



Martha's Table, Inc. and Affiliates
Consolidated Financial Statements
and Independent Auditor's Report
December 31, 2017 and 2016

Martha's Table, Inc. and Affiliates

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Independent Auditor's Report on Consolidated Financial Statements

To the Board of Directors
Martha's Table, Inc. and Affiliates
Washington, D.C.

We have audited the accompanying consolidated financial statements of Martha's Table, Inc. and Affiliates (collectively, "Martha's Table"), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, the related consolidated statements of activities and change in net assets, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Martha's Table Inc. and Affiliates as of December 31, 2017 and 2016, and the change 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.

CohnReznick LLP

Bethesda, Maryland
May 23, 2018

Martha's Table, Inc. and Affiliates

**Consolidated Statements of Financial Position
December 31, 2017 and 2016**

<u>Assets</u>		
	2017	2016
Cash and cash equivalents	\$ 18,551,661	\$ 7,988,607
Pledges and contributions receivable, net	6,832,460	6,404,071
Grants and accounts receivable	657,458	647,852
Note receivable	18,974,200	-
Prepaid expenses	122,663	168,244
Property and equipment, net	17,475,100	2,262,223
Property held for sale, net	1,568,027	-
	\$ 64,181,569	\$ 17,470,997
<u>Liabilities and Net Assets</u>		
Liabilities		
Accounts payable and accrued expenses	\$ 2,025,073	\$ 406,469
Deferred revenue	40,000	318,309
Long-term debt	31,465,000	1,000,000
Deferred lease incentive	19,265	26,970
	33,549,338	1,751,748
Net assets		
Unrestricted:		
Board designated - reserve fund	300,000	300,000
Board designated - capacity building	-	2,449,788
Operating	22,830,106	3,211,294
	23,130,106	5,961,082
Temporarily restricted	7,502,125	9,758,167
	30,632,231	15,719,249
	\$ 64,181,569	\$ 17,470,997

See Notes to Consolidated Financial Statements.

Martha's Table, Inc. and Affiliates

**Consolidated Statements of Activities and Change in Net Assets
Years Ended December 31, 2017 and 2016**

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue						
Contributions and grants						
Individuals	\$ 3,705,139	\$ 1,156,000	\$ 4,861,139	\$ 2,679,942	\$ 2,438,667	\$ 5,118,609
Corporations	524,560	10,000	534,560	455,251	100,000	555,251
Foundations	308,783	13,415,775	13,724,558	519,110	2,685,554	3,204,664
Civic and religious groups	87,691	-	87,691	95,152	15,000	110,152
Combined federal campaign	450,028	-	450,028	449,612	-	449,612
Federal and state funds	2,618,240	-	2,618,240	2,229,273	-	2,229,273
	<u>7,694,441</u>	<u>14,581,775</u>	<u>22,276,216</u>	<u>6,428,340</u>	<u>5,239,221</u>	<u>11,667,561</u>
In-kind contributions						
Donated services	185,200	-	185,200	180,200	-	180,200
Donated food	1,061,825	-	1,061,825	912,669	-	912,669
Donated land	1,260,000	-	1,260,000	-	-	-
Donated clothing and other items	1,745,991	-	1,745,991	2,126,726	-	2,126,726
	<u>4,253,016</u>	<u>-</u>	<u>4,253,016</u>	<u>3,219,595</u>	<u>-</u>	<u>3,219,595</u>
Other revenues						
Childcare co-pay	177,583	-	177,583	38,098	-	38,098
Investment income	138,758	-	138,758	48,552	-	48,552
Martha's Outfitters	436,498	-	436,498	531,682	-	531,682
Miscellaneous income	10,162	-	10,162	5,783	-	5,783
Special events, net	388,426	171,490	559,916	(83,850)	332,262	248,412
Net assets released from restrictions -						
Satisfaction of restrictions	17,009,307	(17,009,307)	-	1,748,586	(1,748,586)	-
	<u>18,160,734</u>	<u>(16,837,817)</u>	<u>1,322,917</u>	<u>2,288,851</u>	<u>(1,416,324)</u>	<u>872,527</u>
Total support and revenues	<u>30,108,191</u>	<u>(2,256,042)</u>	<u>27,852,149</u>	<u>11,936,786</u>	<u>3,822,897</u>	<u>15,759,683</u>

Martha's Table, Inc. and Affiliates

**Consolidated Statements of Activities and Change in Net Assets
Years Ended December 31, 2017 and 2016**

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Expenses						
Program services						
Healthy Eating	3,852,282	-	3,852,282	3,643,381	-	3,643,381
Healthy Start	3,652,719	-	3,652,719	3,325,017	-	3,325,017
Healthy Connections	417,032	-	417,032	431,279	-	431,279
Martha's Outfitters	2,386,498	-	2,386,498	2,723,597	-	2,723,597
Total program services	10,308,531	-	10,308,531	10,123,274	-	10,123,274
Supporting services						
General administration	1,336,626	-	1,336,626	1,166,588	-	1,166,588
Fundraising and communications	1,294,010	-	1,294,010	1,309,397	-	1,309,397
Total supporting services	2,630,636	-	2,630,636	2,475,985	-	2,475,985
Total expenses	12,939,167	-	12,939,167	12,599,259	-	12,599,259
Change in net assets	17,169,024	(2,256,042)	14,912,982	(662,473)	3,822,897	3,160,424
Net assets, beginning of year	5,961,082	9,758,167	15,719,249	6,623,555	5,935,270	12,558,825
Net assets, end of year	\$ 23,130,106	\$ 7,502,125	\$ 30,632,231	\$ 5,961,082	\$ 9,758,167	\$ 15,719,249

See Notes to Consolidated Financial Statements.

Martha's Table, Inc. and Affiliates

Consolidated Statement of Functional Expenses Year Ended December 31, 2017

	Program Services				Supporting Services				Total Expenses
	Healthy Eating	Healthy Start	Healthy Connections	Martha's Outfitters	Total Program Services	General Administration	Fundraising and Communications	Total Supporting Services	
Personnel expenses									
Salaries (Including donated services)	\$ 1,111,818	\$ 2,228,001	\$ 262,960	\$ 361,780	\$ 3,964,559	\$ 816,642	\$ 747,240	\$ 1,563,882	\$ 5,528,441
Payroll taxes and benefits	240,351	479,588	54,836	61,096	835,871	149,802	140,116	289,918	1,125,789
	1,352,169	2,707,589	317,796	422,876	4,800,430	966,444	887,356	1,853,800	6,654,230
Operating expenses									
Bad debt expense	-	-	-	-	-	8,846	-	8,846	8,846
Children's food	154,184	-	-	-	154,184	-	-	-	154,184
Depreciation and amortization	55,252	143,596	23,143	31,526	253,517	20,668	6,479	27,147	280,664
Extermination	1,429	3,713	599	815	6,556	532	168	700	7,256
Food - other	858,958	1,173	86	137	860,354	199	1,826	2,025	862,379
Gasoline	3,605	-	-	392	3,997	-	-	-	3,997
Insurance	16,320	42,413	6,834	9,311	74,878	4,150	1,916	6,066	80,944
Meetings	4,143	6,328	513	1,147	12,131	10,702	14,880	25,582	37,713
Miscellaneous	36,966	84,429	7,486	28,096	156,977	46,676	128,958	175,634	332,611
Printing and postage	16,147	41,930	6,743	9,200	74,020	461	127,434	127,895	201,915
Consultants and professional fees	73,195	339,203	8,591	11,671	432,660	192,054	83,330	275,384	708,044
Repairs and maintenance	58,607	85,689	13,810	25,328	183,434	12,318	3,868	16,186	199,620
Rent	-	-	-	61,863	61,863	-	-	-	61,863
Research	14,800	-	-	-	14,800	-	-	-	14,800
Supplies	99,751	63,650	5,487	14,333	183,221	57,425	26,537	83,962	267,183
Tax, tags and licenses	1,350	315	34	428	2,127	(169)	66	(103)	2,024
Trash removal	5,544	14,409	2,322	3,163	25,438	2,068	651	2,719	28,157
Travel	765	27,951	6,757	224	35,697	611	2,380	2,991	38,688
Utilities	37,273	90,331	16,831	19,997	164,432	13,641	8,161	21,802	186,234
	1,438,289	945,130	99,236	217,631	2,700,286	370,182	406,654	776,836	3,477,122
Donation expenses									
Donated food	1,061,824	-	-	-	1,061,824	-	-	-	1,061,824
Donated clothing and other items	-	-	-	1,745,991	1,745,991	-	-	-	1,745,991
	1,061,824	-	-	1,745,991	2,807,815	-	-	-	2,807,815
Total expenses	<u>\$ 3,852,282</u>	<u>\$ 3,652,719</u>	<u>\$ 417,032</u>	<u>\$ 2,386,498</u>	<u>\$ 10,308,531</u>	<u>\$ 1,336,626</u>	<u>\$ 1,294,010</u>	<u>\$ 2,630,636</u>	<u>\$ 12,939,167</u>

See Notes to Consolidated Financial Statements.

Martha's Table, Inc. and Affiliates

Consolidated Statement of Functional Expenses Year Ended December 31, 2016

	Program Services				Total Program Services	Supporting Services			Total Expenses
	Healthy Eating	Healthy Start	Healthy Connections	Martha's Outfitters		General Administration	Fundraising and Communications	Total Supporting Services	
Personnel expenses									
Salaries (Including donated services)	\$ 975,116	\$ 2,053,628	\$ 268,873	\$ 273,727	\$ 3,571,344	\$ 657,189	\$ 725,684	\$ 1,382,873	\$ 4,954,217
Payroll taxes and benefits	238,732	482,442	55,193	55,042	831,409	111,695	156,342	268,037	1,099,446
	<u>1,213,848</u>	<u>2,536,070</u>	<u>324,066</u>	<u>328,769</u>	<u>4,402,753</u>	<u>768,884</u>	<u>882,026</u>	<u>1,650,910</u>	<u>6,053,663</u>
Operating expenses									
Children's food	186,649	-	-	-	186,649	-	-	-	186,649
Depreciation and amortization	62,796	163,106	26,293	35,842	288,037	23,675	7,365	31,040	319,077
Extermination	966	2,511	405	551	4,433	362	113	475	4,908
Food - other	798,575	819	1	2	799,397	2	2	4	799,401
Gasoline	9,590	-	-	1,061	10,651	-	-	-	10,651
Insurance	16,922	44,103	7,088	9,655	77,768	6,324	1,984	8,308	86,076
Meetings	1,273	5,223	276	494	7,266	6,739	5,523	12,262	19,528
Miscellaneous	22,397	62,451	5,981	20,379	111,208	35,961	87,576	123,537	234,745
Printing and postage	20,101	53,903	8,365	11,418	93,787	11,323	157,791	169,114	262,901
Consultants and professional fees	109,410	217,239	10,007	62,379	399,035	212,023	133,473	345,496	744,531
Repairs and maintenance	53,830	68,089	10,974	19,329	152,222	9,803	3,071	12,874	165,096
Rent	-	-	-	59,566	59,566	-	-	-	59,566
Research	24,119	267	266	-	24,652	-	-	-	24,652
Supplies	160,129	45,382	12,016	21,915	239,442	74,769	23,253	98,022	337,464
Tax, tags and licenses	6,892	-	-	245	7,137	2,033	-	2,033	9,170
Trash removal	4,491	11,671	1,881	6,498	24,541	1,679	527	2,206	26,747
Travel	2,627	30,653	10,201	276	43,757	979	2,291	3,270	47,027
Utilities	36,097	83,530	13,459	18,492	151,578	12,032	4,402	16,434	168,012
	<u>1,516,864</u>	<u>788,947</u>	<u>107,213</u>	<u>268,102</u>	<u>2,681,126</u>	<u>397,704</u>	<u>427,371</u>	<u>825,075</u>	<u>3,506,201</u>
Donation expenses									
Donated food	912,669	-	-	-	912,669	-	-	-	912,669
Donated clothing and other items	-	-	-	2,126,726	2,126,726	-	-	-	2,126,726
	<u>912,669</u>	<u>-</u>	<u>-</u>	<u>2,126,726</u>	<u>3,039,395</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,039,395</u>
Total expenses	<u>\$ 3,643,381</u>	<u>\$ 3,325,017</u>	<u>\$ 431,279</u>	<u>\$ 2,723,597</u>	<u>\$ 10,123,274</u>	<u>\$ 1,166,588</u>	<u>\$ 1,309,397</u>	<u>\$ 2,475,985</u>	<u>\$ 12,599,259</u>

See Notes to Consolidated Financial Statements.

Martha's Table, Inc. and Affiliates

Consolidated Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from Operating Activities		
Change in net assets	\$ 14,912,982	\$ 3,160,424
Adjustments to reconcile change in net assets to net cash provided by (used in) Operating Activities		
Bad debt expense	8,846	-
Depreciation and amortization	280,664	319,077
Receipts from contributions for long-term purposes	(11,759,580)	(1,745,680)
Donated land	(1,260,000)	-
Change in:		
Pledges and contributions receivable	(437,235)	(2,282,083)
Grants receivable	(9,606)	(510,755)
Prepaid expenses	45,581	(101,686)
Accounts payable and accrued expenses	1,618,604	92,648
Deferred revenue	(278,309)	(143,097)
Deferred lease incentive	(7,705)	(7,706)
	<u>3,114,242</u>	<u>(1,218,858)</u>
Net cash provided by (used in) Operating Activities		
Cash used in Investing Activities		
Amounts disbursed for note receivable	(18,974,200)	-
Purchases of property and equipment	(15,801,568)	(221,153)
	<u>(34,775,768)</u>	<u>(221,153)</u>
Net cash used in Investing Activities		
Cash provided by Financing Activities		
Proceeds from long-term debt borrowings	30,465,000	1,000,000
Receipts from contributions for long-term purposes	11,759,580	1,745,680
Drawdowns on line of credit	3,149,648	-
Repayment on line of credit	(3,149,648)	-
	<u>42,224,580</u>	<u>2,745,680</u>
Net cash provided by Financing Activities		
Increase in cash and cash equivalents	10,563,054	1,305,669
Cash and cash equivalents, beginning of year	<u>7,988,607</u>	<u>6,682,938</u>
Cash and cash equivalents, end of year	<u>\$ 18,551,661</u>	<u>\$ 7,988,607</u>

See Notes to Consolidated Financial Statements.

Martha's Table, Inc. and Affiliates

Notes to Consolidated Financial Statements December 31, 2017 and 2016

Note 1 - Organization and summary of significant accounting policies

Nature of business

Martha's Table, Inc. ("Martha's Table") was incorporated in the District of Columbia on December 6, 1979. Martha's Table is a not-for-profit corporation operating in the District of Columbia, the purpose of which is to support stronger children, stronger families, and stronger communities by increasing access to quality education programs, healthy food, and family supports.

Martha's Table Hillsdale, LLC ("Hillsdale") is a single member LLC, created in 2015, and is the builder and owner of The Commons at Stanton Square.

Martha's Table SO, Inc. ("MT SO") was created in 2015 to support Martha's Table, Inc. in building a new facility and providing essential healthy start, healthy eating and healthy connections programs to the communities of Wards 7 and 8 in Southeast Washington DC.

Neither Hillsdale nor MT SO, had any significant activity during the year ended December 31, 2016.

Principles of consolidation

The consolidated financial statements include the accounts of Martha's Table, MT SO and Hillsdale (collectively, "Martha's Table"). All significant intercompany accounts and transactions between the organizations have been eliminated.

Program services

The Healthy Eating Program

Martha's Table's Healthy Eating Program offers emergency meals, on-site grocery distributions, school grocery distributions, and on-site meals for the Early Childhood Education and youth programs, which meet or exceed government nutritional standards. McKenna's Wagon, Martha's Table's mobile food truck, distributes food seven days a week at three regularly scheduled sites. Martha's Table also provides groceries through monthly distributions at 39 sites including Public Elementary Schools, community centers and an on-site grocery program throughout the month. Martha's Table's pop-up no-cost grocery markets provide healthy produce and healthy pantry staples to families and neighbors.

Martha's Outfitters

Martha's Outfitters offers a wide assortment of almost new, up-to-date clothing and household items in addition to providing no-cost sleeping bags, blankets, toiletries and children's supplies to low-income families and individuals in the community through our Outlet program. There are two Martha's Outfitters locations open to the community that provide these services. One that is open six days a week, Monday through Saturday, from 12 p.m. to 6 p.m. and serves residents of the 14th and U Streets area, and the other is also open five days a week from Monday through Friday, from 11 a.m. to 5 p.m. and serves the residents of Anacostia and surrounding neighborhoods in Southeast DC.

There were 51,653 (unaudited) and 40,180 (unaudited) visits to Martha's Outfitters during the years ended December 31, 2017 and 2016, respectively.

The Healthy Start Program

Our comprehensive, high quality Healthy Start program offers full day early childhood education to children from three months to three years of age, as well as out-of-school time programming for pre-kindergarten and elementary-aged students. Our educators work to ensure a sound developmental and academic foundation for children, laying the framework for school readiness

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beyond preschool. Students in Martha's Table's nationally-accredited out-of-school time program practice inquiry and develop critical thinking, collaboration, creativity, and communication skills. Our Healthy Start program is complemented by a critical family engagement and education component, which creates a strong home-school relationship for our students, and connects caregivers to support they need to nurture successful families and futures.

The Healthy Connections Program

As our children progress through middle school, high school and college, we support our youth with service, leadership, and work opportunities as they mature into their future as learners, leaders, and earners.

Basis of accounting

The accompanying consolidated financial statements have been prepared using the accrual basis of accounting. Consequently, revenues are recognized when earned and expenses are recognized when the obligation is incurred.

Functional allocation of expenses

The costs of supporting and managing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities and change in net assets. Accordingly, expenses have been allocated among the benefitting program and supporting services based on specific identification or reasonable allocation methodologies.

Cash and cash equivalents

Cash and cash equivalents consist of cash in operating and money market accounts, cash on hand, and highly liquid investments with original maturities of 90 days or less. Cash and cash equivalents consist of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Undesignated	\$ 16,681,546	\$ 206,993
Designated - Reserve	300,000	300,000
Restricted contributions	1,570,115	5,031,826
Designated - Capacity building	-	2,449,788
	<u>\$ 18,551,661</u>	<u>\$ 7,988,607</u>

Pledges and contributions receivable

Unconditional promises to give that are expected to be collected within one year are reflected as pledges and contributions receivable and are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are reflected as pledges and contributions receivable and are recorded at their net present value using a risk adjusted discount rate of 3.00%. Amortization of the discount on pledges and contributions receivable is recognized as contributions and grants revenue. Conditional promises to give are recognized when conditions on which they depend are substantially met.

Management evaluates the need for allowances based on a review of the estimated collectability of the specific accounts, plus a general provision based on historical loss experience and existing economic conditions. Uncollectible amounts are charged off against the allowance for doubtful accounts once management determines an account, or a portion thereof, to be uncollectible. Based

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Notes to Consolidated Financial Statements December 31, 2017 and 2016

on management's evaluation of collectability of pledges and contributions receivable, no allowance for uncollectable accounts was required at December 31, 2017 and 2016. Bad debt expense was \$8,846 and \$0 for the years ended December 31, 2017 and 2016, respectively.

Grants receivable

Grant expenses incurred before the related grant revenue is received are recorded as grants receivable.

Management evaluates the need for allowances based on a review of the estimated collectability of the specific accounts, plus a general provision based on historical loss experience and existing economic conditions. Uncollectible amounts are charged off against the allowance for doubtful accounts once management determines an account, or a portion thereof, to be uncollectible. Based on management's evaluation of collectability of grants receivable, no allowance for uncollectible accounts was required at December 31, 2017 and 2016.

Note receivable

Note receivable is recorded at the net realizable value based on assessments made by management. An allowance is established for any note that management deems to be uncollectible based on their assessment. Management determined that the amounts reported as note receivable were fully realizable therefore no such allowance for doubtful accounts was necessary as of December 31, 2017.

Property and equipment

Property and equipment is recorded at cost or, if donated, at fair value at the date of donation. Martha's Table capitalizes purchases over \$1,000 with an estimated useful life of greater than one year. Depreciation and amortization expense is computed using the straight-line method over the estimated useful lives of the related assets commencing in the month the asset is placed in service, as follows:

Buildings and Improvements	7 - 20 years
Furniture and Equipment	3 - 15 years
Vans	5 years
Website	5 years

Property Held For Sale

Property held for sale represents Martha's Table's 14th street land and buildings. On May 26, 2017, Martha's Table entered into an agreement to sell the property.

Net assets

Martha's Table classifies net assets into two categories: unrestricted and temporarily restricted. Within unrestricted net assets, Martha's Table's board has designated net assets for a reserve fund that consists of amounts for non-recurring expenses that require board action before they can be expended, and designated net assets for expansion activities, that was funded by a \$3,000,000 contribution from one foundation donor for board designated efforts that will contribute to the capacity building of Martha's Table.

Temporarily restricted net assets are contributions with temporary, donor-imposed time and/or program-specific restrictions. These temporary restrictions require that resources be used for specific purposes and/or in a certain period. Temporarily restricted net assets become unrestricted when the time restrictions expire or the funds are used for their restricted purposes and are

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Notes to Consolidated Financial Statements December 31, 2017 and 2016

reported in the consolidated statements of activities and change in net assets as net assets released from restrictions.

Revenue recognition

Martha's Table records contributions as contributions and grants revenue when received in cash or when unconditionally pledged by the donor. Donated investments are reflected as contributions and grants revenue and are recorded at their fair value on the date of receipt. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Temporarily restricted revenues are contributions with temporary, donor-imposed time and/or program-specific restrictions. These temporary restrictions require that resources be used for specific purposes and/or in a certain period.

Revenues from federal and other funding sources are recognized when the related expenses are incurred. Expenses charged to federal grants are subject to audit and adjustment.

Special events revenue is presented net of revenue-sharing amounts paid to a partner organization and expenses of the special events for the year ended December 31, 2017 and 2016 is as follows:

	2017	2016
Special events revenue, gross	\$ 986,042	\$ 586,698
Less: Revenue sharing amounts paid to a partner non-profit organization	(275,721)	(255,934)
Less: Special events expenses	(150,405)	(82,352)
Special events revenue, net	<u>\$ 559,916</u>	<u>\$ 248,412</u>

In-kind contributions

In-kind contributions include food, clothing, investments and other items, such as toys and educational materials. In-kind contributions are recorded as in-kind contribution revenue and program or supporting expense at their estimated fair values at the date of donation.

Area supermarkets, caterers, food vendors, shops, hotels and volunteers provide over 98% of the food served by McKenna's Wagon at no cost or at significant discounts. In-kind contributions related to donated food are determined based on monthly estimates of meals served. In-kind contributions related to clothing and other items are determined based on periodic surveys of sale prices for comparable items at similar local thrift and second-hand stores.

In-kind contributions related to donated services are recorded in the consolidated financial statements to the extent that those services create or enhance a nonfinancial asset, or the services require specialized skills, the service is provided by individuals who possess those skills, and the service would typically need to be purchased if not contributed. Donated executive services of \$185,200 and \$180,200 that meet these criteria were recorded as in-kind contributions in the consolidated statements of activities and change in net assets for years ended December 31, 2017 and 2016, respectively.

Martha's Table periodically reviews its systems and processes for calculating in-kind contribution values and makes necessary updates.

For the years ended December 31, 2017 and 2016, Martha's Table's Healthy Eating Program benefited from volunteer hours totaling approximately 55,227 (unaudited) and 55,353 (unaudited)

Martha's Table, Inc. and Affiliates

Notes to Consolidated Financial Statements December 31, 2017 and 2016

hours, respectively. The value of hours volunteered at Martha's Table is not recorded in the consolidated financial statements, as it does not create or enhance nonfinancial assets or require specialized skills. The value of such unrecorded labor was estimated by management at \$469,429 (unaudited) and \$470,500 (unaudited) for the years ended December 31, 2017 and 2016, respectively.

Income taxes

Martha's Table, Inc. and MT SO are exempt from federal tax under the provisions of Section 501(c)(3) of the Internal Revenue Code. Hillsdale is treated as a disregarded entity for income tax purposes and consolidated into Martha's Table Inc.'s tax filings. Accordingly, the accompanying consolidated financial statements do not include a provision for federal and state income taxes. Martha's Table has been classified by the Internal Revenue Service as a publicly supported organization under Section 170(b)(1)(A)(VI). Martha's Table did not have any unrelated business income for the years ended December 31, 2017 and 2016. Martha's Table recognizes interest expense and penalties on income taxes related to uncertain tax positions in general administration expenses on the consolidated statements of activities and change in net assets and accounts payable and accrued expenses in the consolidated statements of financial position. There is no provision in these consolidated financial statements for penalties and interest on income taxes related to uncertain tax positions for the years ended December 31, 2017 and 2016. Tax years prior to 2014 are no longer subject to examination by the IRS or the tax jurisdiction of the District of Columbia.

Concentrations

Martha's Table maintains bank deposits with commercial financial institutions that at times may exceed Federal Deposit Insurance Corporation ("FDIC") limits. At December 31, 2017 and 2016, deposits in excess of FDIC limits totaled \$15,431,806 and \$343,945, respectively. Martha's Table monitors the creditworthiness of the institutions and has not experienced any credit losses on its bank deposits, nor does it expect to experience any such losses.

In addition, at December 31, 2017 and 2016, Martha's Table held funds totaling \$4,437,507 and \$7,269,153, respectively, at a local financial institution through a master repurchase agreement, whereby the funds are invested in securities backed by the United States government and related agencies.

Use of estimates

Management uses estimates and assumptions in preparing these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could vary from the estimates that were used.

Impairment of long-lived assets

Martha's Table reviews its long-lived assets for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying value of an asset, an impairment loss is recognized for the difference.

Subsequent events

Martha's Table has evaluated events and transactions for potential recognition or disclosure through May 23, 2018, the date the consolidated financial statements were available to be issued.

Martha's Table, Inc. and Affiliates

**Notes to Consolidated Financial Statements
December 31, 2017 and 2016**

Note 2 - Pledges and contributions receivable

Pledges and contributions receivable consist of the following as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Pledges and contributions receivable in less than one year	\$ 4,420,299	\$ 3,733,877
Pledges and contributions receivable in one to five years	<u>2,527,000</u>	<u>2,784,199</u>
Total pledges and contributions receivable	6,947,299	6,518,076
Less: Discount to net present value	<u>(114,839)</u>	<u>(114,005)</u>
Net pledges and contributions receivable	<u>\$ 6,832,460</u>	<u>\$ 6,404,071</u>

At December 31, 2016, Martha's Table had conditional promises to give consisting of a \$9,350,000 grant as well as a gift of land in Washington DC for the Commons Expansion project. The gifts were conditional upon approval for the project by the DC Zoning Commission (which was received on April 11, 2016) and other conditions related to the project. The land conveyed to Martha's Table on February 17, 2017. The grant and the gift of the land are included in the consolidated statement of activities and change in net assets for the year ended December 31, 2017.

Note 3 - Note receivable

In May 2017, Martha's Table SO entered into a note receivable of \$18,974,200 from an outside investment firm that was issued as part of the New Market Tax Credit financing for the development of the new Martha's Table Headquarters and Early Learning Center. The note accrues interest at 1% per year. Quarterly payments of interest-only are due through July 20, 2024. Quarterly payments of principal and interest are due from October 20, 2024 through October 20, 2044. The note receivable is considered to be fully collectible by management as of December 31, 2017. During the year ended December 31, 2017, interest income of \$117,007 was recognized and \$47,436 remains receivable as of December 31, 2017, respectively, and is included in grants and accounts receivable on the consolidated statements of financial position.

Martha's Table, Inc. and Affiliates

**Notes to Consolidated Financial Statements
December 31, 2017 and 2016**

Note 4 - Property and equipment

Property and equipment consist of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Land	\$ 1,260,000	\$ 921,044
Buildings and improvements	-	5,335,657
Furniture and equipment	778,158	778,158
Leasehold improvements	211,890	-
Vans	363,592	346,573
Website	73,646	73,646
Construction project in progress - Commons expansion	<u>15,819,905</u>	<u>269,370</u>
	<u>18,507,191</u>	<u>7,724,448</u>
Less: Accumulated depreciation and amortization	<u>(1,032,091)</u>	<u>(5,462,225)</u>
	<u>\$ 17,475,100</u>	<u>\$ 2,262,223</u>

Note 5 - Property held for sale

Property held for sale consists of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Land	\$ 921,044	\$ -
Buildings and improvements	<u>5,335,657</u>	<u>-</u>
	<u>6,256,701</u>	<u>-</u>
Less: Accumulated depreciation	<u>(4,688,674)</u>	<u>-</u>
	<u>\$ 1,568,027</u>	<u>\$ -</u>

Note 6 - Long-term debt

Program loan

During 2016, Martha's Table received a \$1,000,000 program related loan from a Foundation to fund the development of the new Martha's Table Headquarters and Early Learning Center located in Ward 8 of Washington, DC. The loan agreement runs through December 30, 2020. The funding is to be used for facility design, development and construction. The lender will retain significant involvement in the activities and services provided by Martha's Table. The loan amount shall be forgiven on or before the last day of the agreement as long as Martha's Table complies with all terms of the agreement, completes one year of operation in the new facility and participating in programs set forth by the Foundation. If Martha's Table does not comply with these conditions, the loan is to be repaid in full by December 30, 2020.

Martha's Table, Inc. and Affiliates

Notes to Consolidated Financial Statements December 31, 2017 and 2016

Line of credit

On April 14, 2017, Martha's Table, Inc. entered in an agreement for a revolving loan up to \$8,000,000. Proceeds from the loan are to be used to fund the capital improvements in connection with the new headquarters in Southeast Washington DC, or contributions or loans to Martha's Table SO, Inc., related to development expenses of the new headquarters. Outstanding principal on the note will have an interest rate of 3.35% per year, with payments of interest due monthly. Unpaid principal and accrued interest are due upon maturity on October 14, 2019. The note has an option to be extended through April 1, 2020. The interest rate for the extension period is at a fixed rate equal to the average of the two-year and three-year United States Treasury Yield, plus 2.37%. The note is secured by a deed of trust, assignment and security agreement. The line of credit had no outstanding balance at December 31, 2017.

Notes payable - community development entities

In May 2017, Hillsdale entered into a series of notes payable to help finance construction of the new Martha's Table headquarters located at 2735 Elvans Road SE, through the New Market Tax Credit ("NMTC") Program. The notes were funded by various Community Development Entities ("CDEs") which received funding from the investment fund which MT SO provided funds to. Martha's Table Hillsdale, LLC received loans of \$3,975,900 and \$1,904,100 from Impact CDE 58 LLC, \$8,371,800 and \$3,388,200 from City First Capital 49, LLC, \$3,313,250 and \$1,686,750 from MS New Markets XIII, LLC, and \$4,825,000 from New Markets Investment 105, LLC. Each loan from the CDEs requires quarterly payments of interest-only at 1.009% per annum through June 30, 2024. Starting on October 5, 2024, quarterly payments of principal and interest are due, with the entire unpaid principal due on October 5, 2052. Notes Payable to the CDE's at December 31, 2017 totaled \$27,465,000.

Demand note payable

On May 26, 2017, Martha's Table entered into an agreement to sell its land and buildings located on 14th Street in Washington DC. In accordance with the agreement, \$3,000,000 was received in an escrow account and was to be held until closing. On August 25, 2017, Martha's Table converted the \$3,000,000 deposit received in relation to the purchase agreement on the 14th street property, into a demand promissory note. The note accrues interest of 4% per year. The note is due upon demand if the purchase agreement is terminated or in the event the purchaser is entitled to the return of the deposit. Upon the earlier of the closing or termination of the agreement, the note shall be cancelled.

Interest and fees related to long-term debt totaled \$184,405 in 2017 and has been capitalized as part of the construction project and has been included in construction in progress.

Martha's Table, Inc. and Affiliates

**Notes to Consolidated Financial Statements
December 31, 2017 and 2016**

Future maturities on the long-term debt are as follows:

Year Ending December 31,

2018	\$	4,000,000
2019		-
2020		-
2021		-
2022		-
Thereafter		<u>27,465,000</u>
	\$	<u><u>31,465,000</u></u>

Note 7 - Temporarily restricted net assets

Temporarily restricted net assets consist of the following as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
The Commons capital expansion	\$ 760,741	\$ 5,425,000
Joyful Food Markets	440,685	765,000
Special events	125,089	329,553
Healthy Eating	60,000	73,434
Healthy Start, Healthy Eating and Healthy Connections	785,000	50,000
The Commons programs expansion	55,000	55,000
Healthy Start	1,528,942	912,540
Time restricted	<u>3,746,668</u>	<u>2,147,640</u>
	<u>\$ 7,502,125</u>	<u>\$ 9,758,167</u>

Net assets released from restrictions consist of expended restricted contributions for the donor-imposed purposes or passage of time on pledges from donors. The net assets released were as follows for the year ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
The Commons Expansion	\$ 14,514,259	\$ -
Joyful Food Markets	372,749	383,333
Healthy Eating	76,000	236,226
Healthy Start	272,904	349,460
Special Events	375,954	287,463
Healthy Start, Healthy Eating and Healthy Connections	275,000	25,000
Older youth programs/Youth advisory council	55,775	-
Arts & Tech Program at Thurgood Marshall Academy	-	10,554
Time restricted	<u>1,066,666</u>	<u>456,550</u>
	<u>\$ 17,009,307</u>	<u>\$ 1,748,586</u>

Martha's Table, Inc. and Affiliates

Notes to Consolidated Financial Statements December 31, 2017 and 2016

Note 8 - Leases

On February 22, 2013, Martha's Table entered into a 39-month non-cancellable retail space lease agreement for its second Martha's Outfitters location. The lease originally expired May 31, 2016, but a renewal option was exercised that extended the term to May 31, 2019, with rents escalating at a minimum of 3% per year over the renewal term. The lease calls for monthly payments of rent, plus direct payment of utilities and insurance and reimbursement of common area maintenance costs and real estate taxes. The terms of the lease agreement required a security deposit of \$3,684, which is included in prepaid expenses in the accompanying consolidated statements of financial position. Rent expense was \$61,863 and \$59,566, for the years ended December 31, 2017 and 2016, respectively.

Future minimum annual rents under the lease are as follows:

<u>Year Ending December 31,</u>		
2018	\$	53,026
2019		<u>22,365</u>
	\$	<u><u>75,391</u></u>

On June 19, 2015, Martha's Table entered into a 60-month lease for new copiers. The lease calls for monthly payments of \$2,907. Upon signing this lease, Martha's Table received a \$38,529 lease incentive payment to be used to payoff the remaining payments on two previous copier leases. The deferred lease incentive will be amortized over the life of the lease.

Future minimum annual rents under the lease are as follows:

<u>Year Ending December 31,</u>		
2018	\$	34,882
2019		34,882
2020		<u>17,441</u>
	\$	<u><u>87,205</u></u>

On May 19, 2017, Martha's Table entered into an agreement to lease space on Columbia Road, N.W. Washington, DC to house its programs. The commencement date on the lease is the earlier of 120 days after the delivery date or when Martha's Table receives its OSSE license. The delivery date is estimated to be July 1, 2018. The lease will run for 120 months from the date of commencement. Base rent will be \$14,872 per month, and increases by 2% each year.

Note 9 - Benefit plan

The employees of Martha's Table who work 1,000 or more hours within a 12-month period are eligible to participate in a 403(b) tax-deferred annuity plan, through which they can defer up to the legal limits allowed by the Internal Revenue Code. Martha's Table contributes 3% for all eligible employees, plus Martha's Table makes a 1% contribution if the employee contributes 1 percent. Martha's Table made contributions of \$129,774 and \$101,096 to this plan for the years ended December 31, 2016 and 2015, respectively.

Martha's Table, Inc. and Affiliates

**Notes to Consolidated Financial Statements
December 31, 2017 and 2016**

Note 10 - Subsequent events

On April 18, 2018, Martha's Table signed an agreement to purchase a parcel of land adjacent to its new headquarters for \$325,000. Martha's Table paid a \$20,000 deposit and the remaining balance is due upon closing.

On April 27, 2018, Martha's Table sold its 14th street property (see notes 5 and 6) for \$30,000,000. As part of the sale, the purchaser paid \$1,000,000 cash, the deposit of \$3,000,000 and corresponding note payable to the purchaser (see note 6) was cancelled, and Martha's Table provided a \$26,000,000 million interest free loan to the purchaser, secured by a purchase money deed of trust on the property, which matures August 1, 2018. Additionally, Martha's Table entered into a rent-free lease with the purchaser, under which Martha's Table will lease back the property until August 1, 2018. The lease can be extended for up to 6 periods of 30 days each provided proper notice is given.

Supplementary Information

Independent Auditor's Report on Supplementary Information

To the Board of Directors
Martha's Table, Inc. and Affiliates
Washington, DC.

We have audited the consolidated financial statements of Martha's Table, Inc. and Affiliates as of and for the years ended December 31, 2017 and 2016, and have issued our report thereon dated May 23, 2018, which contained an unmodified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole.

The consolidating statement of financial position and consolidating schedule of revenue and expenses are presented for the purposes of additional analysis of the consolidated financial statements and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.



Bethesda, Maryland
May 23, 2018

Martha's Table, Inc. and Affiliates
Consolidating Statement of Financial Position
December 31, 2017

	<u>Assets</u>				
	<u>MT Inc.</u>	<u>MT SO</u>	<u>MT Hillsdale</u>	<u>Eliminations</u>	<u>Total</u>
Cash and cash equivalents	\$ 4,563,579	\$ 69,572	\$ 13,918,510	\$ -	\$ 18,551,661
Pledges and contributions receivable, net	6,832,460	-	-	-	6,832,460
Grants and accounts receivable	788,769	47,435	-	(178,746)	657,458
Notes receivable	-	18,974,200	-	-	18,974,200
Prepaid expenses	122,663	-	-	-	122,663
Property and equipment, net	395,195	-	17,079,905	-	17,475,100
Property held for sale, net	1,568,027	-	-	-	1,568,027
Investment in MT Hillsdale, LLC	1,761,216	-	-	(1,761,216)	-
	<u>\$ 16,031,909</u>	<u>\$ 19,091,207</u>	<u>\$ 30,998,415</u>	<u>\$ (1,939,962)</u>	<u>\$ 64,181,569</u>
	<u>Liabilities and Net Assets</u>				
Liabilities					
Long-term debt	\$ 4,000,000	\$ -	\$ 27,465,000	\$ -	\$ 31,465,000
Accounts payable and accrued expenses	431,620	-	1,772,199	(178,746)	2,025,073
Deferred revenue	40,000	-	-	-	40,000
Deferred lease incentive	19,265	-	-	-	19,265
Total liabilities	4,490,885	-	29,237,199	(178,746)	33,549,338
Net assets					
Unrestricted:					
Board designated - Reserve fund	300,000	-	-	-	300,000
Board designated - Capacity building	-	-	-	-	-
Operating	3,738,899	19,091,207	1,761,216	(1,761,216)	22,830,106
Total unrestricted	4,038,899	19,091,207	1,761,216	(1,761,216)	23,130,106
Temporarily restricted	7,502,125	-	-	-	7,502,125
	<u>11,541,024</u>	<u>19,091,207</u>	<u>1,761,216</u>	<u>(1,761,216)</u>	<u>30,632,231</u>
	<u>\$ 16,031,909</u>	<u>\$ 19,091,207</u>	<u>\$ 30,998,415</u>	<u>\$ (1,939,962)</u>	<u>\$ 64,181,569</u>

See Independent Auditor's Report on Supplementary Information.

Martha's Table, Inc. and Affiliates

**Consolidating Schedule of Revenue and Expenses
Year Ended December 31, 2017**

	<u>MT Inc.</u>	<u>MT SO</u>	<u>MT Hillsdale</u>	<u>Eliminations</u>	<u>Total</u>
Support and revenue					
Contributions and grants					
Individuals	\$ 4,861,139	\$ -	\$ -	\$ -	\$ 4,861,139
Corporations	534,560	9,624,200	-	(9,624,200)	534,560
Foundations	4,374,558	9,350,000	-	-	13,724,558
Civic and religious groups	87,691	-	-	-	87,691
Combined federal campaign	450,028	-	-	-	450,028
Federal and state funds	2,618,240	-	-	-	2,618,240
	<u>12,926,216</u>	<u>18,974,200</u>	<u>-</u>	<u>(9,624,200)</u>	<u>22,276,216</u>
In-kind contributions					
Donated services	185,200	-	-	-	185,200
Donated food	1,061,825	-	-	-	1,061,825
Donated land	-	-	1,260,000	-	1,260,000
Donated clothing and other items	1,745,991	-	501,216	(501,216)	1,745,991
	<u>2,993,016</u>	<u>-</u>	<u>1,761,216</u>	<u>(501,216)</u>	<u>4,253,016</u>
Other revenues					
Childcare co-pay	177,583	-	-	-	177,583
Investment income	21,751	117,007	-	-	138,758
Martha's Outfitters	436,498	-	-	-	436,498
Miscellaneous income	10,162	-	-	-	10,162
Special events, net	559,916	-	-	-	559,916
Net assets released from restrictions - Satisfaction of restrictions	-	-	-	-	-
	<u>1,205,910</u>	<u>117,007</u>	<u>-</u>	<u>-</u>	<u>1,322,917</u>
Total support and revenues	<u>17,125,142</u>	<u>19,091,207</u>	<u>1,761,216</u>	<u>(10,125,416)</u>	<u>27,852,149</u>

Martha's Table, Inc. and Affiliates
Consolidating Schedule of Revenue and Expenses
Year Ended December 31, 2017

	MT Inc.	MT SO	MT Hillsdale	Eliminations	Total
Personnel expenses					
Salaries (Including donated services)	5,528,441	-	-	-	5,528,441
Payroll taxes and benefits	1,125,789	-	-	-	1,125,789
	6,654,230	-	-	-	-
Operating expenses					
Bad debt expense	8,846	-	-	-	8,846
Children's food	154,184	-	-	-	154,184
Depreciation and amortization	280,664	-	-	-	280,664
Extermination	7,256	-	-	-	7,256
Food - Other	862,379	-	-	-	862,379
Gasoline	3,997	-	-	-	3,997
Insurance	80,944	-	-	-	80,944
Meetings	37,713	-	-	-	37,713
Miscellaneous	332,611	-	-	-	332,611
Printing and postage	201,915	-	-	-	201,915
Consultants and professional fees	708,044	-	-	-	708,044
Repairs and maintenance	199,620	-	-	-	199,620
Rent	61,863	-	-	-	61,863
Research	14,800	-	-	-	14,800
Supplies	267,183	-	-	-	267,183
Tax, tags, and licenses	2,024	-	-	-	2,024
Trash removal	28,157	-	-	-	28,157
Travel	38,688	-	-	-	38,688
Utilities	186,234	-	-	-	186,234
Contributions expense and capital contributions	10,125,416	-	-	(10,125,416)	-
	13,602,538	-	-	(10,125,416)	3,477,122
Donation expenses					
Donated food	1,061,824	-	-	-	1,061,824
Donated clothing and other items	1,745,991	-	-	-	1,745,991
	2,807,815	-	-	-	2,807,815
Total expenses	23,064,583	-	-	(10,125,416)	12,939,167
Change in net assets before income of affiliate	(5,939,441)	19,091,207	1,761,216	-	14,912,982
Income of affiliate	1,761,216	-	-	(1,761,216)	-
Change in net assets after income of affiliate	(4,178,225)	19,091,207	1,761,216	(1,761,216)	14,912,982
Net assets, beginning of year	15,719,249	-	-	-	15,719,249
Net assets, end of year	\$ 11,541,024	\$ 19,091,207	\$ 1,761,216	\$ -	\$ 30,632,231

See Independent Auditor's Report on Supplementary Information.

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