

SERGE GLOBAL, INC.

AUDITED FINANCIAL STATEMENTS

MAY 31, 2021

SERGE GLOBAL, INC.

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Canon Capital

*Certified Public Accountants • Technologies • Payroll Services
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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, 2021, 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.

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, 2021, 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 2020 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated September 17, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Canon Capital CPAs

September 10, 2021
Harleysville, Pennsylvania

SERGE GLOBAL, INC.

STATEMENT OF FINANCIAL POSITION

MAY 31, 2021

WITH COMPARATIVE TOTALS AS OF MAY 31, 2020

	<u>2021</u>	<u>2020</u>
<u>ASSETS</u>		
Cash	\$ 4,780,672	\$ 2,666,354
Accounts Receivable	62,920	21,764
Prepaid Expenses	332,813	396,702
Pledges Receivable	10,000	-
Advances to Missionaries	64,701	349,680
Investments	8,606,038	7,455,946
Security Deposits	153,237	150,883
Other Assets	280,686	280,686
Property and Equipment - Net of Accumulated Depreciation	<u>195,809</u>	<u>235,161</u>
TOTAL ASSETS	<u>\$ 14,486,876</u>	<u>\$ 11,557,176</u>
<u>LIABILITIES</u>		
Accounts Payable	\$ 451,432	\$ 234,658
Monies to be Remitted to the Field	-	100
Deferred Revenue	62,808	56,285
Note Payable - PPP	-	600,000
Deferred Lease Incentive	<u>150,000</u>	<u>168,000</u>
Total Liabilities	<u>664,240</u>	<u>1,059,043</u>
<u>NET ASSETS</u>		
Without Donor Restrictions:		
Board Designated for Missionaries and Projects	11,023,199	9,888,611
Undesignated	<u>2,605,692</u>	<u>419,835</u>
Total Without Donor Restrictions	13,628,891	10,308,446
With Donor Restrictions	<u>193,745</u>	<u>189,687</u>
Total Net Assets	<u>13,822,636</u>	<u>10,498,133</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 14,486,876</u>	<u>\$ 11,557,176</u>

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

SERGE GLOBAL, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED MAY 31, 2021
WITH COMPARATIVE TOTALS AS OF MAY 31, 2020

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>2021</u> <u>Totals</u>	<u>2020</u> <u>Totals</u>
Support and Revenue:				
Contributions and Grants	\$ 21,156,469	\$ 314,808	21,471,277	\$ 19,580,719
Discipling Tuition	100,755	-	100,755	90,739
Investment Income	1,624,402	-	1,624,402	108,444
Other Income	142,147	-	142,147	136,737
Note Payable - PPP Forgiveness	603,933	-	603,933	-
Total Support and Revenue	<u>23,627,706</u>	<u>314,808</u>	<u>23,942,514</u>	<u>19,916,639</u>
Net Assets Released from Program Restrictions	<u>310,750</u>	<u>(310,750)</u>	<u>-</u>	<u>-</u>
Total Support, Revenue, and Reclassifications	<u>23,938,456</u>	<u>4,058</u>	<u>23,942,514</u>	<u>19,916,639</u>
Expenses:				
Field Operations	16,995,610	-	16,995,610	16,368,529
Home Office	2,892,274	-	2,892,274	3,097,751
Fundraising	730,127	-	730,127	564,876
Total Expenses	<u>20,618,011</u>	<u>-</u>	<u>20,618,011</u>	<u>20,031,156</u>
Increase (Decrease) in Net Assets	3,320,445	4,058	3,324,503	(114,517)
Net Assets, Beginning of Year	<u>10,308,446</u>	<u>189,687</u>	<u>10,498,133</u>	<u>10,612,650</u>
Net Assets, End of Year	<u>\$ 13,628,891</u>	<u>\$ 193,745</u>	<u>\$ 13,822,636</u>	<u>\$ 10,498,133</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, 2021
WITH COMPARATIVE TOTALS AS OF MAY 31, 2020

	<u>Field</u> <u>Operations</u>	<u>Home</u> <u>Office</u>	<u>Fund-</u> <u>raising</u>	<u>2021</u> <u>Totals</u>	<u>2020</u> <u>Totals</u>
Books & Other Literature	\$ 28,747	\$ 3,099	\$ 2,344	\$ 34,190	\$ 35,975
Business Meals	82,850	1,736	6,754	91,340	196,721
Computer Hardware & Software	110,922	5,173	1,213	117,308	81,382
Cost of Goods Sold	1,079	-	-	1,079	86
Depreciation	29,854	29,733	861	60,448	52,119
Diaconal Needs	146,143	-	-	146,143	90,511
Dues & Subscriptions	20,715	41,823	347	62,885	55,506
Education & Schooling	355,251	432	-	355,683	338,009
Foreign National Wages	81,870	-	-	81,870	70,410
Grants to Foreign Organizations	1,677,248	-	-	1,677,248	1,465,539
Insurance	49,120	128,115	-	177,235	57,207
Leases, Maintenance & Repairs	147,805	59,264	2,939	210,008	325,401
Medical Expenses & Supplies	137,438	-	-	137,438	178,493
Merchant Discounts	152,057	120	-	152,177	151,403
Ministry Account	13,970	-	-	13,970	4,605
Other	147,632	88,496	9,274	245,402	240,986
Outside Services	2,102,596	172,084	61,871	2,336,551	2,152,785
Outreach	18,228	-	-	18,228	22,952
Postage	15,750	31,243	3,199	50,192	48,891
Printing	24,549	23,195	3,541	51,285	57,982
Professional Services	132,961	37,674	19,200	189,835	162,042
Project Expenses	175,541	-	-	175,541	345,291
Promotions	1,962	7,900	-	9,862	12,231
Rent	43,826	286,665	630	331,121	291,953
Retreats & Conferences	74,832	22,160	-	96,992	197,771
Service Charges	9,152	18,605	-	27,757	26,877
Set Up Costs	99,171	-	-	99,171	109,870
Shipping & Freight	88,179	17	-	88,196	68,784
Sponsoring Conference & Education	64,568	-	-	64,568	119,971
Supplies & Cleaning	61,124	5,864	4,773	71,761	98,555
Travel	776,684	17,046	8,557	802,287	1,665,753
Utilities	11,711	9,177	4,181	25,069	38,417
Vehicle Expenses	60,939	-	-	60,939	69,041
Wages, Payroll Taxes & Benefits	10,051,136	1,902,653	600,443	12,554,232	11,197,637
Totals	<u>\$ 16,995,610</u>	<u>\$ 2,892,274</u>	<u>\$ 730,127</u>	<u>\$ 20,618,011</u>	<u>\$ 20,031,156</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, 2021
WITH COMPARATIVE TOTALS AS OF MAY 31, 2020

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities:		
Increase (Decrease) in Net Assets	\$ 3,324,503	\$ (114,517)
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Contributed Investments	(328,480)	(185,238)
Unrealized and Realized (Gain) Loss on Sale of Investments	(1,523,984)	63,981
Dividends and Interest Reinvested	(132,673)	(203,674)
Note Payable - PPP Forgiveness	(600,000)	-
Depreciation	60,448	52,119
(Increase) Decrease in Assets:		
Accounts Receivable	(41,156)	65,927
Prepaid Expenses	63,888	(40,793)
Pledges Receivable	(10,000)	-
Advances to Missionaries	284,979	118,511
Security Deposits	(2,355)	14,080
Other Assets	-	4,154
Increase (Decrease) in Liabilities:		
Accounts Payable	216,774	(175,636)
Monies to be Remitted to the Field	(100)	(25,431)
Deferred Revenue	6,523	56,285
Deferred Lease Incentive	(18,000)	48,000
Net Cash Provided by (Used in) Operating Activities	<u>1,300,367</u>	<u>(322,232)</u>
Cash Flows from Financing Activities:		
Proceeds from Note Payable - PPP	<u>-</u>	<u>600,000</u>
Cash Flows from Investing Activities:		
Proceeds from the Sale of Investments	1,033,852	160,867
Purchase of Investments	(198,806)	(118,690)
Purchase of Property and Equipment	(21,095)	(116,306)
Net Cash Provided by (Used in) Investing Activities	<u>813,951</u>	<u>(74,129)</u>
Net Increase (Decrease) in Cash	2,114,318	203,639
Cash, Beginning of Year	<u>2,666,354</u>	<u>2,462,715</u>
Cash, End of Year	<u>\$ 4,780,672</u>	<u>\$ 2,666,354</u>

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

SERGE GLOBAL, INC.

NOTES TO FINANCIAL STATEMENTS

MAY 31, 2021

WITH COMPARATIVE INFORMATION FOR MAY 31, 2020

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 330 missionaries in 25 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 2018.

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, 2020:

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, 2020, 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 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, 2021 and 2020, 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 lives 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.

Deferred Revenue:

Deferred revenue represents tuition and fees received in advance for Serge's discipling programs.

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.

Revenue Recognition:

Contributions are recognized when cash, an unconditional promise to give, or other assets are received. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met or the donor releases the restriction.

Revenue is recognized when earned. Tuition for the discipling programs is earned over time as the participants complete the course work. Serge utilizes certain software to measure course completion and recognizes revenue accordingly. Revenue is reported at the amount of consideration expected in exchange for the normal tuition rates.

Notes to Financial Statements - Continued:

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.

Expense Allocation:

Expenses are charged to programs and supporting services based on 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.

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.

Note 2 – 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	\$ 4,780,672
Accounts Receivable	62,920
Investments	<u>8,606,038</u>
	13,449,630
Less Amounts Subject to Donor Restrictions	<u>(193,745)</u>
Financial assets available to meet general expenditures over the next 12 months	<u>\$13,255,885</u>

Notes to Financial Statements – Continued:

Note 3 – Cash and Cash Equivalents:

Cash and cash equivalents are summarized below as of May 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Business Checking	\$4,688,651	\$2,602,387
Money Market	<u>92,021</u>	<u>63,967</u>
	<u>\$4,780,672</u>	<u>\$2,666,354</u>

At May 31, 2021, \$193,745 was restricted for various purposes dependent upon the donor's intent. At May 31, 2020, that amount was \$189,687.

Note 4 – Investments:

Investments are summarized below as of May 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Cash and Money Markets	\$ 47,925	\$ 519,995
Mutual Funds – Fixed Income	3,436,537	3,302,512
Mutual Funds – Equities	4,189,595	2,900,898
Mutual Funds – Real Estate	394,227	281,990
Mutual Funds – Commodities	238,265	161,751
Common Stock	<u>299,489</u>	<u>288,800</u>
	<u>\$8,606,038</u>	<u>\$7,455,946</u>

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

	<u>2021</u>	<u>2020</u>
Investment Income	\$ 135,465	\$205,565
Net Unrealized and Realized Gains (Losses)	1,523,984	(63,981)
Fees	<u>(35,047)</u>	<u>(33,140)</u>
	<u>\$1,624,402</u>	<u>\$108,444</u>

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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
North America	\$ 20,000	\$ 22,725
Europe	95,864	92,542
Africa	9,426	9,483
Asia	22,049	21,056
South & Central America	<u>5,898</u>	<u>5,077</u>
	<u>\$153,237</u>	<u>\$150,883</u>

Notes to Financial Statements – Continued:

Note 6 – Property and Equipment:

Property and equipment is composed of the following at May 31, 2021 and 2020:

	2021 <u>Cost</u>	2021 <u>Depreciation Expense</u>	2021 <u>Accumulated Depreciation</u>	2021 <u>Net Book Value</u>
Furniture and Equipment	\$119,393	\$33,907	\$ 86,559	\$ 32,834
Vehicles	188,237	7,219	184,637	3,600
Leasehold Improvements	182,595	18,260	30,519	152,076
Land and Buildings	<u>242,858</u>	<u>1,062</u>	<u>235,559</u>	<u>7,299</u>
	<u>\$733,083</u>	<u>\$60,488</u>	<u>\$537,274</u>	<u>\$195,809</u>

	2020 <u>Cost</u>	2020 <u>Depreciation Expense</u>	2020 <u>Accumulated Depreciation</u>	2020 <u>Net Book Value</u>
Furniture and Equipment	\$117,519	\$28,123	\$ 71,873	\$ 45,646
Vehicles	188,237	10,220	177,418	10,819
Leasehold Improvements	182,595	12,260	12,260	170,335
Land and Buildings	<u>242,858</u>	<u>1,516</u>	<u>234,497</u>	<u>8,361</u>
	<u>\$731,209</u>	<u>\$52,119</u>	<u>\$496,048</u>	<u>\$235,161</u>

Note 7 – Net Assets:

Net assets with restrictions are available for the following purposes:

	<u>2021</u>	<u>2020</u>
Donor Restricted for Field Operations:		
BundiMedical Fund	\$37,087	\$30,179
BundiWater Fund	15,248	8,857
Bundibugyo (Christ) School	75,685	67,385
Dr. Jonah Memorial Leadership Fund	7,002	10,673
Uganda Relief Project	43,269	38,236
Kule Family Care Fund	8,478	9,913
Kenya Mercy (Famine Relief) Fund	-	14,543
Ireland Church Planters	6,905	9,829
London Capital	<u>71</u>	<u>72</u>
	<u>\$193,745</u>	<u>\$189,687</u>

Notes to Financial Statements – Continued:

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 2021 was as follows:

Released from Donor Restriction for Field Operations:

BundiMedical Fund	\$ 8,377
BundiWater Fund	3,075
Bundibugyo (Christ) School	247,907
Uganda Relief Project	468
Dr. Jonah Memorial Leadership Fund	8,371
Kule Family Care Fund	3,535
Kenya Mercy (Famine Relief) Fund	30,313
Ireland Church Planters	8,704
	<u>\$310,750</u>

Note 8 – Note Payable - PPP Forgiveness:

In April of 2020, Serge received \$600,000 in funds via the Paycheck Protection Program (“PPP”) created as part of the federal government’s COVID-19 relief efforts, specifically the Coronavirus Aid, Relief and Economic Security Act (“CARES”). The PPP provides for loans to qualifying businesses in amounts up to 2.5 times the business’s average payroll expenses. PPP loans and accrued interest are forgivable after a covered period (eight to twenty-four weeks) if the borrower maintains its payroll levels and uses the loan proceeds for eligible purposes, including payroll, benefits, rents, and utilities. The forgiveness amount will be reduced if the borrower terminates employees or reduces salaries during the covered period. Any unforgiven portion of a PPP loan is payable over two or five years at an interest rate of 1%. Serge initially recorded a note payable and subsequently recorded loan forgiveness of \$600,000 plus \$3,933 in forgiven interest when the loan obligation was legally released in November of 2020.

Note 9 – Cash Flow Information:

There were no non-cash investing or financing activities during the years ending May 31, 2021 or 2020 and the organization paid no cash for interest or income taxes in 2021 or 2020.

Note 10 – 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.

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.

Notes to Financial Statements – Continued:

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, 2021 and 2020:

	<u>May 31, 2021</u>		<u>May 31, 2020</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	\$ 47,925	\$ -	\$ 519,995	\$ -
Mutual Funds – Fixed Income	-	3,436,537	-	3,302,512
Mutual Funds – Equities	4,189,595	-	2,900,898	-
Mutual Funds – Real Estate	-	394,227	-	281,990
Mutual Funds – Commodities	-	238,265	-	161,751
Marketable Equity Securities	<u>299,489</u>	<u>-</u>	<u>288,800</u>	<u>-</u>
Total	<u>\$4,537,009</u>	<u>\$4,069,029</u>	<u>\$3,709,693</u>	<u>\$3,746,253</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 during the year, and 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, 2021 due to the short-term nature of those instruments.

Note 11 – Pension Plan:

Serge maintains a defined contribution plan which covers substantially all employees, as defined in the plan. In 2021, Serge contributed \$619,615 to the plan, and in 2020 the contribution was \$451,268.

Notes to Financial Statements – Continued:

Note 12 – 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 and then again in September of 2019, 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, 2021, the monthly rent was \$24,844.

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 amendments, the landlord offered a \$180,000 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 \$251,891 in 2021 and \$248,193 in 2020.

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 <u>May 31,</u>	Office <u>Space</u>	Office <u>Equipment</u>	<u>Total</u>
2022	\$ 276,666	\$ 4,384	\$ 281,050
2023	282,877	4,384	287,261
2024	289,088	4,126	293,214
2025	295,299	838	296,137
2026	300,945	-	300,945
Thereafter	<u>1,114,007</u>	<u>-</u>	<u>1,114,007</u>
	<u>\$2,558,882</u>	<u>\$13,732</u>	<u>\$2,572,614</u>

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 – Operations:

The COVID-19 pandemic, whose effects first became known in January 2020, is having a broad and negative impact on commerce and financial markets around the world. The United States and global markets experienced significant declines in value resulting from uncertainty caused by the pandemic. The organization is closely monitoring its assets and its liquidity and is actively working to minimize the impact of these declines. The extent of the impact of COVID-19 on the organization's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impacts on the organization's donors, employees, and vendors, all of which at present, cannot be determined. Accordingly, the extent to which COVID-19 may impact the organization's financial position and changes in net assets and cash flows is uncertain and the accompanying financial statements include no adjustments relating to the effects of this pandemic.

Notes to Financial Statements – Concluded:

Note 15 – Subsequent Events:

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