Common Threads

Financial Statements
as of September 30, 2020 and
for the Nine Months Then Ended and
Independent Auditors' Report

MAXWELL & LOCKE & RITTER

Common Threads

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Independent Auditors' Report

To the Board of Directors of
Common Threads:

Report on the Financial Statements

We have audited the accompanying financial statements of Common Threads (the "Organization") (a nonprofit organization), which comprise the statement of financial position as of September 30, 2020, and the related statements of activities, functional expenses, and cash flows for the nine months 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 September 30, 2020, and the changes in its net assets and its cash flows for the nine months then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2021, 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 solely 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 the effectiveness of the Organization's 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
March 31, 2021

Common Threads

Statement of Financial Position
September 30, 2020

Assets		
Cash and cash equivalents	$	539,858
Investments		100,000
Accounts receivable		393,362
Pledges receivable		809,586
Prepaid expenses and other assets		40,655
Total assets	$	1,883,461
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$	12,173
Accrued liabilities		131,594
Total current liabilities		143,767
Net assets:		
Without donor restrictions		938,398
With donor restrictions		801,296
Total net assets		1,739,694
Total liabilities and net assets	$	1,883,461

See notes to financial statements.

Common Threads

Statement of Activities
Nine Months Ended September 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Net Assets			
Released from Restrictions:			
Contributions and private grants	$ 626,898	816,781	1,443,679
Governmental grants	1,230,036	-	1,230,036
In-kind contributions	223,170	-	223,170
Program service fees	75,457	-	75,457
Special events, net of costs of direct benefits to donors	39,137	-	39,137
Investment income	215	-	215
Other income	2,238	-	2,238
Net assets released from restrictions	1,107,217	(1,107,217)	-
Total revenues and net assets released from restrictions	3,304,368	(290,436)	3,013,932
Expenses:			
Program services	2,371,025	-	2,371,025
Fundraising and communications	419,224	-	419,224
Management and general	377,323	-	377,323
Total expenses	3,167,572	-	3,167,572
Change in Net Assets	136,796	(290,436)	(153,640)
Net Assets, beginning of period	801,602	1,091,732	1,893,334
Net Assets, end of period	$ 938,398	801,296	1,739,694

See notes to financial statements.

Common Threads

Statement of Functional Expenses
Nine Months Ended September 30, 2020

	Program Services	Fundraising and Communications	Management and General	Total
Salaries and wages	$ 1,346,341	229,119	235,958	1,811,418
Employee benefits and payroll taxes	205,890	37,897	39,028	282,815
Total salaries and related expenses	1,552,231	267,016	274,986	2,094,233
Program and evaluation costs	279,941	-	-	279,941
Professional fees	75,503	109,659	43,625	228,787
Occupancy	140,110	25,789	26,559	192,458
Advertising	28,551	6,118	6,118	40,787
Insurance	16,628	3,061	3,152	22,841
Travel and transportation	15,166	2,792	2,874	20,832
Staff	14,485	2,666	2,746	19,897
Miscellaneous	17,858	348	15,435	33,641
Total operational expenses	588,242	150,433	100,509	839,184
Total expenses before depreciation and amortization	2,140,473	417,449	375,495	2,933,417
Depreciation and amortization	7,997	1,472	1,516	10,985
Total expenses before donated goods and services	2,148,470	418,921	377,011	2,944,402
Donated goods and services	222,555	303	312	223,170
Total expenses before costs of direct benefits to donors	2,371,025	419,224	377,323	3,167,572
Costs of direct benefits to donors	-	-	-	29,697
Total expenses	$ 2,371,025	419,224	377,323	3,197,269

See notes to financial statements.

Common Threads

Statement of Cash Flows
Nine Months Ended September 30, 2020

Cash Flows from Operating Activities:	
Change in net assets	$ (153,640)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation and amortization	10,985
Changes in operating assets and liabilities that (used) provided cash:	
Accounts receivable	(37,801)
Pledges receivable	(791,974)
Prepaid expenses and other assets	36,404
Accounts payable	(33,819)
Accrued liabilities	103,100
Net cash used in operating activities	(866,745)
Net change in cash and cash equivalents	(866,745)
Cash and cash equivalents, beginning of period	1,406,603
Cash and cash equivalents, end of period	$ 539,858

See notes to financial statements.

1. Nature of Operations

Common Threads (the "Organization"), headquartered in Austin, Texas, is a nonprofit corporation whose sources of revenue are derived principally from public contributions, foundation grants and federal programming. 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 shortened fiscal year for 2020 (nine months) along with the outbreak of the coronavirus (COVID-19) drastically reduced the number of clients the Organization was able to serve. The Organization served approximately 6,094 students and 2,779 adults at 174 partner schools and program sites during 2020 fiscal year. This includes preparing approximately 33,130 healthy meals and snacks, training 857 teachers and teaching more than 1,096 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.

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.

Effective December 5, 2019, the Organization amended and restated its by-laws and changed its fiscal year from December 31 to September 30.

2. Summary of Significant Accounting Policies

Basis of Presentation - The accompanying financial statements have been prepared 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 Asset Classifications - 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:

Without Donor Restrictions **-** These net assets are not subject to donor-imposed stipulations. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions, unless their use is restricted by explicit donor stipulation or by law. Net assets without donor restrictions are those currently available for use by the Organization, or at the discretion of the Board of Directors (the "Board") for the Organization's use.

With Donor Restrictions **-** These net assets are subject to donor-imposed stipulations which limit their use to a specific purpose and/or the passage of time, or which require them to be maintained permanently. 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 investments with an initial maturity 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 statement of activities.

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 September 30, 2020, 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 September 30, 2020. Management has determined that all pledges receivable are fully collectible; therefore, no allowance for uncollectible contributions was considered necessary as of September 30, 2020.

Fixed Assets - Acquisitions of fixed assets in excess of $2,000 are capitalized. Purchased fixed assets are recorded at cost. Donated fixed assets are 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 at the asset group level 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 group exceeds fair value, if the carrying amount of the asset is not recoverable.

Contributions, Private Grants and Special Events Revenue - The Organization recognizes contributions when cash, securities, other assets, or unconditional promises to give is received. 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 net assets with donor restrictions, 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 restricted net assets are reclassified to net assets without donor restrictions. This is reported in the statement of activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire within the fiscal year in which the contributions are received. Conditional promises to give, defined as those with a measurable performance or other barrier and a right to return, are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. The Organization considers revenues from special events to be contributions.

Governmental 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.

Paycheck Protection Program Loan - The Organization elects to account for funds received from a Paycheck Protection Program loan ("PPP Loan") as a grant as management expects to meet the U.S. Small Business Administration's ("SBA") criteria for loan forgiveness. Amounts received prior to incurring qualified expenses are reported as deferred revenue on the Organization's statement of financial position. Once reasonable assurance that the conditions for loan forgiveness are met, the Organization reduces the deferred revenue balance and recognizes government grants revenue as the Organization incurs the related eligible expenses.

In-kind Contributions - Contributed services are recognized in the statement of activities if the services received (a) create or enhance non-financial assets and (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.

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 156 volunteer hours for classes during the nine months ended September 30, 2020.

Program Service Fees Revenue - The Organization provides program services to organizations that pay directly for the cooking programs. Revenue is recognized when promised services are transferred to customers in an amount that reflects the consideration to which the Organization expects to be entitled in exchange for those services by following a five-step process: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price, and (5) recognize revenue when or as the Organization satisfies a performance obligation.

The performance obligations are satisfied as the services are rendered, and revenue is recognized in the period the services are performed.

Costs to Obtain or Fulfill Contracts - As performance obligations in the Organization's contracts with customers are satisfied over a period of less than one year, the Organization applies the practical expedient to expense costs to obtain a contract as incurred. The Organization does not incur significant fulfillment costs requiring capitalization.

Expense Allocation - The accompanying financial statements present expenses by functional and natural classification. Natural expenses directly attributable to a specific functional area are reported as expenses of those functional areas. Accordingly, certain costs have been allocated among the programs and supporting services using a variety of cost allocation techniques, such as time and effort.

Federal Income Taxes - 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 nine months ended September 30, 2020. 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 Pronouncement - In February 2016, the FASB issued Accounting Standards Update 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, 2021 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 statement of financial position. The Organization does not maintain collateral for its receivables.

During the nine months ended September 30, 2020, one donor accounted for 42% of total contribution revenue. During the nine months ended September 30, 2020, two grantors comprised 97% of total governmental grants revenue. As of September 30, 2020, two grantors accounted for 83% of total accounts receivable. As of September 30, 2020, one donor accounted for 74% of total pledges receivables.

4. Liquidity and Availability of Financial Assets

As of September 30, 2020, the Organization's financial assets available to management for general expenditure within one year were as follows:

Cash and cash equivalents	$ 539,858
Investments	100,000
Accounts receivable	393,362
Pledges receivable	809,586
Total financial assets available within one year	1,842,806
Less amounts unavailable for general expenditure within one year, due to-	
Certificate of deposit held as collateral for line of credit	(100,000)
Total financial assets available to management for general expenditure within one year	$ 1,742,806

The Organization manages its liquidity by investing operating funds in the following instruments:

- Interest bearing checking or savings accounts
- Certificates of deposit at insured commercial banking operations

The Organization's finance committee reviews financial statements monthly and the Organization's management and finance committee works under the guidelines that operating cash reserves should not fall below 90 days of average operations. The Organization has an available line of credit of $95,000 (Note 7).

5. Fixed Assets

Fixed assets consisted of the following as of September 30, 2020:

Software	$ 166,130
Furniture and fixtures	108,349
Leasehold improvements	17,152
	291,631
Less accumulated depreciation and amortization	(291,631)
Fixed assets, net	$ -

6. Net Assets with Donor Restrictions

Net assets with donor restrictions were restricted for the following purposes as of September 30, 2020:

Program and evaluation	$ 605,000
Program location	109,210
Time restriction	87,086
Total	$ 801,296

7. Line of Credit

The Organization has a revolving line of credit agreement for $95,000 with a financial institution renewable annually. The line is collateralized by a certificate of deposit and bears interest at an annual variable rate of prime (4.750% at September 30, 2020). The line matured on December 3, 2020. There were no draws or outstanding balances on the line of credit during the nine months ended September 30, 2020.

8. Employee Retirement Plan

The Organization sponsors a 401(k) Retirement Plan (the "Plan"). Full-time employees who have completed more than 1,000 hours of service become eligible to participate in the Plan.

In addition, the Organization will match 3% of an employee's salary deferral, which becomes 100% vested to the employee upon reaching three years of service from his or her initial hire date. The Organization made contributions to the Plan of $26,251 during the nine months ended September 30, 2020.

9. Related Party Transactions

Members of the Board contributed $21,850 during the nine months ended September 30, 2020.

10. Paycheck Protection Program Loan

In May 2020, the Organization received a loan of $416,700 under the Paycheck Protection Program which was created through the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") and is administered by the SBA. The PPP Loan had a fixed interest rate of 1% and was eligible for forgiveness by the SBA for the portion of loan proceeds used for payroll costs and other designated operating expenses (as defined) for up to eight weeks or, at the discretion of the borrower, twenty-four weeks (the "Covered Period"), provided at least 60% of loan proceeds were used for payroll costs and the Organization met all necessary criteria as defined by the SBA. Payments were deferred until the earlier of (i) the date the SBA remitted to the lender the amount of forgiveness granted to the Organization, or (ii) ten months after the last day of the Covered Period if the Organization did not apply for loan forgiveness. The Organization recognized government grants revenue with the PPP Loan totaling $416,700 for the nine months ended September 30, 2020. In January 2021, the SBA granted the Organization forgiveness for the PPP Loan.

11. 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 $94,545 during the nine months ended September 30, 2020. Future minimum lease payments under the leases as of September 30, 2020 were as follows:

2021	$	14,640
2022		14,933
2023		4,994
Total	$	34,567

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.

Contingencies - In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the world. While the disruption is expected to be temporary, there is uncertainty around the severity and duration. As a result, the Organization had limited programing due to school closures starting March 2020, secured a PPP loan (Note 10) and reduced certain operating expenses. Some in person classes were able to resume in September 2020. The Organization is actively managing the operations to maintain its cash flow and management believes that the Organization has adequate liquidity.

12. Subsequent Events

The Organization has evaluated subsequent events through March 31, 2021, the date the financial statements were available to be issued.

In February 2021, the Organization received a $527,689 PPP Loan under the CARES Act, the Paycheck Protection Program Flexibility Act of 2020, and the Interim Final Rules dated January 6, 2021. The loan has a fixed interest rate of 1% and matures in five years. The terms of forgiveness are similar to the PPP Loan described in Note 10.

Supplementary Information

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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") (a nonprofit organization), which comprise the statement of financial position as of September 30, 2020, and the related statements of activities, functional expenses, and cash flows for the nine months then ended, and the related notes to the financial statements, and have issued our report thereon dated March 31, 2021.

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) as a basis for designing 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.

Affiliated Company
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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
March 31, 2021

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Independent Auditors' Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

To the Board of Directors of
Common Threads:

Report on Compliance for the Major Federal Program

We have audited Common Threads' (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the nine months ended September 30, 2020. The Organization's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Organization's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on the Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the nine months ended September 30, 2020.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Maxwell Locke & Ritter LLP

Austin, Texas
March 31, 2021

Common Threads

Schedule of Expenditures of Federal Awards
Nine Months Ended September 30, 2020

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Agency or Pass-Through Identifying Number	Total Federal Expenditures
U.S. Department of Agriculture			
SNAP Cluster			
Passed through Texas Health & Human Services Commission-			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP-Ed) 19-20	10.561	529-17-00469-00003	$ 436,110
Passed through The Pennsylvania State University-			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (Pennsylvania SNAP-Ed) 19-20	10.561	5730-CT-COP-9151	44,674
Passed through New York State Office of Temporary and Disability Assistance-			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (Nutrition Education and Obesity Prevention Programming for SNAP Eligible People in NYC)	10.561	TDA01-C00571GG-3410000	292,668
Total SNAP Cluster and CFDA 10.561			773,452
Passed through The Pennsylvania State University-			
Farm to School Grant Program	10.575	CN-F2S-IMPL-20-TX	2,308
Total CFDA 10.575			2,308
Total passed through The Pennsylvania State University			46,982
Total U.S. Department of Agriculture			775,760
Total Expenditures of Federal Awards			$ 775,760

See the accompanying notes to the schedule of expenditures of federal awards.

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Common Threads (the "Organization") under programs of the federal government for the nine months ended September 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, change in net assets, or cash flows of the Organization.

2. Summary of Significant Accounting Policies

Basis of Accounting

The Schedule includes the federal activity of the Organization and is presented on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, where certain types of expenditures are not allowed or are limited as to reimbursement. Therefore, some amounts presented in the Schedule may differ from amounts presented in or used in the preparation of the financial statements.

The Organization has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued on whether the financial statements were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? ☐ yes ☒ no

Significant deficiency(ies) identified? ☐ yes ☒ none reported

Noncompliance material to financial statements noted? ☐ yes ☒ no

Federal Awards

Internal control over the major federal program:

Material weakness(es) identified? ☐ yes ☒ no

Significant deficiency(ies) identified? ☐ yes ☒ none reported

Type of auditors' report issued on compliance for the major federal program-

SNAP Cluster Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ☐ yes ☒ no

Identification of the major federal program-

CFDA Number(s)	Name of Federal Program or Cluster
10.561	SNAP Cluster

Dollar threshold used to distinguish between type A and type B programs: $750,000

Auditee qualified as low-risk auditee? ☐ yes ☒ no

Section II - Financial Statement Findings

No findings required to be reported in accordance with *Government Auditing Standards* for the nine months ended September 30, 2020 and the year ended December 31, 2019.

Section III - Federal Award Findings and Questioned Costs

No findings or questioned costs required to be reported in accordance with 2 CFR 200.516(a) for the nine months ended September 30, 2020 and for the year ended December 31, 2019.