

Discovery Learning Alliance, Inc.

CONSOLIDATED FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
AND INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2013 AND 2012

WATKINS | MEEGAN

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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. (the Alliance), which comprise the consolidated statements of financial position as of December 31, 2013 and 2012, 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.

Auditors' 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 audits 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. as of December 31, 2013 and 2012, and the change in their consolidated net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Bethesda, Maryland
June 18, 2014

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

<u>ASSETS</u>	December 31,	
	2013	2012
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,922,754	\$ 2,455,607
Investments	3,500,028	3,833,944
Accounts Receivable	976,586	36,545
Contributions and Grants Receivable	2,357,953	1,598,090
Advances	5,010	1,032
Prepaid Expenses	8,275	-
Deposits	264,726	315,393
Total Current Assets	9,035,332	8,240,611
EQUIPMENT, at Cost		
Equipment	64,870	47,370
Less: Accumulated Depreciation	(47,264)	(46,164)
	17,606	1,206
LONG-TERM ASSET		
Contributions and Grants Receivable, Net of Current Portion	1,971,981	2,322,086
	\$ 11,024,919	\$ 10,563,903
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 177,005	\$ 58,175
Deferred Revenue	-	59,548
Refundable Advance	276,667	-
Total Current Liabilities	453,672	117,723
NET ASSETS		
Unrestricted		
Operating	4,615,780	3,967,706
Board Designated – Operating Reserve	425,000	-
Total Unrestricted	5,040,780	3,967,706
Temporarily Restricted	5,530,467	6,478,474
Total Net Assets	10,571,247	10,446,180
	\$ 11,024,919	\$ 10,563,903

DISCOVERY LEARNING ALLIANCE, INC. AND AFFILIATE

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS

	Year Ended December 31,					
	2013			2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT						
Contributions and Grants	\$ 27,446	\$ 1,589,212	\$ 1,616,658	\$ 60,449	\$ 34,637	\$ 95,086
Foundation Grants	25,000	-	25,000	19,900	100,000	119,900
Subcontract Revenue	1,144,551	-	1,144,551	-	-	-
Contracts	104,947	-	104,947	39,002	-	39,002
Discount on Multi-Year Contributions and Grants	-	53,947	53,947	-	111,799	111,799
In-Kind Contributions	1,595,058	-	1,595,058	1,462,587	19,111	1,481,698
Investment Income	10,436	12,322	22,758	44,006	38,804	82,810
Other Income (Loss)	15,611	(16,722)	(1,111)	33,152	17,929	51,081
Net Assets Released from Restrictions	2,586,766	(2,586,766)	-	3,251,089	(3,251,089)	-
Total Revenue and Support	5,509,815	(948,007)	4,561,808	4,910,185	(2,928,809)	1,981,376
EXPENSES						
Program Services	3,407,951	-	3,407,951	3,359,194	-	3,359,194
General Administration	910,559	-	910,559	772,559	-	772,559
Fundraising	118,231	-	118,231	87,879	-	87,879
Total Expenses	4,436,741	-	4,436,741	4,219,632	-	4,219,632
CHANGE IN NET ASSETS	1,073,074	(948,007)	125,067	690,553	(2,928,809)	(2,238,256)
NET ASSETS, Beginning of Year	3,967,706	6,478,474	10,446,180	3,277,153	9,407,283	12,684,436
NET ASSETS, End of Year	\$ 5,040,780	\$ 5,530,467	\$ 10,571,247	\$ 3,967,706	\$ 6,478,474	\$ 10,446,180

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

	<u>Program Sevices</u>	<u>General Administration</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Consultants	\$ 1,018,920	\$ 52,748	\$ 66,298	\$ 1,137,966
In-Kind Program Management	764,847	99,062	22,013	885,922
Production of Video Programs	673,617	-	-	673,617
Salaries	235,882	314,350	10,413	560,645
Travel	349,059	30,535	16,865	396,459
Rent	40,415	79,904	-	120,319
Office Supplies and Expenses	73,419	29,675	159	103,253
Legal Fees	6,215	93,121	-	99,336
Payroll Taxes and Benefits	36,785	55,883	958	93,626
Conferences, Meetings and Training	90,020	-	235	90,255
Printing, Publications and Web Site	25,935	38,955	-	64,890
Telephone and Internet	25,839	28,735	93	54,667
Accounting Fees	3,760	41,108	385	45,253
Equipment Purchase and Maintenance	29,375	2,870	-	32,245
Bank Fees	7,008	21,570	603	29,181
Insurance	4,274	19,384	-	23,658
Postage and Shipping	13,186	1,120	209	14,515
Special Events	9,395	-	-	9,395
Depreciation	-	1,100	-	1,100
Board Expenses	-	439	-	439
Dues and Memberships	-	-	-	-
	<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 STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2012

	<u>Program Services</u>	<u>General Administration</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Consultants	\$ 850,637	\$ 50,355	\$ 49,000	\$ 949,992
In-Kind Program Management	692,023	100,551	37,706	830,280
Production of Video Programs	676,211	885	-	677,096
Salaries	191,582	242,882	-	434,464
Travel	322,616	68,739	48	391,403
Rent	41,986	72,695	-	114,681
Office Supplies and Expenses	64,635	43,896	-	108,531
Legal Fees	10,433	34,804	-	45,237
Payroll Taxes and Benefits	32,295	51,966	-	84,261
Conferences, Meetings and Training	214,857	5,067	-	219,924
Printing, Publications and Web Site	53,656	2,309	-	55,965
Telephone and Internet	28,770	11,476	180	40,426
Accounting Fees	30,394	32,072	405	62,871
Equipment Purchase and Maintenance	56,416	-	-	56,416
Bank Fees	20,570	12,716	499	33,785
Insurance	-	14,751	-	14,751
Postage and Shipping	14,903	876	41	15,820
Special Events	57,210	-	-	57,210
Depreciation	-	1,100	-	1,100
Board Expenses	-	419	-	419
Dues and Memberships	-	25,000	-	25,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Expenses	<u>\$ 3,359,194</u>	<u>\$ 772,559</u>	<u>\$ 87,879</u>	<u>\$ 4,219,632</u>

DISCOVERY LEARNING ALLIANCE, INC. AND AFFILIATE

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 125,067	\$ (2,238,256)
Adjustments to Reconcile Change in Net Assets to Net Cash Used in Operating Activities		
Depreciation	1,100	1,100
Unrealized (Gain) Loss on Investments	51,715	(5,913)
Realized Loss on Investments	19,961	33,626
Decrease in Discount on Contributions and Grants Receivable	(53,947)	(111,799)
Changes in:		
Accounts Receivable	(940,041)	178,021
Contributions and Grants Receivable	(355,811)	1,212,329
Advances	(3,978)	12,371
Prepaid Expenses	(8,275)	8,743
Deposits	50,667	578
Accounts Payable and Accrued Expenses	118,830	(322,436)
Deferred Revenue	(59,548)	59,548
Refundable Advance	276,667	-
Net Cash Used in Operating Activities	(777,593)	(1,172,088)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Redemptions/Sales of Investments	957,418	4,958,208
Purchases of Investments	(695,178)	(4,138,526)
Purchases of Furniture and Equipment	(17,500)	-
Net Cash Provided by Investing Activities	244,740	819,682
NET DECREASE IN CASH AND CASH EQUIVALENTS	(532,853)	(352,406)
CASH AND CASH EQUIVALENTS, Beginning of Year	2,455,607	2,808,013
CASH AND CASH EQUIVALENTS, End of Year	\$ 1,922,754	\$ 2,455,607

DISCOVERY LEARNING ALLIANCE, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Discovery Learning Alliance, Inc. (the Alliance) 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. The Alliance, formerly known as Discovery Channel Global Education Partnership, formally changed its legal name to Discovery Learning Alliance, Inc. in 2013. The Alliance 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. The Alliance is supported principally by grants, contracts and contributions.

In July 2010, the Alliance 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). The Alliance 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 the Alliance. 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 the Alliance without allocating a share of the losses at December 31, 2013 and 2012 to the 51 percent owner.

Principles of Consolidation

The consolidated financial statements include the accounts of the Alliance 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, 2013 AND 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest in Affiliate

The Alliance 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. The Alliance 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>2013</u>	<u>2012</u>
Cash	<u>\$ -</u>	<u>\$ 20,017</u>
Net Equity	<u>\$ -</u>	<u>\$ 20,017</u>
Total Revenue	\$ 31,039	\$ -
Production Expenses	3,107	46,547
Audit Fees	3,760	18,531
Legal Fees	1,378	7,004
Bank Fees	635	643
Loss on Currency	<u>6,645</u>	<u>-</u>
Net Income (Loss)	<u>\$ 15,514</u>	<u>\$ (72,725)</u>

For the fiscal years ended December 31, 2013 and 2012, the Alliance provided \$0 and \$25,000, respectively, in capital contributions to fund the costs of the Movie. In 2013, the Affiliate refunded \$35,532 to the Alliance. The Alliance'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.

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, 2013 and 2012 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 a loss of \$(23,388) and a gain of \$18,037, 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, 2013 AND 2012

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.

Equipment

Equipment in excess of \$1,000 is capitalized. Equipment is depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to five years.

Income Tax Status

The Alliance 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 Alliance'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, 2013 and 2012. 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, 2013 and 2012.

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, 2013 and 2012. Tax years prior to 2010 for the Alliance are no longer subject to examination by the IRS or the tax jurisdictions of Maryland and Delaware.

DISCOVERY LEARNING ALLIANCE, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2013 and 2012, 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 firm fix-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, 2013 and 2012.

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.

DISCOVERY LEARNING ALLIANCE, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 18, 2014, the date the consolidated financial statements were available to be issued.

NOTE 2 – INVESTMENTS

Investments consist of fixed income securities as follows:

	<u>December 31,</u>	
	<u>2013</u>	<u>2012</u>
Corporate Bonds	\$ 2,084,713	\$ 2,107,262
Government and Agency Bonds	1,415,315	1,381,682
Certificates of Deposit	-	345,000
	<u>\$ 3,500,028</u>	<u>\$ 3,833,944</u>

DISCOVERY LEARNING ALLIANCE, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

NOTE 2 – INVESTMENTS (Continued)

Investment income consists of:

	<u>Year Ended December 31,</u>	
	<u>2013</u>	<u>2012</u>
Interest and Dividend Income	\$ 94,434	\$ 110,523
Realized Loss on Investments	(19,961)	(33,626)
Unrealized Gain (Loss) on Investments	<u>(51,715)</u>	<u>5,913</u>
	<u>\$ 22,758</u>	<u>\$ 82,810</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, 2013 and 2012, respectively.

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

	<u>December 31,</u>	
	<u>2013</u>	<u>2012</u>
Receivable in Less than One Year	\$ 2,357,953	\$ 1,598,090
Receivable in One to Five Years	<u>2,060,636</u>	<u>2,464,688</u>
Total Contributions and Grants Receivable	4,418,589	4,062,778
Less: Discount to Net Present Value	<u>(88,655)</u>	<u>(142,602)</u>
Net Contributions and Grants Receivable	4,329,934	3,920,176
Less: Current Portion	<u>2,357,953</u>	<u>1,598,090</u>
Long-Term Contributions and Grants Receivable	<u>\$ 1,971,981</u>	<u>\$ 2,322,086</u>

DISCOVERY LEARNING ALLIANCE, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

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>2013</u>	<u>2012</u>
Time Restrictions	\$ 1,500,393	\$ 3,081,184
Program Restrictions:		
CCAF Africa Education Initiative	181,628	1,657,504
Chevron Brazil/South Africa Education Initiative	14,172	170,746
Chevron Nigeria Limited	802,007	-
Chevron USA	184,102	218,371
Discovery Girls	1,747,540	-
Shell Petroleum Development Nigeria	1,100,625	1,350,669
	<u>\$ 5,530,467</u>	<u>\$ 6,478,474</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>2013</u>	<u>2012</u>
Time Restrictions	\$ 759,192	\$ 729,992
Program Restrictions:		
CCAF Africa Education Initiative	1,088,538	1,312,640
Chevron Brazil/South Africa Education Initiative	156,601	568,285
Chevron USA	34,269	84,091
Chevron Nigeria Limited	230,879	-
Discovery Communications Get Packing Project	-	18,740
Discovery Girls	43,722	-
Hendricks Foundation Ghana Education Initiative	-	2,937
Inside Story – Production Fund (JHHESA)	-	5,000
Inside Story – Production Fund	31,039	128,957
Shell Petroleum Development Nigeria	242,526	400,447
	<u>\$ 2,586,766</u>	<u>\$ 3,251,089</u>

DISCOVERY LEARNING ALLIANCE, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

NOTE 5 – TRANSACTIONS WITH DISCOVERY COMMUNICATIONS, LLC

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, 2013, DCL has committed to providing \$2,891,655 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 \$759,192 and \$729,992 for the years ended December 31, 2013 and 2012, 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, 2013 and 2012 was \$276,667 and \$0, 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, 2013 and 2012 is \$921,218 and \$0, 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>2013</u>	<u>2012</u>
Program Management	\$ 1,003,982	\$ 939,621
Production of Video Programs	500,799	487,802
	<u>\$ 1,504,781</u>	<u>\$ 1,427,423</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, 2013 and 2012, these contributions totaled approximately \$90,000 and \$35,000, respectively. The majority of these contributions are reflected as part of general administration for the years ended December 31, 2013 and 2012. Additionally, in-kind contributions for goods and services from other vendors relating to special events totaled approximately \$0 and \$19,000 for the years ended December 31, 2013 and 2012, respectively.

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 \$15,472 and \$19,869 for the years ended December 31, 2013 and 2012, respectively.

DISCOVERY LEARNING ALLIANCE, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

NOTE 8 – LINE OF CREDIT

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

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, 2013 and 2012 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, 2013</u>				
Assets:				
Corporate Bonds	\$ 2,084,713	\$ -	\$ 2,084,713	\$ -
Government and Agency Bonds	1,415,315	-	1,415,315	-
	<u>\$ 3,500,028</u>	<u>\$ -</u>	<u>\$ 3,500,028</u>	<u>\$ -</u>
<u>December 31, 2012</u>				
Assets:				
Corporate Bonds	\$ 2,107,262	\$ -	\$ 2,107,262	\$ -
Government and Agency Bonds	1,381,682	-	1,381,682	-
Certificates of Deposit	345,000	-	345,000	-
	<u>\$ 3,833,944</u>	<u>\$ -</u>	<u>\$ 3,833,944</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, government and agency bonds, and certificates of deposit, 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, 2013 AND 2012

Independent Auditors' Report on Consolidated Supplementary Information

Board of Directors
Discovery Learning Alliance, Inc.
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, 2013 and 2012, and have issued our report thereon dated June 18, 2014, which contained an unmodified opinion on those consolidated financial statements. Our audits were performed 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 audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



Bethesda, Maryland
June 18, 2014

DISCOVERY LEARNING ALLIANCE, INC. AND AFFILIATE

CONSOLIDATED SCHEDULES OF PROGRAM SERVICES

	Year Ended December 31,	
	2013	2012
Direct Programs:		
USA	\$ 486,400	\$ 406,511
Latin America		
Peru	-	789
Brazil	41,572	240,594
Total Latin America	41,572	241,383
North Africa		
Egypt	134,487	118,175
Morocco	169,206	176,460
Total North Africa	303,693	294,635
Southern Africa		
Angola	32,705	30,797
Namibia	1,594	85,288
South Africa	114,447	204,886
South Africa – Special Production	215,323	238,582
Total Southern Africa	364,069	559,553
East Africa		
Uganda	7,259	22,986
Kenya	538,568	397,193
Total East Africa	545,827	420,179
West Africa		
Ghana	305,370	258,342
Nigeria	601,770	372,764
Total West Africa	907,140	631,106
Direct Program Totals	2,648,701	2,553,367
Indirect Programs:		
Program Development	115,415	133,708
Video Production	643,835	672,119
Indirect Program Totals	759,250	805,827
Totals	\$ 3,407,951	\$ 3,359,194

DISCOVERY LEARNING ALLIANCE, INC. AND AFFILIATE

SCHEDULE OF ACTIVITY FOR DISCOVERY GIRLS PROJECT

YEAR ENDED DECEMBER 31, 2013

	DFID Spend Ghana	DFID Spend Kenya	DFID Spend Nigeria	Total DFID Spend	LP Match Ghana	LP Match Kenya	LP Match Nigeria	Total LP Match	2013 Total
Fees Local									
Project Managers	\$ 1,761	\$ 8,000	\$ 2,978	\$ 12,739	\$ -	\$ -	\$ -	\$ -	\$ 12,739
Trainers/Monitors	-	2,064	-	2,064	-	-	-	-	2,064
Total Fees Local	1,761	10,064	2,978	14,803	-	-	-	-	14,803
Fees International									
Wages, Taxes and Benefits	17,671	5,222	26,436	49,329	6,176	5,679	4,789	16,644	65,973
HQ Project Management	-	-	-	-	47,040	57,936	52,245	157,221	157,221
Regional Management	3,897	-	17,373	21,270	590	25,899	589	27,078	48,348
Producer	14,607	14,667	14,667	43,941	-	-	-	-	43,941
Consulting Evaluations	13,761	13,761	13,761	41,283	-	-	-	-	41,283
Evaluations General Expenses	5,055	3,614	1,002	9,671	-	-	-	-	9,671
Total Fees International	54,991	37,264	73,239	165,494	53,806	89,514	57,623	200,943	366,437
Travel – Local									
Domestic Travel	3,346	943	1,010	5,299	-	-	-	-	5,299
Travel – International									
International Travel	6,889	5,939	4,307	17,135	-	-	-	-	17,135
Hotel and Subsistence									
Hotel and Accommodation Domestic	1,481	-	-	1,481	-	-	-	-	1,481
Hotel and Accommodation International	8,345	6,716	5,792	20,853	-	-	-	-	20,853
Meals and Per Diem Domestic	68	-	-	68	-	-	-	-	68
Meals and Per Diem International	3,320	3,472	3,301	10,093	-	-	-	-	10,093
Total Hotel and Subsistence	13,214	10,188	9,093	32,495	-	-	-	-	32,495
Training Material Costs									
Workshop Venue and Catering	93	240	-	333	-	-	-	-	333
Participant Workshop Travel	-	118	-	118	-	-	-	-	118
Video Library	-	-	-	-	4,329,696	3,560,480	3,960,320	11,850,496	11,850,496
Total Training Material Costs	93	358	-	451	4,329,696	3,560,480	3,960,320	11,850,496	11,850,947
Overhead									
Office Supplies and Expenses	51	24	17	92	-	-	-	-	92
Rent and Utilities	-	-	-	-	1,295	1,295	1,295	3,885	3,885
HQ Shared Services	-	-	-	-	4,870	4,870	4,870	14,610	14,610
Bank Fees	-	129	9	138	-	-	-	-	138
Postage/Shipping and Courier	27	27	27	81	-	-	-	-	81
Telephone, Fax and Internet	153	1,564	312	2,029	-	-	-	-	2,029
Recruiting	11,382	15,752	14,597	41,731	-	-	-	-	41,731
Photocopy and Printing	31	139	5	175	-	-	-	-	175
Document Translation	-	-	111	111	-	-	-	-	111
Total Overhead	11,644	17,635	15,078	44,357	6,165	6,165	6,165	18,495	62,852
Total Direct Expenses	91,938	82,391	105,705	280,034	4,389,667	3,656,159	4,024,108	12,069,934	12,349,968
Indirect Expenses (7%)	6,436	5,767	7,399	19,602	307,277	255,931	281,688	844,895	864,498
Total Expenses	\$ 98,374	\$ 88,158	\$ 113,104	\$ 299,636	\$ 4,696,944	\$ 3,912,090	\$ 4,305,796	\$ 12,914,829	\$ 13,214,465

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

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