

DiscoverU
Financial Statements
And Independent Auditors' Report
July 31, 2023

DiscoverU

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INDEPENDENT AUDITORS' REPORT

Board of Directors
DiscoverU
Houston, Texas

Opinion

We have audited the accompanying financial statements of DiscoverU, (a Texas nonprofit organization), which comprise the statement of financial position as of July 31, 2023 and the related statements of activities and changes in net assets and cash flows for the fiscal year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of DiscoverU as of July 31, 2023, and the changes in its net assets and its cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of DiscoverU and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about DiscoverU's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

(continued)

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 DiscoverU's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about DiscoverU's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

A handwritten signature in black ink, appearing to read "P. H. Samuels, P.C.", written in a cursive style.

October 29, 2024
Houston, Texas

DiscoverU

Statement Of Financial Position

July 31, 2023

ASSETS

Current assets	
Cash	\$ 1,191,530
Accounts receivable	13,230
Prepaid expenses	<u>3,668</u>
Total current assets	<u>1,208,428</u>
Other assets	
Property and equipment, net of accumulated depreciation	7,769
Right of use asset, net of accumulated amortization	34,955
Other assets - deposits	<u>1,065</u>
Total other assets	<u>43,789</u>
Total Assets	<u><u>\$ 1,252,217</u></u>

LIABILITIES

Current liabilities	
Accounts payable and accrued liabilities	\$ 50,473
Current portion of capital operating lease obligation	<u>19,406</u>
Total current liabilities	<u>69,879</u>
Long term liabilities	
Long term capital operating lease obligation	<u>15,867</u>
Total Liabilities	<u>85,746</u>

NET ASSETS

Without donor restrictions	975,157
With donor restrictions	<u>191,314</u>
Total Net Assets	<u>1,166,471</u>
Total Liabilities and Net Assets	<u><u>\$ 1,252,217</u></u>

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Statement Of Activities And Changes In Net Assets

For The Fiscal Year Ended July 31, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Contributions and grants	\$ 201,240	\$ 282,400	\$ 483,640
Program service revenue	2,753,261	-	2,753,261
Net assets released from restrictions			
Restrictions satisfied by use	<u>91,086</u>	<u>(91,086)</u>	<u>-</u>
Total support and revenue	<u>3,045,587</u>	<u>191,314</u>	<u>3,236,901</u>
EXPENSES			
Program services	2,814,534	-	2,814,534
Management and general	213,980	-	213,980
Fundraising	<u>191,527</u>	<u>-</u>	<u>191,527</u>
Total expenses	<u>3,220,041</u>	<u>-</u>	<u>3,220,041</u>
INCREASE (DECREASE) IN NET ASSETS	<u>(174,454)</u>	<u>191,314</u>	<u>16,860</u>
NET ASSETS			
BEGINNING OF YEAR	<u>1,149,611</u>	<u>-</u>	<u>1,149,611</u>
END OF YEAR	<u><u>\$ 975,157</u></u>	<u><u>\$ 191,314</u></u>	<u><u>\$ 1,166,471</u></u>

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Statement Of Cash Flows

For The Fiscal Year Ended July 31, 2023

Increase (Decrease) In Cash

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets \$ 16,860

Adjustments to reconcile changes in net assets to
net cash used by operating activities:

Amortization of right of use asset	7,944
Depreciation	2,832
Increase in accounts receivable	(13,230)
Increase in prepaid expenses	(446)
Decrease in accounts payable and accrued liabilities	(52,644)
Decrease in deferred revenue	(75,000)
Payment on capital operating lease obligation	<u>(7,626)</u>

Total Adjustments (138,170)

NET CASH USED BY OPERATING ACTIVITIES (121,310)

DECREASE IN CASH (121,310)

CASH, BEGINNING OF YEAR 1,312,840

CASH, END OF YEAR \$ 1,191,530

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Non cash exchange of right of use asset for capital operating lease obligation \$ 42,899

Cash paid for interest on capital operating lease obligation \$ 1,164

DiscoverU

Notes To Financial Statements

Note 1 - Organization

DiscoverU (the Organization), was incorporated in the State of Texas in 2008, as a nonprofit organization under the name Lee Next Step Fund. Effective September 30, 2011, the Organization changed its name to DiscoverU. The mission of the Organization is to provide resources and learning experiences to economically disadvantaged young people to broaden their worldview. DiscoverU provides two programs, Our Fantastic Learning Opportunities (FLO), consisting of a multi-tiered approach to connect disadvantaged youth to life-changing learning experiences in college and career preparatory programs, and The Fellowship Initiative Program (TFI), a cohort-based mentorship program that seeks to connect young men of color to postsecondary education. The Organization's programs are primarily focused on families with children within the Greater Houston area. The Organization is supported primarily through donations by businesses, individuals and private foundations.

Note 2 - Summary Of Significant Accounting Policies

Method of Accounting - The financial statements of the Organization are prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP).

Basis of Presentation - The Organization follows the authoritative guidance regarding *Presentation of Financial Statements of Not-for-Profit Entities*, which requires the presentation of two classes of net assets (with donor restrictions and without donor restrictions) and requires disclosure of expenses by both function and nature.

Cash - For purposes of the statement of cash flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. The Organization had no cash equivalents at July 31, 2023.

Accounts Receivable - The Organization reviews the collectibility of accounts receivable on a periodic basis. If an amount due is deemed uncollectible, it is charged to expense when that determination is made. In the opinion of management, losses, if any, from uncollectible accounts will not be material.

Property and Equipment - Property and equipment is stated at cost or donated value. The Organization capitalizes property and equipment over \$1,000. Lesser amounts are expensed. Depreciation is provided using the straight-line method over five years. Expenditures for repairs and maintenance are charged to expense as incurred.

Leases - In accordance with the authoritative guidance, leases with terms greater than twelve months are capitalized as right of use assets.

Net Assets - Net assets of the Organization are classified based on the presence or absence of donor-imposed restrictions. Net assets are composed of two groups as follows:

Net assets without donor restrictions - Assets that are not subject to usage restrictions based on donor-imposed requirements. This class also includes assets previously restricted whose restrictions have expired or been met.

Net assets with donor restrictions - Assets subject to usage limitations based on donor-imposed or grantor restrictions. These restrictions may be temporary or many be based on a particular use. Restrictions may be met by the passage of time or by actions of the Organization.

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Notes To Financial Statements (continued)

Note 2 - Summary Of Significant Accounting Policies (continued)

Revenue Recognition - Program service revenues are recognized at the point in time when the materials or services are provided. Advanced payment for services not yet provided are recorded as deferred revenue until earned. The nature of these goods and services does not give rise to contract costs or any variable considerations, warranties or other obligations. At July 31, 2023, there were no contract assets or liabilities.

Support - Contributions received are recorded as increases in net assets without donor restrictions unless the use of the contributed asset is specifically restricted by the donor.

Contributed Services - The Organization receives support in the form of services from donors in connection with its fundraising activities. No amounts have been reflected in the financial statement for donated services as they do not meet the criteria for recognition under GAAP.

Functional Allocation of Expenses - The financial statements report expenses that are attributable to more than one functional classification of expenses (program services, management and general and fundraising). Therefore, these expenses required allocation on a reasonable basis that is consistently applied. Salaries, payroll taxes, employee benefits and professional fees are allocated by function based on estimates of time and effort.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimated. The most significant estimates are for the functional allocation of expenses.

Federal Income Taxes - The Organization is a nonprofit, tax-exempt, charitable organization, under Section 501(c)(3) of the Internal Revenue Code and has been classified by the Internal Revenue Service as a publicly supported organization. Therefore, no provision for federal income tax has been included in the financial statements.

Date of Management Review - The Organization's management has evaluated subsequent events through the date the financial statements were available to be issued, which was October 29, 2024.

Note 3 - Cash

The Organization maintains cash balances at a bank which may, at times, exceed the Federally insured limits. The Organization has not experienced any losses from maintaining cash accounts in excess of this limit. At July 31, 2023, the Organization's cash balances exceeded the insured limit by approximately \$942,000.

Note 4 - Property and Equipment

Property and equipment consists of computer equipment with a cost of \$14,159 and accumulated depreciation of \$6,390 at July 31, 2023. Depreciation expense amounted to \$2,832 for the fiscal year ended July 31, 2023.

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Notes To Financial Statements (continued)

Note 5 - Leases

In February 2023, the Organization entered into an operating lease agreement for office space with an initial term of 25 months. The lease agreement does not include any material residual value guarantees or restrictive covenants.

The following summarizes the line items in the statement of financial position which includes amounts for capital operating leases at July 31, 2023:

Right of use asset, net of accumulated amortization of \$7,944	<u>\$ 34,955</u>
Current portion of obligation related to capital operating lease	\$ 19,406
Long-term portion of obligation related to capital operating lease	<u>15,867</u>
	<u>\$ 35,273</u>

The components of capital operating lease expense that are included in the statement of activities for the year ended July 31, 2023 follows:

Amortization of right of use asset	<u>\$ 7,944</u>
Interest expense on capital operating lease obligation	<u>\$ 1,164</u>

The following summarizes the cash flow information related to capital operating leases for the year ended July 31, 2023:

Cash paid for amounts included in the measurement of capital operating lease liabilities	<u>\$ 7,626</u>
Lease asset obtained in exchange for lease liability	<u>\$ 42,899</u>

Weighted average remaining lease term and discount rate as of July 31, 2023 are 22 months and 7.01%, respectively.

The maturities of capital operating lease liabilities at July 31, 2023 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	19,406	\$ 1,861	\$ 21,267
2025	<u>15,867</u>	<u>467</u>	<u>16,334</u>
	<u>\$ 35,273</u>	<u>\$ 2,328</u>	<u>\$ 37,601</u>

Additionally, the Organization leased certain office space under one year operating leases that expired on April 30, 2023 and February 1, 2023. The lease that expired on April 30, 2023 was renewed with a one year term through April 2024. Rent expense under these agreements for the fiscal year ending July 31, 2023 amounted to \$27,753. Future payments under the lease amount to \$18,021 for the fiscal year ending July 31, 2024.

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Notes To Financial Statements (continued)

Note 6 - Contributions and Grants

A summary of contributions and grants recognized during the year ended July 31, 2023 follows:

Individuals	\$ 32,681
Foundations	407,400
Corporations	<u>43,559</u>
	<u>\$ 483,640</u>

Note 7 - Net Assets

Net assets with donor restrictions are available for the following purposes at July 31, 2023:

Consulting services	\$ 100,000
FLO and transportation costs	<u>91,314</u>
	<u>\$ 191,314</u>

Note 8 - Functional Allocation of Expenses

An analysis of expenses by both function and nature is as follows:

	Programs			Administrative	Fundraising	Total
	FLO	TFI	Total			
Student services	\$ 1,531,621	\$ 332,319	\$ 1,863,940	\$ -	\$ -	\$ 1,863,940
Salaries	637,294	59,850	697,144	50,500	144,200	891,844
Payroll taxes	50,568	6,259	56,827	4,116	11,754	72,697
Employee benefits	101,727	10,404	112,131	8,122	23,193	143,446
Accounting and audit	-	-	-	14,484	-	14,484
Advertising and marketing	-	-	-	53,474	-	53,474
Amortization	-	-	-	7,944	-	7,944
Bank and credit card fees	-	-	-	2,979	-	2,979
Depreciation	-	-	-	2,832	-	2,832
Events	-	-	-	-	7,219	7,219
Insurance	-	-	-	12,954	-	12,954
Interest	-	-	-	1,164	-	1,164
Meetings	-	-	-	4,323	-	4,323
Printing and copying	-	-	-	4,139	-	4,139
Professional development	-	-	-	3,282	-	3,282
Rent	-	-	-	27,753	-	27,753
Supplies	-	-	-	6,701	5,161	11,862
Technology and IT	84,492	-	84,492	4,447	-	88,939
Travel	-	-	-	146	-	146
Utilities	-	-	-	4,620	-	4,620
	<u>\$ 2,405,702</u>	<u>\$ 408,832</u>	<u>\$ 2,814,534</u>	<u>\$ 213,980</u>	<u>\$ 191,527</u>	<u>\$ 3,220,041</u>

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Notes To Financial Statements (continued)

Note 9 - Related Parties

Total cash contributions by board members during the fiscal year ending July 31, 2023, amounted to \$18,657.

Note 10 - Income Tax Uncertainties

The Organization has reviewed its current income tax return, as well as all open tax years. The Organization did not have any unrecognized tax positions or benefits from tax positions that do not meet the more likely than not criterion. Accordingly, there was no effect on the Organization's financial condition or results of operations for the fiscal year ended July 31, 2023. The Federal tax returns of the Organization for the previous three years are subject to examination by the Internal Revenue Service.

Note 11 - Liquidity and Availability of Financial Resources

The Organization regularly monitors the liquidity required to meet its operational needs and other contractual commitments. The Organization's sources of liquidity include its cash and receivable balances. In addition to its financial assets available to meet the Organization's general expenditures over the next twelve months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures.

The following table reflects the financial assets available for general expenditures over the next twelve months:

Financial assets	
Cash	\$ 1,191,530
Accounts receivable	<u>13,230</u>
Total financial assets	<u>1,204,760</u>
Less financial assets unavailable for general expenditure	
Donor restricted	<u>191,314</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,013,446</u>

Note 12 - Concentrations

Most of the Organization's program service revenue is with Houston Independent School District (HISD) located in Houston, Texas. Therefore, the Organization's exposure to credit risk is significantly affected by changes in the economy in the Houston area as well as changes within HISD's budgets and leadership.

Note 13 - Risks and Uncertainties

The geopolitical situation in Eastern Europe and the Middle East has affected the United States economy. While these events have impacted the global economy, the extent to which they will impact the Organization will depend on future developments, which are highly uncertain and cannot be predicted. The Organization has robust management systems in place to both oversee the well-being of their clients and stakeholders and react quickly to new economic conditions, however management cannot determine the short-term or long-term effect on operations.

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Notes To Financial Statements (continued)

Note 14 - Subsequent Events

In February 2024, the Organization filed a Form 1128, Application to Adopt, Change, or Retain a Tax Year with the IRS requesting to change from a July 31 to a September 30 fiscal year end. If approved, the Organization will file a short period tax return for August 1, 2023 through September 30, 2023. Subsequent to this filing, the Organization's fiscal year will begin on October 1 and end on September 30 in the future.

In April 2024, the Organization entered into a six month lease agreement for office space for the period May 1, 2024 through October 31, 2024. Total payments due under the lease amount to \$12,739.

Subsequent events have been evaluated through October 29, 2024, which is the date the financial statements were available to be issued. Based on the evaluation, no adjustments to the accompanying financial statements were required.