

MARATHON KIDS, INC.
(A Nonprofit Corporation)

INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS

MAY 31, 2017 AND 2016

MARATHON KIDS, INC.
(A Nonprofit Corporation)

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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 statements of financial position as of May 31, 2017 and 2016, and the related statements of activities, functional expenses and cash flows for the years 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, 2017 and 2016, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Allman & Associates, Inc.

Austin, Texas
November 20, 2017

MARATHON KIDS, INC.
(A Nonprofit Corporation)

STATEMENTS OF FINANCIAL POSITION

AS OF MAY 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Assets		
Cash and cash equivalents	\$ 510,662	\$ 594,241
Investments	897,231	805,365
Accounts receivable	107,555	375,961
Contributions receivable	719,051	407,000
Inventory	790,535	921,701
Prepaid expenses and other assets	6,633	3,728
Property and equipment	627,277	464,533
Intangible assets	200,000	200,000
	<u> </u>	<u> </u>
Total Assets	<u>\$ 3,858,944</u>	<u>\$ 3,772,529</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 9,228	\$ 49,963
Deferred revenue	180,408	162,598
	<u> </u>	<u> </u>
Total Liabilities	<u>189,636</u>	<u>212,561</u>
Net Assets		
Unrestricted	3,019,308	3,235,020
Temporarily restricted	650,000	324,948
	<u> </u>	<u> </u>
Total Net Assets	<u>3,669,308</u>	<u>3,559,968</u>
	<u> </u>	<u> </u>
Total Liabilities and Net Assets	<u>\$ 3,858,944</u>	<u>\$ 3,772,529</u>

See accompanying auditors' report and notes to financial statements.

MARATHON KIDS, INC.
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STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED MAY 31, 2017

	Unrestricted	Temporarily Restricted	Total
Revenues			
Contributions	\$ 77,998	\$ 1,812,515	\$ 1,890,513
Return on investments	98,901	-	98,901
Fees for service	988,921	-	988,921
Other revenues	52,371	-	52,371
	1,218,191	1,812,515	3,030,706
 Net assets released from restriction	 1,487,463	 (1,487,463)	 -
 Total Support and Other Revenues	 2,705,654	 325,052	 3,030,706
 Expenses			
Program services	2,346,187	-	2,346,187
General and administrative	335,211	-	335,211
Fundraising	239,968	-	239,968
	2,921,366	-	2,921,366
 Change in net assets	 (215,712)	 325,052	 109,340
 Net assets, beginning of year	 3,235,020	 324,948	 3,559,968
 Net assets, end of year	 \$ 3,019,308	 \$ 650,000	 \$ 3,669,308

See accompanying auditors' report and notes to financial statements.

MARATHON KIDS, INC.
(A Nonprofit Corporation)

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED MAY 31, 2016

	Unrestricted	Temporarily Restricted	Total
Revenues:			
Contributions	\$ 55,715	\$ 3,784,770	\$ 3,840,485
Return on investments	(17,293)	-	(17,293)
Fees for service	466,752	-	466,752
Other revenues	2,250	-	2,250
	507,424	3,784,770	4,292,194
 Net assets released from restrictions	4,398,162	(4,398,162)	-
 Total Support and Other Revenues	4,905,586	(613,392)	4,292,194
 Expenses:			
Program Services	2,421,482	-	2,421,482
General & Administrative	274,494	-	274,494
Fundraising	318,262	-	318,262
	3,014,238	-	3,014,238
 Total Expenses	3,014,238	-	3,014,238
 Change in net assets	1,891,348	(613,392)	1,277,956
 Net assets, beginning of year	1,343,672	938,340	2,282,012
 Net assets, end of year	\$ 3,235,020	\$ 324,948	\$ 3,559,968

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, 2017

<u>Expense Category</u>	<u>Program Services</u>	<u>General & Administrative</u>	<u>Fundraising</u>	<u>Totals</u>
Banking & automation fees	\$ 4,732	\$ 3,878	\$ 1,869	\$ 10,479
Office expenses	22,818	4,944	10,268	38,030
Rent	37,937	8,220	17,071	63,228
Telephone	3,044	660	1,370	5,074
Computer & IT	64,761	1,294	2,688	68,743
Insurance	7,757	1,681	3,491	12,929
Event & program expense	1,416,897	661	1,881	1,419,439
Marketing & promotion	99,178	-	-	99,178
Professional fees	-	20,759	35,050	55,809
Payroll taxes	49,951	22,483	10,835	83,269
Employee benefits	50,827	22,873	11,013	84,713
Salaries & wages	515,556	232,000	111,704	859,260
Depreciation	72,729	15,758	32,728	121,215
	<u>\$ 2,346,187</u>	<u>\$ 335,211</u>	<u>\$ 239,968</u>	<u>\$ 2,921,366</u>

See accompanying auditors' report and notes to financial statements.

MARATHON KIDS, INC.
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STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED MAY 31, 2016

<u>Expense Category</u>	<u>Program Services</u>	<u>General & Administrative</u>	<u>Fundraising</u>	<u>Totals</u>
Banking & automation fees	\$ 3,499	\$ 4,254	\$ 1,482	\$ 9,235
Office expenses	7,086	2,918	3,891	13,895
Rent	23,426	9,646	12,862	45,934
Telephone	3,240	1,334	1,779	6,353
Computer & IT	24,619	2,397	3,196	30,212
Insurance	8,298	3,417	4,556	16,271
Event & program expense	1,785,175	-	-	1,785,175
Marketing & promotion	45,326	-	-	45,326
Professional fees	-	38,205	3,700	41,905
Payroll taxes	37,476	13,281	19,967	70,724
Employee benefits	35,444	18,216	20,419	74,079
Salaries & wages	421,523	169,968	231,933	823,424
Depreciation	26,370	10,858	14,477	51,705
	<u>\$ 2,421,482</u>	<u>\$ 274,494</u>	<u>\$ 318,262</u>	<u>\$ 3,014,238</u>

See accompanying auditors' report and notes to financial statements.

MARATHON KIDS, INC.
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STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED MAY 31, 2017 AND 2016

	2017	2016
Cash Flows From Operating Activities:		
Change in Net Assets	\$ 109,340	\$ 1,277,956
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	121,215	51,705
Dividends reinvested	(16,215)	(14,735)
Realized and unrealized (gains) losses on investments	(82,585)	32,257
Contribution of inventory	-	(1,004,467)
Contribution of prepaid expenses	-	250,000
Change in assets and liabilities:		
Decrease (increase) in accounts receivable	268,406	(233,261)
Decrease (increase) in contributions receivable	(312,051)	(277,874)
Decrease (increase) in inventory	131,166	631,106
Decrease (increase) in prepaid expenses and other assets	(2,905)	11,312
Increase (decrease) in accounts payable	(40,735)	(10,604)
Increase (decrease) in deferred revenue	17,810	(181,192)
	<u>193,446</u>	<u>532,203</u>
Net Cash Flows From Operating Activities		
Cash Flows From Investing Activities:		
Purchases of property and equipment	(283,959)	(457,088)
Purchases of investments	(130,404)	(258,836)
Proceeds from sales/maturities of investments	137,338	264,131
	<u>(277,025)</u>	<u>(451,793)</u>
Net Cash Flows From Investing Activities		
Cash Provided by Financing Activities	<u>-</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(83,579)	80,410
Cash and Cash Equivalents at beginning of year	<u>594,241</u>	<u>513,831</u>
Cash and Cash Equivalents at end of year	<u>\$ 510,662</u>	<u>\$ 594,241</u>
Supplemental data:		
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>
Interest paid	<u>\$ -</u>	<u>\$ -</u>

See accompanying auditors' report and notes to financial statements.

MARATHON KIDS, INC.
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NOTES TO FINANCIAL STATEMENTS

MAY 31, 2017 AND 2016

1. Organization

Marathon Kids, Inc. (the Organization) was 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 to improve the health of children by providing them the motivation, tools and support to live happier and healthier lifestyles.

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. Expenses are recorded in the accounting period incurred, regardless of when cash is disbursed.

Financial Statement Presentation

The Organization's financial statement presentation follows the guidance of Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 982-205, *Not-for-Profit Entities: Presentation of Financial Statements*. Under these standards, the Organization is required to report information regarding its financial position and activities according to three classes of net assets:

Unrestricted Net Assets

Unrestricted net assets consist of net assets that are not subject to donor-imposed restrictions. Unrestricted net assets result from operating revenues, unrestricted contributions, unrestricted dividend and interest income, less expenses incurred in operations and for administrative functions.

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of net assets that are subject to donor-imposed stipulations that require the passage of time or the occurrence of a specific event. When the donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets

Permanently restricted net assets are subject to donor-imposed stipulations that are maintained permanently. Generally, the donors of these assets permit the use of all or part of the income earned on any related investments for general or specific purposes. The Organization had no permanently restricted net assets as of May 31, 2017 and 2016.

MARATHON KIDS, INC.
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NOTES TO FINANCIAL STATEMENTS

MAY 31, 2017 AND 2016

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 statements of cash flows, the Organization considers all checking accounts, savings account, 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 statements 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 temporarily restricted net assets to unrestricted net assets at that time.

Inventory

Inventories are stated at the lower of cost (average cost) or market.

MARATHON KIDS, INC.
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NOTES TO FINANCIAL STATEMENTS

MAY 31, 2017 AND 2016

2. Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses

Expenses are categorized by function in the statements of activities as either (1) program services, (2) general and administrative, or (3) fundraising expenses. Expenses that are specifically identifiable to a function are allocated entirely to that function. Expenses that are not specifically identifiable to a function are allocated based upon management's estimate of time and resources devoted to each function.

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, 2017 and 2016. The Organization is subject to income tax audits for the previous three years which are open (May 31, 2016, 2015 and 2014). 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, 2017 and 2016, the Organization's uninsured cash balances totaled \$211,939 and \$78,257, respectively. The Organization has not experienced any losses in any of these accounts in the past.

The Organization is subject to market risk related to its investments. The Organization's investments are exposed to various risks, such as interest rate, market and credit risks.

MARATHON KIDS, INC.
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NOTES TO FINANCIAL STATEMENTS

MAY 31, 2017 AND 2016

3. Investments

Investments comprised the following at May 31,

	<u>2017</u>	<u>2016</u>
Equity securities	\$ 543,703	\$ 483,046
Money market funds	37,046	54,033
Fixed income mutual funds	60,456	61,568
Exchange traded funds	151,735	145,645
Fixed income agency securities	104,291	61,073
Total Investments	<u>\$ 897,231</u>	<u>\$ 805,365</u>

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

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 16,215	\$ 14,735
Realized and unrealized gains (losses)	82,585	(32,257)
Total Return on Investments	<u>\$ 98,800</u>	<u>\$ (17,522)</u>

4. Contributions Receivable

The contributions receivable at May 31, 2017 and 2016 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, 2017 and 2016, no discounts to present value are reflected in these financial statements.

Contributions receivable comprised the following as of May 31,

	<u>2017</u>	<u>2016</u>
Contributions receivable, gross	\$ 719,051	\$ 407,000
Allowance for doubtful accounts	-	-
Discount to present value	-	-
Contributions receivable	<u>\$ 719,051</u>	<u>\$ 407,000</u>

MARATHON KIDS, INC.
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NOTES TO FINANCIAL STATEMENTS

MAY 31, 2017 AND 2016

4. Contributions Receivable (continued)

At May 31, 2017, collections of contributions receivable were expected as follows:

Less than one year	\$	719,051
One to five years		<u>-</u>
Contributions receivable, gross	\$	<u><u>719,051</u></u>

5. Property and Equipment

At May 31, 2017 and 2016, property and equipment consisted of the following:

	<u>2017</u>	<u>2016</u>
Furniture and equipment	\$ 41,685	\$ 41,685
Website development and software	832,315	548,356
Vehicle	<u>25,769</u>	<u>25,769</u>
Total Property and Equipment	899,769	615,810
Less accumulated depreciation	<u>(272,492)</u>	<u>(151,277)</u>
Total Property and Equipment, Net	<u><u>\$ 627,277</u></u>	<u><u>\$ 464,533</u></u>

For the years ended May 31, 2017 and 2016, depreciation expense was recorded in the amount of \$121,215 and \$51,705, respectively.

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, 2017 and 2016.

MARATHON KIDS, INC.
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NOTES TO FINANCIAL STATEMENTS

MAY 31, 2017 AND 2016

7. Temporarily Restricted Net Assets

Temporarily restricted net assets comprised the following at May 31,

	<u>2017</u>	<u>2016</u>
Beaverton ISD expansion	\$ 100,000	\$ 324,948
Houston and Rio Grande Valley grant awards	25,000	-
Marathon Kids Finish Line Project	200,000	-
Austin ISD Title I grant award	300,000	-
Promotion video	25,000	-
	<u>650,000</u>	<u>324,948</u>
Temporarily restricted net assets	<u>\$ 650,000</u>	<u>\$ 324,948</u>

During the years ended May 31, 2017 and 2016, temporarily restricted net assets totaling \$1,487,463 and \$4,398,162, respectively, were released to unrestricted net assets because of the satisfaction of purpose restrictions.

8. In-Kind Contributions

During the years ending May 31, 2017 and 2016, the Organization entered into grant agreements with NIKE USA, Inc. that included a combination of in-kind brand support, cash and NIKE product. The in-kind donation includes a new brand identity and visual center for the Organization, photography assets, and refreshed program materials that leverage the new brand voice, visual center and photo assets. The fair market value of the in-kind donations was \$116,650 and \$258,000, for the years ending May 31, 2017 and 2016, respectively and is included in contributions revenue on the statements of activities and event and program expense on the statements of functional expenses. The NIKE product that has been donated includes 161,307 youth and adult size shirts, 300,000 shoelaces, 300,000 shoetags and 75,000 wristbands during the year ended May 31, 2016, to create a consistent experience for all kids in the program. The wholesale value of the NIKE product donations was \$1,004,467 for the year ended May 31, 2016, respectively with a portion included in inventory on the statements of financial position and the remainder in event and program expense on the statements of functional expenses and a corresponding amount in contributions revenue on the statements of activities.

The Organization also received substantial donated service hours by unpaid volunteers who assist with the Organization's programs and fund raising 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.

MARATHON KIDS, INC.
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NOTES TO FINANCIAL STATEMENTS

MAY 31, 2017 AND 2016

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 years ended May 31, 2017 and 2016 totaled \$16,229 and \$12,074, respectively.

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.

MARATHON KIDS, INC.
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NOTES TO FINANCIAL STATEMENTS

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10. Fair Value Measurements and Disclosures (continued)

The following table represents assets and liabilities reported on the statement of financial position at their fair value as of May 31, 2017 and 2016 by level within the fair value measurement hierarchy.

Description	Amount	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable inputs (Level 3)
2017				
Money market funds	\$ 37,046	\$ -	\$ 37,046	\$ -
Equity securities	543,703	543,703	-	-
Fixed income mutual fund	60,456	60,456	-	-
Fixed income agency securities	104,291	104,291	-	-
Exchange traded funds	151,735	151,735	-	-
	<u>\$ 897,231</u>	<u>\$ 860,185</u>	<u>\$ 37,046</u>	<u>\$ -</u>
2016				
Money market funds	\$ 54,033	\$ -	\$ 54,033	\$ -
Equity securities	483,046	483,046	-	-
Fixed income mutual fund	61,568	61,568	-	-
Fixed income agency securities	61,073	61,073	-	-
Exchange traded funds	145,645	145,645	-	-
	<u>\$ 805,365</u>	<u>\$ 751,332</u>	<u>\$ 54,033</u>	<u>\$ -</u>

Deferred Revenue

During the year ended May 31, 2015, the Organization entered into a project in the amount of \$1,857,847 for a period from May 1, 2015 through April 30, 2019. During the years ended May 31, 2017 and 2016, the Organization received the installments of \$1,474,899 and \$1,038,863, respectively. Costs paid on the project through May 31, 2017 and 2016 were \$1,294,491 and \$876,265. The differences for the years ended May 31, 2017 and 2016 of \$180,408 and \$162,598, respectively, are in the statements of financial position as deferred revenue.

11. Leases

In October 2013, the Organization renewed a lease agreement for office space in Austin, Texas. The lease term runs from November 2013 through January 2017. Base rent escalates from an initial rate of \$3,871 per month to \$4,085 per month at the end of the term. Additional rent might be payable over the term for actual building operating expenses over a certain dollar threshold.

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NOTES TO FINANCIAL STATEMENTS

MAY 31, 2017 AND 2016

11. Leases (continued)

The Organization entered into a lease for office space in Austin, Texas with a lease term from January 1, 2017 through May 31, 2019. Base rent escalates from an initial rate of \$6,086 per month to \$6,311 per month at the end of the term.

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

<u>Year</u>	<u>Amount</u>
2018	\$ 73,598
2019	74,160
	<u>\$ 147,758</u>

12. 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 auditors' report date of November 20, 2017, the date the financial statements were available to be issued, and there were no subsequent events to be disclosed.