

CONSOLIDATED FINANCIAL STATEMENTS

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

**FOR THE YEAR ENDED JUNE 30, 2018
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2017**

D.C. CENTRAL KITCHEN, INC. AND AFFILIATE

CONTENTS

	PAGE NO.
INDEPENDENT AUDITOR'S REPORT	2 - 3
EXHIBIT A - Consolidated Statement of Financial Position, as of June 30, 2018, with Summarized Financial Information for 2017	4 - 5
EXHIBIT B - Consolidated Statement of Activities and Change in Net Assets, for the Year Ended June 30, 2018, with Summarized Financial Information for 2017	6
EXHIBIT C - Consolidated Statement of Functional Expenses, for the Year Ended June 30, 2018, with Summarized Financial Information for 2017	7 - 8
EXHIBIT D - Consolidated Statement of Cash Flows, for the Year Ended June 30, 2018, with Summarized Financial Information for 2017	9
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	10 - 20
SUPPLEMENTAL INFORMATION	
SCHEDULE 1 - Consolidating Schedule of Financial Position, as of June 30, 2018	21 - 22
SCHEDULE 2 - Consolidating Schedule of Activities, for the Year Ended June 30, 2018	23
SCHEDULE 3 - Consolidating Schedule of Change in Net Assets, for the Year Ended June 30, 2018	24

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, 2018, 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 audit. 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 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.

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, 2018, 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.

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Report on Summarized Comparative Information

We have previously audited the Organizations' 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 23, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited consolidated 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 21 - 24 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 15, 2018

D.C. CENTRAL KITCHEN, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017

ASSETS

	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	\$ 767,340	\$ 824,780
Investments	1,160,825	1,069,975
Accounts receivable, net of allowance for doubtful accounts of \$1,224 in 2018	522,746	649,347
Contributions and grants receivable	1,102,518	1,029,973
Inventory	68,850	61,878
Prepaid expenses	<u>162,716</u>	<u>119,697</u>
Total current assets	<u>3,784,995</u>	<u>3,755,650</u>
FIXED ASSETS		
Equipment	1,026,714	997,789
Vehicles	1,181,733	1,012,805
Leasehold improvements	<u>573,287</u>	<u>554,637</u>
	2,781,734	2,565,231
Less: Accumulated depreciation and amortization	<u>(1,996,864)</u>	<u>(1,825,722)</u>
Net fixed assets	<u>784,870</u>	<u>739,509</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>131,344</u>	<u>528,247</u>
Total other assets	<u>1,345,344</u>	<u>1,742,247</u>
TOTAL ASSETS	<u>\$ 5,915,209</u>	<u>\$ 6,237,406</u>

LIABILITIES AND NET ASSETS

	<u>2018</u>	<u>2017</u>
CURRENT LIABILITIES		
Notes payable	\$ 140,915	\$ 70,739
Accounts payable and accrued liabilities	342,465	343,029
Accrued salaries and related benefits	595,128	623,884
Deferred revenue	-	2,041
Deferred rent	<u>3,952</u>	<u>-</u>
Total current liabilities	<u>1,082,460</u>	<u>1,039,693</u>
LONG-TERM LIABILITIES		
Notes payable, net of current portion	173,027	158,918
Deferred rent, net of current portion	<u>14,408</u>	<u>16,174</u>
Total long-term liabilities	<u>187,435</u>	<u>175,092</u>
Total liabilities	<u>1,269,895</u>	<u>1,214,785</u>
NET ASSETS		
Unrestricted:		
Board designated	1,200,000	1,200,000
Undesignated	<u>2,502,440</u>	<u>2,304,554</u>
Total unrestricted	3,702,440	3,504,554
Temporarily restricted	<u>942,874</u>	<u>1,518,067</u>
Total net assets	<u>4,645,314</u>	<u>5,022,621</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,915,209</u>	<u>\$ 6,237,406</u>

D.C. CENTRAL KITCHEN, INC. AND AFFILIATE

**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017**

	<u>2018</u>			<u>2017</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Total</u>
REVENUE AND SUPPORT				
Contracts	\$ 7,500,471	\$ -	\$ 7,500,471	\$ 8,215,986
Contributions - General	5,072,555	412,681	5,485,236	5,110,433
Contributed services and materials	1,759,473	-	1,759,473	1,630,842
Program service sales	887,080	-	887,080	863,860
Special events, net of expenses of \$131,116 in 2018	776,138	-	776,138	784,437
Government grants	618,045	-	618,045	665,902
Interest and dividends	171,489	-	171,489	133,544
Contributions - United Way	132,081	-	132,081	175,241
Other revenue	68,027	-	68,027	127,490
Net assets released from donor restrictions	<u>987,874</u>	<u>(987,874)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>17,973,233</u>	<u>(575,193)</u>	<u>17,398,040</u>	<u>17,707,735</u>
EXPENSES				
Program Services:				
Community Meals	6,321,305	-	6,321,305	5,744,236
Healthy School Food	5,754,517	-	5,754,517	5,872,209
Culinary Job Training	1,380,154	-	1,380,154	1,208,758
The Campus Kitchens Project, Inc.	1,077,830	-	1,077,830	1,141,689
Healthy Corners	<u>763,536</u>	<u>-</u>	<u>763,536</u>	<u>667,798</u>
Total program services	<u>15,297,342</u>	<u>-</u>	<u>15,297,342</u>	<u>14,634,690</u>
Supporting Services:				
Development	1,102,723	-	1,102,723	1,025,420
Management and General	<u>1,294,698</u>	<u>-</u>	<u>1,294,698</u>	<u>1,497,033</u>
Total supporting services	<u>2,397,421</u>	<u>-</u>	<u>2,397,421</u>	<u>2,522,453</u>
Total expenses	<u>17,694,763</u>	<u>-</u>	<u>17,694,763</u>	<u>17,157,143</u>
Change in net assets before other item	278,470	(575,193)	(296,723)	550,592
OTHER ITEM				
Realized and unrealized (loss) gain on investments	<u>(80,584)</u>	<u>-</u>	<u>(80,584)</u>	<u>105,698</u>
Change in net assets	197,886	(575,193)	(377,307)	656,290
Net assets at beginning of year	<u>3,504,554</u>	<u>1,518,067</u>	<u>5,022,621</u>	<u>4,366,331</u>
NET ASSETS AT END OF YEAR	<u>\$ 3,702,440</u>	<u>\$ 942,874</u>	<u>\$ 4,645,314</u>	<u>\$ 5,022,621</u>

See accompanying notes to consolidated financial statements.

D.C. CENTRAL KITCHEN, INC. AND AFFILIATE

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017**

	2018			
	Program Services			
	Community Meals	Healthy School Food	Culinary Job Training	The Campus Kitchen Project Inc.
Personnel expenses	\$3,023,607	\$ 2,945,910	\$ 785,400	\$ 343,685
Purchased food and beverage	941,817	1,883,727	32,788	17,537
Donated food and beverage	1,148,355	-	-	170,000
Kitchen costs	326,282	389,726	8,978	2,719
Program grants and assistance	-	-	338,539	156,402
Donated facilities space	-	-	-	125,350
Purchased professional services	24,942	9,270	65,859	40,695
Purchased facilities space	-	-	-	-
Depreciation and amortization	122,734	-	-	-
Office expenses	23,140	25,120	14,817	7,843
Technology and communications	19,581	8,234	6,401	22,650
Vehicle expenses	81,120	54,180	-	-
Insurance	89,762	1,462	-	9,157
Interest and bank fees	-	-	-	-
Travel	4,678	2,480	7,555	44,155
Donated professional services	-	-	-	-
Meetings and conventions	1,248	4,043	15,028	35,304
Miscellaneous	45,794	4,105	5,371	9,303
Subtotal	5,853,060	5,328,257	1,280,736	984,800
Management and general allocation	468,245	426,260	99,418	93,030
TOTAL	<u>\$6,321,305</u>	<u>\$ 5,754,517</u>	<u>\$ 1,380,154</u>	<u>\$ 1,077,830</u>

2017						
Supporting Services						
Healthy Corners	Total Program Services	Development	Management and General	Total Supporting Services	Total Expenses	Total Expenses
\$ 370,246	\$ 7,468,848	\$ 827,131	\$ 1,227,494	\$2,054,625	\$ 9,523,473	\$ 9,118,727
129,704	3,005,573	901	641	1,542	3,007,115	3,274,346
-	1,318,355	-	-	-	1,318,355	1,156,633
14,496	742,201	2,213	45,440	47,653	789,854	839,385
43,425	538,366	-	-	-	538,366	405,542
-	125,350	5,698	261,395	267,093	392,443	447,850
6,782	147,548	30,562	201,762	232,324	379,872	399,622
-	-	-	307,746	307,746	307,746	306,057
-	122,734	-	105,699	105,699	228,433	205,775
81,319	152,239	52,283	69,872	122,155	274,394	285,972
8,968	65,834	32,391	93,063	125,454	191,288	157,152
33,863	169,163	-	-	-	169,163	137,849
-	100,381	-	36,983	36,983	137,364	117,635
-	-	27,793	56,297	84,090	84,090	81,359
3,778	62,646	6,326	15,117	21,443	84,089	57,131
-	-	-	48,675	48,675	48,675	26,359
748	56,371	7,667	18,425	26,092	82,463	28,882
13,649	78,222	18,362	40,996	59,358	137,580	110,867
706,978	14,153,831	1,011,327	2,529,605	3,540,932	17,694,763	17,157,143
56,558	1,143,511	91,396	(1,234,907)	(1,143,511)	-	-
\$ 763,536	\$15,297,342	\$ 1,102,723	\$ 1,294,698	\$2,397,421	\$17,694,763	\$17,157,143

D.C. CENTRAL KITCHEN, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (377,307)	\$ 656,290
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	228,432	205,775
Realized and unrealized loss (gain) on investments	80,584	(105,698)
Deferred rent	2,186	8,147
Gain on disposal of fixed assets	(500)	-
Change in discount on non-current contributions and grants receivable	(12,681)	-
Change in allowance for doubtful accounts	(467)	-
Donated stock	-	(256,028)
Decrease (increase) in:		
Accounts receivable	127,068	102,087
Contributions and grants receivable	337,039	(300,852)
Inventory	(6,972)	(11,372)
Prepaid expenses	(43,019)	83,848
(Decrease) increase in:		
Accounts payable and accrued liabilities	(564)	105,522
Accrued salaries and related benefits	(28,756)	175,581
Deferred revenue	<u>(2,041)</u>	<u>(169,415)</u>
Net cash provided by operating activities	<u>303,002</u>	<u>493,885</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(273,793)	(386,320)
Proceeds from sale of fixed assets	500	-
Purchase of investments	(171,434)	(285,276)
Proceeds from sale of investments	<u>-</u>	<u>257,218</u>
Net cash used by investing activities	<u>(444,727)</u>	<u>(414,378)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on notes payable	(1,863,093)	(3,930,870)
Proceeds from notes payable	<u>1,947,378</u>	<u>3,955,000</u>
Net cash provided by financing activities	<u>84,285</u>	<u>24,130</u>
Net (decrease) increase in cash and cash equivalents	(57,440)	103,637
Cash and cash equivalents at beginning of year	<u>824,780</u>	<u>721,143</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 767,340</u>	<u>\$ 824,780</u>

SUPPLEMENTAL INFORMATION

Interest Paid	<u>\$ 19,066</u>	<u>\$ 16,626</u>
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D.C. CENTRAL KITCHEN, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2018

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. (CKP) was incorporated as an affiliated corporation under common control with DCCK. These consolidated financial statements include the accounts of DCCK and CKP (collectively "the Organizations"). Inter-company accounts and transactions have been eliminated as part of the consolidation.

As of June 30, 2018, CKP operated 4 "owned" and 59 "affiliate" schools. The contracts that define CKP's relationships with its "owned" and "affiliate" schools differ mainly in the burden of cost and assumption of liability.

- **Owned:** The Campus Kitchens that fall under the "owned" model are those for which CKP provides 100% of the staffing, funding and ongoing assistance. These were the first of CKP's Campus Kitchens, and therefore, acted as "pilot" programs, over which CKP retains control and for which CKP assumes liability and provides indemnification to the host school for the work of the program.
- **Affiliate:** Under our "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, CKP provides a multi-year grant to the school to help defray these costs. CKP provides ongoing technical support, training and licensing of its name and marks to all affiliate schools.

Both owned and affiliated Campus Kitchens programs coordinate food donations, prepare and deliver meals to area community service agencies, create and deliver programs that address the underlying root causes of hunger, and provide service-learning opportunities for students. Since its inception in 2001, CKP has prevented the waste of over 7,000,000 pounds of food and delivered 3,259,927 meals to local partner agencies.

CKP began the process to transition the owned schools to affiliate models in fiscal year 2018, with the goal of having no owed schools by the end of fiscal year 2019. As of report date, this goal has been accomplished.

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*.

D.C. CENTRAL KITCHEN, INC. AND AFFILIATE

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018**

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

Basis of presentation (continued) -

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, 2017, from which the summarized information was derived.

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 \$144 for the year ended June 30, 2018, 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, dividends, realized and unrealized gains and losses are reported separately in the Consolidated Statement of Activities and Change in Net Assets.

Accounts receivable -

Accounts receivable are recorded at their net realizable value, which approximates fair value. 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. 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 discounts 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 contributions revenue. All contributions and grants receivable are considered by management to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

Inventory -

Inventory consists of disposable serving supplies, raw food and cooking ingredients. For the year ended June 30, 2018, the Organizations adopted FASB Accounting Standards Update (ASU) 2015-11 *Simplifying the Measurement of Inventory*, and as such, inventory is measured at the lower of cost and net realizable value using the first-in, first-out method of inventory. The ASU is applied prospectively.

Fixed assets -

Fixed assets in excess of \$10,000 are capitalized and stated at cost.

D.C. CENTRAL KITCHEN, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

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

Fixed assets (continued) -

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, 2018 totaled \$228,432.

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 CKP. The owned Campus Kitchens are 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 CKP.

Uncertain tax positions -

For the year ended June 30, 2018, the Organizations have documented their consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and have determined that no material uncertain tax positions qualify for either recognition or disclosure in the consolidated financial statements.

Grants to affiliates -

CKP provides initial funding to Campus Kitchen affiliates in accordance with affiliate agreements. These grants are recorded as contributions made at the date the affiliation agreement is signed. The unpaid portion of these grants is reported as a liability at the end of the year. As of June 30, 2018, a total of \$10,000 was owed to one Campus Kitchens affiliate. Accordingly, the balance was included in accounts payable in the accompanying consolidated financial statements.

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.

D.C. CENTRAL KITCHEN, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

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

Contributions and grants (continued) -

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. If donor restrictions are met in accordance with the donors' stipulations in the same year that it is received, contributions and grants are reported as unrestricted support.

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.

Contributions and grants receivable represents amounts due from funding organizations for reimbursable expenses incurred in accordance with 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.

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, 2018, 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.

D.C. CENTRAL KITCHEN, INC. AND AFFILIATE

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018**

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

Functional allocation of expenses (continued) -

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 source 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, 2018, DCCK operated seven such programs and graduated 86 students.

The Campus Kitchens Project, Inc.: 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 CKP at Saint Louis University was opened in October 2001. The project is a collaborative venture between 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, 2018, there were 61 Campus Kitchens Projects located around the country.

Healthy Corners: DCCK offers affordable wholesale delivery service for fresh produce and healthy snack items in communities where healthy retail options are scarce, known as 'food deserts. DCCK 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.

Investment 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 pronouncements -

In 2015, the FASB issued ASU 2015-11, *Simplifying the Measurement of Inventory*. The ASU requires the inventory to be measured at the lower of cost and net realizable value.

D.C. CENTRAL KITCHEN, INC. AND AFFILIATE

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018**

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

New accounting pronouncements (continued) -

Net realizable value includes the estimated selling prices in ordinary course business less reasonably predictive costs of completion, disposal and transportation. The ASU becomes effective for years beginning after December 15, 2016. The ASU should be applied on a prospective basis in the year the ASU is first applied. During the year ended June 30, 2018, the Organizations adopted the ASU and applied it prospectively.

New accounting pronouncements (not yet adopted) -

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, which is intended to clarify and improve current guidance about whether a transfer of assets is an exchange transaction or a contribution. The amendments in this ASU provide a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance (for example, Topic 606). The amendments also provide additional guidance about how to determine whether a contribution is conditional or unconditional. The amendments in this ASU could result in more grants and contracts being accounted for as contributions than under previous GAAP. The ASU recommends application on a modified prospective basis; however, retrospective application is permitted. The Organizations has not yet decided on a transition method. The ASU is effective for years beginning after December 15, 2018.

In August 2016, the FASB issued 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 Consolidated 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 consolidated financial statements, it is not expected to alter the Organizations's reported consolidated financial position.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by a year; thus, the effective date is years beginning after December 15, 2018. Early adoption is permitted. The Organizations have not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its consolidated financial statements.

In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the Consolidated Statement of Financial Position and disclosing key information about leasing arrangements.

D.C. CENTRAL KITCHEN, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

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

New accounting pronouncements (not yet adopted) -

The ASU is effective for private entities for years beginning after December 15, 2019. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach.

The Organizations plan to adopt the new ASUs at the respective required implementation dates.

Reclassification -

Certain amounts in the prior year's consolidated financial statements have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the previously reported changes in net assets.

2. **INVESTMENTS**

In accordance with FASB ASC 820, *Fair Value Measurement*, the Organizations have categorized its 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.

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, 2018. There were no transfers between levels in the fair value hierarchy during the year ended June 30, 2018. Transfers between levels are recorded at the end of the reporting period, if applicable.

- *Money market funds* - Valued at the daily closing price as reported by the fund. The money market fund is an open-end funds that are registered with the Securities and Exchange Commission (SEC). This fund is required to publish its daily net asset value (NAV) and to transact at that price. The money market fund is deemed to be actively traded.
- *Common stocks* - Valued at the closing price reported on the active market in which the individual securities are traded.

D.C. CENTRAL KITCHEN, INC. AND AFFILIATE

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018**

2. INVESTMENTS (Continued)

- *Equity mutual funds* - Valued at the daily closing price as reported by the fund. Mutual funds held by the Organizations are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily value and to transact at that price. Mutual funds held by the Organizations are deemed to be actively traded.

The table below summarizes, the investments measured at fair value on a recurring basis, by level within the fair value hierarchy as of June 30, 2018.

Asset Class:	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	Investments Measured in NAV	Total June 30, 2018
Money market funds	\$ 144	\$ -	\$ -	\$ -	\$ 144
Common stocks	2,026	-	-	-	2,026
Equity mutual funds	<u>2,358,655</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,358,655</u>
TOTAL	<u>\$ 2,360,825</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,360,825</u>

The following investment income are reported separately in the Consolidated Statement of Activities and Change in Net Assets:

Interest and dividends	\$ 171,489
Realized and unrealized loss, net	<u>(80,584)</u>
TOTAL INVESTMENT INCOME	<u>\$ 90,905</u>

3. CONTRIBUTIONS AND GRANTS RECEIVABLE

As of June 30, 2018, contributors to the Organizations have made written promises to give totaling \$1,233,862. Contributions and grants receivable are due as follows as of June 30, 2018:

Receivable due in less than one-year	\$ 1,102,518
Receivable due in one to five years	<u>131,344</u>
Total	1,233,862
Less: Current portion	<u>(131,344)</u>
CONTRIBUTIONS AND GRANTS RECEIVABLE, NET OF CURRENT PORTION	<u>\$ 1,102,518</u>

4. NOTES PAYABLE

On July 14, 2015, DCCK borrowed \$185,000 from RSF Social Investment Fund. On June 30, 2016, the loan principal was increased to \$291,786, extending the maturity date to August 1, 2020. On August 28, 2017, DCCK borrowed another \$197,379 from the same financial institution, maturing on September 1, 2020. The annual interest rate of the notes are 5%. The notes are secured by DCCK's vehicles. As of June 30, 2018, the outstanding principal of the notes payable aggregated to \$313,942.

D.C. CENTRAL KITCHEN, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

4. NOTES PAYABLE (Continued)

Principal payments are due as follows:

Year Ending June 30,

2019	\$	140,915
2020		148,184
2021		<u>24,843</u>
	\$	<u>313,942</u>

For the year ended June 30, 2018, interest expense totaled \$16,593, and included in interest and bank fees on the accompanying Consolidated Statement of Functional Expenses.

5. LINE OF CREDIT

DCCK maintains a \$1,750,000 bank line of credit which matures December 31, 2018. Amounts borrowed under this agreement bear interest at the bank's prime rate plus 1.5% (6% at June 30, 2018). The line is secured by inventory, receivables and equipment. As of June 30, 2018, there was no outstanding balance on the line of credit.

For the year ended June 30, 2018, interest expense was \$2,473, and is included in interest and bank fees in the accompanying Consolidated Statement of Functional Expenses.

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. As of June 30, 2018, board designated net assets amounted to \$1,200,000.

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following as of June 30, 2018:

Campus Kitchens Project	\$	362,874
Local Food Capacity		200,000
Capital Food Fight		180,000
Culinary Job Training		150,000
Healthy Corners		<u>50,000</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	\$	<u>942,874</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:

Campus Kitchens Project	\$	312,874
Local Food Capacity		200,000
Capital Food Fight		95,000
Culinary Job Training		255,000
Healthy Corners		50,000
Truck		<u>75,000</u>
NET ASSETS RELEASED FROM DONOR RESTRICTIONS	\$	<u>987,874</u>

D.C. CENTRAL KITCHEN, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

8. CONTRIBUTED SERVICES AND MATERIALS

During the year ended June 30, 2018, the Organizations were the beneficiary of donated services and materials 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, 2018:

Donated food and beverage	\$ 1,318,355
Donated rent	392,443
Donated professional services	<u>48,675</u>
TOTAL CONTRIBUTED SERVICES AND MATERIALS	<u>\$ 1,759,473</u>

- DCK received approximately 60,000 hours of volunteer services for the year ended June 30, 2018. 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. The value of the time donated is not reflected in the consolidated financial statements since the services do not meet the criteria for recognition.
- 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. However, the value of the time donated is not reflected in the consolidated financial statements since the services do not meet the criteria for recognition. At \$23.56 per hour, this amounts to \$1,689,747 of additional contributions and program expenses. This hourly rate is the average estimated values per hour of volunteer time for the District of Columbia (for DCK) and the United States (for CKP) as determined by Independent Sector, http://www.independentsector.org/volunteer_time.

The following programs and supporting services have benefited from these donated services for the year ended June 30, 2018:

Community Meals	\$ 1,148,355
The Campus Kitchens Project, Inc.	295,350
Development	5,698
Management and General	<u>310,070</u>
	<u>\$ 1,759,473</u>

9. LEASE COMMITMENTS

The Organizations leased 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. DCK 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.

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.

D.C. CENTRAL KITCHEN, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

9. LEASE COMMITMENTS (Continued)

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

Year Ending June 30,

2019	\$ 210,751
2020	217,073
2021	<u>73,067</u>
	<u>\$ 500,891</u>

Rent expense for the year ended June 30, 2018 was \$246,385, and is included in purchased facilities space on the accompanying Consolidated Statement of Functional Expenses. For the year ended June 30, 2018, the deferred rent liability aggregated to \$18,360.

10. RETIREMENT PLAN

The Organizations provide a Safe Harbor 401(k) retirement plan for all employees. Employees are eligible to participate in the Plan after six full months of employment. The Organizations use the Basic Match: 100% of the first 3% of pay that is deferred; and 50% of the next 2 % of pay. For the year ended June 30, 2018, contributions to the Plan totaled \$182,066. Accordingly, this amount is included in personnel expenses in the Consolidated Statement of Functional Expenses.

11. CONCENTRATION OF REVENUE

Approximately 52% of the Organizations' grant revenue for the year ended June 30, 2018, was derived from awards with the United States Government. The Organizations have no reason to believe that relationship with the United States Government 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. SUBSEQUENT EVENTS

In preparing these consolidated financial statements, the Organizations have evaluated events and transactions for potential recognition or disclosure through October 15, 2018, 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, 2018

ASSETS			
	DCCK	CKP	Total
CURRENT ASSETS			
Cash and cash equivalents	\$ 575,253	\$ 192,087	\$ 767,340
Investments	589,031	571,794	1,160,825
Accounts receivable	521,546	1,200	522,746
Contributions and grants receivable	813,674	288,844	1,102,518
Inventory	68,850	-	68,850
Prepaid expenses	155,902	6,814	162,716
Total current assets	2,724,256	1,060,739	3,784,995
FIXED ASSETS			
Equipment	999,543	27,171	1,026,714
Vehicles	1,181,733	-	1,181,733
Leasehold improvements	573,287	-	573,287
	2,754,563	27,171	2,781,734
Less: Accumulated depreciation and amortization	(1,969,693)	(27,171)	(1,996,864)
Net fixed assets	784,870	-	784,870
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	-	131,344	131,344
Total other assets	1,214,000	131,344	1,345,344
TOTAL ASSETS	\$ 4,723,126	\$ 1,192,083	\$ 5,915,209

LIABILITIES AND NET ASSETS

	<u>DCCK</u>	<u>CKP</u>	<u>Total</u>
CURRENT LIABILITIES			
Notes payable	\$ 140,915	\$ -	\$ 140,915
Accounts payable and accrued liabilities	332,273	10,192	342,465
Accrued salaries and related benefits	564,886	30,242	595,128
Deferred rent	<u>3,952</u>	<u>-</u>	<u>3,952</u>
Total current liabilities	<u>1,042,026</u>	<u>40,434</u>	<u>1,082,460</u>
LONG-TERM LIABILITIES			
Notes payable, net of current portion	173,027	-	173,027
Deferred rent, net of current portion	<u>14,408</u>	<u>-</u>	<u>14,408</u>
Total long-term liabilities	<u>187,435</u>	<u>-</u>	<u>187,435</u>
Total liabilities	<u>1,229,461</u>	<u>40,434</u>	<u>1,269,895</u>
NET ASSETS			
Unrestricted:			
Board designated	1,200,000	-	1,200,000
Undesignated	<u>1,713,666</u>	<u>788,774</u>	<u>2,502,440</u>
Total unrestricted	2,913,666	788,774	3,702,440
Temporarily restricted	<u>579,999</u>	<u>362,875</u>	<u>942,874</u>
Total net assets	<u>3,493,665</u>	<u>1,151,649</u>	<u>4,645,314</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,723,126</u>	<u>\$ 1,192,083</u>	<u>\$ 5,915,209</u>

D.C. CENTRAL KITCHEN, INC. AND AFFILIATE

CONSOLIDATING SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

	<u>DCK</u>	<u>CKP</u>	<u>Eliminations</u>	<u>Total</u>
UNRESTRICTED REVENUE AND SUPPORT				
Contracts	\$ 7,500,471	\$ -	\$ -	\$ 7,500,471
Contributions - General	4,466,540	606,015	-	5,072,555
Contributed services and materials	1,447,030	312,443	-	1,759,473
Program service sales	887,080	-	-	887,080
Special events	776,138	-	-	776,138
Government grants	618,045	-	-	618,045
Interest and dividends	129,953	41,536	-	171,489
Contributions - United Way	132,081	-	-	132,081
Other revenue	17,747	50,280	-	68,027
Net assets released from donor restrictions	<u>675,000</u>	<u>312,874</u>	<u>-</u>	<u>987,874</u>
Total unrestricted revenue and support	<u>16,650,085</u>	<u>1,323,148</u>	<u>-</u>	<u>17,973,233</u>
EXPENSES				
Program Services:				
Community Meals	6,321,305	-	-	6,321,305
Healthy School Food	5,754,517	-	-	5,754,517
Culinary Job Training	1,380,154	-	-	1,380,154
The Campus Kitchens Project, Inc.	-	1,077,830	-	1,077,830
Healthy Corners	<u>763,536</u>	<u>-</u>	<u>-</u>	<u>763,536</u>
Total program services	<u>14,219,512</u>	<u>1,077,830</u>	<u>-</u>	<u>15,297,342</u>
Supporting Services:				
Development	1,062,257	40,466	-	1,102,723
Management and General	<u>1,186,185</u>	<u>108,513</u>	<u>-</u>	<u>1,294,698</u>
Total supporting services	<u>2,248,442</u>	<u>148,979</u>	<u>-</u>	<u>2,397,421</u>
Total expenses	<u>16,467,954</u>	<u>1,226,809</u>	<u>-</u>	<u>17,694,763</u>
Change in unrestricted net assets before other item	182,131	96,339	-	278,470
OTHER ITEM				
Realized and unrealized loss on investments	<u>(61,063)</u>	<u>(19,521)</u>	<u>-</u>	<u>(80,584)</u>
CHANGE IN UNRESTRICTED NET ASSETS	<u>\$ 121,068</u>	<u>\$ 76,818</u>	<u>\$ -</u>	<u>\$ 197,886</u>
TEMPORARILY RESTRICTED REVENUE AND SUPPORT				
Contributions - General	\$ 187,681	\$ 225,000	\$ -	\$ 412,681
Net assets released from donor restrictions	<u>(675,000)</u>	<u>(312,874)</u>	<u>-</u>	<u>(987,874)</u>
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	<u>\$ (487,319)</u>	<u>\$ (87,874)</u>	<u>\$ -</u>	<u>\$ (575,193)</u>

D.C. CENTRAL KITCHEN, INC. AND AFFILIATE

**CONSOLIDATING SCHEDULE OF CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>DCCK</u>	<u>CKP</u>	<u>Total</u>
UNRESTRICTED NET ASSETS			
Net assets at beginning of year	\$ 2,792,598	\$ 711,956	\$ 3,504,554
Change in unrestricted net assets	<u>121,068</u>	<u>76,818</u>	<u>197,886</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,913,666</u>	<u>\$ 788,774</u>	<u>\$ 3,702,440</u>
TEMPORARILY RESTRICTED NET ASSETS			
Net assets at beginning of year	\$ 1,067,318	\$ 450,749	\$ 1,518,067
Change in temporarily restricted net assets	<u>(487,319)</u>	<u>(87,874)</u>	<u>(575,193)</u>
NET ASSETS AT END OF YEAR	<u>\$ 579,999</u>	<u>\$ 362,875</u>	<u>\$ 942,874</u>