29,049	757	35,014
Dues and memberships	584	26,782	-	27,366
Printing, publications and website	7,551	7,401	-	14,952
Depreciation	-	9,375	-	9,375
	<u>\$ 8,040,666</u>	<u>\$ 1,631,694</u>	<u>\$ 43,213</u>	<u>\$ 9,715,573</u>

See Notes to Consolidated Financial Statements.

Discovery Learning Alliance, Inc. and Affiliates

**Consolidated Statement of Functional Expenses
Year Ended December 31, 2014**

	Program services	General administration	Fundraising	Total expenses
Consultants	\$ 2,769,543	\$ 22,584	\$ 1,050	\$ 2,793,177
Production of video programs	2,372,674	5,918	-	2,378,592
Travel	1,000,776	15,645	48	1,016,469
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>\$ 9,228,576</u>	<u>\$ 1,184,300</u>	<u>\$ 7,481</u>	<u>\$ 10,420,357</u>
Total expenses	<u>\$ 9,228,576</u>	<u>\$ 1,184,300</u>	<u>\$ 7,481</u>	<u>\$ 10,420,357</u>

See Notes to Consolidated Financial Statements.

Discovery Learning Alliance, Inc. and Affiliates

**Consolidated Statements of Cash Flows
Years Ended December 31, 2015 and 2014**

	2015	2014
Cash flows from operating activities		
Change in net assets	\$ (200,824)	\$ (2,085,400)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	9,375	105
Unrealized (gain) loss on investments	9,949	(8,820)
Realized (gain) loss on investments	(1,076)	(4,092)
Amortization of bond premiums, net	45,294	72,057
Decrease in discount on contributions and grants receivable	(24,873)	(63,782)
Changes in:		
Accounts receivable	(97,458)	828,704
Contributions and grants receivable	310,509	1,871,853
Advances	(9,746)	(1,469)
Prepaid expenses	25,150	(37,950)
Deposits	92,302	(271,344)
Accounts payable and accrued expenses	(41,457)	145,183
Deferred revenue	8,484	-
Refundable advance	(496,038)	675,661
Net cash provided by (used in) operating activities	(370,409)	1,120,706
Cash flows from investing activities		
Proceeds from redemptions/sales of investments	2,808,777	1,367,124
Purchases of investments	(3,118,162)	(1,440,038)
Purchases of equipment	(8,749)	(11,250)
Net cash used in investing activities	(318,134)	(84,164)
Net (decrease) increase in cash and cash equivalents	(688,543)	1,036,542
Cash and cash equivalents, beginning of year	2,959,296	1,922,754
Cash and cash equivalents, end of year	\$ 2,270,753	\$ 2,959,296

See Notes to Consolidated Financial Statements.

Discovery Learning Alliance, Inc. and Affiliates

Notes to Consolidated Financial Statements December 31, 2015 and 2014

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 ("Ocean Spray"), a for-profit, South African Company organized in July 2010, whose sole purpose is to produce, test and distribute *Inside Story*. DLA has a controlling financial interest in Ocean Spray through an agreement to manage Ocean Spray and the requirement to fund all costs of *Inside Story* and losses of Ocean Spray. 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 *Inside Story* or losses of Ocean Spray. There is no expectation that *Inside Story* 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 Ocean Spray, 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 Ocean Spray. Therefore, 100 percent of all financial activity related to *Inside Story* is consolidated by DLA without allocating a share of the losses to the 51 percent owner. Ocean Spray was transitioned to a dormant state in February 2016 and official deregistration will be finalized after the required 3-6 month processing period.

In October 2015, DLA became a 49 percent owner of another 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"). DLA has a controlling financial interest in Inside TB through an agreement to manage Inside TB and the requirement to fund all costs of the Movie and losses of Inside TB. 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 Inside TB. 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 Inside TB, 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 Inside TB. 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, Ocean Spray Trading 49 ("PTY") LTD and Inside TB ("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 Affiliates

Notes to Consolidated Financial Statements December 31, 2015 and 2014

Interest in affiliates

DLA and Ocean Spray entered into an agreement for professional services in connection with the planning and production of the film, *Inside Story: The Science of HIV/AIDS* ("Inside Story"). Ocean Spray retains copyright of the Inside Story, 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 fiscal years ended December 31, 2015 and 2014, DLA provided \$0 in capital contributions to fund the costs of the Movie. Ocean Spray had no activity in 2015 or 2014.

DLA and Inside TB entered into an agreement for professional services in connection with the planning and production of the film, *The Lucky Specials* (the "Movie"). Inside TB 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 fiscal years ended December 31, 2015 and 2014, DLA provided \$0 in capital contributions to fund the costs of the Movie. Inside TB had no activity in 2015 or 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, 2015 and 2014, 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 \$348,763 and \$15,215, respectively, 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, 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 value of

Discovery Learning Alliance, Inc. and Affiliates

Notes to Consolidated Financial Statements December 31, 2015 and 2014

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, 2015 and 2014, capitalized website development costs totaled \$37,500 and \$30,100, respectively. Amortization expense was \$9,375 and \$0 in 2015 and 2014, respectively. Total accumulated amortization at December 31, 2015 and 2014 was \$9,375 and \$30,100, respectively. Future amortization expense is expected to be \$12,500 for the years ended December 31, 2016 and 2017, and \$3,125 for the year ended 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, 2015 and 2014. Ocean Spray Trading 49 ("PTY") LTD and Inside TB ("PTY") LTD are both 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, 2015 and 2014.

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, 2015 and 2014. Tax years prior to 2012 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 of 3.00 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, 2015 and 2014, all receivables are considered to be fully collectible, and, as such,

Discovery Learning Alliance, Inc. and Affiliates

Notes to Consolidated Financial Statements December 31, 2015 and 2014

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, 2015 and 2014.

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.

Discovery Learning Alliance, Inc. and Affiliates

Notes to Consolidated Financial Statements December 31, 2015 and 2014

Concentration of revenue

Including in-kind contributions, the Alliance derived approximately 84 percent and 98 percent of its revenue from Discovery Communications, LLC ("DCL") for the years ended December 31, 2015 and 2014, respectively. DCL also accounted for 42 percent and 79 percent of the Alliance's accounts, grants and contributions receivable as of December 31, 2015 and 2014, respectively.

Subsequent events

The Alliance has evaluated events and transactions for potential recognition or disclosure through August 1, 2016, the date the consolidated financial statements were available to be issued.

Reclassifications

Certain reclassifications have been made to 2014 amounts to conform to the 2015 presentation.

Note 2 - Investments

Investments consist of fixed income securities as follows:

	December 31,	
	2015	2014
Corporate bonds	\$ 2,096,950	\$ 1,897,084
Government and agency bonds	1,672,065	1,616,713
	<u>\$ 3,769,015</u>	<u>\$ 3,513,797</u>

Investment income consists of:

	Year Ended December 31,	
	2015	2014
Interest and dividend income	\$ 46,911	\$ 26,169
Realized gain on investments	1,076	4,092
Unrealized gain (loss) on investments	(9,949)	8,820
	<u>\$ 38,038</u>	<u>\$ 39,081</u>

Note 3 - Contributions and grants receivable

Contributions and grants receivable are collectible through 2016 and have been discounted at a risk-adjusted rate of 3.00 percent to record the present value of the pledges to be received as of December 31, 2015 and 2014, respectively.

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**Notes to Consolidated Financial Statements
December 31, 2015 and 2014**

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

	December 31,	
	2015	2014
Receivable in less than one year	\$ 2,236,227	\$ 1,692,749
Receivable in one to five years	-	853,987
Total contributions and grants receivable	2,236,227	2,546,736
Less: discount to net present value	-	(24,873)
Net contributions and grants receivable	2,236,227	2,521,863
Less: current portion	2,236,227	1,692,749
Long-term contributions and grants receivable	\$ -	\$ 829,114

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:

	December 31,	
	2015	2014
Time restrictions		
DCL Pledge	\$ 853,987	\$ 1,350,162
DCL - Supervising Producer	130,000	-
Program restrictions:		
CCAF Africa Education Initiative	-	15,257
Chevron Nigeria Limited	617,993	812,741
Discovery Girls	502,002	988,748
Shell Petroleum Development Nigeria	601,133	864,647
Inside TB	1,499,848	-
	\$ 4,204,963	\$ 4,031,555

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**Notes to Consolidated Financial Statements
December 31, 2015 and 2014**

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>2015</u>	<u>2014</u>
Time Restrictions		
DCL Pledge	\$ 521,048	\$ 198,297
DCL - Supervising Producer	52,000	-
Program Restrictions:		
CCAF Africa Education Initiative	15,257	166,396
Chevron Brazil/South Africa Education Initiative	-	14,172
Chevon USA	-	27,498
Chevron Nigeria Limited	183,861	140,005
Discovery Girls	882,156	1,630,384
Shell Petroleum Development Nigeria	249,888	213,218
Inside TB	376	-
	<u>\$ 1,904,586</u>	<u>\$ 2,389,970</u>

Board designated net assets consist of an operating reserve fund of \$425,000 at December 31, 2015 and 2014.

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, 2015, DCL has committed to providing \$983,987 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 \$1,126,269 and \$1,289,559 for the years ended December 31, 2015 and 2014, 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, 2015 and 2014 was \$456,290 and \$952,328, 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, 2015 and 2014 is \$189,645 and \$141,298, 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.

Discovery Learning Alliance, Inc. and Affiliates

Notes to Consolidated Financial Statements December 31, 2015 and 2014

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

	Year Ended December 31,	
	2015	2014
Program management, rent and shared services	\$ 850,386	\$ 907,854
Production of video programs	505,822	486,225
	<u>\$ 1,356,208</u>	<u>\$ 1,394,079</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, 2015 and 2014, these contributions totaled approximately \$133,000 and \$90,000, respectively. The majority of these contributions are reflected as part of general administration for the years ended December 31, 2015 and 2014.

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 \$41,159 and \$29,181 for the years ended December 31, 2015 and 2014, respectively.

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 bore interest at the bank's prime rate or 3.25 percent. Beginning November 10, 2014, the Alliance was required to pay monthly payments of interest and all of the outstanding interest and principal was due on October 10, 2015. The line of credit was secured by the Alliance's investments. The line of credit was not renewed in 2015. As of December 31, 2015 and 2014, the line of credit had no outstanding balance.

Discovery Learning Alliance, Inc. and Affiliates

**Notes to Consolidated Financial Statements
December 31, 2015 and 2014**

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, 2015 and 2014 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, 2015</u>				
Assets:				
Corporate bonds	\$ 2,096,950	\$ -	\$ 2,096,950	\$ -
Government and agency bonds	1,672,065	-	1,672,065	-
	<u>\$ 3,769,015</u>	<u>\$ -</u>	<u>\$ 3,769,015</u>	<u>\$ -</u>
<u>December 31, 2014</u>				
Assets:				
Corporate bonds	\$ 1,897,084	\$ -	\$ 1,897,084	\$ -
Government and agency bonds	1,616,713	-	1,616,713	-
	<u>\$ 3,513,797</u>	<u>\$ -</u>	<u>\$ 3,513,797</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 Affiliates
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, 2015 and 2014, and our report thereon dated August 1, 2016, which expressed an unmodified opinion on those consolidated financial statements, appears on page 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of activity for Discovery Girls Project 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
August 1, 2016

Discovery Learning Alliance, Inc. and Affiliates

Schedule of Activity for Discovery Girls Project Year Ended December 31, 2015

	DFID Spend Ghana	DFID Spend Kenya	DFID Spend Nigeria	Total DFID Spend	LP Match Ghana	LP Match Kenya	LP Match Nigeria	Total LP Match	2015 Total
Fees Local									
Accounting Fees	\$ 13,590	\$ -	\$ 7,937	\$ 21,527	\$ -	\$ -	\$ -	\$ -	\$ 21,527
Management Fees	23,618	125,093	50,763	199,474	-	-	-	-	199,474
Project Directors	35,630	62,039	73,666	171,335	-	-	-	-	171,335
Training and Outreach Managers	24,259	37,504	31,458	93,221	-	-	-	-	93,221
Girl's Club Coordinators	11,919	23,158	-	35,077	-	-	-	-	35,077
Community Action Mobilizers	23,059	45,967	88,368	157,394	-	-	-	-	157,394
Procurement and Logistics Coordinators	7,839	13,284	13,283	34,406	-	-	-	-	34,406
Office Administrators	5,809	11,661	11,869	29,339	-	-	-	-	29,339
Talent	46,467	88,954	117,792	253,213	-	-	-	-	253,213
Trainers	117,339	250,523	216,835	584,697	-	-	-	-	584,697
Contracted Training Staff	-	45,608	-	45,608	-	-	-	-	45,608
Consulting-Curricular Mapping	6,000	13,070	34,600	53,670	-	-	-	-	53,670
Drivers	7,484	4,758	13,750	25,992	-	-	-	-	25,992
Director	2,299	6,126	5,391	13,816	-	-	-	-	13,816
Producer's Unit	25,881	46,352	49,262	121,495	-	-	-	-	121,495
Video and Audio Production	10,793	15,069	15,962	41,824	-	-	-	-	41,824
Outside Production Costs	16,683	21,553	58,583	96,819	-	-	-	-	96,819
Total Fees Local	378,669	810,719	789,519	1,978,907	-	-	-	-	1,978,907
Fees International									
Wages, Taxes and Benefits	129,859	56,154	138,746	324,759	31,218	26,656	27,589	85,463	410,222
HQ Project Management	-	-	-	-	108,398	120,405	136,518	365,321	365,321
Regional Management	-	161	-	161	69,244	163,232	46,511	278,987	279,148
Producer	23,264	23,264	23,265	69,793	-	-	-	-	69,793
Consulting Evaluations	217,066	219,959	218,886	655,911	-	-	-	-	655,911
Consulting	4,751	4,751	4,751	14,253	-	-	-	-	14,253
Evaluations General Expenses	167	316	317	800	-	-	-	-	800
Security	14,669	28,097	24,759	67,525	-	-	-	-	67,525
Total Fees International	389,776	332,702	410,724	1,133,202	208,860	310,293	210,618	729,771	1,862,973
IT and Office Equipment									
Office Equipment Purchase	24,930	16,274	10,099	51,303	-	-	-	-	51,303
Office Repairs and Maintenance	484	193	879	1,556	-	-	-	-	1,556
Total IT and Office Equipment	25,414	16,467	10,978	52,859	-	-	-	-	52,859
Travel - Local									
Domestic Travel	8,143	6,222	14,486	28,851	-	-	-	-	28,851
Auto Lease Expense	26,044	40,167	51,144	117,355	-	-	-	-	117,355
Auto Fuel Expense	11,179	5,907	5,825	22,911	-	-	-	-	22,911
Auto Repair Expense	6,843	-	209	7,052	-	-	-	-	7,052
Total Travel - Local	52,209	52,296	71,664	176,169	-	-	-	-	176,169
Travel - International									
International Travel	24,508	21,426	35,676	81,610	-	-	-	-	81,610
Hotel and Sustenance									
Hotel and Accommodation Domestic	388	5,868	7,664	13,920	-	-	-	-	13,920
Hotel and Accommodation International	16,763	32,201	16,685	65,649	-	-	10,712	10,712	76,361
Meals and per diem Domestic	1,073	1,800	4,935	7,808	-	-	-	-	7,808
Meals and per diem International	9,064	20,120	16,731	45,915	-	-	6,079	6,079	51,994
Total Hotel and Sustenance	27,288	59,989	46,015	133,292	-	-	16,791	16,791	150,083

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

Discovery Learning Alliance, Inc. and Affiliates

Schedule of Activity for Discovery Girls Project Year Ended December 31, 2015

	DFID Spend Ghana	DFID Spend Kenya	DFID Spend Nigeria	Total DFID Spend	LP Match Ghana	LP Match Kenya	LP Match Nigeria	Total LP Match	2015 Total
Education Supplies									
LC Equipment Purchase	\$ 264,215	\$ 142,173	\$ 262,808	\$ 669,196	\$ 85,098	\$ 10,347	\$ 10,047	\$ 105,492	\$ 774,688
Video Library	-	-	-	-	872,626	764,812	722,513	2,359,951	2,359,951
LC Equipment Delivery and Installation	5,266	10,351	4,774	20,391	-	-	-	-	20,391
LC Equipment Maintenance	12	439	88	539	-	-	-	-	539
Video Program Duplication and Replication	36,096	24,127	44,502	104,725	-	-	-	-	104,725
Video Program Distribution/Shipping	38,543	33,689	49,696	121,928	-	-	-	-	121,928
Total Education Supplies	344,132	210,779	361,868	916,779	957,724	775,159	732,560	2,465,443	3,382,222
Training Material Costs									
Workshop Venue and Catering	214,893	167,331	153,551	535,775	-	-	-	-	535,775
Workshop Materials and Supplies	41,649	52,787	23,531	117,967	-	-	-	-	117,967
Staff Workshop Travel	17,432	97,166	50,931	165,529	-	-	-	-	165,529
Participant Workshop Travel	119,422	115,537	88,782	323,741	-	-	-	-	323,741
Curricular Mapping	-	8,443	-	8,443	-	-	-	-	8,443
Total Training Material Costs	393,396	441,264	316,795	1,151,455	-	-	-	-	1,151,455
Overheads									
Audit Fees	19,447	18,985	7,137	45,569	-	-	-	-	45,569
Legal Fees	-	-	2,946	2,946	-	-	-	-	2,946
Office Supplies and Expenses	4,098	6,730	7,344	18,172	-	-	-	-	18,172
Rent and Utilities	8,309	34,187	11,339	53,835	3,191	3,191	3,191	9,573	63,408
HQ Shared Services	-	-	-	-	6,839	6,839	6,839	20,517	20,517
Bank Fees	539	3,724	643	4,906	3	9	-	12	4,918
Postage/Shipping and Courier	2,900	1,870	2,536	7,306	-	-	-	-	7,306
Telephone/Fax/Internet	8,515	29,934	26,686	65,135	-	-	-	-	65,135
Dues and Memberships	111	111	111	333	-	-	-	-	333
Recruiting	440	10	621	1,071	-	-	-	-	1,071
Photocopy and Printing	743	1,580	5,019	7,342	-	-	-	-	7,342
Project Photography	2,103	-	3,135	5,238	-	-	-	-	5,238
Total Overheads	47,205	97,131	67,517	211,853	10,033	10,039	10,030	30,102	241,955
Total Direct Expenses	1,682,597	2,042,773	2,110,756	5,836,126	1,176,617	1,095,491	969,999	3,242,107	9,078,233
Indirect Costs (7%)	117,782	142,994	147,753	408,529	82,363	76,684	67,900	226,947	635,476
Total expenses	\$ 1,800,379	\$ 2,185,767	\$ 2,258,509	\$ 6,244,655	\$ 1,258,980	\$ 1,172,175	\$ 1,037,899	\$ 3,469,054	\$ 9,713,709

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.

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