



Surge Institute

Independent Auditor's Report and Financial Statements

June 30, 2024



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Independent Auditor's Report

Board of Directors
Surge Institute
Chicago, Illinois

Opinion

We have audited the financial statements of Surge Institute (the Institute), which comprise the statement of financial position as of June 30, 2024 and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Institute as of June 30, 2024, 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.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute 's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Institute 's ability to continue as a going concern for a reasonable period of time.

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

Forvis Mazars, LLP

**Colorado Springs, Colorado
September 19, 2024**

Surge Institute
Statement of Financial Position
June 30, 2024

ASSETS

Cash	\$	1,148,700
Investments		8,624,361
Accounts receivable		94,950
Contributions receivable		2,435,916
Prepaid and other assets		<u>130,965</u>
Total assets	\$	<u><u>12,434,892</u></u>

LIABILITIES AND NET ASSETS

Accounts payable	\$	130,486
Accrued expenses		<u>191,550</u>
Total liabilities		<u>322,036</u>
Net assets		
Without donor restrictions		6,889,506
With donor restrictions		<u>5,223,350</u>
Total net assets		<u>12,112,856</u>
Total liabilities and net assets	\$	<u><u>12,434,892</u></u>

Surge Institute
Statement of Activities
Year Ended June 30, 2024

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues, Gains, and Other Support			
Contribution revenue	\$ 351,203	\$ 7,076,950	\$ 7,428,153
Program revenue	231,250	-	231,250
Investment return, net	438,264	-	438,264
Other revenue	12,133	-	12,133
Net assets released from restrictions	<u>5,913,767</u>	<u>(5,913,767)</u>	<u>-</u>
Total revenues, gains, and other support	<u>6,946,617</u>	<u>1,163,183</u>	<u>8,109,800</u>
Expenses			
Program services	<u>5,320,299</u>	<u>-</u>	<u>5,320,299</u>
Support services			
Management and general	849,868	-	849,868
Fundraising	<u>854,124</u>	<u>-</u>	<u>854,124</u>
Total expenses	<u>1,703,992</u>	<u>-</u>	<u>1,703,992</u>
	<u>7,024,291</u>	<u>-</u>	<u>7,024,291</u>
Change in Net Assets	(77,674)	1,163,183	1,085,509
Net Assets, Beginning of Year	<u>6,967,180</u>	<u>4,060,167</u>	<u>11,027,347</u>
Net Assets, End of Year	<u>\$ 6,889,506</u>	<u>\$ 5,223,350</u>	<u>\$ 12,112,856</u>

Surge Institute
Statement of Functional Expenses
Year Ended June 30, 2024

	Program Services	Support Services		Total Expenses
		General and Administrative	Fundraising	
Personnel	\$ 3,067,638	\$ 502,272	\$ 754,081	\$ 4,323,991
Program costs	2,205,553	261,188	62,088	2,528,829
Office and administration	16,197	36,782	13,033	66,012
Occupancy	24,508	14,708	8,237	47,453
Other costs	6,403	34,918	16,685	58,006
Total expenses	\$ 5,320,299	\$ 849,868	\$ 854,124	\$ 7,024,291

Surge Institute
Statement of Cash Flows
Year Ended June 30, 2024

Operating Activities

Change in net assets	\$	1,085,509
Items not requiring operating activities cash flows		
Net realized and unrealized gain on investments		(41,559)
Changes in		
Accounts receivable		(94,950)
Contributions receivable		(488,857)
Prepaid and other assets		(73,420)
Accounts payable		(8,295)
Accrued expenses		75,845
		<u>75,845</u>
Net cash provided by operating activities		<u>454,273</u>

Investing Activities

Purchases of investments		(1,208,999)
Proceeds from sales of investments		1,362,662
		<u>1,362,662</u>
Net cash provided by investing activities		<u>153,663</u>

Change in Cash

607,936

Cash, Beginning of Year

540,764

Cash, End of Year

\$ 1,148,700

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

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.

Surge's mission is to educate and develop leaders of color who create transformative change in urban education. Surge serves this mission through the signature programs, the Surge Fellowship and the Surge Academy, best in class one-year programs 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 in the communities. 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.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash

At June 30, 2024, the Institute's cash accounts exceeded federally insured limits by approximately \$900,000. Cash equivalents held in the investment portfolio are classified as investments for financial reporting purposes.

Investments and Net Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value.

Investment return includes dividend, interest, and other investment income; realized and unrealized gains and losses on investments carried at fair value; less external and direct internal investment expenses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Accounts Receivable

Accounts receivable are stated at the amount of consideration from program participants, of which the Institute has an unconditional right to receive plus any accrued and unpaid interest. The Institute provides an allowance for credit losses, which is based upon a review of outstanding receivables, historical collection information, and existing economic conditions adjusted for current conditions and reasonable and supportable forecasts.

Accounts receivable are ordinarily due 30 days after the issuance of the invoice. Accounts past due more than 120 days are considered delinquent. Interest accrues on delinquent accounts until the account is past due more than one year, at which time interest accrual ceases and does not resume until the account is no longer classified as delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions. Net assets with donor restrictions are subject to donor restrictions. Restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor.

Contributions

Contributions are provided to the Institute without restrictions placed on the gift by the donor. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
<i>Conditional gifts, with or without restriction</i> Gifts that depend on the Institute overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> , the donor-imposed barrier is met
<i>Unconditional gifts, with or without restriction</i> Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment, and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor stipulated time restriction ends or purpose restriction is accomplished, 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. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period the gift is received are recorded as revenue with donor restrictions and then released from restriction.

Conditional contributions and investment income having donor stipulations which are satisfied in the period the gift is received and the investment income is earned are recorded as revenue with donor restrictions and then released from restriction.

Program Revenue

Program revenue is recognized as the Institute provides services to participants. Revenue is reported at the amount of consideration which the Institute expects to be entitled in exchange for providing program services. The Institute determines the transaction price based on standard charges for services provided, reduced by discounts provided for scholarships and other price concessions provided to participants.

Surge Institute
Notes to Financial Statements
June 30, 2024

Income Taxes

The Institute is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Institute is subject to federal income tax on any unrelated business taxable income.

The Institute files tax returns in the U.S. federal jurisdiction.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the program and general and administrative categories benefited based on the relative efforts expended on each activity.

Subsequent Events

Subsequent events have been evaluated through September 19, 2024, which is the date the financial statements were available to be issued.

Note 2. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2024 comprise the following:

Cash	\$ 1,148,700
Investments	8,624,361
Accounts receivable	94,950
Contributions receivable	<u>2,435,916</u>
Financial Assets Available to be Used Within One Year	<u>12,303,927</u>
Less: Donor Imposed Restrictions	<u>5,223,350</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u><u>\$ 7,080,577</u></u>

The Institute manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The Institute has a liquidity policy to maintain current financial assets less current liabilities at a minimum of 90 days operating expenses. To achieve these targets, the Institute forecasts its future cash flows and monitors its liquidity quarterly, and monitors its reserves annually. During the year ended June 30, 2024, the level of liquidity and reserves was managed within the policy requirements.

Note 3. Investments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2024:

	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Total Fair Value			
Investments			
Money market funds	\$ 23,569	\$ 23,569	\$ -
Fixed income mutual funds	8,600,792	8,600,792	-
	<u>\$ 8,624,361</u>	<u>\$ 8,624,361</u>	<u>\$ -</u>

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2024. The Institute has reported no liabilities recorded at fair market value on a recurring basis or assets and liabilities recorded at fair market value on a non-recurring basis.

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy, and include money market and fixed income mutual funds. At June 30, 2024, the Institute held no investments classified as Level 2 or Level 3 in the hierarchy.

Note 4. Contributions Receivable

Contributions receivable consisted of the following:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Due within one year	\$ -	\$ 1,396,700	\$ 1,396,700
Due within one to five years	-	1,060,000	1,060,000
	<u>-</u>	<u>2,456,700</u>	<u>2,456,700</u>
Less			
Unamortized discount	<u>-</u>	<u>(20,784)</u>	<u>(20,784)</u>
	<u>\$ -</u>	<u>\$ 2,435,916</u>	<u>\$ 2,435,916</u>

A discount rate of 2% was utilized for 2024.

Note 5. Future Commitments

The Institute receives its grant support through periodic claims filed with the respective funding sources, not to exceed a limit specified in the funding agreement. Since the financial statements of the Institute are prepared on the accrual basis, all earned portions of the grants not yet received as of June 30, 2024, have been recorded as receivables. Following are the grant commitments that extend beyond June 30, 2024 and require satisfactory progress towards specified milestones, thus, deemed conditional:

<u>Grant</u>	<u>Term</u>	<u>Grant Amount</u>	<u>Through 2024</u>	<u>Funding Available</u>
Private grants	Various	<u>\$ 4,531,000</u>	<u>\$ 1,856,000</u>	<u>\$ 2,675,000</u>

Note 6. Line of Credit

The Institute has a \$1,000,000 revolving line of credit expiring in 2025. Interest is payable monthly at SOFR, which was 5.33% at June 30, 2024, plus 4.468%. At June 30, 2024, there was \$0 borrowed against this line. The line is collateralized by substantially all of the Institute's assets.

Surge Institute
Notes to Financial Statements
June 30, 2024

Note 7. Net Assets

Net assets with donor restrictions at June 30, 2024 are restricted for the following purposes or periods:

Subject to expenditure for specified purpose	
Academy programs	\$ 725,500
Surge fellowships	199,000
Black Principals Network	15,000
Development	<u>4,283,850</u>
	<u>\$ 5,223,350</u>

Net Assets Released from Restriction

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors:

Satisfaction of purpose restrictions	
Academy programs	\$ 1,080,500
Surge fellowships	591,500
Black Principals Network	608,017
Development	<u>3,633,750</u>
	<u>\$ 5,913,767</u>

Note 8. Program Revenue

Program revenue is reported at the amount that reflects the consideration to which the Institute expects to be entitled in exchange for providing instruction and other services. These amounts are due from program participants.

Revenue is recognized as performance obligations are satisfied, which is ratably over the programmatic term. Generally, the Institute bills participants one-half prior to the beginning of the program and the remainder after classes conclude. No refunds are awarded after the programmatic term begins.

Transaction Price and Recognition

The Institute has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the following factors:

- Payers that have different reimbursement and payment methodologies

For the year ended June 30, 2024 the Institute recognized revenue of \$231,250 from services that transfer to the participant over time.

Contract Balances

The Institute's receivables from programs were \$94,950 and \$0 at June 30, 2024 and July 1, 2023, respectively.

Note 9. Significant Estimates and Concentrations

Contributions

Approximately 35% of contributions were received from one donor during 2024.

Investments

The Institute invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying statements of financial position.