MARATHON KIDS, INC.
(A Nonprofit Corporation)

INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS

MAY 31, 2019

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INDEX TO FINANCIAL STATEMENTS

Allman & Associates, Inc.
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Marathon Kids, Inc.

We have audited the accompanying financial statements of the Marathon Kids, Inc. (a nonprofit corporation), 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.

Auditors' 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 of 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 auditors' 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 Marathon Kids, Inc. as of May 31, 2019, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Allman & Associates, Inc.

Austin, Texas
November 6, 2019

MARATHON KIDS, INC.
(A Nonprofit Corporation)

STATEMENT OF FINANCIAL POSITION

AS OF MAY 31, 2019

Assets	
Current Assets:	
Cash and cash equivalents	$ 849,764
Investments	1,014,820
Accounts receivable	27,168
Contributions receivable	416,800
Inventory	383,870
Prepaid expenses and other assets	19,234
Total Current Assets	2,711,656
Property and equipment, net of accumulated depreciation	378,933
Intangible assets	200,000
Total Assets	3,290,589
Liabilities and Net Assets	
Current Liabilities:	
Accounts payable	11,680
Total Current Liabilities	11,680
Total Liabilities	11,680
Net Assets:	
Without donor restrictions	2,434,327
With donor restrictions	844,582
Total Net Assets	3,278,909
Total Liabilities and Net Assets	$ 3,290,589

See accompanying auditors’ report and notes to financial statements.

MARATHON KIDS, INC.
(A Nonprofit Corporation)

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED MAY 31, 2019

Net Assets Without Donor Restrictions:		
Revenues:		
Contributions	$	942,961
Return on investments		39,470
Fees for service		156,483
Other revenues		24,998
Total Revenues		1,163,912
Net assets released from restrictions		639,853
Total revenues without donor restrictions		1,803,765
Expenses:		
Marathon Kids Program		1,704,218
General and administrative		155,082
Fundraising		337,887
Total Expenses		2,197,187
Change in net assets without donor restrictions		(393,422)
Net Assets With Donor Restrictions:		
Contributions		1,404,757
Net assets released from restrictions		(639,853)
Change in net assets with donor restrictions		764,904
Total change in net assets		371,482
Net assets, beginning of year		2,907,427
Net assets, end of year	$	3,278,909

See accompanying auditors' report and notes to financial statements.

MARATHON KIDS, INC.
(A Nonprofit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED MAY 31, 2019

Expense Category	Marathon Kids Program	General and Administrative	Fundraising	Totals
Banking and automation fees	$ 2,189	$ 3,072	$ -	$ 5,261
Office expenses	32,014	4,605	13,211	49,830
Rent	34,737	6,066	14,337	55,140
Telephone	3,180	555	1,312	5,047
Computer and IT	83,277	283	3,746	87,306
Insurance	6,910	1,206	2,852	10,968
Event and program expense	653,392	347	27,794	681,533
Marketing and promotion	33,000	-	1,376	34,376
Professional fees	24,000	16,403	6,565	46,968
Payroll taxes	42,041	15,664	10,532	68,237
Employee benefits	18,405	19,879	17,298	55,582
Salaries and wages	593,460	87,002	238,864	919,326
Depreciation	177,613	-	-	177,613
	$ 1,704,218	$ 155,082	$ 337,887	$ 2,197,187

MARATHON KIDS, INC.
(A Nonprofit Corporation)

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MAY 31, 2019

Cash Flows From Operating Activities:		
Change in Net Assets	$	371,482
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation		177,613
Dividends reinvested		(20,496)
Realized and unrealized (gains) losses on investments		(24,957)
Change in assets and liabilities:		
Decrease (increase) in accounts receivable		(25,523)
Decrease (increase) in contributions receivable		(254,300)
Decrease (increase) in inventory		262,444
Decrease (increase) in prepaid expenses and other assets		37,488
Increase (decrease) in accounts payable		(21,360)
Increase (decrease) in deferred revenue		(119,883)
Net Cash Flows From Operating Activities		382,508
Cash Flows From Investing Activities:		
Purchases of property and equipment		(48,204)
Purchases of investments		(209,663)
Proceeds from sales/maturities of investments		215,938
Net Cash Flows Used by Investing Activities		(41,929)
Net Increase in Cash and Cash Equivalents		340,579
Cash and Cash Equivalents at beginning of year		509,185
Cash and Cash Equivalents at end of year	$	849,764
Supplemental data:		
Income taxes paid	$	-
Interest paid	$	-

See accompanying auditors' report and notes to financial statements.

1. Organization

Marathon Kids, Inc. (the Organization) incorporated in the State of Texas on February 26, 2004. Marathon Kids helps to enable each child participant, regardless of fitness level, to run up to the equivalent of four marathons incrementally during the school year. Kids set goals, track progress, and are rewarded at each milestone. The mission of the Organization is through running, we show kids they can achieve more than they ever thought possible and put them on the path to healthier lives. The Organization is funded primarily through contributions and fees for service.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) applicable to not-for-profit organizations. Under the accrual basis, revenues are recognized in the accounting period in which they are earned and become measurable. Contributions and fees for service are considered to be available for use without donor restrictions unless specifically restricted by the donor. Contributions reported that are restricted for future periods or for specific purposes are considered restricted and increase net assets with donor restrictions. Expenses are recorded in the accounting period incurred, regardless of when cash is disbursed.

Financial Statement Presentation

Financial statement presentation follows the recommendation of the "Financial Statements of Not-For-Profit Organizations" section of the Accounting Standards Codification (ASC). Under the ASC, the Organization is required to report information regarding its financial position and activities according to two classes of net assets as applicable.

a) *Net assets without donor restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. Net assets without donor restrictions include the revenues and expenses of the primary operations of the Organization.

b) *Net assets with donor restrictions* – Net assets subject to donor (or certain grantor) 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. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

2. Summary of Significant Accounting Policies (continued)

Estimates

The preparation of financial statements in conformity with GAAP 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 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, the Organization considers all checking accounts, savings accounts, money market funds and certificates of deposit purchased with initial maturities of three months or less to be cash equivalents, unless designated for investment purposes.

Investments

The Organization records investments using the guidance of FASB ASC 985-320, *Not-for-Profit Entities: Investments – Debt and Equity Securities.* Investments are stated at their readily determinable fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

Property and Equipment

Property and equipment are recorded at cost and depreciated on a straight-line basis over the estimated useful lives of the assets, generally five to seven years for furniture and equipment, three to five years for software and website development, and ten years for vehicles. Donations of property and equipment are recorded as support at their estimated values. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long these assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed into service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Inventory

Inventories (t-shirts, dog tags, shoelaces, shoe-tags and bracelets) are stated at the lower of cost (average cost) or market.

2. Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses

The costs of providing the various programs and activities of the Organization have been summarized on a functional basis in the statement of activities. The statement of functional expenses reports the natural classification detail of expenses by function. Expenses that can be identified with a specific program or relate to a specific source of revenue are allocated directly to that program. Indirect expenses have been allocated based on management's estimates.

Income Taxes

The Organization is generally exempt from federal income taxes under section 501(a) of the Internal Revenue Code as an organization described in section 501(c)(3). Furthermore, the Organization is a publicly supported organization described in sections 509(a)(1) and 170(b)(1)(A)(vi). Therefore, no provision for income taxes has been included in these financial statements.

The Organization has adopted the recognition requirements for uncertain income tax positions as required by GAAP, with no cumulative effect adjustment required. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more likely than not be sustained upon examination by taxing authorities. The Organization has analyzed the tax positions taken in its filings with the Internal Revenue Service and state jurisdictions where it operates. The Organization believes that its income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Organization's financial position, changes in net assets or cash flows. Accordingly, the Organization has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at May 31, 2019. The Organization is subject to income tax audits for the previous three years which are open (May 31, 2018, 2017, and 2016). There are currently no income tax audits for any tax periods in progress.

Concentration of Credit Risk

Financial instruments which potentially subject the Organization to credit risk consist of cash and cash equivalents, and investments. All depositor's accounts at an insured depository institution, including all noninterest-bearing transaction accounts, are insured by the FDIC up to the maximum deposit insurance amount of $250,000. As of May 31, 2019, the Organization's uninsured cash balance totaled $557,629. The Organization has not experienced any losses in any of these accounts in the past.

The Organization's investments 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 near-term could materially affect the amounts reported in the statement of financial position.

2. Summary of Significant Accounting Policies (continued)

Change in Not-for-Profit Accounting Standards

On August 18, 2016, FASB issued accounting standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information about expenses and investment return. ASU 2016-14 has been implemented and the presentation in these financial statements has been adjusted accordingly.

3. Investments

Investments comprised the following at May 31, 2019:

Equity securities	$	608,280
Money market funds		48,867
Fixed income mutual funds		128,604
Equity funds		137,415
Exchange traded funds		31,807
Fixed income agency securities		59,847
Total Investments	$	1,014,820

Return on investments comprised the following for the year ended May 31, 2019:

Interest and dividends	$	20,787
Realized and unrealized gains (losses)		24,957
Investment expense		(6,274)
Total Return on Investments	$	39,470

4. Contributions Receivable

The contributions receivable at May 31, 2019 were considered fully collectible. Therefore, no allowances have been recorded in these financial statements. Due to the immaterial amount of discount calculated as of May 31, 2019, no discounts to present value are reflected in these financial statements.

4. Contributions Receivable (continued)

Contributions receivable comprised the following as of May 31, 2019:

Contributions receivable, gross	$	416,800
Allowance for doubtful accounts		-
Discount to present value		-
Contributions receivable	$	416,800

At May 31, 2019, collections of contributions receivable were expected as follows:

Less than one year	$	416,800
One to five years		-
Contributions receivable, gross	$	416,800

5. Property and Equipment

At May 31, 2019, property and equipment consisted of the following:

Furniture and equipment	$	44,888
Website development and software		924,951
Total Property and Equipment		969,839
Less accumulated depreciation		(590,906)
Total Property and Equipment, Net	$	378,933

For the year ended May 31, 2019, depreciation expense was recorded in the amount of $177,613.

6. Intangible Assets

In March 2013, the Organization entered into an agreement for the purchase and acquisition of all intellectual and other property rights related to the "Marathon Kids" brand, including but not limited to trade names, trademarks, URLs, goodwill or other tangible or intangible property associated with the brand. The Organization agreed to pay a total of $200,000 to be paid as follows: $100,000 on the execution of the agreement and two additional payments of $50,000 each on the first and second anniversaries of the executed settlement. As of May 31, 2015, the amount has been paid in full. Accounting standards require that the Organization assess the fair value of the intangible assets on an annual basis. The Organization has determined that the value of $200,000 for the intangible asset was not impaired at May 31, 2019.

7. Net Assets with Donor Restrictions

Net assets with donor restrictions comprised the following at May 31, 2019:

Marathon Kids Leadership Academy	$	500,000
Marathon Kids Running Clubs		276,800
Activations and events		38,681
Miscellaneous		29,101
Net assets with donor restrictions	$	844,582

During the year ended May 31, 2019, net assets with donor restrictions totaling $639,853 were released to net assets without donor restrictions because of the satisfaction of purpose restrictions.

8. In-Kind Contributions

During the year ending May 31, 2019, the Organization entered into grant agreements with NIKE USA, Inc. that included NIKE product. The fair market value of the in-kind donations was $14,162, for the year ending May 31, 2019, and is included in contributions revenue on the statement of activities and event and program expense on the statement of functional expenses.

The Organization also received substantial donated service hours by unpaid volunteers who assist with the Organization's programs and fundraising activities. These services have not created nor enhanced nonfinancial assets, nor required specialized skills that would typically need to be purchased if not provided by donation. Therefore, in accordance with GAAP, the value of these services has not been recorded in these financial statements.

9. Retirement Plan

In July 2009, the Organization established a Savings Incentive Match Plan for Employees (SIMPLE) Plan. Employees who are reasonably expected to receive at least $5,000 in compensation for the current year and have completed one year of service are eligible to participate in the Plan beginning in the first January after the completion of one year of employment. The Organization matches contributions to the Plan up to 3% of eligible compensation. Retirement plan expense for the year ended May 31, 2019 totaled $13,717.

Effective January 1, 2014, the Organization amended the SIMPLE Plan to allow employees to participate after the completion of six months of employment. The Organization continues to match contributions to the Plan up to 3% of eligible compensation.

10. Fair Value Measurements and Disclosures

The requirements of Fair Value Measurements and Disclosures of the Accounting Standards Codification apply to all financial instruments and all nonfinancial assets and nonfinancial liabilities that are being measured and reported on a fair value basis. Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement is the same in both cases – to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (that is, an exit price). Fair Value Measurements and Disclosures also establish a fair value hierarchy that prioritizes the inputs used in valuation methodologies into the following three levels:

- Level 1 Inputs – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

- Level 2 Inputs – Inputs other than quoted prices included with Level 1 that are observable for the asset or liability either directly or indirectly.

- Level 3 Inputs – Unobservable inputs for the asset or liability.

The fair value of the Organization's cash, accounts and contributions receivable, prepaid expenses, and accounts payable, approximates the carrying amounts of such instruments due to their short maturity.

The following table represents assets and liabilities reported on the statement of financial position at their fair value as of May 31, 2019 by level within the fair value measurement hierarchy.

		Fair Value Measurements at Reporting Date Using		
Description	Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable inputs (Level 3)
Money market funds	$ 48,867	$ -	$ 48,867	$ -
Equity securities	608,280	608,280	-	-
Fixed income mutual fund	128,604	128,604	-	-
Fixed income agency securities	59,847	59,847	-	-
Equity funds	137,415	137,415		
Exchange traded funds	31,807	31,807	-	-
	$ 1,014,820	$ 965,953	$ 48,867	$ -

11. Leases

The Organization entered into a lease for office space in Austin, Texas with a lease term from May 15, 2018 through August 31, 2023. Base rent escalates from an initial rate of $5,401 per month to $5,774 per month at the end of the term.

The total future minimum lease payments required under this agreement are as follows:

Year		Amount
2020	$	65,653
2021		66,771
2022		67,888
2023		69,006
2024		17,321
Total	$	286,639

Lease expense for the year ended May 31, 2019 was $55,140.

12. Liquidity and Availability

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash and cash equivalents	$	849,764
Short-term investments		1,014,820
Accounts receivable		27,168
Contributions receivable		416,800
Less net assets with donor restrictions		(924,260)
Financial assets available for general expenditures within one year	$	1,384,292

The Organization does not have a formal liquidity policy, but intends to meet cash needs through contributions, fees for service, and meeting budget expectations.

13. Subsequent Events

Subsequent events are events or transactions that occur after the statement of financial position date but before the financial statements are issued. Management evaluated subsequent events through the date of November 6, 2019, the date the financial statements were available to be issued, and there were no subsequent events to be disclosed.