

COMMON THREADS

**Financial Statements
as of and for the Years Ended
December 31, 2015 and 2014 and
Independent Auditors' Report**





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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Common Threads:

We have audited the accompanying financial statements of Common Threads (the "Organization") (a nonprofit organization), which comprise the statements of financial position as of December 31, 2015 and 2014, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

Affiliated Company

ML&R WEALTH MANAGEMENT LLC

*"A Registered Investment Advisor"
This firm is not a CPA firm*

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Maxwell Locke + Ritter LLP

Austin, Texas
October 6, 2016

COMMON THREADS

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,364,686	\$ 2,222,686
Pledges receivable	306,600	155,000
Prepaid expenses and other assets	<u>32,612</u>	<u>21,931</u>
Total current assets	1,703,898	2,399,617
FIXED ASSETS, net	<u>151,783</u>	<u>131,150</u>
TOTAL ASSETS	<u><u>\$ 1,855,681</u></u>	<u><u>\$ 2,530,767</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 41,044	\$ 35,191
Accrued liabilities	<u>85,480</u>	<u>30,476</u>
Total current liabilities	126,524	65,667
NET ASSETS:		
Unrestricted	702,879	1,605,496
Temporarily restricted	<u>1,026,278</u>	<u>859,604</u>
Total net assets	<u>1,729,157</u>	<u>2,465,100</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,855,681</u></u>	<u><u>\$ 2,530,767</u></u>

See notes to financial statements.

COMMON THREADS

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2015

(with summarized comparative totals for the year ended December 31, 2014)

	2015			2014 Total
	Unrestricted	Temporarily Restricted	Total	
REVENUES AND NET ASSETS				
RELEASED FROM RESTRICTIONS:				
Grants and contributions	\$ 1,082,485	1,360,000	2,442,485	2,131,640
In-kind contributions	421,405	-	421,405	264,975
Program service fees	26,202	-	26,202	94,363
Special event revenue	10,060	-	10,060	50,025
Investment income	1,148	-	1,148	2,289
Other income	231	-	231	-
Net assets released from restrictions	<u>1,193,326</u>	<u>(1,193,326)</u>	<u>-</u>	<u>-</u>
Total revenues and net assets released from restrictions	2,734,857	166,674	2,901,531	2,543,292
EXPENSES:				
Program services	2,824,893	-	2,824,893	1,915,066
Management and general	276,511	-	276,511	382,909
Fundraising and communications	<u>536,070</u>	<u>-</u>	<u>536,070</u>	<u>393,386</u>
Total expenses	<u>3,637,474</u>	<u>-</u>	<u>3,637,474</u>	<u>2,691,361</u>
CHANGE IN NET ASSETS	(902,617)	166,674	(735,943)	(148,069)
NET ASSETS, beginning of year	<u>1,605,496</u>	<u>859,604</u>	<u>2,465,100</u>	<u>2,613,169</u>
NET ASSETS, end of year	<u>\$ 702,879</u>	<u>1,026,278</u>	<u>1,729,157</u>	<u>2,465,100</u>

See notes to financial statements.

COMMON THREADS

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2014

(with summarized comparative totals for the year ended December 31, 2013)

	2014			2013 Total
	Unrestricted	Temporarily Restricted	Total	
REVENUES AND NET ASSETS				
RELEASED FROM RESTRICTIONS:				
Grants and contributions	\$ 981,640	1,150,000	2,131,640	1,831,546
In-kind contributions	264,975	-	264,975	214,528
Program service fees	94,363	-	94,363	62,389
Special event revenue	50,025	-	50,025	188,736
Investment income	2,289	-	2,289	2,080
Gain on sale of fixed assets	-	-	-	85,914
Net assets released from restrictions	<u>1,486,456</u>	<u>(1,486,456)</u>	<u>-</u>	<u>-</u>
Total revenues and net assets released from restrictions	2,879,748	(336,456)	2,543,292	2,385,193
EXPENSES:				
Program	1,915,066	-	1,915,066	1,090,753
Management and general	382,909	-	382,909	419,163
Fundraising and communications	<u>393,386</u>	<u>-</u>	<u>393,386</u>	<u>606,809</u>
Total expenses	<u>2,691,361</u>	<u>-</u>	<u>2,691,361</u>	<u>2,116,725</u>
CHANGE IN NET ASSETS	188,387	(336,456)	(148,069)	268,468
NET ASSETS, beginning of year	<u>1,417,109</u>	<u>1,196,060</u>	<u>2,613,169</u>	<u>2,346,701</u>
NET ASSETS, end of year	<u>\$ 1,605,496</u>	<u>859,604</u>	<u>2,465,100</u>	<u>2,615,169</u>

See notes to financial statements.

COMMON THREADS

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2015

(with summarized comparative totals for the year ended December 31, 2014)

	Program Services	Management and General	Fundraising	2015 Total	2014 Total
Salaries and wages	\$ 1,354,945	109,378	236,508	1,700,831	1,447,176
Employee benefits and payroll taxes	130,988	16,646	37,870	185,504	117,668
Total salaries and related expenses	1,485,933	126,024	274,378	1,886,335	1,564,844
Professional fees	320,711	64,035	101,547	486,293	364,297
Program and evaluation costs	365,348	-	-	365,348	179,767
Occupancy	165,353	29,180	58,360	252,893	131,585
Travel and transportation	67,038	18,418	8,840	94,296	61,788
Special events	-	-	23,380	23,380	45,339
Advertising	3,265	1,027	5,954	10,246	18,744
Insurance	10,672	1,883	3,767	16,322	15,377
Staff expense	5,688	1,004	2,007	8,699	-
Miscellaneous other	1,836	14,620	5,380	21,836	14,640
Total operational expenses	939,911	130,167	209,235	1,279,313	831,537
Total expenses before depreciation and amortization	2,425,844	256,191	483,613	3,165,648	2,396,381
Depreciation and amortization	32,968	5,818	11,636	50,422	30,006
Total expenses including depreciation and amortization	2,458,812	262,009	495,249	3,216,070	2,426,387
Donated goods and services	366,081	14,502	40,821	421,404	264,974
Total expenses	\$ 2,824,893	276,511	536,070	3,637,474	2,691,361

See notes to financial statements.

COMMON THREADS

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2014

(with summarized comparative totals for the year ended December 31, 2013)

	Program Services	Management and General	Fundraising	2014 Total	2013 Total
Salaries and wages	\$ 970,854	228,173	248,149	1,447,176	1,179,732
Employee benefits and payroll taxes	63,603	15,149	38,916	117,668	96,132
Total salaries and related expenses	1,034,457	243,322	287,065	1,564,844	1,275,864
Professional fees	301,205	61,629	1,463	364,297	67,085
Program and evaluation costs	160,594	15,077	4,096	179,767	180,825
Occupancy	88,275	20,746	22,564	131,585	124,680
Travel and transportation	38,101	16,388	7,299	61,788	48,954
Special events	-	-	45,339	45,339	111,743
Advertising	12,596	2,943	3,205	18,744	685
Insurance	10,316	2,424	2,637	15,377	23,947
Miscellaneous other	5,853	5,381	3,406	14,640	37,032
Interest	-	-	-	-	72,225
Total operational expenses	616,940	124,588	90,009	831,537	667,176
Total expenses before depreciation and amortization	1,651,397	367,910	377,074	2,396,381	1,943,040
Depreciation and amortization	20,130	4,731	5,145	30,006	26,157
Total expenses including depreciation and amortization	1,671,527	372,641	382,219	2,426,387	1,969,197
Donated goods and services	243,539	10,268	11,167	264,974	214,528
Total expenses	\$ 1,915,066	382,909	393,386	2,691,361	2,183,725

See notes to financial statements.

COMMON THREADS

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (735,943)	\$ (148,069)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	50,422	30,006
Changes in operating assets and liabilities that provided (used) cash:		
Pledges receivable	(151,600)	13,000
Prepaid expenses and other assets	(10,681)	(5,695)
Accounts payable	5,853	(258)
Accrued liabilities	55,004	10,477
	<u>(786,945)</u>	<u>(100,539)</u>
Net cash used in operating activities		
	(786,945)	(100,539)
CASH FLOWS FROM INVESTING ACTIVITIES -		
Purchases of fixed assets	(71,055)	(149,785)
	<u>(71,055)</u>	<u>(149,785)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(858,000)	(250,324)
CASH AND CASH EQUIVALENTS, beginning of year	<u>2,222,686</u>	<u>2,473,010</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 1,364,686</u></u>	<u><u>\$ 2,222,686</u></u>

See notes to financial statements.

COMMON THREADS

NOTES TO THE FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2015 AND 2014

1. NATURE OF OPERATIONS

Common Threads (the “Organization”) is a nonprofit corporation whose sources of revenue are derived principally from public contributions and foundation grants. The Organization provides education to children on the importance of nutrition and physical well-being and fosters an appreciation of cultural diversity through cooking. The Organization teaches low-income children to cook wholesome and affordable meals because, through its hands-on cooking classes, its mission is to help prevent childhood obesity and reverse the trend of generations of non-cookers, while celebrating cultural differences and things people all over the world have in common.

The Organization currently serves over 48,000 children, ages 8 to 12, and over 12,000 adults at 525 partner schools and sites in Chicago, Miami, Washington, D.C., Los Angeles, New York City, Jacksonville, Austin, and New Orleans. This includes preparing over 453,000 healthy meals and snacks, training more than 900 teachers and teaching more than 606,000 hours of nutrition and cooking classes. Programming includes after-school family and child cooking classes, in-school and out-of-school nutrition and gardening classes, healthy teacher trainings, teacher cooking classes, special events, and activities.

The composition of the Organization's student population is as follows:

- 27% are African-American; 40% are Hispanic; 3.3% are Asian; 11% are Caucasian; 11% are other ethnicities; and 6% did not report.
- 60% are female and 40% are male.

As they prepare and share nutritious, ethnically diverse meals, children who participate in the Organization’s programs learn to connect with their bodies, neighbors, and their world in bite-sized lessons.

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 (“U.S. GAAP”) as defined by the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”).

Classification of Net Assets - Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified as follows:

Unrestricted - Net assets not subject to donor-imposed stipulations. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Temporarily restricted - Net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or the passage of time or the occurrence of a specific event.

Permanently restricted - Net assets whose amounts are not currently available for use in operations and whose limitations neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization. The Organization has not received any permanently restricted contributions.

Use of Estimates - The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Cash and Cash Equivalents - The Organization considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Pledges Receivable - Pledges are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Unconditional promises to give are recorded at fair value if expected to be collected in one year and at net present value if expected to be collected in more than one year. All pledges were due for collection within one year, as of December 31, 2015 and 2014. Management has determined that all pledges receivable are fully collectible; therefore, no allowance for uncollectible contributions was considered necessary as of December 31, 2015 and 2014.

Fixed Assets - Property and equipment are capitalized at cost if purchased and at fair market value on the date of receipt if donated. The Organization capitalizes all acquisitions of property and equipment in excess of \$500 with a useful life of more than one year. Depreciation expense for furniture, fixtures, equipment, and software is calculated using the straight-line method over the estimated useful lives of the assets, ranging from 3-7 years. Leasehold improvements are amortized using the straight-line method over the shorter of the life of the asset or the related lease term. Maintenance and repairs are charged to expense as incurred.

Impairment of Long-Lived Assets - Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the amount recorded may not be recoverable. An impairment loss is recognized by the amount in which the carrying amount of the asset exceeds fair value, if the carrying amount of the asset is not recoverable. Management believes there was no impairment of long-lived assets as of December 31, 2015 and 2014.

Grants and Contributions Revenue - Contributions received including unconditional promises to give are recorded as unrestricted, temporarily restricted, or permanently restricted support in the period pledged depending on the existence and nature of any donor restrictions. Contributions received with donor-imposed restrictions that are satisfied in the same reporting period are reported as unrestricted support. Conditional promises to give are recognized when the conditions on which they are dependent are substantially met.

In-kind Contributions - Contributed services are recognized in the statements of activities if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Donated materials and other noncash donations, including kitchen space and supplies and realtor and legal fees, are recorded as contributions at their estimated fair values on the date received.

Functional Allocation of Expenses - The costs of providing the programs and supporting services have been reported on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated based on estimates prepared by management.

Income Tax Status - The Organization is a nonprofit organization that is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code, except as it relates to unrelated business income. The Organization did not incur any tax liabilities due to unrelated business income during the year ended December 31, 2015. The Organization files Form 990 tax returns in the U.S. federal jurisdiction, and is subject to routine examinations of its returns; however, there are no examinations currently in progress. The 2012 and subsequent tax years remain subject to examination by the Internal Revenue Service.

Recently Issued Accounting Pronouncements - In May 2014 and August 2015, the FASB issued Accounting Standards Updates (“ASU”) No. 2014-09 and No. 2015-14, *Revenue from Contracts with Customers*, which supersede the revenue recognition requirements in ASC 605, *Revenue Recognition*, and most industry-specific guidance included in the ASC. The standard requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The standard is effective retrospectively for fiscal years beginning after December 15, 2018 and early adoption is permitted. The Organization is currently evaluating the impact the new standard will have on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires the recognition of lease assets and lease liabilities by lessees for all leases, including leases previously classified as operating leases, and modifies the classification criteria and accounting for sales-type and direct financing leases by lessors. Leases continue to be classified as finance or operating leases by lessees and both classifications require the recognition of a right-of-use asset and a lease liability, initially measured at the present value of the lease payments in the statement of financial position. Interest on the lease liability and amortization of the right-of-use asset are recognized separately in the statement of activities for finance leases and as a single lease cost recognized on the straight-line basis over the lease term for operating leases. The standard is effective using a modified retrospective approach for fiscal years beginning after December 15, 2019 and early adoption is permitted. The Organization is currently evaluating the impact the standard will have on its financial statements.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements - Going Concern*, which provides guidance about management's responsibility to evaluate on an annual basis whether there is substantial doubt about an entity's ability to continue as a going concern within one year after the date that the financial statements are available to be issued and to provide certain related footnote disclosures. The standard is effective for fiscal years ending after December 15, 2016, and due to the change in requirements for reporting, presentation and disclosure of future evaluations of the entity's ability to continue as a going concern may be different than under current standards.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which requires presentation on the face of the statement of financial position amounts for two classes of net assets at the end of the period, net assets with donor restrictions and net assets without donor restrictions, rather than the currently required three classes. The standard also requires the presentation on the face of the statement of activities the amount of the change in each of these two classes of net assets. The standard will no longer require the presentation or disclosure of the indirect method of reporting cash flows if an entity elects to use the direct method, however it will be required for an entity to provide enhanced disclosures about liquidity in the footnotes to the financial statements. The standard is effective for fiscal years beginning after December 15, 2017 and early adoption is permitted. The Organization is currently evaluating the impact the standard will have on its financial statements.

Reclassifications - Certain amounts in the prior year have been reclassified to conform to the presentation adopted in the current year. There was no impact on net assets.

3. CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Organization to credit risk consist of cash and cash equivalents and pledges receivable. The Organization places its cash and cash equivalents with a limited number of high quality financial institutions and at times may exceed the amount of insurance provided on such deposits. The Organization does not maintain collateral for its pledges receivable and does not believe significant risk exists at December 31, 2015 and 2014. As of December 31, 2015 and 2014, three donors accounted for 83% and one donor accounted for 96% of total pledges receivable, respectively. During the years ended December 31, 2015 and 2014, one donor accounted for 34% and 39% of total revenues, respectively.

4. FIXED ASSETS

Fixed assets consisted of the following as of December 31:

	<u>2015</u>	<u>2014</u>
Furniture and fixtures	\$ 56,434	\$ 155,697
Software	163,524	60,000
Leasehold improvements	<u>17,152</u>	<u>11,160</u>
	237,110	226,857
Less accumulated depreciation and amortization	<u>(85,327)</u>	<u>(95,707)</u>
Fixed assets, net	<u>\$ 151,783</u>	<u>\$ 131,150</u>

5. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes as of December 31:

	<u>2015</u>	<u>2014</u>
Program and evaluation	\$ 766,278	\$ 709,604
Program location restriction	160,000	-
Time restriction	<u>100,000</u>	<u>150,000</u>
	<u>\$ 1,026,278</u>	<u>\$ 859,604</u>

6. IN-KIND CONTRIBUTIONS

During the years ended December 31, 2015 and 2014, the Organization recorded contributions of donated goods and services totaling \$421,404 and \$264,975, respectively.

Many individuals volunteer their time to assist the Organization in performing program services. However, these services do not meet the recognition criteria. The Organization received the following volunteer hours during the years ended December 31:

	<u>2015</u>	<u>2014</u>
Classes	30,030	21,210
Summer camp	<u>-</u>	<u>810</u>
Total	<u>30,030</u>	<u>22,020</u>

7. EMPLOYEE RETIREMENT PLAN

The Organization sponsors a 401(k) Retirement Plan (“Plan”). Eligibility for the Plan for full-time employees working greater than 1,000 hours is the first day of the next month that they complete one year of service from their hire date. The maximum contribution for 2015 is \$18,000 for employees under the age of 50. Employees who turn 50 within the year are eligible for a catch-up contribution of an additional \$5,500.

In addition, the Organization will match 3% of an employee’s salary, which becomes 100% vested to the employee upon reaching three years of service from his or her initial hire date. Prior to that date, if an employee leaves the Organization, the match is retained by the Organization. The Organization made contributions of \$7,132 and \$3,208 during the years ended December 31, 2015 and 2014, respectively.

8. RELATED PARTY TRANSACTIONS

Members of the Board of Directors contributed \$60,135 and \$45,550 during the years ended December 31, 2015 and 2014, respectively, with outstanding pledges receivable at December 31, 2015 of \$10,000 and no outstanding pledges receivable at December 31, 2014.

9. COMMITMENTS

During 2015, the Organization moved their headquarters from Chicago, Illinois to Austin, Texas and entered into a lease for office space effective June 1, 2015, expiring on May 31, 2020. The Organization also terminated an existing office space lease in Chicago and entered into a new office space lease effective May 1, 2015, expiring on April 30, 2017.

Rental expense during the years ended December 31, 2015 and 2014 totaled \$93,118 and \$77,526, respectively.

Future minimum lease payments under these leases at December 31, 2015 were as follows:

2016	\$	82,559
2017		59,732
2018		48,905
2019		50,678
2020		21,424
Total	\$	<u>263,298</u>

The Organization had a line of credit with a bank for \$1,500,000 secured by a money market account with an interest rate equal to the prime rate that was closed during 2014.

10. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through October 6, 2016 (the date the financial statements were available to be issued), and no events have occurred from the statement of financial position date through that date that would impact the financial statements.