

SERGE GLOBAL, INC.

AUDITED FINANCIAL STATEMENTS

MAY 31, 2016

SERGE GLOBAL, INC.

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Serge Global, Inc.

We have audited the accompanying financial statements of Serge Global, Inc. (a nonprofit organization), which comprise the statement of financial position as of May 31, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 included 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Serge Global, Inc. as of May 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Serge Global Inc's 2015 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated August 27, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Conan Capital CLAs

September 15, 2016
Souderton, Pennsylvania

SERGE GLOBAL, INC.

STATEMENT OF FINANCIAL POSITION

MAY 31, 2016

WITH COMPARATIVE TOTALS AS OF MAY 31, 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
Cash	\$ 2,930,699	\$ 2,234,182
Accounts Receivable	25,191	82,495
Prepaid Expenses	68,121	199,101
Pledges Receivable	39,500	20,000
Advances to Missionaries	157,752	109,061
Investments	2,961,771	3,152,828
Security Deposits	108,922	104,724
Other Assets	209,840	121,013
Property and Equipment - Net of Accumulated Depreciation	<u>93,657</u>	<u>105,951</u>
TOTAL ASSETS	<u><u>\$ 6,595,453</u></u>	<u><u>\$ 6,129,355</u></u>
<u>LIABILITIES</u>		
Accounts Payable	\$ 217,860	\$ 217,977
Payroll Taxes Payable	6,310	6,821
Monies to be Remitted to the Field	<u>16,729</u>	<u>5,635</u>
Total Liabilities	<u>240,899</u>	<u>230,433</u>
<u>NET ASSETS</u>		
Unrestricted:		
Board Designated for Missionaries and Projects	6,021,054	5,478,235
Undesignated	<u>182,539</u>	<u>334,258</u>
Total Unrestricted	6,203,593	5,812,493
Temporarily Restricted	150,961	86,429
Permanently Restricted	<u>-</u>	<u>-</u>
Total Net Assets	<u>6,354,554</u>	<u>5,898,922</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 6,595,453</u></u>	<u><u>\$ 6,129,355</u></u>

The accompanying notes are an integral part of the financial statements.

SERGE GLOBAL, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED MAY 31, 2016
WITH COMPARATIVE TOTALS AS OF MAY 31, 2015

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	2016 <u>Totals</u>	2015 <u>Totals</u>
Support and Revenue:					
Contributions and Grants	\$ 13,880,682	\$ 248,714	\$ -	\$ 14,129,396	\$ 12,621,201
Discipling/Tuition	45,691	-	-	45,691	52,099
Literature, Tapes and Books	35,083	-	-	35,083	52,822
Investment Income	(37,023)	-	-	(37,023)	83,450
Other Income	105,937	-	-	105,937	72,637
Total Support and Revenues	<u>14,030,370</u>	<u>248,714</u>	<u>-</u>	<u>14,279,084</u>	<u>12,882,209</u>
Net Assets Released from Program Restrictions	<u>184,182</u>	<u>(184,182)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Support, Revenue, and Reclassifications	<u>14,214,552</u>	<u>64,532</u>	<u>-</u>	<u>14,279,084</u>	<u>12,882,209</u>
Expenses:					
Field Operations	11,482,466	-	-	11,482,466	9,918,285
Sending Center	1,713,291	-	-	1,713,291	1,777,365
Fundraising	627,695	-	-	627,695	772,453
Total Expenses	<u>13,823,452</u>	<u>-</u>	<u>-</u>	<u>13,823,452</u>	<u>12,468,103</u>
Increase in Net Assets	391,100	64,532	-	455,632	414,106
Net Assets. Beginning of Year	<u>5,812,493</u>	<u>86,429</u>	<u>-</u>	<u>5,898,922</u>	<u>5,484,816</u>
Net Assets, End of Year	<u>\$ 6,203,593</u>	<u>\$ 150,961</u>	<u>\$ -</u>	<u>\$ 6,354,554</u>	<u>\$ 5,898,922</u>

The accompanying notes are an integral part of the financial statements.

SERGE GLOBAL, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED MAY 31, 2016
WITH COMPARATIVE TOTALS AS OF MAY 31, 2015

	<u>Field</u> <u>Operations</u>	<u>Sending</u> <u>Center</u>	<u>Fund-</u> <u>raising</u>	<u>2016</u> <u>Totals</u>	<u>2015</u> <u>Totals</u>
Books & Other Literature	\$ 31,353	\$ 3,607	\$ 780	\$ 35,740	\$ 30,661
Business Meals	81,472	34,240	3,701	119,413	104,354
Computer Hardware & Software	47,374	7,884	1,295	56,553	69,007
Cost of Goods Sold	6,606	-	-	6,606	15,821
Depreciation	39,795	5,163	912	45,870	45,737
Diaconal Needs	10,235	-	-	10,235	21,417
Dues & Subscriptions	11,055	20,676	-	31,731	22,941
Education & Schooling	262,634	3,186	48	265,868	198,777
Foreign National Wages	38,201	-	-	38,201	53,873
Grants to Foreign Organizations	841,968	-	-	841,968	623,848
Insurance	8,639	25,436	-	34,075	26,161
Leases, Maintenance & Repairs	103,173	40,152	3,448	146,773	159,605
Medical Expenses & Supplies	54,064	-	-	54,064	69,078
Merchant Discounts	65,666	(10,431)	220	55,455	42,967
Ministry Account	50,018	-	-	50,018	53,880
Other	101,670	10,092	5,119	116,881	95,911
Outside Services	1,333,926	83,903	14,627	1,432,456	935,565
Outreach	20,236	-	-	20,236	15,875
Postage	14,110	22,818	5,127	42,055	49,082
Printing	34,438	13,522	8,716	56,676	66,514
Professional Services	130,638	57,664	117,925	306,227	314,596
Project Expenses	79,588	-	-	79,588	105,517
Promotions	5,008	1,904	850	7,762	10,583
Rent	49,447	178,051	643	228,141	248,103
Retreats & Conferences	145,359	14,517	1,362	161,238	223,585
Service Charges	6,998	3,017	-	10,015	10,240
Set Up Costs	76,506	-	-	76,506	69,629
Shipping & Freight	61,760	147	8	61,915	55,606
Sponsoring Conference & Education	432,606	21,710	772	455,088	95,007
Supplies & Cleaning	37,608	13,307	2,050	52,965	82,773
Travel	1,318,796	110,062	180,073	1,608,931	1,517,604
Utilities	35,105	13,324	48	48,477	77,694
Vehicle Expenses	10,567	-	-	10,567	30,464
Wages, Payroll Taxes & Benefits	5,935,847	1,039,340	279,971	7,255,158	6,925,628
Totals - 2016	<u>\$ 11,482,466</u>	<u>\$ 1,713,291</u>	<u>\$ 627,695</u>	<u>\$ 13,823,452</u>	
Totals - 2015	<u>\$ 9,918,285</u>	<u>\$ 1,777,365</u>	<u>\$ 772,453</u>		<u>\$ 12,468,103</u>

The accompanying notes are an integral part of the financial statements.

SERGE GLOBAL, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MAY 31, 2016
WITH COMPARATIVE TOTALS AS OF MAY 31, 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities:		
Increase in Net Assets	\$ 455,632	\$ 414,106
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Contributed Investments	(90,567)	(151,328)
Unrealized and Realized (Gain)Loss on Sale of Investments	136,444	2,056
(Gain)Loss on Disposal of Property and Equipment	-	(3,672)
Depreciation	45,870	45,737
(Increase) Decrease in Assets:		
Accounts Receivable	57,304	(27,821)
Prepaid Expenses	130,980	(100,050)
Pledges Receivable	(19,500)	(4,700)
Advances to Missionaries	(48,691)	9,380
Security Deposits	(4,198)	(8,897)
Other Assets	(88,827)	(58,188)
Increase (Decrease) in Liabilities:		
Accounts Payable	(117)	(10,453)
Payroll Taxes Payable	(511)	5,082
Monies to be Remitted to the Field	11,094	832
Net Cash Provided by (Used in) Operating Activities	<u>584,913</u>	<u>112,084</u>
Cash Flows from Investing Activities:		
Proceeds from the Sale of Securities	220,000	1,150,944
Purchase of Investment Securities	(74,820)	(462,053)
Purchases of Property and Equipment	<u>(33,576)</u>	<u>(27,690)</u>
Net Cash Provided by (Used in) Investing Activities	<u>111,604</u>	<u>661,201</u>
Net Increase in Cash	696,517	773,285
Cash, Beginning of Year	<u>2,234,182</u>	<u>1,460,897</u>
Cash, End of Year	<u>\$ 2,930,699</u>	<u>\$ 2,234,182</u>

The accompanying notes are an integral part of the financial statements.

SERGE GLOBAL, INC.

NOTES TO FINANCIAL STATEMENTS

MAY 31, 2016

WITH COMPARATIVE INFORMATION FOR MAY 31, 2015

Note 1 – Summary of Significant Accounting Policies:

The summary of significant accounting policies of Serge Global, Inc. is presented to assist in understanding the organization's financial statements. The financial statements and notes are representations of the organization's management, who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles except where noted and have been consistently applied in the preparation of the financial statements.

Nature of Entity:

In April 2014 World Harvest Mission changed its name to Serge Global, Inc. (“Serge”). The Executive Leadership and Board of Directors deemed that a name change was needed to more clearly represent the nature of the organization. Three sub-areas of emphasis were also noted with the name change: Resources, Mentoring and Mission. The organization communicated this name-change via traditional mailings, email and a new website:www.serge.org.

Serge is a mission sending agency founded in 1983; today, we have more than 262 missionaries in 16 countries. We believe the motive and power for mission is the gospel of grace at work in the life of a believer. Our vision is to see movements of churches empowered by grace for the world’s good and God’s glory. We pursue this vision through incarnational ministry, with an emphasis on church planting, incarnating mercy, and equipping church leaders. Serge exists to see individuals, families, communities, and cultures so changed and renewed by the gospel of grace that they passionately pursue their role in the great story of redemption.

Tax Status:

Serge is a Pennsylvania corporation recognized as a non-profit religious corporation exempt from federal income tax under the provisions of Section 501 (c) (3) of the Internal Revenue Code and from Pennsylvania taxation under the applicable provisions of the Commonwealth’s non-profit organization statutes.

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires Serge to report information regarding its exposure to various tax positions taken. Management has performed their evaluation and believes there are no unrecognized tax positions that are required to be disclosed.

The organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any tax period. The organization believes it is no longer subject to income tax examinations for the years prior to 2013.

The organization’s policy is to classify income tax related interest and penalties, if any, in interest expense and other expenses, respectively.

Notes to Financial Statements - Continued:

Basis of Presentation:

Financial presentation follows the recommendations of the Financial Accounting Standards Board under which the organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Fund Accounting:

Resources available to Serge are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives. Board designated funds are allocated to specific purposes by action of the Board of Directors. Externally restricted funds may only be utilized in accordance with the purpose established by the source of such funds, and are in contrast with board designated funds over which the Board of Directors retains full control to use in achieving any of its specified purposes.

Comparative Information for the Year Ended May 31, 2015:

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with Serge's financial statements for the year ended May 31, 2015, from which the summarized information was derived.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents:

For purposes of the statement of cash flows, Serge considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. Funds held in money market accounts by external investment managers are reported as investments.

Concentration of Credit Risk:

Financial instruments that potentially subject Serge to concentrations of credit risk consist principally of temporary cash investments and accounts and pledges receivable. Serge places its temporary cash investments with several financial institutions and may occasionally maintain deposits in excess of federally insured limits. Concentrations of credit risk with respect to accounts and pledges receivable are limited due to the nature of the Serge's customers and contributors.

Notes to Financial Statements - Continued:

Accounts Receivable:

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual funding sources. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance have not been material to the financial statements. At May 31, 2016 and 2015, management considers all accounts receivable to be entirely collectible.

Pledges Receivable:

Unconditional pledges receivable are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses, depending on the form of the benefits received. Conditional pledges receivable are recognized when the conditions on which they depend are substantially met.

Investments:

Serge carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

Property, Equipment and Depreciation:

Property and equipment are recorded at cost, or if donated, at fair market value at the date of the gift. Depreciation is provided by the straight-line method over the estimated useful lives of the related assets ranging from three to thirty years. Assets that are valued over \$1,000 and have estimated useful life of more than one year are capitalized, while assets that are less than this threshold are directly expensed.

Contributed Services and Materials:

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by Serge. A substantial number of volunteers have donated significant amounts of time to Serge's events and programs; however, the value of the volunteers' donated time is not recognized as a contribution in the financial statements since the recognition criteria were not met.

Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair values at the date of donation.

Contributions:

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increase those net asset classes. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Serge has no permanently restricted activity or net assets.

Notes to Financial Statements - Continued:

Expense Allocation:

Expenses are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the organization.

In certain cases events are held which meet both programmatic and fundraising goals. In such cases costs are allocated accordingly. In 2016, one such event with total costs of \$381,133 was deemed to be 35% programmatic (\$133,396) and 65% fundraising (\$247,737).

Note 2 – Cash and Cash Equivalents:

Cash and cash equivalents are summarized below as of May 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Business Checking	\$1,677,533	\$1,909,489
Money Market	<u>1,253,166</u>	<u>324,693</u>
	<u>\$2,930,699</u>	<u>\$2,234,182</u>

At May 31, 2016, \$150,961 was restricted for various purposes dependent upon the donor's intent. At May 31, 2015, that amount was \$86,429.

Note 3 – Investments:

Investments are summarized below as of May 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Cash and Money Markets	\$ 133,167	\$ 278,024
Mutual Funds – Fixed Income	1,357,179	1,318,255
Mutual Funds – Equities	1,227,585	1,296,904
Mutual Funds – Real Estate	150,883	145,719
Mutual Funds – Commodities	92,957	110,056
Common Stock	-	3,870
	<u>\$2,961,771</u>	<u>\$3,152,828</u>

The following schedule summarizes the investment return, all of which is classified as unrestricted in the statement of activities for the year then ended:

	<u>2016</u>	<u>2015</u>
Investment Income	\$ 99,421	\$ 85,506
Net Unrealized and Realized Gains (Losses)	<u>(136,444)</u>	<u>(2,056)</u>
	<u>\$ (37,023)</u>	<u>\$83,450</u>

Notes to Financial Statements – Continued:

Note 4 – Security Deposits:

When a missionary is sent overseas he or she lives in a rented apartment; most often a security deposit is needed at the signing of the lease. The deposit total represents amounts currently outstanding as a security deposit on the relevant rental. Security deposits are as follows as of May 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
North America	\$ 20,000	\$ 20,000
Europe	60,411	56,035
Africa	9,199	9,377
Asia	18,773	18,773
South America	<u>539</u>	<u>539</u>
	<u>\$108,922</u>	<u>\$104,724</u>

Note 5 – Property and Equipment:

Property and equipment is composed of the following at May 31, 2016 and 2015:

	<u>2016</u> <u>Cost</u>	<u>2016</u> <u>Depreciation</u> <u>Expense</u>	<u>2016</u> <u>Accumulated</u> <u>Depreciation</u>	<u>2016</u> <u>Net Book</u> <u>Value</u>
Furniture and Equipment	\$168,358	\$ 7,639	\$160,487	\$ 7,871
Vehicles	225,048	33,309	161,982	63,066
Land and Buildings	<u>242,858</u>	<u>4,922</u>	<u>220,138</u>	<u>22,720</u>
	<u>\$636,264</u>	<u>\$45,870</u>	<u>\$542,607</u>	<u>\$93,657</u>
	<u>2015</u> <u>Cost</u>	<u>2015</u> <u>Depreciation</u> <u>Expense</u>	<u>2015</u> <u>Accumulated</u> <u>Depreciation</u>	<u>2015</u> <u>Net Book</u> <u>Value</u>
Furniture and Equipment	\$161,634	\$ 8,088	\$152,848	\$ 8,786
Vehicles	198,196	32,727	128,673	69,523
Land and Buildings	<u>242,858</u>	<u>4,922</u>	<u>215,216</u>	<u>27,642</u>
	<u>\$602,688</u>	<u>\$45,737</u>	<u>\$496,737</u>	<u>\$105,951</u>

Currently, there are no planned major maintenance activities in the upcoming year.

Notes to Financial Statements – Continued:

Note 6 –Temporarily Restricted Net Assets:

Temporarily restricted net assets are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Temporarily Restricted for Field Operations:		
BundiMedical Fund	\$48,759	\$15,458
BundiWater Fund	14,824	16,864
Bundibugyo (Christ) School	36,312	-
Dr. Jonah Memorial Leadership Fund	22,731	21,158
Ireland Church Planters	3,534	3,414
Kianga Kids Diaconal	-	2,360
Kule Family Care Fund	24,710	27,084
London Capital	91	91
	<u>\$150,961</u>	<u>\$86,429</u>

Note 7 – Net Assets Released from Restrictions:

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by the occurrence of other events specified by the donors. The purpose for which restrictions were accomplished in 2016 was as follows:

Released from Temporary Restriction for Field Operations:	
Bundibugyo (Christ) School	\$128,843
BundiWater Fund	4,435
BundiMedical Fund	17,697
Dr. Jonah Memorial Leadership Fund	16,928
Ireland Church Planters	10,470
Kenya Mercy Fund	25
Kianga Kids Diaconal	2,385
Kule Family Care Fund	3,399
	<u>\$184,182</u>

Note 8 - Cash Flow Information:

There were no non-cash investing or financing activities during the years ending May 31, 2016 or 2015 and the organization paid no cash for interest or taxes in 2016 or 2015.

Note 9 – Fair Value of Financial Instruments:

Fair value is defined as the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements include a hierarchy which prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement.

Notes to Financial Statements – Continued:

The levels of the fair value hierarchy are as follows:

Level 1 – Fair value is based on unadjusted quoted prices in active markets that are accessible to the organization for identical assets. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 – Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets, and other observable inputs.

Level 3 – Fair value would be based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows, and other similar techniques. Serge has no Level 3 assets.

The organization measures its investments on a recurring basis at fair value. Investments were measured using the following inputs as of May 31, 2016 and 2015:

	May 31, 2016		May 31, 2015	
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)
Cash and Money Markets	\$ 133,167	\$ -	\$ 278,024	\$ -
Mutual Funds – Fixed Income	-	1,357,179	-	1,318,255
Mutual Funds – Equities	1,222,431	-	1,296,904	-
Mutual Funds – Real Estate	-	150,883	-	145,719
Mutual Funds – Commodities	-	92,957	-	110,056
Common Stock	5,154	-	3,870	-
Total	<u>\$1,360,752</u>	<u>\$1,601,019</u>	<u>\$1,578,798</u>	<u>\$1,574,030</u>

Mutual funds are valued at the net asset value (“NAV”) of shares held by the organization at year end. Marketable equity securities are valued at the closing price reported on the active market on which the individual securities are traded. Bond funds are valued at the closing price reported on the active market on which the individual bonds are traded. There was no change in the valuation techniques used to value these assets and during the year, there were no transfers between level 1, level 2, or level 3 inputs.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the organization believes its valuation methods are appropriate and consistent, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The carrying amounts of cash and cash equivalents, accounts and pledges receivable, and accounts payable approximate fair value at May 31, 2016 due to short-term nature of those instruments.

Notes to Financial Statements – Concluded:

Note 10 – Leases:

Serge has a lease agreement for office space in Jenkintown, Pennsylvania. Serge is responsible for paying all related utility bills and common area maintenance relating to its space. Serge receives one month of rent abatement each year, starting with year two of the lease and continuing through year six. The amount of rent-related expense paid was \$206,193 in 2016 and \$206,193 in 2015. The agreement runs through November 2023.

In 2015 Serge entered into two leases for office equipment, with payments of \$196 per month through October of 2019 and \$609 per quarter through February of 2020.

Future lease payments are as follows:

Year ending <u>May 31,</u>	Office <u>Space</u>	Office <u>Equipment</u>	<u>Total</u>
2017	\$ 169,826	\$ 4,788	\$ 174,614
2018	174,074	4,788	178,862
2019	178,330	4,788	183,118
2020	199,221	2,604	201,825
2021	203,865	-	203,865
Thereafter	<u>530,338</u>	<u>-</u>	<u>530,338</u>
	<u>\$1,455,654</u>	<u>\$16,968</u>	<u>\$1,472,622</u>

Note 11 – Pension Plan:

Serge maintains a defined contribution plan which covers substantially all employees, as defined in the plan. In 2016, Serge contributed \$305,753 to the plan, and in 2015 the contribution was \$306,590.

Note 12 – Shipping and Handling Costs:

All shipping and handling costs are expensed when incurred and are presented in the statement of activities as a component of expenses.

Note 13 – Related Party Transactions:

Some members of the Board of Directors are employed by companies with which Serge conducts some of its normal business transactions. The Board adheres to a conflict of interest policy which requires periodic disclosure of these transactions to the Board.

Note 14 – Date of Management’s Review:

Management has evaluated events for recognition or disclosure through the date of the independent auditor’s report, which is the date the financial statements were available to be issued. No subsequent events requiring recognition or disclosure were noted.