COMMON THREADS

Financial Statements
as of and for the Years Ended
December 31, 2017 and 2016 and
Independent Auditors' Report

MAXWELL & LOCKE & RITTER

COMMON THREADS

TABLE OF CONTENTS

MAXWELL LOCKE & RITTER LLP
Accountants and Consultants
An Affiliate of CPAmerica International
tel (512) 370 3200 fax (512) 370 3250
www.mlrpc.com

Austin: 401 Congress Avenue, Suite 1100
Austin, TX 78701

Round Rock: 411 West Main Street, Suite 300
Round Rock, TX 78664

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, 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 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, 2017 and 2016, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2018, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Maxwell Locke & Ritter LLP

Austin, Texas
June 14, 2018

COMMON THREADS

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,419,411	$ 1,764,542
Investments	100,000	-
Accounts receivable	122,612	34,574
Pledges receivable	260,601	146,250
Prepaid expenses and other assets	66,609	28,034
Total current assets	1,969,233	1,973,400
FIXED ASSETS, net	81,261	94,029
TOTAL ASSETS	$ 2,050,494	$ 2,067,429
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 39,297	$ 33,591
Accrued liabilities	107,505	95,033
Total current liabilities	146,802	128,624
NET ASSETS:		
Unrestricted	930,672	1,055,364
Temporarily restricted	973,020	883,441
Total net assets	1,903,692	1,938,805
TOTAL LIABILITIES AND NET ASSETS	$ 2,050,494	$ 2,067,429

See notes to financial statements.

COMMON THREADS

STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017
(with summarized comparative totals for the year ended December 31, 2016)

	2017			
	Unrestricted	Temporarily Restricted	Total	2016 Total
REVENUES AND NET ASSETS RELEASED FROM RESTRICTIONS:				
Contributions and private grants	$ 1,223,119	1,935,650	3,158,769	2,873,301
In-kind contributions	563,609	-	563,609	602,951
Special events	365,676	-	365,676	122,162
Program service fees	217,209	-	217,209	76,952
Governmental grants	154,431	-	154,431	-
Investment income	593	-	593	559
Other income	25,434	-	25,434	7,311
Net assets released from restrictions	1,846,071	(1,846,071)	-	-
Total revenues and net assets released from restrictions	4,396,142	89,579	4,485,721	3,683,236
EXPENSES:				
Program services	3,349,794	-	3,349,794	2,767,195
Fundraising and communications	814,724	-	814,724	529,906
Management and general	356,316	-	356,316	176,487
Total expenses	4,520,834	-	4,520,834	3,473,588
CHANGE IN NET ASSETS	(124,692)	89,579	(35,113)	209,648
NET ASSETS, beginning of year	1,055,364	883,441	1,938,805	1,729,157
NET ASSETS, end of year	$ 930,672	973,020	1,903,692	1,938,805

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:				
Contributions and private grants	$ 1,273,301	1,600,000	2,873,301	2,442,485
In-kind contributions	602,951	-	602,951	421,404
Special events revenue	122,162	-	122,162	26,202
Program service fees	76,952	-	76,952	10,060
Investment income	559	-	559	1,148
Other income	7,311	-	7,311	-
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	2,767,195	-	2,767,195	2,824,893
Fundraising and communications	529,906	-	529,906	536,070
Management and general	176,487	-	176,487	276,511
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 FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017
(with summarized comparative totals for the year ended December 31, 2016)

	Program Services	Fundraising and Communications	Management and General	2017 Total	2016 Total
Salaries and wages	$ 1,854,625	336,211	151,295	2,342,131	1,682,519
Employee benefits and payroll taxes	176,467	49,709	22,369	248,545	189,452
Total salaries and related expenses	2,031,092	385,920	173,664	2,590,676	1,871,971
Program and evaluation costs	591,899	260	-	592,159	452,327
Occupancy	125,823	35,443	15,949	177,215	152,138
Professional fees	109,367	33,925	27,906	171,198	139,756
Special events	1,082	158,459	-	159,541	44,418
Travel and transportation	76,671	5,485	13,582	95,738	65,373
Staff expenses	16,346	4,551	29,968	50,865	21,732
Advertising	2,809	-	9,282	12,091	24,833
Insurance	6,933	1,953	879	9,765	13,703
Miscellaneous other	80	5,542	23,430	29,052	21,031
Total operational expenses	931,010	245,618	120,996	1,297,624	935,311
Total expenses before depreciation and amortization	2,962,102	631,538	294,660	3,888,300	2,807,282
Depreciation and amortization	48,462	13,651	6,143	68,256	63,355
Total expenses including depreciation and amortization	3,010,564	645,189	300,803	3,956,556	2,870,637
Donated goods and services	339,230	169,535	55,513	564,278	602,951
Total expenses	$ 3,349,794	814,724	356,316	4,520,834	3,473,588

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

See notes to financial statements.

COMMON THREADS

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (35,113)	$ 209,648
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	68,256	63,355
Changes in operating assets and liabilities that provided (used) cash:		
Accounts receivable	(88,038)	(31,066)
Pledges receivable	(114,351)	160,350
Prepaid expenses and other assets	(38,575)	1,070
Accounts payable	5,706	(7,453)
Accrued liabilities	12,472	9,553
Net cash (used in) provided by operating activities	(189,643)	405,457
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	(55,488)	(5,601)
Purchases of investments	(100,000)	-
Net cash used in investing activities	(155,488)	(5,601)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(345,131)	399,856
CASH AND CASH EQUIVALENTS, beginning of year	1,764,542	1,364,686
CASH AND CASH EQUIVALENTS, end of year	$ 1,419,411	$ 1,764,542

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 was created to bring health and wellness to children, families, and communities through cooking and nutrition education. By integrating preventative health programs into school districts and community organizations, the Organization not only helps combat the rising number of diet-related diseases, but also cultivates a culture that embraces a healthier lifestyle and celebrates diversity through food. The Organization envisions a community of learners that embraces healthy cooking, healthy eating, and healthy living as both a lifestyle and a human right.

The Organization served approximately 83,000 students and 20,000 adults at 853 partner schools and program sites during 2017. This includes preparing over 685,000 healthy meals and snacks, training more than 4,500 teachers and teaching more than 952,000 hours of nutrition and cooking classes. Programming includes after-school family and child cooking classes, in-school and after-school nutrition classes, gardening classes, healthy teacher trainings, grocery store tours, special events and activities.

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

- 21% are African-American; 45% are Hispanic; 2% are Asian/Pacific Asian; 9% are Caucasian; and 23% are other ethnicities.
- 61% are female and 39% 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 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"). 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 not subject to donor-imposed stipulations.

Temporarily Restricted - Net assets subject to donor-imposed stipulations, which limit their use by the Organization to a specific purpose and/or the passage of time.

Permanently Restricted - Net assets 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.

Fair Value Measurements - Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value accounting requires characterization of the inputs used to measure fair value into a three-level fair value hierarchy as follows:

Level 1 - Inputs based on quoted prices in active markets for identical assets or liabilities. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent from the entity.

Level 3 - Unobservable inputs that reflect the entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

There are three general valuation techniques that may be used to measure fair value: 1) market approach - uses prices generated by market transactions involving identical or comparable assets or liabilities, 2) cost approach - uses the amount that currently would be required to replace the service capacity of an asset (replacement cost), and 3) income approach - uses valuation techniques to convert future amounts to present amounts based on current market expectations.

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

Investments - Investments consisted of a certificate of deposit with an original maturity over three months which was measured at fair value using the market approach and inputs were considered Level 1 under the fair value hierarchy. Any changes in fair value are recorded as unrealized gains or losses. Unrealized gains or losses and interest income are reported as investment income in the statements of activities. Realized gains and losses are recorded as the difference between historical cost and the proceeds received from the sale of the investments.

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, 2017 and 2016, 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, 2017 and 2016. Management has determined that all pledges receivable are fully collectible; therefore, no allowance for uncollectible contributions was considered necessary as of December 31, 2017 and 2016.

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 indicate 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, 2017 or 2016.

Contributions, Private Grants and Special Events Revenue - The Organization considers revenues from special events to be contributions. All contributions are recorded at their fair value and are considered to be available for operations of the Organization unless specifically restricted by the donor. Unconditional promises to give cash and other assets are reported as temporarily restricted net assets, if they are received with donor stipulations that limit the use of donated assets. When donor restrictions expire, that is, when a stipulated time restriction ends or restricted purpose is accomplished, the related temporarily restricted net assets are reclassified to unrestricted net assets. This is reported in the statements of activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire within the fiscal year in which the contributions are received.

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.

Government Grants Revenue - Revenue from grants received from federal, state, and local governments is earned based on the Organization incurring allowable costs or providing services. Therefore, revenue is recognized as those costs are incurred or the services are provided.

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, 2017 and 2016. 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 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. Entities will be required 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.

3. CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Organization to credit risk consist of cash and cash equivalents, investments 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. Investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the near-term could materially affect the amounts reported in the statements of financial position.

The Organization does not maintain collateral for its receivables December 31, 2017 and 2016. As of December 31, 2017 and 2016, three donors accounted for 58% and 80% of total receivables, respectively. During the year ended December 31, 2017, two donors accounted for 35% of total revenues. During the year ended December 31, 2016, one donor accounted for 27% of total revenues.

4. FIXED ASSETS

Fixed assets consisted of the following as of December 31:

	2017	2016
Software	$ 163,524	$ 163,524
Furniture and fixtures	117,523	62,035
Leasehold improvements	17,152	17,152
	298,199	242,711
Less accumulated depreciation and amortization	(216,938)	(148,682)
Fixed assets, net	$ 81,261	$ 94,029

5. TEMPORARILY RESTRICTED NET ASSETS

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

	2017	2016
Program and evaluation	$ 793,020	$ 661,338
Program location restriction	180,000	172,103
Time restriction	-	50,000
	$ 973,020	$ 883,441

6. IN-KIND CONTRIBUTIONS

During the years ended December 31, 2017 and 2016, the Organization recorded contributions of donated goods and services totaling $563,609 and $602,951, 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 18,800 and 17,231 volunteer hours for classes during the years ended December 31, 2017 and 2016, respectively.

7. LINE OF CREDIT

During 2017, the Organization obtained a $95,000 revolving line of credit with a financial institution. The line is collateralized by a certificate of deposit and bears interest at an annual variable rate of prime (4.25% as of December 31, 2017). The line matures on September 1, 2018. There were no draws or outstanding balances on the line of credit during the year ended December 31, 2017.

8. EMPLOYEE RETIREMENT PLAN

The Organization sponsors a 401(k) Retirement Plan (the “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.

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 $14,766 and $11,143 during the years ended December 31, 2017 and 2016, respectively.

9. RELATED PARTY TRANSACTIONS

Members of the Board of Directors (the "Board") contributed $30,731 and $37,246 during the years ended December 31, 2017 and 2016, respectively. There were no outstanding pledges receivable from Board members at December 31, 2017 and 2016.

10. COMMITMENTS AND CONTINGENCIES

Lease Agreements - The Organization leases office space and equipment under operating leases which mature at various dates. Rent expense under these agreements totaled $96,622 and $87,752 during the years ended December 31, 2017 and 2016, respectively. Future minimum lease payments under the leases at December 31, 2017 were as follows:

2018	$ 89,911
2019	93,726
2020	36,004
Total	$ 219,641

Contracts with Grantors - The Organization receives government grants for specific purposes that are subject to review and audit by government agencies. The Organization is also funded by grants and contracts that are subject to review and audit by the grantor agencies. These contracts have certain compliance requirements and, should audits by the government or grantor agencies disclose any areas of substantial noncompliance, the Organization may be required to refund any disallowed costs.

11. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through June 14, 2018 (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.

SUPPLEMENTARY INFORMATION

MAXWELL LOCKE & RITTER LLP
Accountants and Consultants
An Affiliate of CPAmerica International
tel (512) 370 3200 fax (512) 370 3250
www.mlrpc.com

Austin: 401 Congress Avenue, Suite 1100
Austin, TX 78701

Round Rock: 411 West Main Street, Suite 300
Round Rock, TX 78664

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
Common Threads:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Common Threads (the "Organization"), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 14, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maxwell Locke & Ritter LLP

Austin, Texas
June 14, 2018