COMMON THREADS

Financial Statements
as of and for the Years Ended
December 31, 2016 and 2015 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, 2016 and 2015, 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.

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, 2016 and 2015, 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
June 28, 2017

COMMON THREADS

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

	2016	2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,764,542	$ 1,364,686
Accounts receivable	34,574	3,508
Pledges receivable	146,250	306,600
Prepaid expenses and other assets	28,034	29,104
Total current assets	1,973,400	1,703,898
FIXED ASSETS, net	94,029	151,783
TOTAL ASSETS	$ 2,067,429	$ 1,855,681
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 33,591	$ 41,044
Accrued liabilities	95,033	85,480
Total current liabilities	128,624	126,524
NET ASSETS:		
Unrestricted	1,055,364	702,879
Temporarily restricted	883,441	1,026,278
Total net assets	1,938,805	1,729,157
TOTAL LIABILITIES AND NET ASSETS	$ 2,067,429	$ 1,855,681

See notes to financial statements.

COMMON THREADS

STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016
(with summarized comparative totals for the year ended December 31, 2015)

	2016			
	Unrestricted	Temporarily Restricted	Total	2015 Total
REVENUES AND NET ASSETS RELEASED FROM RESTRICTIONS:				
Grants and contributions	$ 1,273,301	1,600,000	2,873,301	2,442,485
In-kind contributions	602,951	-	602,951	421,404
Special event revenue	122,162	-	122,162	10,060
Program service fees	76,952	-	76,952	26,202
Investment income	559	-	559	1,148
Other income	7,311	-	7,311	232
Net assets released from restrictions	1,742,837	(1,742,837)	-	-
Total revenues and net assets released from restrictions	3,826,073	(142,837)	3,683,236	2,901,531
EXPENSES:				
Program services	2,767,195	-	2,767,195	2,824,893
Management and general	176,487	-	176,487	276,511
Fundraising and communications	529,906	-	529,906	536,070
Total expenses	3,473,588	-	3,473,588	3,637,474
CHANGE IN NET ASSETS	352,485	(142,837)	209,648	(735,943)
NET ASSETS, beginning of year	702,879	1,026,278	1,729,157	2,465,100
NET ASSETS, end of year	$ 1,055,364	883,441	1,938,805	1,729,157

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			
	Unrestricted	Temporarily Restricted	Total	2014 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	421,404	-	421,404	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
Gain on sale of fixed assets	232	-	232	-
Net assets released from restrictions	1,193,326	(1,193,326)	-	-
Total revenues and net assets released from restrictions	2,734,857	166,674	2,901,531	2,543,292
EXPENSES:				
Program	2,824,893	-	2,824,893	1,915,066
Management and general	276,511	-	276,511	382,909
Fundraising and communications	536,070	-	536,070	393,386
Total expenses	3,637,474	-	3,637,474	2,691,361
CHANGE IN NET ASSETS	(902,617)	166,674	(735,943)	(148,069)
NET ASSETS, beginning of year	1,605,496	859,604	2,465,100	2,613,169
NET ASSETS, end of year	$ 702,879	1,026,278	1,729,157	2,465,100

See notes to financial statements.

COMMON THREADS

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2016
(with summarized comparative totals for the year ended December 31, 2015)

	Program Services	Management and General	Fundraising	2016 Total	2015 Total
Salaries and wages	$ 1,313,654	104,194	264,671	1,682,519	1,700,831
Employee benefits and payroll taxes	134,511	15,156	39,785	189,452	185,504
Total salaries and related expenses	1,448,165	119,350	304,456	1,871,971	1,886,335
Program and evaluation costs	452,327	-	-	452,327	365,348
Occupancy	116,005	7,879	28,254	152,138	252,893
Professional fees	105,285	19,893	14,578	139,756	486,293
Travel and transportation	49,847	3,385	12,141	65,373	94,296
Special events	-	-	44,418	44,418	23,380
Advertising	18,935	1,286	4,612	24,833	10,246
Staff expense	16,570	1,125	4,037	21,732	21,836
Insurance	10,448	710	2,545	13,703	16,322
Miscellaneous other	-	11,031	10,000	21,031	8,699
Total operational expenses	769,417	45,309	120,585	935,311	1,279,313
Total expenses before depreciation and amortization	2,217,582	164,659	425,041	2,807,282	3,165,648
Depreciation and amortization	48,308	3,281	11,766	63,355	50,422
Total expenses including depreciation and amortization	2,265,890	167,940	436,807	2,870,637	3,216,070
Donated goods and services	501,305	8,547	93,099	602,951	421,404
Total expenses	$ 2,767,195	176,487	529,906	3,473,588	3,637,474

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

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 209,648	$ (735,943)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	63,355	50,422
Changes in operating assets and liabilities that provided (used) cash:		
Accounts receivable	(31,066)	(3,508)
Pledges receivable	160,350	(151,600)
Prepaid expenses and other assets	1,070	(7,173)
Accounts payable	(7,453)	5,853
Accrued liabilities	9,553	55,004
Net cash provided by (used in) operating activities	405,457	(786,945)
CASH FLOWS FROM INVESTING ACTIVITIES -		
Purchases of fixed assets	(5,601)	(71,055)
NET CHANGE IN CASH AND CASH EQUIVALENTS	399,856	(858,000)
CASH AND CASH EQUIVALENTS, beginning of year	1,364,686	2,222,686
CASH AND CASH EQUIVALENTS, end of year	$ 1,764,542	$ 1,364,686

See notes to financial statements.

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 59,000 children, ages 8 to 12, and over 9,000 adults at 364 partner schools and sites in Chicago, Miami, Washington, D.C., Los Angeles, New York City, Jacksonville, Austin, New Orleans and Pittsburgh. This includes preparing over 498,000 healthy meals and snacks, training more than 2,000 teachers and teaching more than 685,000 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:

- 21% are African-American; 30% are Hispanic; 5% are Asian/Pacific Asian; 16% are Caucasian; 24% are other ethnicities; and 4% did not report.
- 57% are female and 43% 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 Presentation - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") as defined by the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). Under the accrual basis of accounting, revenue is recognized when earned regardless of when collected, and expenses are recognized when the obligation is incurred regardless of when paid. Net assets, revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted **-** Net assets are not subject to donor-imposed stipulations. Expenses are reported as decreases in unrestricted net assets. 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 are subject to donor-imposed stipulations, which limit their use by the Organization to a specific purpose and/or the passage of time. When a restriction is satisfied or expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently Restricted **-** Net assets are subject to donor-imposed stipulations, which require them to be maintained permanently by 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 those estimates.

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

Accounts Receivable - Accounts receivable are recorded at the value of the revenue earned and expected to be collected, and typically require payment within 30 days. Delinquent invoices do not accrue interest. The Organization continually monitors each customer's credit worthiness and recognizes allowances for estimated bad debts on customer accounts that are no longer estimated to be collectible. The Organization regularly adjusts any allowance for subsequent collections and final determination that an account receivable is no longer collectible. As of December 31, 2016 and 2015, there was no allowance for doubtful accounts as management deemed all outstanding balances to be collectible.

Pledges Receivable - Unconditional promises to give are recognized as contribution revenue in the period received and as assets, decreases in liabilities or expenses depending on the form of the benefits received. 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. Conditional promises to give are recognized when the conditions on which they depend are substantially met. All pledges were due for collection within one year as of December 31, 2016 and 2015. Management has determined that all pledges receivable are fully collectible; therefore, no allowance for uncollectible contributions was considered necessary as of December 31, 2016 and 2015.

Fixed Assets - Acquisitions of property and equipment in excess of $500 are capitalized. Purchased property and equipment is recorded at cost. Donated property and equipment is recorded at fair market value on the date of the donation. Depreciation of furniture, fixtures, and equipment is calculated over the estimated useful lives of the respective assets, ranging from 3-7 years, using the straight-line method. 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 indicated that 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 has been no impairment of such assets as of December 31, 2016 or 2015.

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 exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, except to the extent of any unrelated business income. The Organization did not incur any significant tax liabilities due to unrelated business income during the years ended December 31, 2016 and 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.

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 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 from 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 receivables. 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 receivables and does not believe significant risk exists at December 31, 2016 and 2015. As of December 31, 2016 and 2015, three donors accounted for 80% and 83% of total receivables, respectively. During the years ended December 31, 2016 and 2015, one donor accounted for 27% and 34% of total revenues, respectively.

4. FIXED ASSETS

Fixed assets consisted of the following as of December 31:

	2016	2015
Software	$ 163,524	$ 163,524
Furniture and fixtures	62,035	56,434
Leasehold improvements	17,152	17,152
	242,711	237,110
Less accumulated depreciation and amortization	(148,682)	(85,327)
Fixed assets, net	$ 94,029	$ 151,783

5. TEMPORARILY RESTRICTED NET ASSETS

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

	2016	2015
Program and evaluation	$ 661,338	$ 766,278
Program location restriction	172,103	160,000
Time restriction	50,000	100,000
	$ 883,441	$ 1,026,278

6. IN-KIND CONTRIBUTIONS

During the years ended December 31, 2016 and 2015, the Organization recorded contributions of donated goods and services totaling $602,951 and $421,404, 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 17,231 and 30,030 volunteer hours for classes during the years ended December 31, 2016 and 2015, respectively.

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 2016 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 $6,000.

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 $11,143 and $7,132 during the years ended December 31, 2016 and 2015, respectively.

8. RELATED PARTY TRANSACTIONS

Members of the Board of Directors contributed $37,246 and $60,135 during the years ended December 31, 2016 and 2015, respectively. There was no outstanding pledges receivable at December 31, 2016. There was an outstanding pledges receivable of $10,000 at December 31, 2015.

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 entered into a new office space lease in Chicago effective May 1, 2015, expiring on April 30, 2017.

Rental expense during the years ended December 31, 2016 and 2015 totaled $87,752 and $77,721, respectively.

Future minimum lease payments under these leases at December 31, 2016 were as follows:

2017	$	59,732
2018		48,905
2019		50,678
2020		21,424
Total	$	180,739

10. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through June 28, 2017 (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.