MARATHON KIDS, INC.
(A Nonprofit Corporation)

INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS

MAY 31, 2022

MARATHON KIDS, INC.
(A Nonprofit Corporation)

INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS

MAY 31, 2022

INDEX TO FINANCIAL STATEMENTS

Allman & Associates, Inc.
CERTIFIED PUBLIC ACCOUNTANTS

9600 GREAT HILLS TRAIL
SUITE 150W
AUSTIN, TX 78759
(512) 502-3077
FAX: 888-512-7990
WWW.ALLMANCPAS.COM

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Marathon Kids, Inc.
Austin, Texas

Opinion
We have audited the accompanying financial statements of Marathon Kids, Inc. (a nonprofit corporation) which comprise the statement of financial position as of May 31, 2022, 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 financial statements referred to above present fairly, in all material respects, the financial position of Marathon Kids, Inc. as of May 31, 2022, 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. 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 Marathon Kids, Inc. 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 the 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 Marathon Kids, Inc.'s ability to continue as a going concern within one year after the date that the 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 generally accepted auditing standards 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, including omissions, 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 generally accepted auditing standards, 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 Marathon Kids, Inc.'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 Marathon Kids, Inc.'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.

Allman & Associates, Inc.

Austin, Texas
October 18, 2022

MARATHON KIDS, INC.
(A Nonprofit Corporation)

STATEMENT OF FINANCIAL POSITION

AS OF MAY 31, 2022

Assets		
Current Assets:		
Cash and cash equivalents	$	528,301
Investments		1,412,854
Accounts receivable		3,025
Contribution receivable		50,000
Inventory		17,395
Prepaid expenses and other assets		66,205
Total Current Assets		2,077,780
Prepaid expenses		113,333
Security deposit		6,321
Property and equipment, net of accumulated depreciation		412,358
Intangible assets		200,000
Total Assets	$	2,809,792
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	$	30,236
Accrued interest payable		37
Long-term debt, current portion		20,000
Total Current Liabilities		50,273
Long-term debt, net of current portion		50,000
Total Liabilities		100,273
Net Assets:		
Without donor restrictions		2,434,519
With donor restrictions		275,000
Total Net Assets		2,709,519
Total Liabilities and Net Assets	$	2,809,792

See accompanying auditors' report and notes to financial statements.

MARATHON KIDS, INC.
(A Nonprofit Corporation)

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED MAY 31, 2022

Net Assets Without Donor Restrictions:	
Revenues and Support:	
Contributions	$ 162,397
Sponsorships	28,347
In-kind contributions	114,050
Return on investments	(88,527)
Fees for service	101,685
Forgiveness of PPP loan	162,750
Other revenues	39,055
Total Revenues	519,757
Net assets released from restrictions	770,000
Total Revenues and Support	1,289,757
Expenses:	
Marathon Kids Program	1,084,041
General and administrative	265,826
Fundraising	157,114
Total Expenses	1,506,981
Change in net assets without donor restrictions	(217,224)
Net Assets With Donor Restrictions:	
Contributions	570,000
Net assets released from restrictions	(770,000)
Change in net assets with donor restrictions	(200,000)
Total change in net assets	(417,224)
Net assets, beginning of year	3,126,743
Net assets, end of year	$ 2,709,519

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, 2022

Expense Category	Marathon Kids Program	General and Administrative	Fundraising	Totals
Banking and automation fees	$ 704	$ 240	$ 151	$ 1,095
Office expenses	15,866	66,958	3,414	86,238
Rent	53,632	2,716	11,540	67,888
Telephone	3,498	177	753	4,428
Computer and IT	92,477	214	907	93,598
Insurance	4,371	221	941	5,533
Event and program expense	60,945	-	-	60,945
Marketing and promotion	149,211	-	-	149,211
Professional fees	6,000	124,642	-	130,642
Payroll taxes	46,963	3,192	10,379	60,534
Employee benefits	45,009	2,198	11,704	58,911
Salaries and wages	553,057	27,650	117,325	698,032
Miscellaneous	-	37,581	-	37,581
Interest	-	37	-	37
Depreciation	52,308	-	-	52,308
Total Expenses	$ 1,084,041	$ 265,826	$ 157,114	$ 1,506,981

See accompanying auditors’ report and notes to financial statements.

MARATHON KIDS, INC.
(A Nonprofit Corporation)

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MAY 31, 2022

Cash Flows From Operating Activities:		
Change in Net Assets	$	(417,224)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation		52,308
Dividends reinvested, net of fees		(27,291)
Realized and unrealized (gains) losses on investments		115,840
Forgiveness of note payable		(162,750)
Change in assets and liabilities:		
Decrease (increase) in accounts receivable		461,965
Decrease (increase) in inventory		22,461
Decrease (increase) in prepaid expenses and other assets		(102,526)
Increase (decrease) in accounts payable		(11,996)
Net Cash Flows From Operating Activities		(69,213)
Cash Flows From Investing Activities:		
Purchases of property and equipment		(155,002)
Purchases of investments		(227,213)
Proceeds from sales/maturities of investments		227,282
Net Cash Flows Used by Investing Activities		(154,933)
Net Decrease in Cash and Cash Equivalents		(224,146)
Cash and Cash Equivalents at beginning of year		752,447
Cash and Cash Equivalents at end of year	$	528,301
Supplemental data:		
Income taxes paid	$	-
Interest paid	$	-

Noncash transactions:
Prepaid expenses acquired with long-term debt of $70,000

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, showing kids they can achieve more than they ever thought possible and putting 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 the 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. Significant estimates are used in the functional allocation of expenses and depreciation.

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.

2. Summary of Significant Accounting Policies (continued)

Receivables

Receivables consists of contributions and fees for service. Upon determining that a receivable is uncollectible, that receivable is written off and charged to bad debt expense. There is no allowance for doubtful accounts recorded in the financial statements.

Revenue Recognition

Unconditional grants and contributions received are recorded at fair value on the date of the award as with or without restrictions depending on the existence and/or nature of any donor restrictions. Net assets with donor restrictions are reclassified to net assets without donor restrictions upon expiration of time restriction or when purpose restrictions have been met. If restrictions are met in the same year as donation received, donation is recorded as support without donor restrictions. When both with or without restricted resources are available for use, it is the Organization's policy to use resources with restrictions first, then resources without restrictions as needed. Fees for services are recognized when the services are completed.

Inventory

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

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. General and administrative expenses support the overall direction of the Organization.

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.

2. Summary of Significant Accounting Policies (continued)

Income Taxes (continued)

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, 2022. The Organization is subject to income tax audits for the previous three years. 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, 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, 2022, the Organization's uninsured cash balance totaled $153,702. 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.

Change in Not-for-Profit Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, *Leases*. This guidance impacts the presentation of an entity's leasing activities and will require the recognition of lease (right-of-use) assets and related lease liabilities on the statement of financial position and disclosure of key information about leasing arrangements. ASU 2016-02 was scheduled to become effective for fiscal years beginning after December 15, 2019, but has been delayed until annual periods beginning after December 15, 2021. The Organization is currently evaluating the impact the adoption of this guidance will have on its financial statements.

2. Summary of Significant Accounting Policies (continued)

Change in Not-for-Profit Accounting Standards

In September 2020, the FASB issued ASU 2020-07, *Not-for Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* ("ASU 2020-07"), to increase the transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosure. ASU 2020-07 is effective for annual period beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022. Early adoption is permitted. The Foundation is currently considering the impact of ASU 2020-07.

3. Investments

Investments comprised the following at May 31, 2022:

Equity securities	$	830,210
Money market funds		38,410
Fixed income mutual funds		130,406
Equity funds		227,489
Exchange traded funds		160,726
REIT funds		25,613
Total Investments	$	1,412,854

Return on investments comprised the following for the year ended May 31, 2022:

Interest and dividends	$	35,897
Interest on savings		22
Realized and unrealized gains (losses)		(115,840)
Investment expense		(8,606)
Total Return on Investments	$	(88,527)

4. Property and Equipment

At May 31, 2022, property and equipment consisted of the following:

Furniture and equipment	$ 48,690
Website development and software	1,321,193
Total Property and Equipment	1,369,883
Less accumulated depreciation	(957,525)
Total Property and Equipment, Net	$ 412,358

For the year ended May 31, 2022, depreciation expense was recorded in the amount of $52,308.

5. 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, 2022.

6. Long-Term Debt

A promissory note was signed on May 25, 2022 in the amount of $70,000 with an interest rate of 2.76%. The promissory note is entered into in support of acquiring the rights and supporting assets of the 2022, 2023 and 2024 Zilker Relays race. The rights were acquired for $170,000 with a cash payment of $100,000 made during the year ended May 31, 2022 and is recorded in prepaid expenses on the statement of financial position and the remainder of $70,000 as the promissory note. The promissory note terms of payment are for a $20,000 payment after the 2022 Zilker Relays race and a $25,000 payment after both 2023 and 2024 Zilker Relays race.

7. Net Assets with Donor Restrictions

Net assets with donor restrictions comprised the following at May 31, 2022:

Marathon Kids Program and Leadership Academy	$	225,000
Marathon Kids Connect		50,000
Net assets with donor restrictions	$	275,000

During the year ended May 31, 2022, net assets with donor restrictions totaling $770,000 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, 2022, the Organization received in-kind advertising for Google Ads and from a local television station. The fair market value of the in-kind donations was $114,050, for the year ending May 31, 2022, and is included in contributions revenue on the statement of activities and marketing and promotion 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.

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.

Retirement plan expense for the year ended May 31, 2022 totaled $6,280.

10. 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		
2023	$	68,819
2024		17,321
Total	$	86,140

Lease expense for the year ended May 31, 2022 was $67,888.

11. Forgiveness of PPP loan

On February 4, 2021, the Organization was approved for a Paycheck Protection Program (PPP) promissory note in the amount of $162,750, with an interest rate of 1% per annum based on a year of 365 days until maturity. The Organization used the proceeds of the loan only for purposes authorized by the PPP and was granted forgiveness for the entire balance of the note on July 21, 2021. The loan forgiveness of $162,750 was recognized in revenue in the year ended May 31, 2022.

12. 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:

12. Fair Value Measurements and Disclosures (continued)

- 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 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, 2022 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	$ 38,410	$ -	$ 38,410	$ -
Equity securities	830,210	830,210	-	-
Fixed income mutual funds	130,406	130,406	-	-
Equity funds	227,489	227,489	-	-
Exchange traded funds	160,726	160,726	-	-
REIT funds	25,613	25,613	-	-
Total Investments	$ 1,412,854	$ 1,374,444	$ 38,410	$ -
Note Payable	$ -	$ -	$ -	$ 70,000

The following is a reconciliation of assets and liabilities for which significant unobservable inputs (level 3) were used in determining fair value at May 31, 2022:

Beginning balance	$ 162,750
Proceeds from note payable	70,000
Debt forgiveness	(162,750)
Ending balance	$ 70,000

13. Risks and Uncertainties

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which could negatively impact future activities of the Organization. The continuing disruption is having a broad and negative impact on the US economy. The Organization will continue to assess any future outbreaks and will cut expenses to essential costs as well as budget appropriately and conservatively to minimize impact and uncertainty as the COVID-19 crisis continues past May 31, 2022.

14. 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	$ 528,301
Short-term investments	1,412,854
Accounts receivable	53,025
Less net assets with donor restrictions	(275,000)
Financial assets available for general expenditures within one year	$ 1,719,180

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

15. 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 October 18, 2022, with the following event disclosed below.

Effective June 1, 2022, the Organization entered into an “Agreement and Plan of Merger” with the Austin Runners Club, a non-profit corporation formed in 1974. The parties have determined that their mutual interests and the interests of the greater non-profit community will be best served by combining the operational activities of both organizations under the non-profit certificate of the Organization and dissolving the non-profit entity of the Austin Runners Club.

At the effective date, the Organization received the Austin Runners Club assets of approximately $300,000 of cash, race assets, domain name and social media accounts, program records, membership records, in-kind and discounted services and branded materials.