



Martha's Table, Inc. and Affiliates
Consolidated Financial Statements
and Independent Auditor's Report
December 31, 2018

Martha's Table, Inc. and Affiliates

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Martha's Table, Inc. and Affiliates (collectively, "Martha's Table"), which comprise the consolidated statement of financial position as of December 31, 2018, the related consolidated statement of activities and change in net assets, functional expenses and cash flows for the year 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 audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2018, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

CohnReznick LLP

Bethesda, Maryland
May 30, 2019

Martha's Table, Inc. and Affiliates
Consolidated Statement of Financial Position
December 31, 2018

Assets

Cash and cash equivalents	\$	10,256,366
Pledges and contributions receivable, net		5,663,778
Grants and accounts receivable		632,372
Notes receivable		44,974,200
Prepaid expenses		164,441
Property and equipment, net		<u>26,848,115</u>
	<u>\$</u>	<u>88,539,272</u>

Liabilities and Net Assets

Liabilities

Accounts payable and accrued expenses	\$	1,422,119
Deferred revenue		55,000
Long-term debt		28,465,000
Deferred lease incentive		<u>19,941</u>
Total liabilities		<u>29,962,060</u>

Net assets

Without donor restrictions:		
Board designated - reserve fund		300,000
Operating		<u>52,534,410</u>
Total net assets without donor restrictions		52,834,410
With donor restrictions		<u>5,742,802</u>
Total net assets	<u>\$</u>	<u>88,539,272</u>

Martha's Table, Inc. and Affiliates

**Consolidated Statement of Activities and Change in Net Assets
Year Ended December 31, 2018**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenue			
Contributions and grants			
Individuals	\$ 4,073,698	\$ 2,981,214	\$ 7,054,912
Corporations	201,654	236,000	437,654
Foundations	554,022	340,309	894,331
Civic and religious groups	118,016	20,000	138,016
Combined federal campaign	330,861	-	330,861
Federal and state funds	2,304,277	-	2,304,277
	<u>7,582,528</u>	<u>3,577,523</u>	<u>11,160,051</u>
In-kind contributions			
Donated services	230,000	-	230,000
Donated food	928,766	-	928,766
Donated clothing and other items	949,522	-	949,522
	<u>2,108,288</u>	<u>-</u>	<u>2,108,288</u>
Other revenues			
Childcare co-pay	100,551	-	100,551
Investment income	284,102	-	284,102
Martha's Outfitters	82,462	-	82,462
Miscellaneous income	3,725	-	3,725
Gain on Sale of Property	28,006,971	-	28,006,971
Special events, net	217,189	119,573	336,762
Net assets released from restrictions - satisfaction of restrictions	5,456,419	(5,456,419)	-
	<u>34,151,419</u>	<u>(5,336,846)</u>	<u>28,814,573</u>
Total support and revenues	<u>43,842,235</u>	<u>(1,759,323)</u>	<u>42,082,912</u>
Expenses			
Program services			
Health and Wellness	4,282,392	-	4,282,392
Parent Initiatives	1,629,607	-	1,629,607
Education	4,710,530	-	4,710,530
	<u>10,622,529</u>	<u>-</u>	<u>10,622,529</u>
Supporting services			
General administration	2,017,968	-	2,017,968
Fundraising and communications	1,497,434	-	1,497,434
	<u>3,515,402</u>	<u>-</u>	<u>3,515,402</u>
Total expenses	<u>14,137,931</u>	<u>-</u>	<u>14,137,931</u>
Change in net assets	29,704,304	(1,759,323)	27,944,981
Net assets, beginning of year	<u>23,130,106</u>	<u>7,502,125</u>	<u>30,632,231</u>
Net assets, end of year	<u>\$ 52,834,410</u>	<u>\$ 5,742,802</u>	<u>\$ 58,577,212</u>

See Notes to Consolidated Financial Statements.

Martha's Table, Inc. and Affiliates

**Consolidated Statement of Functional Expenses
Year Ended December 31, 2018**

	Program Services			Total Program Services	Supporting Services		Total Supporting Services	Total Expenses
	Health and Wellness	Parent Initiatives	Education		General Administration	Fundraising and Communications		
Personnel expenses								
Salaries (Including donated services)	\$ 1,491,827	\$ 405,619	\$ 2,671,576	\$ 4,569,022	\$ 947,610	\$ 785,241	\$ 1,732,851	\$ 6,301,873
Payroll taxes and benefits	297,112	75,997	538,976	912,085	213,352	164,271	377,623	1,289,708
	<u>1,788,939</u>	<u>481,616</u>	<u>3,210,552</u>	<u>5,481,107</u>	<u>1,160,962</u>	<u>949,512</u>	<u>2,110,474</u>	<u>7,591,581</u>
Operating expenses								
Bad Debt Expense	-	-	11,883	11,883	3,083	-	3,083	14,966
Children's Food	71,209	-	20,040	91,249	-	-	-	91,249
Depreciation and Amortization	107,860	19,491	262,141	389,492	94,131	31,103	125,234	514,726
Extermination	4,034	186	16,397	20,617	1,827	140	1,967	22,584
Food – Other	665,452	2,516	5,022	672,990	72	761	833	673,823
Gasoline	6,843	748	-	7,591	-	-	-	7,591
Insurance	8,336	3,765	26,609	38,710	9,153	7,432	16,585	55,295
Interest	34,781	6,409	81,125	122,315	32,906	15,293	48,199	170,514
Meetings	2,514	307	5,066	7,887	44,921	3,701	48,622	56,509
Miscellaneous	41,201	13,211	88,103	142,515	112,896	130,212	243,108	385,623
Printing and Postage	16,333	1,620	57,145	75,098	10,091	126,648	136,739	211,837
Consultants and Professional Fees	333,257	34,840	420,590	788,687	370,268	166,966	537,234	1,325,921
Repairs and Maintenance	78,617	11,340	206,731	296,688	44,273	19,374	63,647	360,335
Rent	5,618	64,162	24,077	93,857	145	-	145	94,002
Research	14,300	-	-	14,300	450	-	450	14,750
Supplies	124,289	30,849	80,430	235,568	91,703	35,352	127,055	362,623
Tax, Tags, and Licenses	1,521	165	75	1,761	1,018	-	1,018	2,779
Trash Removal	6,543	1,223	25,240	33,006	4,487	439	4,926	37,932
Travel	858	114	29,904	30,876	2,121	920	3,041	33,917
Utilities	41,121	7,523	139,400	188,044	33,461	9,581	43,042	231,086
	<u>1,564,687</u>	<u>198,469</u>	<u>1,499,978</u>	<u>3,263,134</u>	<u>857,006</u>	<u>547,922</u>	<u>1,404,928</u>	<u>4,668,062</u>
Donation expenses								
Donated food	928,766	-	-	928,766	-	-	-	928,766
Donated clothing and other items	-	949,522	-	949,522	-	-	-	949,522
	<u>928,766</u>	<u>949,522</u>	<u>-</u>	<u>1,878,288</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,878,288</u>
Total expenses	<u>\$ 4,282,392</u>	<u>\$ 1,629,607</u>	<u>\$ 4,710,530</u>	<u>\$ 10,622,529</u>	<u>\$ 2,017,968</u>	<u>\$ 1,497,434</u>	<u>\$ 3,515,402</u>	<u>\$ 14,137,931</u>

See Notes to Consolidated Financial Statements.

Martha's Table, Inc. and Affiliates

Notes to Consolidated Financial Statements December 31, 2018

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 programs in the communities of Wards 7 and 8 in Southeast Washington, DC.

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

Health & Wellness Initiatives

Martha's Table's Health & Wellness Initiatives offer prepared meals, on-site grocery access, and school-based grocery access. Meals prepared on-site for its education programs meet or exceed government nutritional standards. McKenna's Wagon, Martha's Table's mobile food truck, distributes warm meals seven days a week to individuals experiencing hunger or homelessness. Martha's Table also provides healthy groceries at no cost through regular markets at 50 sites including elementary schools in Wards 7 and 8, community centers, and at its own facilities.

Parent Initiatives

Martha's Table's Parent Initiatives support families outside of the classroom through monthly home visits throughout the first two years of a child's life. Martha's Table also offers a family resource center, Parent Cafes, and training programs that help prepare parents to be their child's first and most important teacher in life. Additionally, Martha's Outfitters, Martha's Table's no-cost community store, offers free access to baby items, including bottles and diapers, as well as children's and professional clothing for families with young children.

Education Initiatives

Martha's Table's Education Initiatives offer a nationally accredited, comprehensive early childhood education program for infants and toddlers ages six weeks to three years. Its curriculum promotes whole child development - focusing on physical, cognitive, and socio-emotional development - to ensure children are on track and ready to learn in pre-kindergarten and beyond. Additionally, Martha's Table Scholars Enrichment Program supports children in pre-kindergarten through second grade year-round with engaging activities that help students develop their literacy proficiency, socio-emotional skills, and academic content knowledge. To support older youth, Martha's Table partners with Urban Alliance on a workforce readiness training program for high school students. Students participate in weekly job training workshops starting their freshman year. By senior year, they are placed in nine-month, paid, professional internships.

Martha's Table, Inc. and Affiliates

Notes to Consolidated Financial Statements December 31, 2018

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.

Expenses considered facilities expenses including personnel, depreciation, and repairs and maintenance are allocated based on square footage. The office of the President/CEO is allocated based on estimated time and level of effort. Information Technology (IT) expenses are allocated based on the number of staff in each department. General and administrative expenses include those expenses that are not directly identifiable with any other specific function, but that provide for the overall support and direction of Martha's Table.

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.

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 3.25%. Amortization of the discount on pledges and contributions receivable is recognized as contributions and grants revenue. 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 pledges and contributions receivable, no allowance for uncollectible accounts was required at December 31, 2018. Bad debt expense was \$14,966 for the year ended December 31, 2018.

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, 2018.

Notes receivable

Notes receivable are 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 notes

Martha's Table, Inc. and Affiliates

Notes to Consolidated Financial Statements December 31, 2018

receivable were fully realizable therefore no such allowance for doubtful accounts was necessary as of December 31, 2018.

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:

Building and Improvements	7 - 40 years
Furniture and Equipment	3 - 15 years
Vans	5 years
Website	5 years

Costs related to construction in progress are not depreciated until the assets are completed and placed in service.

Net assets

Martha's Table classifies net assets into two categories: net assets without donor restrictions and net assets with donor restrictions. Within net assets without donor restrictions, Martha's Table's board has designated net assets of \$300,000 for a reserve fund that consists of amounts for non-recurring expenses that require board action before they can be expended.

Net assets with donor restrictions consist of contributions with donor-imposed time and/or program-specific restrictions. These restrictions require that resources be used for specific purposes and/or in a certain period. Such net assets with donor restrictions become net assets without donor restrictions when the time restrictions expire or the funds are used for their donor-imposed purposes and are reported in the statements of activities and change in net assets as net assets released from restrictions.

Net assets with donor restrictions also consist of contributions with donor-imposed restrictions to hold the donated assets in perpetuity. Martha's Table has not received such contributions and, therefore, does not have any such net assets.

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 use unless specifically restricted by the donor. Revenues with donor restrictions are contributions with donor-imposed time and/or program-specific restrictions. These restrictions require that resources be used for specific purposes and/or in a certain period.

Conditional promises to give are recognized when conditions on which they depend are substantially met.

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.

Martha's Table, Inc. and Affiliates

Notes to Consolidated Financial Statements December 31, 2018

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, 2018 is as follows:

Special events revenue, gross	\$	829,616
Less: Revenue sharing amounts paid to a partner non-profit organization		(328,778)
Less: Special events expenses		<u>(164,076)</u>
Special events revenue, net	\$	<u>336,762</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 \$230,000 that meet these criteria were recorded as in-kind contributions in the consolidated statements of activities and change in net assets for year ended December 31, 2018.

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

For the year ended December 31, 2018, Martha's Table's Health and Wellness and Parent Initiatives Program benefited from volunteer hours totaling approximately 48,880 (unaudited). 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 \$415,480 (unaudited) for the year ended December 31, 2018.

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 believes it has appropriate support for any tax position taken and, as such, does not have any uncertain tax positions that are material to the consolidated financial statements. 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

Martha's Table, Inc. and Affiliates

Notes to Consolidated Financial Statements December 31, 2018

consolidated financial statements for penalties and interest on income taxes related to uncertain tax positions for the year ended December 31, 2018. Tax years prior to 2015 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, 2018, deposits in excess of FDIC limits totaled \$2,955,000. 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, 2018, Martha's Table held funds totaling \$6,365,308 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.

Change in accounting principle

During the year ended December 31, 2018, Martha's Table adopted the provisions of Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* ("ASU 2016-14"). Accordingly, the beginning balances of the donor restricted net assets categories (temporarily and permanently restricted) have been retrospectively adjusted to consolidate all donor restricted net assets into one classification, *with donor restrictions*. The ASU requires additional disclosures in the areas of liquidity and availability and requires reclassification of investment expenses which are netted in investment return to include internal investment expenses. Martha's Table has adjusted the presentation of these statements accordingly. ASU 2016-14 has been applied retrospectively to all periods presented.

Subsequent events

Martha's Table has evaluated events and transactions for potential recognition or disclosure through May 30, 2019, the date the consolidated financial statements were available to be issued.

Note 2 - Liquidity and availability of resources

Martha's Table regularly monitors liquidity to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. As part of Martha's Table's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures liabilities and other obligations come due. In addition, Martha's Table invests cash in excess of daily requirements in short term investments.

Martha's Table, Inc. and Affiliates

Notes to Consolidated Financial Statements December 31, 2018

As of December 31, 2018, the following tables show the total financial assets held by Martha's Table and the amounts of those financial assets could readily be made available within one year of the balance sheet date to meet general expenditures:

Financial assets at year-end	
Cash and cash equivalents	\$ 10,256,366
Pledges and contributions receivable, net	5,663,778
Grants and accounts receivable	632,372
Notes receivable	44,974,200
	<hr/>
	61,526,716
Less: those unavailable for general expenditure within one year	
Pledges receivable due in excess of one year	(1,213,334)
Board designated reserve fund	(300,000)
New market tax credit reserve accounts	(526,668)
Note receivable due in excess of one year	(18,874,200)
	<hr/>
	\$ 40,612,514
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As noted in Note 7, Martha's Table has access to an \$8,000,000 line of credit to draw upon to meet general expenditures if needed.

Note 3 - Pledges and contributions receivable

Pledges and contributions receivable consist of the following as of December 31, 2018:

Pledges and contributions receivable in less than one year	\$ 4,490,719
Pledges and contributions receivable in one to five years	1,213,334
	<hr/>
Total pledges and contributions receivable	5,704,053
Less: Discount to net present value	(40,275)
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Net pledges and contributions receivable	\$ 5,663,778
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Note 4 - Notes receivable

Note receivable - New Markets Tax Credits

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 Markets 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.

Martha's Table, Inc. and Affiliates

Notes to Consolidated Financial Statements December 31, 2018

Note receivable - Sale of 14th Street

On April 27, 2018, Martha's Table provided a \$26,000,000 million interest-free loan to the purchaser of its 14th Street building. The note was secured by a purchase money deed of trust on the property, with a balloon payment due May 3, 2019 (as amended). See Note 6. The \$26,000,000 was paid to Martha's Table on May 3, 2019.

New Markets Tax Credits Note Receivable	\$ 18,974,200
Sale of 14th Street Note Receivable	<u>26,000,000</u>
	<u>\$ 44,974,200</u>

The notes receivable are considered to be fully collectible by management as of December 31, 2018. During the year ended December 31, 2018, interest income of \$189,742 was recognized and \$47,436 remains receivable as of December 31, 2018, respectively, and is included in grants and accounts receivable on the consolidated statements of financial position.

Note 5 - Property and equipment

Property and equipment consist of the following at December 31, 2018:

Land	\$ 1,587,208
Buildings and improvements	23,833,735
Furniture and equipment	2,235,766
Leasehold improvements	230,190
Vans	363,591
Website	73,646
Construction in progress	<u>70,801</u>
	<u>28,394,937</u>
Less: Accumulated depreciation and amortization	<u>(1,546,822)</u>
	<u>\$ 26,848,115</u>

Note 6 - Sale of 14th Street Property

On April 27, 2018, Martha's Table sold its 14th Street property for \$30,000,000. As part of the sale, the purchaser paid \$1,000,000 cash, the deposit of \$3,000,000 and previously existing note payable owed to the purchaser by Martha's Table (see Note 7) was cancelled, and Martha's Table provided a \$26,000,000 interest-free loan to the purchaser (see Note 4). On November 21, 2018, the note receivable was extended through March 28, 2019, and Martha's Table was required to issue the purchaser a \$100,000 interim refund to pay for development and carrying costs of the property, which will be paid back interest-free with the note receivable. On March 29, 2019, the promissory note was extended to May 3, 2019, and was repaid on that date.

Martha's Table, Inc. and Affiliates

Notes to Consolidated Financial Statements December 31, 2018

As part of the building sale, Martha's Table entered into a rent-free lease with the purchaser, under which Martha's Table leased back the property until August 1, 2018. The lease was extended for up to 6 periods of 30 days each provided proper notice is given. On November 21, 2018, the lease was extended through March 28, 2019 with a fee of \$30,000 payable in two installments. On March 29, 2019 the lease was terminated.

Note 7 - Debts and Line of Credit

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.

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, 2018.

Notes payable - community development entities

In May 2018, Hillside 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 Markets 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 Hillside, 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 CDEs at December 31, 2018 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 accrued interest of 4% per year. The note was due upon

Martha's Table, Inc. and Affiliates

Notes to Consolidated Financial Statements December 31, 2018

demand if the purchase agreement was terminated or in the event the purchaser was entitled to the return of the deposit. The note was canceled upon the closing of the sale of the 14th Street property (see Note 6).

Interest and fees related to long-term debt totaled \$334,121 in 2018, with \$170,514 expensed, and \$163,607 capitalized as part of the construction project and included in buildings cost for the new building.

Future maturities on debt are none for the years ended December 31, 2019 through 2023, and \$27,465,000 for years ending thereafter.

Note 8 - Net assets with Donor Restrictions

Net assets with donor restrictions consist of the following as of December 31, 2018:

The Commons capital expansion	\$	200,000
Joyful Food Markets		159,234
Special events		99,573
Health and Wellness		229,860
Programs		500,000
President/CEO search		17,767
Education Initiatives		1,120,788
The Maycroft Expansion		40,000
Martha's outfitters		2,246
Time restricted		<u>3,373,334</u>
	\$	<u>5,742,802</u>

Note 9 - 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, 2020, 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 \$63,828 for the year ended December 31, 2018.

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.

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.

Martha's Table, Inc. and Affiliates

**Notes to Consolidated Financial Statements
December 31, 2018**

Future minimum annual rents under these leases are as follows:

<u>Year Ending December 31,</u>	<u>Martha's Outfitters</u>	<u>Copiers</u>	<u>Maycroft</u>	<u>Total</u>
2019	\$ 54,614	\$ 34,882	\$ 148,715	\$ 238,211
2020	23,035	17,411	181,432	221,878
2021	-	-	185,061	185,061
2022	-	-	188,762	188,762
2023	-	-	192,537	192,537
Thereafter	-	-	1,057,558	1,057,558
	<u>\$ 77,649</u>	<u>\$ 52,293</u>	<u>\$ 1,954,065</u>	<u>\$ 2,084,007</u>

Note 10 - 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 \$143,074 to this plan for the year ended December 31, 2018.

Note 11 - Related party transactions

On May 19, 2017, Martha's Table signed a lease agreement with Hillsdale to lease the building and improvements. The lease commenced once the building was substantially completed in 2018, and expires on December 31, 2052. Base rent is \$150,000 for 2018, \$300,000 for 2019 - 2023 and \$500,000 for 2024- 2052, payable in quarterly installments throughout the lease term. The rental income and rent expense are eliminated on the consolidated financial statements.

Future minimum annual rents under the lease are as follows:

<u>Year Ending December 31,</u>	
2019	\$ 300,000
2020	300,000
2021	300,000
2022	300,000
2023	300,000
Thereafter	<u>1,400,000</u>
	<u>\$ 2,900,000</u>

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, 2018, and have issued our report thereon dated May 30, 2019, 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 consolidated statement of financial position for non-POB Fund and POB Fund, consolidated schedule of activities for non-POB Fund and POB Fund and consolidated statement of cash flows for non-POB Fund and POB Fund, 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.

CohnReznick LLP

Bethesda, Maryland
May 30, 2019

Martha's Table, Inc. and Affiliates

**Consolidated Statement of Financial Position for Non-POB Fund and POB Fund
December 31, 2018**

	<u>Assets</u>			
	<u>Non-POB Fund</u>	<u>POB Fund</u>	<u>Eliminations</u>	<u>Total</u>
Cash and cash equivalents	\$ 7,377,021	\$ 2,879,345	\$ -	\$ 10,256,366
Pledges and contributions receivable, net	5,663,778	-	-	5,663,778
Grants and accounts receivable	3,530,268	150,000	(3,047,896)	632,372
Notes receivable	44,974,200	-	-	44,974,200
Prepaid expenses	164,441	-	-	164,441
Property and equipment, net	648,880	26,199,235	-	26,848,115
	<u>\$ 62,358,588</u>	<u>\$ 29,228,580</u>	<u>\$ (3,047,896)</u>	<u>\$ 88,539,272</u>
	<u>Liabilities and Net Assets</u>			
Liabilities				
Accounts payable and accrued expenses	\$ 617,793	\$ 3,852,222	\$ (3,047,896)	\$ 1,422,119
Deferred revenue	55,000	-	-	55,000
Long-term debt	1,000,000	27,465,000	-	28,465,000
Deferred lease incentive	19,941	-	-	19,941
Total liabilities	1,692,734	31,317,222	(3,047,896)	29,962,060
Net assets (deficit)				
Without donor restrictions:				
Board designated - reserve fund	300,000	-	-	300,000
Operating	54,623,052	(2,088,642)	-	52,534,410
Total net assets (deficit) without donor restrictions	54,923,052	(2,088,642)	-	52,834,410
With donor restrictions	5,742,802	-	-	5,742,802
	<u>60,665,854</u>	<u>(2,088,642)</u>	<u>-</u>	<u>58,577,212</u>
	<u>\$ 62,358,588</u>	<u>\$ 29,228,580</u>	<u>\$ (3,047,896)</u>	<u>\$ 88,539,272</u>

* POB fund cash and cash equivalents consists of \$526,668 held for reserves and \$2,352,677 held in the construction disbursement account.

See Independent Auditor's Report on Supplementary Information.

Martha's Table, Inc. and Affiliates

**Consolidated Schedule of Activities for Non-POB Fund and POB Fund
Year Ended December 31, 2018**

	<u>Non-POB Fund</u>	<u>POB Fund</u>	<u>Eliminations</u>	<u>Total</u>
Support and revenue				
Contributions and grants				
Individuals	\$ 7,054,912	\$ -	\$ -	\$ 7,054,912
Corporations	437,654	-	-	437,654
Foundations	894,331	-	-	894,331
Civic and religious groups	138,016	-	-	138,016
Combined federal campaign	330,861	-	-	330,861
Federal and state funds	<u>1,476,345</u>	<u>827,932</u>	<u>-</u>	<u>2,304,277</u>
	<u>10,332,119</u>	<u>827,932</u>	<u>-</u>	<u>11,160,051</u>
In-kind contributions				
Donated services	100,527	129,473	-	230,000
Donated food	928,766	-	-	928,766
Donated clothing and other items	<u>949,522</u>	<u>-</u>	<u>-</u>	<u>949,522</u>
	<u>1,978,815</u>	<u>129,473</u>	<u>-</u>	<u>2,108,288</u>
Other revenues				
Childcare co-pay	87,244	13,307	-	100,551
Investment income	284,102	-	-	284,102
Martha's Outfitters	82,462	-	-	82,462
Miscellaneous income	3,562	150,163	(150,000)	3,725
Gain on Sale of Property	28,006,971	-	-	28,006,971
Special events, net	336,762	-	-	336,762
Net assets released from restrictions - Satisfaction of restrictions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>28,801,103</u>	<u>163,470</u>	<u>(150,000)</u>	<u>28,814,573</u>
Total support and revenues	<u>41,112,037</u>	<u>1,120,875</u>	<u>(150,000)</u>	<u>42,082,912</u>

See Independent Auditor's Report on Supplementary Information.

Martha's Table, Inc. and Affiliates

**Consolidated Schedule of Activities for Non-POB Fund and POB Fund
Year Ended December 31, 2018**

	<u>Non-POB Fund</u>	<u>POB Fund</u>	<u>Eliminations</u>	<u>Total</u>
Personnel expenses				
Salaries (Including donated services)	4,032,099	2,269,774	-	6,301,873
Payroll taxes and benefits	887,633	402,075	-	1,289,708
	<u>4,919,732</u>	<u>2,671,849</u>	<u>-</u>	<u>7,591,581</u>
Operating expenses				
Bad debt expense	14,966	-	-	14,966
Children's food	68,561	22,688	-	91,249
Depreciation and amortization	2,139	512,587	-	514,726
Extermination	20,416	2,168	-	22,584
Food - Other	331,176	342,647	-	673,823
Gasoline	6,650	941	-	7,591
Insurance	39,637	15,658	-	55,295
Interest	-	170,514	-	170,514
Meetings	31,134	25,375	-	56,509
Miscellaneous	366,816	18,807	-	385,623
Printing and postage	176,718	35,119	-	211,837
Consultants and professional fees	677,933	647,988	-	1,325,921
Repairs and maintenance	238,704	121,631	-	360,335
Rent	94,002	150,000	(150,000)	94,002
Research	7,750	7,000	-	14,750
Supplies	225,903	136,720	-	362,623
Tax, tags, and licenses	1,507	1,272	-	2,779
Trash removal	37,932	-	-	37,932
Travel	23,277	10,640	-	33,917
Utilities	153,957	77,129	-	231,086
	<u>2,519,178</u>	<u>2,298,884</u>	<u>(150,000)</u>	<u>4,668,062</u>
Donation expenses				
Donated food	928,766	-	-	928,766
Donated clothing and other items	949,522	-	-	949,522
	<u>1,878,288</u>	<u>-</u>	<u>-</u>	<u>1,878,288</u>
Total expenses	<u>9,317,198</u>	<u>4,970,733</u>	<u>(150,000)</u>	<u>14,137,931</u>
Change in net assets	31,794,839	(3,849,858)	-	27,944,981
Net assets, beginning of year	<u>28,871,015</u>	<u>1,761,216</u>	<u>-</u>	<u>30,632,231</u>
Net assets (deficit), end of year	<u>\$ 60,665,854</u>	<u>\$ (2,088,642)</u>	<u>\$ -</u>	<u>\$ 58,577,212</u>

See Independent Auditor's Report on Supplementary Information.

Martha's Table, Inc. and Affiliates

**Consolidated Statement of Cash Flows for Non-POB and POB Fund
Year Ended December 31, 2018**

	Non- POB Fund	POB Fund	Eliminations	Total
Cash flows from Operating Activities				
Change in net assets	\$ 31,794,839	\$ (3,849,858)	\$ -	\$ 27,944,981
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities				
Bad debt expense	14,966	-	-	14,966
Depreciation and amortization	2,139	512,587	-	514,726
Receipts from contributions for long-term purposes	(600,000)	-	-	(600,000)
Gain on sale of property	(28,006,971)	-	-	(28,006,971)
Change in:				
Pledges and contributions receivable	1,153,716	-	-	1,153,716
Grants and accounts receivable	25,086	-	-	25,086
Prepaid expenses	(41,778)	-	-	(41,778)
Accounts payable and accrued expenses	(2,727,928)	1,699,972	-	(1,027,956)
Deferred revenue	15,000	-	-	15,000
Deferred lease incentive	676	-	-	676
Net cash provided by (used in) operating activities	<u>1,629,745</u>	<u>(1,637,299)</u>	<u>-</u>	<u>(7,554)</u>
Cash provided by (used in) Investing Activities				
Proceeds from sale of building	1,000,000	-	-	1,000,000
Purchases of property and equipment	<u>(416,303)</u>	<u>(9,471,438)</u>	<u>-</u>	<u>(9,887,741)</u>
Net cash provided by (used in) investing activities	<u>583,697</u>	<u>(9,471,438)</u>	<u>-</u>	<u>(8,887,741)</u>
Cash provided by financing activities				
Receipts from contributions for long-term purposes	<u>600,000</u>	<u>-</u>	<u>-</u>	<u>600,000</u>
Net cash provided by financing activities	<u>600,000</u>	<u>-</u>	<u>-</u>	<u>600,000</u>
Increase (decrease) in cash and cash equivalents	2,813,442	(11,108,737)	-	(8,295,295)
Cash and cash equivalents, beginning of year	<u>4,563,579</u>	<u>13,988,082</u>	<u>-</u>	<u>18,551,661</u>
Cash and cash equivalents, end of year	<u>\$ 7,377,021</u>	<u>\$ 2,879,345</u>	<u>\$ -</u>	<u>\$ 10,256,366</u>
Supplemental cash flow information				
Cash paid for interest, net of amounts capitalized	<u>\$ -</u>	<u>\$ 170,514</u>	<u>\$ -</u>	<u>\$ 170,514</u>
Conversion of note payable for building sale	<u>\$ 3,000,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,000,000</u>
Note receivable from sale of property	<u>\$ 26,100,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,100,000</u>

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