

CONSOLIDATED FINANCIAL STATEMENTS

**D.C. CENTRAL KITCHEN, INC.
AND AFFILIATE**

**FOR THE YEAR ENDED JUNE 30, 2017
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2016**

D.C. CENTRAL KITCHEN, INC. AND AFFILIATE

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
D.C. Central Kitchen, Inc. and Affiliate
Washington, D.C.

We have audited the accompanying consolidated financial statements of D.C. Central Kitchen, Inc. and Affiliate (the Organizations), which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements 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 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 of 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.

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MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organizations as of June 30, 2017, and the consolidated changes in their net assets and their consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organizations' 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 24, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Consolidating Schedule of Financial Position, Consolidating Schedule of Activities, and Consolidating Schedule of Change in Net Assets on pages 20 - 23 are presented for purposes of additional analysis 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.



October 23, 2017

D.C. CENTRAL KITCHEN, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016

ASSETS

	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 824,780	\$ 721,143
Investments	1,069,975	680,191
Accounts receivable, net of allowance for doubtful accounts of \$1,691 in 2017	649,347	751,434
Contributions and grants receivable	1,029,973	410,609
Inventory	61,878	50,506
Prepaid expenses	<u>119,697</u>	<u>203,545</u>
Total current assets	<u>3,755,650</u>	<u>2,817,428</u>
FIXED ASSETS		
Equipment	997,789	878,774
Vehicles	1,012,805	843,006
Leasehold improvements	<u>554,637</u>	<u>554,637</u>
	2,565,231	2,276,417
Less: Accumulated depreciation and amortization	<u>(1,825,722)</u>	<u>(1,717,453)</u>
Net fixed assets	<u>739,509</u>	<u>558,964</u>
OTHER ASSETS		
Security deposit	14,000	14,000
Investments, long-term	1,200,000	1,200,000
Contributions and grants receivable, net of current portion	<u>528,247</u>	<u>846,759</u>
Total other assets	<u>1,742,247</u>	<u>2,060,759</u>
TOTAL ASSETS	<u>\$ 6,237,406</u>	<u>\$ 5,437,151</u>

LIABILITIES AND NET ASSETS

	<u>2017</u>	<u>2016</u>
CURRENT LIABILITIES		
Notes payable	\$ 70,739	\$ 73,544
Accounts payable and accrued liabilities	343,029	237,507
Accrued salaries and related benefits	623,884	448,303
Deferred revenue	<u>2,041</u>	<u>171,456</u>
Total current liabilities	<u>1,039,693</u>	<u>930,810</u>
LONG-TERM LIABILITIES		
Notes payable, net of current portion	158,918	131,983
Deferred rent	<u>16,174</u>	<u>8,027</u>
Total long-term liabilities	<u>175,092</u>	<u>140,010</u>
Total liabilities	<u>1,214,785</u>	<u>1,070,820</u>
NET ASSETS		
Unrestricted:		
Board designated	1,200,000	1,200,000
Undesignated	<u>2,304,554</u>	<u>1,816,582</u>
Total unrestricted	3,504,554	3,016,582
Temporarily restricted	<u>1,518,067</u>	<u>1,349,749</u>
Total net assets	<u>5,022,621</u>	<u>4,366,331</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,237,406</u>	<u>\$ 5,437,151</u>

D.C. CENTRAL KITCHEN, INC. AND AFFILIATE

**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016**

	<u>2017</u>			<u>2016</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Total</u>
REVENUE				
Contracts	\$ 8,215,986	\$ -	\$ 8,215,986	\$ 7,038,958
Contributions - General	4,290,165	803,068	5,093,233	5,642,103
Contributions - United Way	175,241	-	175,241	130,390
Government grants	665,902	-	665,902	565,644
Contributed services and materials	1,630,842	-	1,630,842	1,762,803
Interest and dividends	133,544	-	133,544	60,752
Special events, net	784,437	-	784,437	511,942
Other revenue	144,690	-	144,690	188,846
Program service sales	863,860	-	863,860	953,774
Net assets released from donor restrictions	<u>634,750</u>	<u>(634,750)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>17,539,417</u>	<u>168,318</u>	<u>17,707,735</u>	<u>16,855,212</u>
EXPENSES				
Program Services:				
Community Meals	5,744,236	-	5,744,236	4,607,494
Healthy School Food	5,872,209	-	5,872,209	4,898,160
Culinary Job Training	1,208,758	-	1,208,758	1,178,845
The Campus Kitchens Project, Inc.	1,141,689	-	1,141,689	1,109,129
Healthy Corners	667,798	-	667,798	708,717
Fresh Start Catering	<u>-</u>	<u>-</u>	<u>-</u>	<u>589,350</u>
Total program services	<u>14,634,690</u>	<u>-</u>	<u>14,634,690</u>	<u>13,091,695</u>
Supporting Services:				
Development	1,025,420	-	1,025,420	920,941
Management and General	<u>1,497,033</u>	<u>-</u>	<u>1,497,033</u>	<u>1,641,127</u>
Total supporting services	<u>2,522,453</u>	<u>-</u>	<u>2,522,453</u>	<u>2,562,068</u>
Total expenses	<u>17,157,143</u>	<u>-</u>	<u>17,157,143</u>	<u>15,653,763</u>
Change in net assets before other item	382,274	168,318	550,592	1,201,449
OTHER ITEM				
Realized and unrealized gain on investments	<u>105,698</u>	<u>-</u>	<u>105,698</u>	<u>28,777</u>
Change in net assets	487,972	168,318	656,290	1,230,226
Net assets at beginning of year	<u>3,016,582</u>	<u>1,349,749</u>	<u>4,366,331</u>	<u>3,136,105</u>
NET ASSETS AT END OF YEAR	<u>\$ 3,504,554</u>	<u>\$ 1,518,067</u>	<u>\$ 5,022,621</u>	<u>\$ 4,366,331</u>

D.C. CENTRAL KITCHEN, INC. AND AFFILIATE

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016**

2017

	Program Services					Total Program Services
	Community	Healthy	Culinary	The Campus	Healthy	
	Meals	School Food	Job Training	Kitchens Project, Inc.	Corners	
Personnel expenses	\$ 2,609,367	\$ 2,880,062	\$ 812,663	\$ 444,104	\$ 325,587	\$ 7,071,783
Food and beverages - purchased	1,038,842	2,059,857	27,090	19,227	128,249	3,273,265
Food and beverages - donated	954,267	-	-	202,366	-	1,156,633
Professional services - purchased	45,048	5,480	32,281	38,492	7,403	128,704
Professional services - donated	-	-	-	-	-	-
Facilities space - purchased	-	-	-	-	-	-
Facilities space - donated	-	-	-	174,750	-	174,750
Depreciation and amortization	100,241	-	-	-	-	100,241
Insurance other than vehicle	91,579	1,462	-	9,157	-	102,198
Interest and bank fees	-	-	-	-	-	-
Kitchen costs	349,221	422,495	8,757	3,690	8,956	793,119
Program expenses	4,148	4,148	187,675	134,169	75,402	405,542
Meetings and conventions	150	1,873	9,891	3,105	78	15,097
Office expenses	33,269	32,574	27,772	4,169	39,398	137,182
Miscellaneous	31,942	4,489	3,358	7,828	1,470	49,087
Technology and communication	15,604	3,383	3,844	10,697	5,202	38,730
Travel expenses	3,133	2,077	5,272	30,273	1,835	42,590
Vehicle expenses	66,167	44,112	-	-	27,570	137,849
Subtotal	5,342,978	5,462,012	1,118,603	1,082,027	621,150	13,626,770
Management and general allocation	401,258	410,197	90,155	59,662	46,648	1,007,920
TOTAL	\$ 5,744,236	\$ 5,872,209	\$ 1,208,758	\$ 1,141,689	\$ 667,798	\$ 14,634,690

					2016
Supporting Services					
Development	Management and General	Total Supporting Services	Total Expenses	Total Expenses	
\$ 788,112	\$ 1,258,832	\$ 2,046,944	\$ 9,118,727	\$ 7,958,998	
831	250	1,081	3,274,346	2,953,157	
-	-	-	1,156,633	1,143,313	
32,855	238,063	270,918	399,622	345,530	
-	26,359	26,359	26,359	187,372	
-	306,057	306,057	306,057	274,612	
7,000	266,100	273,100	447,850	432,118	
-	105,534	105,534	205,775	280,236	
-	15,437	15,437	117,635	46,021	
21,730	59,629	81,359	81,359	88,849	
1,901	44,365	46,266	839,385	739,807	
-	-	-	405,542	418,930	
7,523	6,262	13,785	28,882	30,668	
40,722	108,068	148,790	285,972	242,189	
16,684	45,096	61,780	110,867	114,618	
30,746	87,676	118,422	157,152	166,190	
5,686	8,855	14,541	57,131	63,796	
-	-	-	137,849	167,359	
953,790	2,576,583	3,530,373	17,157,143	15,653,763	
71,630	(1,079,550)	(1,007,920)	-	-	
\$ 1,025,420	\$ 1,497,033	\$ 2,522,453	\$ 17,157,143	\$ 15,653,763	

D.C. CENTRAL KITCHEN, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 656,290	\$ 1,230,226
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	205,775	280,236
Net realized and unrealized gain on investments	(105,698)	(28,777)
Deferred rent abatement	8,147	927
Donated stock	(256,028)	(266,642)
(Increase) decrease in:		
Accounts receivable	102,087	(138,588)
Contributions and grants receivable	(300,852)	(366,182)
Inventory	(11,372)	10,042
Prepaid expenses	83,848	(98,567)
Increase (decrease) in:		
Accounts payable and accrued liabilities	105,522	(124,086)
Accrued salaries and related benefits	175,581	73,724
Deferred revenue	<u>(169,415)</u>	<u>169,367</u>
Net cash provided by operating activities	<u>493,885</u>	<u>741,680</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(386,320)	(260,272)
Purchase of investments	(285,276)	(60,751)
Proceeds from sale of investments	<u>257,218</u>	<u>269,700</u>
Net cash used by investing activities	<u>(414,378)</u>	<u>(51,323)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on notes payable	(3,930,870)	(266,069)
Proceeds from notes payable	<u>3,955,000</u>	<u>185,000</u>
Net cash provided (used) by financing activities	<u>24,130</u>	<u>(81,069)</u>
Net increase in cash and cash equivalents	103,637	609,288
Cash and cash equivalents at beginning of year	<u>721,143</u>	<u>111,855</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 824,780</u>	<u>\$ 721,143</u>
SUPPLEMENTAL INFORMATION		
Interest Paid	<u>\$ 16,626</u>	<u>\$ 25,532</u>

D.C. CENTRAL KITCHEN, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

D.C. Central Kitchen, Inc. (DCCK) was organized in the District of Columbia in 1988 as a not-for-profit organization for the purposes of fighting hunger and creating opportunity.

DCCK uses food as a tool to:

- **Strengthen Bodies**, by safely recovering unserved foods from area foodservice businesses to feed children and adults at partner agencies throughout the greater Washington area.
- **Empower Minds** by providing foodservice job training for unemployed men and women and community service opportunities for youth and adults.
- **Build Communities** by providing working examples, innovative solutions, and shared technology to a cooperative and effective national network of community kitchens.

Related Entity - Principles of Consolidation

In 2002, The Campus Kitchens Project, Inc. (the CKP) was incorporated as an affiliated corporation under common control with DCCK. These financial statements include the accounts of DCCK and the CKP (collectively “the Organizations”). Inter-company accounts and transactions have been eliminated as part of the consolidation.

The CKP owns and operates five Campus Kitchens and has affiliate agreements with another fifty-six. The contracts that define the CKP’s relationships with its “owned” and “affiliate” schools differ mainly in the burden of cost and assumption of liability.

- **Owned:** The CK provides 100% of the staffing, funding and ongoing assistance to Campus Kitchens who operate under the “owned” model. These were the first of the CKP’s Campus Kitchens, and therefore, acted as “pilot” programs. The CKP retains control over the owned Campus Kitchens, assumes liability, and provides indemnification to the host school for the work of the program.
- **Affiliate:** For Campus Kitchens operating under the “affiliate” model, the host school assumes the staffing responsibilities, ongoing costs and liability for the Campus Kitchens program. Based on available funding and the school’s proposed budget, the CKP provides a multi-year grant to the school to help defray these costs. The CKP provides ongoing technical support, training and licensing of its name and marks to all affiliate schools.

Basis of presentation -

The accompanying consolidated financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958-10, *Not-for-Profit Entities, Consolidation*.

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organizations’ consolidated financial statements for the year ended June 30, 2016, from which the summarized information was derived.

D.C. CENTRAL KITCHEN, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)

Cash and cash equivalents -

The Organizations consider all cash and other highly liquid investments with initial maturities of three months or less, excluding money market funds held by investment managers in the amount of \$135 for the year ended June 30, 2017, to be cash equivalents.

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000. At times during the year, the Organizations maintain cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

Investments -

Investments are recorded at their readily determinable fair value. Interest and dividends and net realized and unrealized gains are reported separately in the Consolidated Statement of Activities and Change in Net Assets.

Accounts receivable -

Accounts receivable approximate fair value and are to be collected within one year. The allowance for doubtful accounts is determined based upon an annual review of account balances, including the age of the balance and the historical experience with the customer.

Contributions and grants receivable

Contributions and grants receivable are recorded at their net realizable value, which approximates fair value. Grant funding received in advance of incurring the related expenses is recorded as a refundable advance. Contributions and grants receivable that are expected to be collected in future years are recorded at fair value, measured as the present value of their future cash flows. The discount on these amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in grants and contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Fixed assets -

Fixed assets in excess of \$10,000 are capitalized and stated at cost. Fixed assets are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally two to ten years. Leasehold improvements are amortized over the remaining life of the lease. The cost of maintenance and repairs is recorded as expenses are incurred. Depreciation and amortization expense for the year ended June 30, 2017 totaled \$205,775.

Income taxes -

The Organizations are exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements. The Organizations are not private foundations.

As discussed in the "Organization" section above, each of the "owned" Campus Kitchens is a single-member LLC owned entirely by the CKP. Each of the "owned" Campus Kitchens is treated as a disregarded entity for income tax purposes and, as such, its financial activity is reported in conjunction with the Federal tax filings of the CKP.

D.C. CENTRAL KITCHEN, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)

Uncertain tax positions -

For the year ended June 30, 2017, the Organizations have documented their consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the consolidated financial statements.

Inventory -

Inventory, consisting of disposable serving supplies, raw food and cooking ingredients, are stated at the lower of cost or market using the first-in, first-out (FIFO) method of determining cost.

Net asset classification -

The net assets are reported in two self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of the Organizations and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of the Organizations and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Consolidated Statement of Activities and Change in Net Assets as net assets released from restrictions.

Contributions and grants -

Unrestricted and temporarily restricted contributions and grants are recorded as revenue in the year notification is received from the donor. Temporarily restricted contributions and grants are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Such funds in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying consolidated financial statements.

The Organizations receive funding under grants and contracts from the U.S. Government and other grantors for direct and indirect program costs. This funding is subject to contractual restrictions, which must be met through incurring qualifying expenses for particular programs. Accordingly, such grants are considered exchange transactions and are recorded as unrestricted income to the extent that related expenses are incurred in compliance with the criteria stipulated in the grant agreements.

Contributed services and materials -

Contributed services and materials consist of office space, services and food. Contributed services and materials are recorded at their fair market value as of the date of the gift.

In addition, volunteers have donated significant amounts of their time to the Organizations; these donated services are not reflected in the consolidated financial statements since these services do not meet the criteria for recognition as contributed services.

D.C. CENTRAL KITCHEN, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)

Use of estimates -

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Consolidated Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The following are the major programs of the Organizations:

Community Meals: For the year ended June 30, 2017, DCCK recovered over 819,955 pounds of food that would otherwise have gone to waste. In conjunction with over 15,000 volunteers and culinary job training students, our staff used this food to create more than 1,920,578 meals for 76 homeless shelters, transitional homes and social service agencies throughout the Washington metropolitan area. Agencies receiving meals include community and youth centers, children's after-school programs, senior centers, addiction recovery programs, English as a Second Language (ESL) and General Equivalency Diploma (GED) programs and halfway homes.

Healthy School Food: DCCK provides healthy breakfasts, lunches and suppers to twelve public schools and three private schools in Washington, D.C. This service aims to bring local, seasonable and sustainable cost-effective dining service to local schools that want to serve healthy, locally sourced meals to low-income student populations. In addition to promoting access to good nutrition, the program creates and sustains employment opportunities for at-risk men and women who have completed DCCK's Culinary Job Training program.

Culinary Job Training: DCCK operates an intense, nationally recognized fourteen-week Culinary Job Training program for unemployed and/or formerly incarcerated men and women living in homeless shelters or receiving welfare benefits. The program offers comprehensive training in food preparation and sanitation in combination with job readiness and life skills training. For the year ended June 30, 2017, DCCK operated seven such programs and graduated 86 students.

The Campus Kitchens Project, Inc.: The CKP is a nationwide program that has opened, staffed, and supported DCCK-style community kitchens in university and high school settings. The pilot site of the CKP at Saint Louis University was opened in October 2001. The project is a collaborative venture between the CKP, the university dining contractor, and the university. Food is donated from campus dining facilities, re-prepared by student volunteers and then distributed, by students, to social service agencies and individuals located in the immediate community. At June 30, 2017, there were 61 Campus Kitchens Projects located around the country.

D.C. CENTRAL KITCHEN, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)

Functional allocation of expenses (continued) -

Healthy Corners: DCKK offers affordable wholesale delivery service for fresh produce and healthy snack items in communities where healthy retail options are scarce, known as 'food deserts. DCKK delivers nutritious options to 72 corner stores and other small retailers, primarily those located in the underserved neighborhoods of Wards 5, 7 and 8. In addition to offering these partner businesses new products for sale, we provide them with free infrastructure, nutrition education, marketing support, and technical assistance.

Risks and uncertainties -

The Organizations invest in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying consolidated financial statements.

Fair value measurement -

The Organizations adopted the provisions of FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. The Organizations account for a significant portion of their financial instruments at fair value or consider fair value in their measurement.

New accounting pronouncement not yet adopted -

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958), intended to improve financial reporting for not-for-profit entities. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the Statement of Activities and Change in Net Assets. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early adoption is permitted. The ASU should be applied on a retrospective basis in the year the ASU is first applied. While the ASU will change the presentation of the Organizations's financial statements, it is not expected to alter Organizations's reported financial position.

2. INVESTMENTS

Investments consisted of the following at June 30, 2017:

	<u>Fair Value</u>
Mutual Funds - Torray Fund	\$ 1,718,062
Equity Mutual Funds	549,779
Exchange Traded Products	1,999
Money Market Funds	<u>135</u>
TOTAL INVESTMENTS	<u>\$ 2,269,975</u>

D.C. CENTRAL KITCHEN, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017

2. INVESTMENTS (Continued)

The following summarizes investment income:

Interest and dividends	\$ 133,544
Net realized and unrealized gain	<u>105,698</u>
TOTAL INVESTMENT INCOME	<u>\$ 239,242</u>

3. CONTRIBUTIONS AND GRANTS RECEIVABLE

Contributions and grants receivable are due as follows at June 30, 2017:

Receivable due in less than one-year	\$ 1,029,973
Receivable due in one to five years	<u>540,928</u>
Total	1,570,901
Less: Allowance to discount balance to present value	(12,681)
Less: Current portion	<u>(1,029,973)</u>
CONTRIBUTIONS AND GRANTS RECEIVABLE, NET OF CURRENT PORTION	<u>\$ 528,247</u>

4. NOTES PAYABLE

DCCK borrowed \$81,760 in the form of two separate notes from Bank of America to finance equipment. The notes require 60 monthly payments of \$1,523, consisting of principal and interest computed at 4.50%. The notes are secured by the equipment that was purchased. During 2017, DCCK repaid the remaining outstanding balance of these two notes.

On July 6, 2011, DCCK borrowed \$300,000 from Bank of America, which is secured by existing equipment, inventory and receivables. The note requires 60 monthly payments of \$5,638, consisting of principal and interest computed at 4.68%. During 2017, DCCK repaid the remaining outstanding balance of this note.

On November 13, 2013, DCCK borrowed \$150,000 through the RSF Social Investment Fund. The loan carries an interest rate of 5% and matures on November 15, 2016. The loan is collateralized by DCCK motor vehicles. During 2017, DCCK repaid the remaining outstanding balance of this note.

On July 14, 2015, DCCK borrowed \$185,000 through the RSF Social Investment Fund, which is secured by the vehicles purchased. On July 25, 2016, an additional \$120,000 was loaned. The loan carries an interest rate of 5%. As of June 30, 2017, the outstanding principal of the note payable was \$229,657.

The above notes are cross collateralized. DCCK's assets, inventory and receivables are sufficient to cover all of the existing notes.

D.C. CENTRAL KITCHEN, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017

4. NOTES PAYABLE (Continued)

Principal payments are due as follows:

<u>Year Ending June 30,</u>	
2018	\$ 70,739
2019	74,409
2020	78,267
2021	<u>6,242</u>
	<u>\$ 229,657</u>

For the year ended June 30, 2017, interest expense was \$16,626.

5. LINE OF CREDIT

DCCK has a \$1,750,000 bank line of credit, which matures December 31, 2017. Amounts borrowed under this agreement bear interest at the bank's prime rate plus 1.5% (3.25% at June 30, 2017).

As of June 30, 2017, there was no outstanding balance on the line. The line is secured by inventory, receivables and equipment.

6. BOARD DESIGNATED NET ASSETS

The Board of Directors has elected to designate a portion of its unrestricted net assets as a reserve for operating cash needs. The amount designated is approximately one and half months of cash expenses.

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at June 30, 2017:

Fostering Evidence-Based Interventions	\$ 450,748
Local Food Capacity	393,237
Culinary Job Training	327,464
Capital Food Fight	173,309
Healthy Corners	98,309
Truck	<u>75,000</u>
	<u>\$ 1,518,067</u>

The following temporarily restricted net assets were released from donor restrictions by incurring expenses (or through the passage of time) which satisfied the restricted purposes specified by the donors:

Local Food Capacity	\$ 200,000
Culinary Job Training	315,000
Fighting Food Waste	69,750
Capital Food Fight	<u>50,000</u>
	<u>\$ 634,750</u>

D.C. CENTRAL KITCHEN, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017

8. CONTRIBUTED SERVICES AND MATERIALS

During the year ended June 30, 2017, the Organizations were the beneficiary of donated goods and services which allowed the Organizations to provide greater resources toward various programs. To properly reflect total program expenses, the following donations have been included in revenue and expense for the year ended June 30, 2017:

Donated food and beverages	\$ 1,156,633
Donated professional services	26,359
Donated rent	<u>447,850</u>
	<u>\$ 1,630,842</u>

The following programs have benefited from these donated services for the year ended June 30, 2017:

Community Meals	\$ 954,267
Healthy Corners	377,116
Management and General Development	<u>292,459</u> <u>7,000</u>
	<u>\$ 1,630,842</u>

The Organizations depend on a variety of volunteers to assist in the Organizations' programs. However, the value of time donated by volunteers is not recognized in the consolidated financial statements since the services do not meet the criteria for recognition.

- DCCK received approximately 60,000 hours of volunteer services for the year ended June 30, 2017. These services are primarily related to food preparation. At \$23.56 per hour, this amounts to \$1,413,600 of additional contributions and program service expenses to the Food Recycling and Meal Distribution Program.
- CKP, through the combined efforts of its "owned" and "affiliate" Campus Kitchens, received approximately 71,721 hours of donated services from approximately 32,015 volunteers. These volunteers assisted in the recovery of over 1 million pounds of food and the serving of over 377,713 meals. At \$23.56 per hour, this amounts to \$1,689,747 of additional contributions and program expenses.

These hourly rates are the average estimated values per hour of volunteer time for the District of Columbia (for DCCK) and the United States (for CKP) as determined by Independent Sector, http://www.independentsector.org/volunteer_time.

9. LEASE COMMITMENTS

The Organizations lease office space under a five-year agreement, which originated in November 2010. The Organizations extended the lease in 2015 for an additional five years. Base rent is \$194,758 per year, plus a proportionate share of expenses, increasing by a factor of 3% per year. DCCK receives donated rent for the five Campus Kitchens that are owned and operated by the Campus Kitchen Project. The amounts received are included in donated rent in Note 8.

D.C. CENTRAL KITCHEN, INC. AND AFFILIATE

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017**

9. LEASE COMMITMENTS (Continued)

Accounting principles generally accepted in the United States of America require that the total rent commitment should be recognized on a straight-line basis over the term of the lease. Accordingly, the difference between the actual monthly payments and the rent expense being recognized for financial statement purposes is recorded as a deferred rent liability on the Consolidated Statement of Financial Position.

The following is a schedule of the future minimum lease payments:

<u>Year Ending June 30,</u>	
2018	\$ 204,613
2019	210,751
2020	217,073
2021	<u>73,067</u>
	<u>\$ 705,504</u>

Rent expense for the year ended June 30, 2017 was \$238,824 and is included in Facilities space - purchased on the accompanying Statement of Functional Expenses. For the year ended June 30, 2017, the deferred rent liability was \$16,174.

10. RETIREMENT PLAN

On January 1, 2014, the Organizations switched their retirement plan from a 403(b) Plan to a Safe Harbor 401(k). The Organizations use the Basic Match: 100% of the first 3% of pay that is deferred; and 50% of the next 2 % of pay. Contributions to the plan during the year ended June 30, 2017 totaled \$244,960.

11. CONCENTRATION OF REVENUE

Approximately 55% of the Organizations' contract revenue for the year ended June 30, 2017 was derived from a contract with the District of Columbia Primary Schools. The Organizations have no reason to believe that relationship with the District of Columbia Primary Schools will be discontinued in the foreseeable future. However, any interruption of this relationships (i.e., the failure to renew grant agreements or withholding of funds) would adversely affect the Organizations' ability to finance ongoing operations.

12. FAIR VALUE MEASUREMENT

In accordance with FASB ASC 820, *Fair Value Measurement*, the Organizations have categorized their financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

D.C. CENTRAL KITCHEN, INC. AND AFFILIATE

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017**

12. FAIR VALUE MEASUREMENT (Continued)

Investments recorded in the Consolidated Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market the Organizations have the ability to access.

Level 2. These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used at June 30, 2017.

- *Mutual funds* - The fair value is equal to the reported net asset value of the fund, which is the price at which additional shares can be obtained.
- *Exchange traded products* - Valued at the closing price reported on the active market in which the individual securities are traded.
- *Money market funds* - Fair value is equal to the reported net asset value of the fund.

The table below summarizes, by level within the fair value hierarchy, the Organizations' investments as of June 30, 2017:

Asset Class:	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds - Torray Fund	\$ 1,718,062	\$ -	\$ -	\$ 1,718,062
Equity Mutual Funds	549,779	-	-	549,779
Exchange Traded Products	1,999	-	-	1,999
Money Market Funds	<u>135</u>	<u>-</u>	<u>-</u>	<u>135</u>
TOTAL	<u>\$ 2,269,975</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,269,975</u>

13. SUBSEQUENT EVENTS

In preparing these consolidated financial statements, the Organizations have evaluated events and transactions for potential recognition or disclosure through October 23, 2017, the date the consolidated financial statements were issued.

SUPPLEMENTAL INFORMATION

D.C. CENTRAL KITCHEN, INC. AND AFFILIATE
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
AS OF JUNE 30, 2017

ASSETS			
	DCCK	CKP	Total
CURRENT ASSETS			
Cash and cash equivalents	\$ 533,647	\$ 291,133	\$ 824,780
Investments	520,196	549,779	1,069,975
Accounts receivable	636,311	13,036	649,347
Contributions and grants receivable	802,599	227,374	1,029,973
Inventory	61,878	-	61,878
Prepaid expenses	117,558	2,139	119,697
Total current assets	2,672,189	1,083,461	3,755,650
FIXED ASSETS			
Equipment	970,618	27,171	997,789
Vehicles	1,012,805	-	1,012,805
Leasehold improvements	554,637	-	554,637
	2,538,060	27,171	2,565,231
Less: Accumulated depreciation and amortization	(1,798,551)	(27,171)	(1,825,722)
Net fixed assets	739,509	-	739,509
OTHER ASSETS			
Security deposit	14,000	-	14,000
Investments, long-term	1,200,000	-	1,200,000
Contributions and grants receivable, net of current portion	415,560	112,687	528,247
Total other assets	1,629,560	112,687	1,742,247
TOTAL ASSETS	\$ 5,041,258	\$ 1,196,148	\$ 6,237,406

LIABILITIES AND NET ASSETS

	<u>DCCK</u>	<u>CKP</u>	<u>Total</u>
CURRENT LIABILITIES			
Notes payable	\$ 70,739	\$ -	\$ 70,739
Accounts payable and accrued liabilities	342,482	547	343,029
Accrued salaries and related benefits	592,083	31,801	623,884
Deferred revenue	<u>946</u>	<u>1,095</u>	<u>2,041</u>
Total current liabilities	<u>1,006,250</u>	<u>33,443</u>	<u>1,039,693</u>
LONG-TERM LIABILITIES			
Notes payable, net of current portion	158,918	-	158,918
Deferred rent	<u>16,174</u>	<u>-</u>	<u>16,174</u>
Total long-term liabilities	<u>175,092</u>	<u>-</u>	<u>175,092</u>
Total liabilities	<u>1,181,342</u>	<u>33,443</u>	<u>1,214,785</u>
NET ASSETS			
Unrestricted:			
Board designated	1,200,000	-	1,200,000
Undesignated	<u>1,592,598</u>	<u>711,956</u>	<u>2,304,554</u>
Total unrestricted	2,792,598	711,956	3,504,554
Temporarily restricted	<u>1,067,318</u>	<u>450,749</u>	<u>1,518,067</u>
Total net assets	<u>3,859,916</u>	<u>1,162,705</u>	<u>5,022,621</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,041,258</u>	<u>\$ 1,196,148</u>	<u>\$ 6,237,406</u>

D.C. CENTRAL KITCHEN, INC. AND AFFILIATE

CONSOLIDATING SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

	<u>DCK</u>	<u>CKP</u>	<u>Eliminations</u>	<u>Total</u>
UNRESTRICTED REVENUE				
Contracts	\$ 8,215,986	\$ -	\$ -	\$ 8,215,986
Contributions - General	3,682,547	607,618	-	4,290,165
Contributions - United Way	175,241	-	-	175,241
DCK grants	-	200,000	(200,000)	-
Government grants	665,902	-	-	665,902
Contributed services and materials	1,230,626	400,216	-	1,630,842
Interest and dividends	127,548	5,996	-	133,544
Special events, net	784,437	-	-	784,437
Other revenue	37,420	107,270	-	144,690
Program service sales	863,860	-	-	863,860
Net assets released from donor restrictions	<u>565,000</u>	<u>69,750</u>	<u>-</u>	<u>634,750</u>
Total unrestricted revenue	<u>16,348,567</u>	<u>1,390,850</u>	<u>(200,000)</u>	<u>17,539,417</u>
EXPENSES				
Program Services:				
Community Meals	5,744,236	-	-	5,744,236
Healthy School Food	5,872,209	-	-	5,872,209
Culinary Job Training	1,208,758	-	-	1,208,758
The Campus Kitchens Project, Inc.	200,000	1,141,689	(200,000)	1,141,689
Healthy Corners	<u>667,798</u>	<u>-</u>	<u>-</u>	<u>667,798</u>
Total program services	<u>13,693,001</u>	<u>1,141,689</u>	<u>(200,000)</u>	<u>14,634,690</u>
Supporting Services:				
Development	873,691	151,729	-	1,025,420
Management and General	<u>1,442,496</u>	<u>54,537</u>	<u>-</u>	<u>1,497,033</u>
Total supporting services	<u>2,316,187</u>	<u>206,266</u>	<u>-</u>	<u>2,522,453</u>
Total expenses	<u>16,009,188</u>	<u>1,347,955</u>	<u>(200,000)</u>	<u>17,157,143</u>
Change in unrestricted net assets before other item	339,379	42,895	-	382,274
OTHER ITEM				
Realized and unrealized gain on investments	<u>50,899</u>	<u>54,799</u>	<u>-</u>	<u>105,698</u>
CHANGE IN UNRESTRICTED NET ASSETS	<u>\$ 390,278</u>	<u>\$ 97,694</u>	<u>\$ -</u>	<u>\$ 487,972</u>
TEMPORARILY RESTRICTED REVENUE				
Contributions - General	\$ 352,319	\$ 450,749	\$ -	\$ 803,068
Net assets released from donor restrictions	<u>(565,000)</u>	<u>(69,750)</u>	<u>-</u>	<u>(634,750)</u>
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	<u>\$ (212,681)</u>	<u>\$ 380,999</u>	<u>\$ -</u>	<u>\$ 168,318</u>

D.C. CENTRAL KITCHEN, INC. AND AFFILIATE

**CONSOLIDATING SCHEDULE OF CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>DCCK</u>	<u>CKP</u>	<u>Total</u>
UNRESTRICTED NET ASSETS			
Net assets at beginning of year	\$ 2,402,320	\$ 614,262	\$ 3,016,582
Change in unrestricted net assets	<u>390,278</u>	<u>97,694</u>	<u>487,972</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,792,598</u>	<u>\$ 711,956</u>	<u>\$ 3,504,554</u>
TEMPORARILY RESTRICTED NET ASSETS			
Net assets at beginning of year	\$ 1,279,999	\$ 69,750	\$ 1,349,749
Change in temporarily restricted net assets	<u>(212,681)</u>	<u>380,999</u>	<u>168,318</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,067,318</u>	<u>\$ 450,749</u>	<u>\$ 1,518,067</u>