

**THE SURGE INSTITUTE**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2021**  
**(With Independent Auditors' Report)**

**THE SURGE INSTITUTE**  
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**YEAR ENDED JUNE 30, 2021**

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## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
The Surge Institute  
Chicago, Illinois

We have audited the accompanying financial statements of The Surge Institute, which comprise the statement of financial position as of June 30, 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 organization'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 organization'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 The Surge Institute as of June 30, 2021, and the changes in its net assets and its cash flows for the year ended in accordance with accounting principles generally accepted in the United States of America.

ICL, LLC

ICL, LLC  
Chicago, IL

September 3, 2021

THE SURGE INSTITUTE

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2021

**ASSETS**

Cash and cash equivalents	\$ 1,221,943
Investments	2,695,565
Pledges receivable, net	1,919,731
Prepays and other current assets	<u>101,057</u>
 Total assets	 <u><u>\$ 5,938,296</u></u>

**LIABILITIES AND NET ASSETS**

Accrued Expenses	\$ 147,636
Amounts held for others	<u>60,000</u>
Total liabilities	<u>207,636</u>
 Net Assets:	
Net assets without donor restrictions	2,059,245
Net assets with donor restrictions	<u>3,671,415</u>
Total net assets	<u>5,730,660</u>
 Total liabilities and net assets	 <u><u>\$ 5,938,296</u></u>

See accompanying notes to the financial statements.

THE SURGE INSTITUTE  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2021

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>REVENUE AND SUPPORT:</b>			
Foundation grants	\$ 10,000	\$ 6,520,000	\$ 6,530,000
Individual contributions	192,423	305	192,728
Program income and other	85,106	-	85,106
Net assets released from restrictions	4,364,880	(4,364,880)	-
Total Revenue and Support	<u>4,652,409</u>	<u>2,155,425</u>	<u>6,807,834</u>
<b>EXPENSES:</b>			
Program services	2,442,701	-	2,442,701
Supporting services:			
Management and general	1,075,034	-	1,075,034
Fundraising	292,620	-	292,620
Total Expenses	<u>3,810,355</u>	<u>-</u>	<u>3,810,355</u>
Net Operating Revenue	842,054	2,155,425	2,997,479
<b>OTHER REVENUE (EXPENSES):</b>			
Dividends	2,844	-	2,844
Interest income	688	-	688
Unrealized loss on investments	(1,622)	-	(1,622)
Gain on extinguishment of debt - SBA PPP loan forgiveness	303,300	-	303,300
Interest expense	(105)	-	(105)
Total Other Revenue (Expenses)	<u>305,105</u>	<u>-</u>	<u>305,105</u>
 CHANGE IN NET ASSETS	 1,147,160	 2,155,425	 3,302,585
NET ASSETS, BEGINNING OF YEAR	<u>912,085</u>	<u>1,515,990</u>	<u>2,428,075</u>
NET ASSETS, END OF YEAR	<u>\$ 2,059,245</u>	<u>\$ 3,671,415</u>	<u>\$ 5,730,660</u>

See accompanying notes to the financial statements.

THE SURGE INSTITUTE

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2021

	Program	Management and General	Fundraising	Total
Salaries and wages	\$ 1,295,142	\$ 314,047	\$ 239,025	\$ 1,848,214
Payroll taxes	87,714	21,269	16,188	125,171
Employee benefits	87,900	141,697	24,325	253,922
Conferences, conventions, meetings	19,251	6,206	-	25,457
Travel, meals, and entertainment	4,728	9,257	165	14,150
Program design and operations consultants	322,856	346,425	-	669,281
Program expenses and coaching services	411,202	7,114	63	418,379
Office expense and supplies	8,854	34,561	1,771	45,186
Media and advertising	10,557	15,799	-	26,356
Occupancy	64,055	39,988	1,440	105,483
Software and subscriptions	12,685	34,202	6,708	53,595
Accounting, audit, tax, legal	1,989	100,890	-	102,879
Printing	843	240	-	1,083
Insurance	-	3,054	-	3,054
Charitable contributions - Covid-19 Relief	114,880	-	-	114,880
Bank charges	45	285	2,935	3,265
Total expenses	<u>\$ 2,442,701</u>	<u>\$ 1,075,034</u>	<u>\$ 292,620</u>	<u>\$ 3,810,355</u>

See accompanying notes to the financial statements.

THE SURGE INSTITUTE  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2021

**Cash Flows From Operating Activities:**

Change in net assets	\$ 3,302,585
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Unrealized loss on investments	1,622
Gain on extinguishment of debt - SBA PPP loan forgiveness	(303,300)
Change in assets and liabilities:	
Pledges receivable	(726,594)
Prepays and other current assets	(98,683)
Accrued expenses	70,339
Amounts held for others	60,000
Net cash provided by operating activities	<u>2,305,968</u>

**Cash Flows From Investing Activities:**

Purchases of investments	<u>(1,502,971)</u>
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**Cash Flows From Financing Activities:**

	<u>-</u>
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**Net increase in cash and cash equivalents** 802,997

**Cash and cash equivalents, Beginning of Year** 418,946

**Cash and cash equivalents, End of Year** \$ 1,221,943

See accompanying notes to the financial statements.

THE SURGE INSTITUTE

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2021

**NOTE 1 – NATURE OF ORGANIZATION**

The Surge Institute (“Surge”), is an Illinois not-for-profit corporation that was founded in October 2014 in response to the dearth of leadership of color at the decision-making tables within education reform. Surge provides leadership development resources to institutions and individuals to create a pipeline of diverse leaders in education.

The Surge Institute’s mission is to educate and develop leaders of color who create transformative change in urban education. Surge serves this mission through our signature program, the Surge Fellowship, a best in class one-year program for emerging leaders of color in education. We believe that sustainable positive impact for children and communities *must* include leaders who have shared experiences with those communities. And we unapologetically aim to change the face of leadership in education to improve education options and outcomes for low-income children and communities who have been underserved and marginalized for generations.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements follows:

Basis of Accounting

The financial statements of Surge have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

Financial Statement Presentation

Surge presents financial information pursuant to FASB Accounting Standards Codification (ASC) 958-205, *Not-for-Profit Entities: Presentation of Financial Statements*, which establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified into distinct net asset categories according to externally (donor) imposed restrictions. In addition, Surge is required to present a statement of cash flows.

THE SURGE INSTITUTE

NOTES TO FINANCIAL STATEMENTS

(Continued)

YEAR ENDED JUNE 30, 2021

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Financial Statement Presentation - Continued

Net asset classifications are determined as follows:

*Net Assets Without Donor Restrictions* – Net assets that are not subject to donor-imposed restrictions are net assets without donor restrictions. These assets include the revenues and expenses of the primary operations of Surge. Donor restricted contributions and grants whose restrictions are met in the same reporting period are reported as net assets without donor restrictions.

*Net Assets With Donor Restrictions* – Net assets subject to donor or grant-imposed stipulations that may or will be met either by actions of Surge and/or the passage of time are classified as net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Cash and Cash Equivalents

Surge considers cash and cash equivalents to include checking, savings, money market and sweep accounts with maturities of three months or less.

Pledges Receivable

Pledges receivable represents unconditional commitments made by donors. Pledges receivable that are expected to be collected in less than one year are reported at net realizable value. Pledges receivable that are expected to be collected in more than one year are recorded at fair value at the date of promise. That fair value is computed using a present value technique applied to anticipated cash flows. Amortization of the resulting discount is recognized as additional contribution revenue. Management determines a reserve for doubtful pledges based on estimates of collectability with certain donors with past experience as well as a general reserve for the remaining pledge amount. Based on a review of outstanding receivables, management determined that an allowance for doubtful accounts was not necessary at June 30, 2021.

THE SURGE INSTITUTE

NOTES TO FINANCIAL STATEMENTS

(Continued)

YEAR ENDED JUNE 30, 2021

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Revenue Recognition - Grants

All contributions are considered to be available for unrestricted use unless specified by the donor. Contributions are recognized as revenues when the contributions are awarded. Revenue from grants is considered earned when it is expended in accordance with the agreement.

Revenue from Contracts with Customers

Surge recognizes revenue from tuition and fees during the year in connection with the Fellowship program. The performance obligation of delivering the fellowship curriculum program is simultaneously received and consumed by the fellows; therefore, the revenue is recognized ratably over the course of the cohort period. Payment for tuition and fees is required before the start of each cohort. All amounts received prior to the commencement of each cohort, are deferred to the applicable period. There is no tuition revenue deferred as of June 30, 2021.

Agency transactions

Surge may act as an agent in certain circumstances by receiving cash contributions from individuals, businesses and other organizations and is not granted variance power. These such transactions are ultimately transferred to the designated recipients based on the wishes of the donor and are recorded on the statement of financial position as amounts held for others.

Fair Value of Financial Instruments

The carrying amounts of cash, pledges receivable, deposits, and accrued expenses approximate fair value because of the short-term maturity of these financial instruments.

THE SURGE INSTITUTE

NOTES TO FINANCIAL STATEMENTS

(Continued)

YEAR ENDED JUNE 30, 2021

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Functional Allocation of Expenses

The costs of providing program services have been summarized on a functional basis in the statement of activities. Expenses that can be identified with Surge program expenses are allocated directly according to their natural classification. Accordingly, certain costs have been allocated between the program and supporting services benefited as follows:

<u>Expenses</u>	<u>Method of Allocation</u>
Grants	Time and effort
Salaries and benefits	Time and effort
Occupancy	Square Footage
Professional services	Time and effort

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

Surge has evaluated subsequent events for potential recognition and/or disclosures through September 3, 2021, the date the financial statements were available to be issued.

Tax-Exempt Status

Surge is a tax-exempt organization under Section 501(c) (3) of the Internal Revenue Code. Surge follows the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, Surge may recognize the tax benefits from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of Surge and various positions related to potential sources of unrelated business taxable income. There were no unrecognized tax benefits identified

THE SURGE INSTITUTE

NOTES TO FINANCIAL STATEMENTS

(Continued)

YEAR ENDED JUNE 30, 2021

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Tax-Exempt Status - Continued

or recorded as liabilities for the reporting period presented in the financial statements. Surge files Form 990 in the U.S. federal jurisdiction and the State of Illinois.

**NOTE 3 – FAIR VALUE MEASUREMENTS AND DISCLOSURES**

Pursuant to FASB Accounting Standards Codification “*Fair Value Measurements and Disclosures (Topic 820)*”, the Association reports its fair value measures using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 - Inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data.
- Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

THE SURGE INSTITUTE

NOTES TO FINANCIAL STATEMENTS

(Continued)

YEAR ENDED JUNE 30, 2021

**NOTE 3 – FAIR VALUE MEASUREMENTS AND DISCLOSURES - Continued**

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following table presents financial instruments that are measured at fair value on a recurring basis and are subject to disclosure requirements of ASC 821-10 as of June 30, 2021:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>ASSETS</b>				
Short-term investments	\$ 1,194,343	\$ 1,194,343	\$ -	\$ -
Fixed income securities	1,501,222	1,501,222	-	-
Total	<u>\$ 2,695,565</u>	<u>\$ 2,695,565</u>	<u>\$ -</u>	<u>\$ -</u>
<b>LIABILITIES</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value:

- Short-term investments — Short-term investments are comprised of money market and cash reserve funds. They are classified as Level 1 as they are traded in an active market for which closing prices are readily available.
- Fixed income securities - Investments in these securities are measured at fair value using quoted market prices. They are classified as Level 1 as they are traded in an active market for which closing stock prices are readily available.

**NOTE 4 – INVESTMENTS**

Investments, stated at fair value, at June 30, 2021 include:

Deposit sweep funds	\$ 1,194,343
Bond funds	1,501,222
Total	<u>\$ 2,695,565</u>

THE SURGE INSTITUTE  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

YEAR ENDED JUNE 30, 2021

**NOTE 4 – INVESTMENTS - Continued**

Investment return as reported on the statement of activities includes:

Dividends	\$ 2,844
Interest income	688
Unrealized loss on investments	<u>(1,622)</u>
Net total return on investments	<u>\$ 1,910</u>

**NOTE 5 – LEASE COMMITMENTS**

Surge entered into a lease agreement in October 2017 to rent office space (located 935 W. Chestnut Street, Chicago, IL) through December 2020 with an option to renew for a period of three years. Base rent is approximately \$4,400 per month. Surge is responsible for utilities and a proportional share of taxes and common area maintenance. Surge also entered into a lease agreement in December 2018 to rent office space (located 1212 Broadway, Oakland, CA) through December 2019. Surge is currently renting the same space on a month-to-month base rent of \$3,000 per month.

The organization also leases certain office equipment commencing December 2017 through February 2021 at \$265 per month.

Rent expense for office space was \$86,915, which is included in occupancy costs in the statement of functional expenses for the year ended June 30, 2021.

Minimum future lease payments as of June 30, 2021 through the end of fiscal 2021 is \$29,432.

**NOTE 6 – CONCENTRATION OF CREDIT RISK**

Surge maintains bank cash balances, which at times exceed the \$250,000 insurance coverage provided by the Federal Deposit Insurance Corporation. Surge has not experienced any losses in such accounts and believes that it is not exposed to any significant risk on cash.

THE SURGE INSTITUTE

NOTES TO FINANCIAL STATEMENTS

(Continued)

YEAR ENDED JUNE 30, 2021

**NOTE 7 – CONCENTRATION OF REVENUE**

Revenue and support primarily consists of grants from charitable foundations. Concentration of foundation grant revenue, in relation to total revenue and support consisted of ten (10) donors totaling approximately 71% during fiscal 2021.

**NOTE 8 – PLEDGES RECEIVABLE**

Pledges receivable represent unconditional promises to give. Surge anticipates the timing of the pledge fulfillment according to payment schedules specified by donors. The expected amounts to be received in future periods are as follows as of June 30, 2021:

Within one year	\$ 1,876,594
One to five years	<u>50,000</u>
	1,926,594
Less: present value discount	<u>(6,863)</u>
Pledges receivable, net	<u><u>\$ 1,919,731</u></u>

The discount rate used in determining the net present value of pledges receivable was 2.0 percent for the fiscal year ended June 30, 2021.

**NOTE 9 – LIQUIDITY AND AVAILABILITY**

Surge management regularly monitors liquidity required to meet its operating needs and other commitments, while also striving to maximize the return on available funds. Surge has various sources of liquidity at the organization's disposal, including cash and cash equivalents and a line of credit. Financial assets available for general expenditures without donor or other restrictions limiting use, within one year as of June 30, 2021 are:

Financial assets:	
Cash and cash equivalents	\$ 1,221,943
Investments	2,695,565
Pledge receivable, net	<u>1,919,731</u>
Total financial assets	<u><u>5,837,239</u></u>
Less: financial assets held to meet donor-imposed restrictions	<u>(3,671,415)</u>
Amount available for general expenditures within one year	<u><u>\$ 2,165,824</u></u>

THE SURGE INSTITUTE

NOTES TO FINANCIAL STATEMENTS

(Continued)

YEAR ENDED JUNE 30, 2021

**NOTE 10 – LINE OF CREDIT**

On May 30, 2019, Surge entered into a \$500,000 unsecured line of credit arrangement with Chase Bank that matures on June 1, 2021. Interest is at a variable adjusted libor rate with a 4.321 percent minimum per annum. There were no borrowings under the line of credit as of June 30, 2021.

**NOTE 11 – NOTE PAYABLE**

On April 28, 2020, Surge was granted a loan for \$303,300 by immito, LLC, pursuant to the Paycheck Protection Program (“PPP”) under Division A, Title I of the CARES Act, which was enacted March 27, 2020.

The Organization has been granted forgiveness in November 2020. The proceeds are recognized as a gain on extinguishment of debt in the statement of activities. The Organization has been granted forgiveness in March 2021. The proceeds are recognized as a gain on extinguishment of debt in the statement of activities.

**NOTE 12 – NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions at June 30, 2021 are available for the following purposes:

General Operating	\$ 2,760,000
Surge Fellowship Building Leadership	799,000
Alumni Programs	111,000
Covid-19 Relief Fund	<u>1,415</u>
Total	<u>\$ 3,671,415</u>

During fiscal 2021, net assets were released into operations (\$4,364,880) as donor restrictions and programmatic spending purposes were achieved.

THE SURGE INSTITUTE

NOTES TO FINANCIAL STATEMENTS

(Continued)

YEAR ENDED JUNE 30, 2021

**NOTE 13 – NEW ACCOUNTING PRONOUNCEMENTS**

On July 1, 2020, Surge adopted ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which was issued and amended to provide guidance and to clarify the principles for recognizing revenue from contracts with customers. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, as well as other disclosures. The adoption of this standard had no material effect on the organization's financial statements or disclosures for the year ended June 30, 2021.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This standard requires increased transparency and comparability among organizations by requiring them to recognize lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The provisions of this standard are effective for fiscal years beginning after December 15, 2020 and early adoption is permitted. Management is currently evaluating the impact of adopting this standard.

**NOTE 14 – UNCERTAINTY**

On March 11, 2020, the World Health Organization (WHO) recognized the novel strain of coronavirus, COVID-19, as a pandemic. This coronavirus outbreak has severely restricted the level of economic activity around the world. In response to this coronavirus outbreak, the governments of many countries, states, cities and other geographic regions have taken preventive or protective actions, such as imposing restrictions on travel and business operations and advising or requiring individuals to limit or forgo their time outside of their homes. Temporary closures of businesses have been ordered and numerous other businesses have temporarily closed voluntarily. Given the uncertainty regarding the spread of this coronavirus, the related financial impact cannot be reasonably estimated at this time.

With COVID-19, Surge saw an opportunity to support fellows and alumni directly with pass-through grants to support students, families, and communities negatively impacted. Surge engaged funders for this effort and as a result distributed \$114,880 during fiscal 2021, as illustrated in the statement of functional expenses, to distribute to those nonprofit organization on the front lines servicing youth and families in need. This opportunity to serve directly aligns with Surge's mission and extends the impact to those most adversely impacted by the COVID-19 pandemic.