

**SERGE GLOBAL, INC.**

**AUDITED FINANCIAL STATEMENTS**

**MAY 31, 2019**

**SERGE GLOBAL, INC.**

**TABLE OF CONTENTS**

	<b><i>Page</i></b>
Independent Auditor's Report	1 - 2
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 15



*Certified Public Accountants • Technologies • Payroll Services  
Wealth Management & Family Office Services*

---

**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, 2019, 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 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 financial statements.

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

- 1 -

## **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, 2019, 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.

## **Emphasis of a Matter**

As discussed in Note 1 to the financial statements, the organization adopted ASU 2016-4 (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities. Implementing this standard resulted in the reclassification of net assets as well as additional disclosures. Our opinion is not modified with respect to this matter.

## **Report on Summarized Comparative Information**

We have previously audited Serge Global Inc's 2018 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated September 10, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Canon Capital CPAs*

September 18, 2019  
Harleysville, Pennsylvania

**SERGE GLOBAL, INC.**

**STATEMENT OF FINANCIAL POSITION**

**MAY 31, 2019**

**WITH COMPARATIVE TOTALS AS OF MAY 31, 2018**

	<u>2019</u>	<u>2018</u>
<b><u>ASSETS</u></b>		
Cash	\$ 2,462,715	\$ 3,605,001
Accounts Receivable	87,691	14,057
Prepaid Expenses	355,909	203,493
Pledges Receivable	-	650
Advances to Missionaries	468,191	225,405
Investments	7,173,192	5,234,337
Security Deposits	164,963	135,808
Other Assets	284,840	284,840
Property and Equipment - Net of Accumulated Depreciation	170,974	42,449
TOTAL ASSETS	<u>\$ 11,168,475</u>	<u>\$ 9,746,040</u>
<b><u>LIABILITIES</u></b>		
Accounts Payable	\$ 410,294	\$ 301,154
Deferred Lease Incentive	120,000	-
Monies to be Remitted to the Field	25,531	13,249
Total Liabilities	<u>555,825</u>	<u>314,403</u>
<b><u>NET ASSETS</u></b>		
Without Donor Restrictions		
Board Designated for Missionaries and Projects	9,450,044	8,532,633
Undesignated	1,018,055	808,088
Total Unrestricted	<u>10,468,099</u>	<u>9,340,721</u>
With Donor Restrictions	144,551	90,916
Total Net Assets	<u>10,612,650</u>	<u>9,431,637</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,168,475</u>	<u>\$ 9,746,040</u>

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

**SERGE GLOBAL, INC.**

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED MAY 31, 2019**

**WITH COMPARATIVE TOTALS AS OF MAY 31, 2018**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2019 Totals</u>	<u>2018 Totals</u>
Support and Revenue:				
Contributions and Grants	\$ 18,305,189	\$ 196,741	\$ 18,501,930	\$ 17,541,205
Discipling/Tuition	91,660	-	91,660	83,620
Literature, Tapes and Books	21,646	-	21,646	27,824
Investment Income	50,593	-	50,593	230,132
Other Income	176,104	-	176,104	129,182
Total Support and Revenues	<u>18,645,192</u>	<u>196,741</u>	<u>18,841,933</u>	<u>18,011,963</u>
Net Assets Released from Program Restrictions	<u>143,106</u>	<u>(143,106)</u>	<u>-</u>	<u>-</u>
Total Support, Revenue, and Reclassifications	<u>18,788,298</u>	<u>53,635</u>	<u>18,841,933</u>	<u>18,011,963</u>
Expenses:				
Field Operations	14,702,170	-	14,702,170	13,484,724
Sending Center	2,498,236	-	2,498,236	2,163,052
Fundraising	460,514	-	460,514	504,996
Total Expenses	<u>17,660,920</u>	<u>-</u>	<u>17,660,920</u>	<u>16,152,772</u>
Increase (Decrease) in Net Assets	1,127,378	53,635	1,181,013	1,859,191
Net Assets, Beginning of Year	<u>9,340,721</u>	<u>90,916</u>	<u>9,431,637</u>	<u>7,572,446</u>
Net Assets, End of Year	<u>\$ 10,468,099</u>	<u>\$ 144,551</u>	<u>\$ 10,612,650</u>	<u>\$ 9,431,637</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, 2019  
WITH COMPARATIVE TOTALS AS OF MAY 31, 2018

	<u>Field</u> <u>Operations</u>	<u>Sending</u> <u>Center</u>	<u>Fund-</u> <u>raising</u>	<u>2019</u> <u>Totals</u>	<u>2018</u> <u>Totals</u>
Books & Other Literature	\$ 26,297	\$ 3,422	\$ -	\$ 29,719	\$ 27,516
Business Meals	181,555	30,254	6,368	218,177	181,328
Computer Hardware & Software	70,304	9,594	373	80,271	80,967
Cost of Goods Sold	2,917	-	-	2,917	940
Depreciation	15,089	10,584	1,716	27,389	31,554
Diaconal Needs	40,486	-	-	40,486	38,060
Dues & Subscriptions	16,152	29,593	-	45,745	35,325
Education & Schooling	299,703	1,304	-	301,007	265,959
Foreign National Wages	56,641	-	-	56,641	55,409
Grants to Foreign Organizations	788,350	-	-	788,350	733,397
Insurance	14,412	30,767	-	45,179	38,235
Leases, Maintenance & Repairs	122,222	148,304	2,086	272,612	257,900
Medical Expenses & Supplies	71,354	3	-	71,357	52,289
Merchant Discounts	122,504	(3,931)	-	118,573	83,815
Ministry Account	19,383	-	-	19,383	27,162
Other	151,462	33,331	14,175	198,968	140,857
Outside Services	1,879,426	159,315	65,469	2,104,210	2,080,688
Outreach	34,126	-	-	34,126	36,279
Postage	16,331	20,401	2,190	38,922	38,654
Printing	32,900	14,445	10,545	57,890	64,289
Professional Services	82,730	27,048	25,200	134,978	164,290
Project Expenses	275,558	46,985	-	322,543	736,798
Promotions	4,632	4,521	197	9,350	9,251
Rent	28,905	230,626	660	260,191	232,754
Retreats & Conferences	227,723	12,574	1,159	241,456	235,223
Service Charges	9,218	3,459	-	12,677	12,960
Set Up Costs	160,778	-	-	160,778	81,824
Shipping & Freight	67,962	-	-	67,962	25,408
Sponsoring Conference & Education	226,614	8,361	-	234,975	106,246
Supplies & Cleaning	61,817	34,205	2,058	98,080	63,097
Travel	1,387,941	127,333	48,462	1,563,736	1,524,619
Utilities	17,472	9,287	1,534	28,293	41,429
Vehicle Expenses	10,428	-	-	10,428	4,175
Wages, Payroll Taxes & Benefits	8,178,778	1,506,451	278,322	9,963,551	8,644,075
Totals	<u>\$ 14,702,170</u>	<u>\$ 2,498,236</u>	<u>\$ 460,514</u>	<u>\$ 17,660,920</u>	<u>\$ 16,152,772</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, 2019

WITH COMPARATIVE TOTALS AS OF MAY 31, 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities:		
Increase in Net Assets	\$ 1,181,013	\$ 1,859,191
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Contributed Investments	(162,606)	(420,821)
Unrealized and Realized (Gain) Loss on Sale of Investments	121,485	(134,600)
(Gain) Loss on Disposal of Fixed Assets	(20,000)	1,112
Depreciation	27,389	31,554
(Increase) Decrease in Assets:		
Accounts Receivable	(73,634)	3,071
Prepaid Expenses	(152,416)	(1,608)
Pledges Receivable	650	17,850
Advances to Missionaries	(242,786)	(119,616)
Security Deposits	(29,155)	(17,312)
Other Assets	-	(25,000)
Increase (Decrease) in Liabilities:		
Accounts Payable	109,140	(27,488)
Payroll Taxes Payable	-	(100)
Deferred Lease Incentive	120,000	-
Monies to be Remitted to the Field	12,282	6,924
Net Cash Provided by (Used in) Operating Activities	<u>891,362</u>	<u>1,173,157</u>
Cash Flows from Investing Activities:		
Proceeds from the Sale of Investments	544,397	235,000
Proceeds from the Sale of Property and Equipment	20,000	6,000
Purchase of Investments	(2,442,131)	(1,591,800)
Purchase of Property and Equipment	(155,914)	(3,748)
Net Cash Provided by (Used in) Investing Activities	<u>(2,033,648)</u>	<u>(1,354,548)</u>
Net Increase (Decrease) in Cash	(1,142,286)	(181,391)
Cash, Beginning of Year	<u>3,605,001</u>	<u>3,786,392</u>
Cash, End of Year	<u>\$ 2,462,715</u>	<u>\$ 3,605,001</u>

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



**SERGE GLOBAL, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**MAY 31, 2019**

**WITH COMPARATIVE INFORMATION FOR MAY 31, 2018**

**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:**

Serge Global, Inc (“Serge”) is a mission sending agency founded in 1983; today, Serge has 318 missionaries in 20 countries. The motive and power for Serge’s mission is the gospel of grace at work in the life of a believer and the vision is to see movements of churches empowered by grace for the world’s good and God’s glory. This vision is pursued 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 2016.

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

**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 two classes of net assets: net assets without donor restrictions and donor-restricted net assets.

## **Notes to Financial Statements - Continued:**

### **Comparative Information for the Year Ended May 31, 2018:**

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, 2018, 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.

### **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, 2019 and 2018, 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.

## **Notes to Financial Statements - Continued:**

### **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, as are all assets purchased for use in field operations.

### **Net Assets:**

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions: Net assets available for use in general operations and not subject to donor (or grantor) restrictions. These net assets can be used at the discretion of the organization's management and board of directors.

Net Assets With Donor Restrictions: Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

### **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.

### **Contributions:**

All contributions are 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 donor restricted support that increase those net asset classes. When a restriction expires, donor restricted net assets are reclassified to net assets without donor restrictions.

### **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.

## *Notes to Financial Statements - Continued:*

### *Expense Allocation:*

Expenses are charged to programs and supporting services on the basis of periodic time and expense studies or square footage. 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.

### *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.

### *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 Serge's customers and contributors.

### *New Accounting Pronouncement:*

On August 18, 2016, FASB issued ASU 2016-14, Not-For-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-For-Profit Entities*. The update addresses the complexity and understanding of net asset classification, deficiencies in information about the liquidity and availability of resources, and lack of consistency in the type of information provided about expenses and investment returns. The organization has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented and did not have a significant impact on the organization's financial position, results of operations, or cash flows.

### *Note 2 – Cash and Cash Equivalents:*

Cash and cash equivalents are summarized below as of May 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Business Checking	\$2,451,739	\$3,477,432
Money Market	<u>10,976</u>	<u>127,569</u>
	<u>\$2,462,715</u>	<u>\$3,605,001</u>

At May 31, 2019, \$144,551 was restricted for various purposes dependent upon the donor's intent. At May 31, 2018, that amount was \$90,916.

**Notes to Financial Statements – Continued:**

**Note 3 – Liquidity and Availability:**

As part of the organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Board designated net assets without donor restrictions can be made available for general expenditures if deemed necessary.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash	\$2,462,715
Accounts Receivable	87,691
Prepaid Expenses	355,909
Advances to Missionaries	468,191
Investments	<u>7,173,192</u>
	10,547,698
Less Amounts Subject to Donor Restrictions	<u>(144,551)</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$10,403,147</u>

**Note 4 – Investments:**

Investments are summarized below as of May 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Cash and Money Markets	\$ 357,580	\$ 174,130
Mutual Funds – Fixed Income	3,153,360	2,212,255
Mutual Funds – Equities	2,838,290	2,216,383
Mutual Funds – Real Estate	327,702	236,501
Mutual Funds – Commodities	192,011	151,264
Common Stock	<u>304,249</u>	<u>243,804</u>
	<u>\$7,173,192</u>	<u>\$5,234,337</u>

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

	<u>2019</u>	<u>2018</u>
Investment Income	\$201,440	\$ 120,511
Net Unrealized and Realized Gains (Losses)	(121,485)	134,600
Fees	<u>(29,362)</u>	<u>(24,979)</u>
	<u>\$ 50,593</u>	<u>\$230,132</u>

**Notes to Financial Statements – Continued:**

**Note 5 – 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, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
North America	\$ 22,725	\$ 22,475
Europe	100,386	79,518
Africa	10,381	12,007
Asia	23,799	21,808
South & Central America	<u>7,672</u>	<u>-</u>
	<u>\$164,963</u>	<u>\$135,808</u>

**Note 6 – Property and Equipment:**

Property and equipment is composed of the following at May 31, 2019 and 2018:

	<u>2019 Cost</u>	<u>2019 Depreciation Expense</u>	<u>2019 Accumulated Depreciation</u>	<u>2019 Net Book Value</u>
Furniture and Equipment	\$ 61,213	\$12,300	\$ 43,750	\$17,463
Vehicles	188,237	12,090	167,198	21,039
Leasehold Improvements	122,595	-	-	122,595
Land and Buildings	<u>242,858</u>	<u>2,999</u>	<u>232,981</u>	<u>9,877</u>
	<u>\$614,903</u>	<u>\$27,389</u>	<u>\$443,929</u>	<u>\$170,974</u>

  

	<u>2018 Cost</u>	<u>2018 Depreciation Expense</u>	<u>2018 Accumulated Depreciation</u>	<u>2018 Net Book Value</u>
Furniture and Equipment	\$46,666	\$ 6,436	\$41,222	\$ 5,444
Vehicles	240,295	20,196	216,166	24,129
Land and Buildings	<u>242,858</u>	<u>4,922</u>	<u>229,982</u>	<u>12,876</u>
	<u>\$529,819</u>	<u>\$31,554</u>	<u>\$487,370</u>	<u>\$42,449</u>

**Notes to Financial Statements – Continued:**

**Note 7 – Net Assets:**

Net assets with restrictions are available for the following purposes:

	<u>2019</u>	<u>2018</u>
Donor Restricted for Field Operations:		
BundiMedical Fund	\$26,648	\$ 25,522
BundiWater Fund	22,928	10,401
Bundibugyo (Christ) School	46,140	9,885
Dr. Jonah Memorial Leadership Fund	8,872	6,915
Kule Family Care Fund	14,546	18,255
Ireland Church Planters	25,345	14,267
London Capital	<u>72</u>	<u>5,671</u>
	<u>\$144,551</u>	<u>\$90,916</u>

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 2019 was as follows:

Released from Donor Restriction for Field Operations:	
BundiMedical Fund	\$ 24,817
BundiWater Fund	1,177
Bundibugyo (Christ) School	84,453
Dr. Jonah Memorial Leadership Fund	19,843
Kule Family Care Fund	6,084
Ireland Church Planters	1,132
London Capital	<u>5,600</u>
	<u>\$143,106</u>

**Note 8 - Cash Flow Information:**

There were no non-cash investing or financing activities during the years ending May 31, 2019 or 2018 and the organization paid no cash for interest or income taxes in 2019 or 2018.

**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, 2019 and 2018:

	<u>May 31, 2019</u>		<u>May 31, 2018</u>	
	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	\$ 357,580	\$ -	\$ 174,130	\$ -
Mutual Funds – Fixed Income	-	3,153,360	-	2,212,255
Mutual Funds – Equities	2,838,290	-	2,216,383	-
Mutual Funds – Real Estate	-	327,702	-	236,501
Mutual Funds – Commodities	-	192,011	-	151,264
Common Stock	304,249	-	243,804	-
Total	<u>\$3,500,119</u>	<u>\$3,673,073</u>	<u>\$2,634,317</u>	<u>\$2,600,020</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, 2019 due to the short-term nature of those instruments.



**Notes to Financial Statements – Concluded:**

**Note 10 – Leases:**

Serge leases office space in Jenkintown, Pennsylvania under a lease with an original date of May 2, 2013. The original lease term was 10 years and five months, with one five-year optional extension. In November of 2018 the lease was amended to include additional square footage. The amendment has a ten-year term, expiring on December 31, 2029 and monthly payments based on a specified rent per square footage. As of May 31, 2019, the monthly rent was \$20,629. In addition to rent, Serge is responsible for paying all related utility bills and common area maintenance relating to its space. As part of the lease amendment, the landlord offered a \$120,000 leasehold improvements allowance, which was deferred and will be recognized over the ten-year term of the lease. The amount of rent-related expense paid was \$230,626 in 2019 and \$198,756 in 2018.

In addition, Serge has two leases for office equipment, with payments of \$86 per month through February of 2024 and \$838 per quarter through September of 2024.

Future lease payments are as follows:

Year ending May 31,	Office Space	Office Equipment	Total
2020	\$ 229,375	\$ 4,384	\$ 233,759
2021	234,777	4,384	239,161
2022	240,179	4,384	244,563
2023	245,586	4,384	249,970
2024	250,988	4,384	255,372
Thereafter	1,605,735	838	1,606,573
	<u>\$2,806,640</u>	<u>\$22,758</u>	<u>\$2,829,398</u>

**Note 11 – Pension Plan:**

Serge maintains a defined contribution plan which covers substantially all employees, as defined in the plan. In 2019, Serge contributed \$393,750 to the plan, and in 2018 the contribution was \$363,267.

**Note 12 – 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 13 – 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.