

FINANCIAL STATEMENTS

D.C. CENTRAL KITCHEN, INC.

**FOR THE YEAR ENDED JUNE 30, 2020
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2019**

D.C. CENTRAL KITCHEN, INC.

CONTENTS

	PAGE NO.
INDEPENDENT AUDITOR'S REPORT	2 - 3
EXHIBIT A - Statement of Financial Position, as of June 30, 2020, with Summarized Financial Information for 2019	4 - 5
EXHIBIT B - Statement of Activities and Change in Net Assets, for the Year Ended June 30, 2020, with Summarized Financial Information for 2019	6
EXHIBIT C - Statement of Functional Expenses, for the Year Ended June 30, 2020, with Summarized Financial Information for 2019	7 - 8
EXHIBIT D - Statement of Cash Flows, for the Year Ended June 30, 2020, with Summarized Financial Information for 2019	9 - 10
NOTES TO FINANCIAL STATEMENTS	11 - 21



CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of D.C. Central Kitchen, Inc. (DCKK), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and change in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of DCKK as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Report on Summarized Comparative Information

We have previously audited DCCK's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 10, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Gelman Rosenberg & Freedman

October 21, 2020

D.C. CENTRAL KITCHEN, INC.

**STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2020
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2019**

ASSETS

	2020	2019
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,860,442	\$ 632,451
Investments	2,783,629	1,284,747
Accounts receivable, net of allowance for doubtful accounts of \$2,320 and \$950 in 2020 and 2019, respectively	1,597,760	606,307
Grants and contributions receivable	341,667	1,024,085
Inventory	102,284	66,051
Prepaid expenses	485,463	147,705
Total current assets	<u>8,171,245</u>	<u>3,761,346</u>
FIXED ASSETS		
Equipment	1,055,540	1,045,123
Vehicles	1,221,234	1,153,734
Leasehold improvements	573,287	573,287
	2,850,061	2,772,144
Less: Accumulated depreciation and amortization	(2,384,908)	(2,166,231)
Net fixed assets	<u>465,153</u>	<u>605,913</u>
OTHER ASSETS		
Security deposit	19,321	19,321
Investments, net of current portion	1,200,000	1,200,000
Grants and contributions receivable, net of current portion	250,000	102,500
Total other assets	<u>1,469,321</u>	<u>1,321,821</u>
TOTAL ASSETS	\$ 10,105,719	\$ 5,689,080

LIABILITIES AND NET ASSETS

	<u>2020</u>	<u>2019</u>
CURRENT LIABILITIES		
Federal loan payable	\$ 1,462,500	\$ -
Notes payable	-	148,184
Line of credit	-	825,000
Accounts payable and accrued liabilities	523,830	307,440
Accrued salaries and related benefits	1,026,498	572,577
Deferred revenue	175,000	20,000
Deferred rent	<u>4,134</u>	<u>10,274</u>
Total current liabilities	<u>3,191,962</u>	<u>1,883,475</u>
LONG-TERM LIABILITIES		
Notes payable, net of current portion	-	24,878
Deferred rent, net of current portion	<u>-</u>	<u>4,134</u>
Total long-term liabilities	<u>-</u>	<u>29,012</u>
Total liabilities	<u>3,191,962</u>	<u>1,912,487</u>
NET ASSETS		
Without donor restrictions:		
Board designated	1,200,000	1,200,000
Undesignated	<u>3,432,337</u>	<u>660,173</u>
Total unrestricted	4,632,337	1,860,173
With donor restrictions	<u>2,281,420</u>	<u>1,916,420</u>
Total net assets	<u>6,913,757</u>	<u>3,776,593</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,105,719</u>	<u>\$ 5,689,080</u>

D.C. CENTRAL KITCHEN, INC.

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2020
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2019**

	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	Total
REVENUE AND SUPPORT				
Contracts	\$ 6,893,580	\$ -	\$ 6,893,580	\$ 6,909,736
Grants and contributions	7,678,702	950,000	8,628,702	6,858,583
Contributed services and materials	1,131,809	-	1,131,809	1,006,706
Program service sales	1,666,028	-	1,666,028	1,038,369
Special events, net of expenses of \$128,834 and \$136,080 in 2020 and 2019, respectively	900,910	-	900,910	690,601
Government grants	1,078,001	-	1,078,001	532,250
Contributions - United Way	95,336	-	95,336	110,887
Interest and dividends, net of investments fees	69,233	-	69,233	45,359
Other revenue	2,556	-	2,556	9,084
Net assets released from donor restrictions	<u>585,000</u>	<u>(585,000)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>20,101,155</u>	<u>365,000</u>	<u>20,466,155</u>	<u>17,201,575</u>
EXPENSES				
Program Services:				
Community Meals	4,906,396	-	4,906,396	5,581,658
Healthy School Food	5,386,078	-	5,386,078	6,022,730
Culinary Job Training	2,861,783	-	2,861,783	1,594,725
Healthy Corners	1,381,360	-	1,381,360	1,287,819
Impact and Evaluation	<u>84,215</u>	<u>-</u>	<u>84,215</u>	<u>-</u>
Total program services	<u>14,619,832</u>	<u>-</u>	<u>14,619,832</u>	<u>14,486,932</u>
Supporting Services:				
Development	1,005,444	-	1,005,444	1,071,591
Management and General	<u>1,832,042</u>	<u>-</u>	<u>1,832,042</u>	<u>1,449,825</u>
Total supporting services	<u>2,837,486</u>	<u>-</u>	<u>2,837,486</u>	<u>2,521,416</u>
Total expenses	<u>17,457,318</u>	<u>-</u>	<u>17,457,318</u>	<u>17,008,348</u>
Change in net assets before other items	2,643,837	365,000	3,008,837	193,227
OTHER ITEMS				
Realized and unrealized (loss) gain on investments	(273,043)	-	(273,043)	89,701
Distribution of assets	<u>401,370</u>	<u>-</u>	<u>401,370</u>	<u>-</u>
Change in net assets	2,772,164	365,000	3,137,164	282,928
Net assets at beginning of year	<u>1,860,173</u>	<u>1,916,420</u>	<u>3,776,593</u>	<u>3,493,665</u>
NET ASSETS AT END OF YEAR	<u>\$ 4,632,337</u>	<u>\$ 2,281,420</u>	<u>\$ 6,913,757</u>	<u>\$ 3,776,593</u>

D.C. CENTRAL KITCHEN, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2019**

	2020			
	Program Services			
	Community Meals	Healthy School Food	Culinary Job Training	Healthy Corners
Personnel expenses	\$ 1,955,546	\$ 3,230,096	\$ 1,639,290	\$ 623,721
Food and beverages - purchased	1,085,123	1,394,277	316,651	243,797
Food and beverages - donated	734,631	-	-	-
Professional services - purchased	32,597	37,060	102,457	16,418
Professional services - donated	-	-	-	-
Facilities space - purchased	110,276	112,231	138,614	34,472
Facilities space - donated	75,000	75,000	50,000	25,000
Depreciation and amortization	151,352	28,854	19,236	9,618
Insurance	82,732	21,875	14,583	7,292
Interest and bank fees	-	-	-	-
Kitchen costs	323,356	341,024	123,544	41,054
Program expenses	172,271	-	363,476	306,838
Meetings and conventions	4,471	1,945	11,858	291
Office expenses	38,259	50,801	38,844	41,386
Miscellaneous	39,179	13,685	7,601	1,987
Technology and communication	31,969	30,423	24,305	12,049
Travel expenses	1,907	1,398	6,006	2,437
Vehicle expenses	67,727	47,409	5,318	15,000
Special event	-	-	-	-
Subtotal	4,906,396	5,386,078	2,861,783	1,381,360
Less: Special event expenses	-	-	-	-
TOTAL	\$ 4,906,396	\$ 5,386,078	\$ 2,861,783	\$ 1,381,360

						2019
Supporting Services						
Impact and Evaluation	Total Program Services			Total Supporting Services	Total Expenses	Total Expenses
		Development	Management and General			
\$ 60,644	\$ 7,509,297	\$ 801,671	\$ 1,279,517	\$ 2,081,188	\$ 9,590,485	\$ 9,725,481
-	3,039,848	-	-	-	3,039,848	2,967,995
-	734,631	-	-	-	734,631	681,746
-	188,532	40,935	109,086	150,021	338,553	399,597
-	-	-	147,178	147,178	147,178	74,960
5,023	400,616	15,868	15,868	31,736	432,352	329,933
-	225,000	-	25,000	25,000	250,000	250,000
-	209,060	-	9,618	9,618	218,678	224,536
2,367	128,849	5,897	10,031	15,928	144,777	142,364
-	-	54,516	115,916	170,432	170,432	116,585
-	828,978	-	4,524	4,524	833,502	854,570
200	842,785	-	-	-	842,785	496,708
298	18,863	5,565	2,391	7,956	26,819	35,713
429	169,719	39,395	13,650	53,045	222,764	280,995
283	62,735	14,563	63,375	77,938	140,673	74,712
13,954	112,700	18,973	33,072	52,045	164,745	190,798
1,017	12,765	8,061	2,816	10,877	23,642	37,940
-	135,454	-	-	-	135,454	123,715
-	-	128,834	-	128,834	128,834	136,080
84,215	14,619,832	1,134,278	1,832,042	2,966,320	17,586,152	17,144,428
-	-	(128,834)	-	(128,834)	(128,834)	(136,080)
\$ 84,215	\$ 14,619,832	\$ 1,005,444	\$ 1,832,042	\$ 2,837,486	\$ 17,457,318	\$ 17,008,348

D.C. CENTRAL KITCHEN, INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 3,137,164	\$ 282,928
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	218,677	224,536
Realized and unrealized loss (gain) on investments	273,043	(89,701)
Deferred rent	(10,274)	(3,952)
Gain on disposal of fixed assets	-	(625)
Change in allowance for doubtful accounts	1,370	(274)
Donated securities	(48,811)	(65,539)
(Increase) decrease in:		
Accounts receivable	(992,823)	(84,487)
Grants and contributions receivable	534,918	(312,911)
Inventory	(36,233)	2,799
Prepaid expenses	(337,758)	8,197
Security deposit	-	(5,321)
Increase (decrease) in:		
Accounts payable and accrued liabilities	216,390	(24,832)
Accrued salaries and related benefits	453,921	7,691
Deferred revenue	<u>155,000</u>	<u>20,000</u>
Net cash provided (used) by operating activities	<u>3,564,584</u>	<u>(41,491)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(77,917)	(45,579)
Proceeds from sale of fixed assets	-	625
Purchase of investments	(3,654,919)	(1,118,635)
Proceeds from sale of investments	<u>1,931,805</u>	<u>578,158</u>
Net cash used by investing activities	<u>(1,801,031)</u>	<u>(585,431)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on notes payable	(173,062)	(140,880)
Proceeds from federal loan payable	1,462,500	-
Drawings on line of credit	3,315,000	5,625,000
Payments on line of credit	<u>(4,140,000)</u>	<u>(4,800,000)</u>
Net cash provided by financing activities	<u>464,438</u>	<u>684,120</u>
Net increase in cash and cash equivalents	2,227,991	57,198
Cash and cash equivalents at beginning of year	<u>632,451</u>	<u>575,253</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,860,442</u>	<u>\$ 632,451</u>

D.C. CENTRAL KITCHEN, INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2019

	<u>2020</u>	<u>2019</u>
SUPPLEMENTAL INFORMATION		
Interest Paid	\$ <u>57,878</u>	\$ <u>52,900</u>
SCHEDULE OF NONCASH INVESTING AND FINANCING TRANSACTIONS		
Donated Securities	\$ <u>18,300</u>	\$ <u>462,167</u>

D.C. CENTRAL KITCHEN, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

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.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. As such, net assets are reported within two net asset classifications: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories are as follows:

- **Net Assets Without Donor Restrictions** - Net assets available for use in general operations and not subject to donor restrictions are recorded as "net assets without donor restrictions". Assets restricted solely through the actions of the Board are referred to as Board Designated and are also reported as net assets without donor restrictions.
- **Net Assets With Donor Restrictions** - Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in "net assets with donor restrictions", depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities and Change in Net Assets as net assets released from donor restrictions. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue without donor restrictions when the assets are placed in service.

The 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 DCCK's financial statements for the year ended June 30, 2019, from which the summarized information was derived.

New accounting pronouncements adopted -

During 2019, DCCK adopted ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*.

D.C. CENTRAL KITCHEN, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

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

New accounting pronouncements adopted (continued) -

This guidance is intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made. Key provisions in this guidance include clarification regarding the accounting for grants and contracts as exchange transactions or contributions, and improve guidance to better distinguish between conditional and unconditional contributions. DCCK adopted the ASU using a modified prospective basis.

Cash and cash equivalents -

DCCK considers 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 \$1,050,986 as of June 30, 2020, 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, DCCK 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 are shown net of investment expenses provided by external investment advisors in the accompanying Statement of Activities and Change in Net Assets. Investments acquired by gift are recorded at their fair value at the date of the gift. DCCK's policy is to liquidate all gifts of investments as soon as possible after the gift.

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.

Grants and contributions receivable

Grants and contributions receivable are recorded at their net realizable value, which approximates fair value. Management considers all grants and contributions receivable to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established. Grants and contributions that are expected to be collected in future years are recorded at fair value, measured as the present value of their future cash flows.

Inventory -

Inventory consists of disposable serving supplies, raw food and cooking ingredients and is measured at the lower of cost and net realizable value using the first-in, first-out method of inventory under FASB ASU 2015-11 *Simplifying the Measurement of Inventory*.

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 as incurred. Depreciation and amortization expense for the year ended June 30, 2020 totaled \$218,677.

D.C. CENTRAL KITCHEN, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

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

Income taxes -

DCCK is 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 financial statements. DCCK is not a private foundation.

Uncertain tax positions -

For the year ended June 30, 2020, DCCK has 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 financial statements.

Special event expenses -

The Statement of Functional Expenses includes special event expenses which are deducted from special event revenue in the Statement of Activities and Change in Net Assets

Contributions, grants and contracts -

A large portion of DCCK's revenue is received through contributions from individuals and corporations as well as contracts and grants from the U.S. and local governments. Contributions and grants are recognized in the appropriate category of net assets in the period received. DCCK performs an analysis of the individual contribution, grant or contract to determine if the revenue streams follow the contributions rules or if it is considered an exchange transaction depending on whether the transaction is reciprocal or nonreciprocal.

For contributions and grants qualifying under the contributions rules, revenue is recognized upon notification of the award and satisfaction of all conditions, if applicable. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions and grants qualifying as contributions that are unconditional and have donor restrictions are recognized as "without donor restrictions" 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 net assets with donor restrictions in the accompanying financial statements.

DCCK receives funding under contracts 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 awards are recorded as exchange transactions within the "without donor restrictions" to the extent that related expenses are incurred in compliance with the criteria stipulated in the grant agreements. Contract awards received in advance of incurring the related expenses for direct and indirect program costs are recorded as deferred revenue.

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 DCCK; these donated services are not reflected in the financial statements since these services do not meet the criteria for recognition as contributed services.

D.C. CENTRAL KITCHEN, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

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

Use of estimates -

The preparation of the 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 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 Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses directly attributed to a specific functional area of DCCK are reported as direct expenses to the programmatic area and those expenses that benefit more than one function are allocated on a basis of estimated time and effort.

The following are the major programs of DCCK:

Community Meals: For the year ended June 30, 2020, DCCK recovered over 578,178 pounds of food that would otherwise have gone to waste. In conjunction with over 11,695 volunteers and culinary job training students, our staff used this food to create more than 1,234,740 meals for 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. Many of these agencies suspended their operations due to COVID-19, however DCCK was able to grow our Community Meals program by providing 40,851 grocery bags to food insecure families.

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. In March 2020, schools moved to a remote-learning model and DCCK pivoted to provide unitized meals at 5 DCPS locations.

Culinary Job Training: DCCK operates an intense, nationally recognized twelve-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, 2020, DCCK graduated 120 students. Job training classes were suspended in March due to COVID-19, however outreach and social support continued to students and graduates.

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 62 corner stores and other small retailers, primarily those located in the underserved neighborhoods of Wards 5, 7 and 8.

D.C. CENTRAL KITCHEN, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

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

Functional allocation of expenses (continued) -

Healthy Corners (continued): In addition to offering these partner businesses new products for sale, we provide them with free infrastructure, nutrition education, marketing support, and technical assistance.

Impact & Evaluation: DCCK routinely conducts performance measurement and evaluation activities designed to improve internal program practices and assess progress toward program goals. The data gathered are used for continuous quality improvement to enhance service delivery and measure the outcomes of DCCK programs in the communities we serve.

Investment risks and uncertainties -

DCCK 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 financial statements.

Fair value measurement -

DCCK 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. DCCK accounts for a significant portion of their financial instruments at fair value or consider fair value in their measurement.

New accounting pronouncements not yet adopted -

FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), as amended. The ASU provides a framework for recognizing revenue and is intended to improve comparability of revenue recognition practices across for-profit and non-profit entities. During 2020, the FASB delayed the implementation date under ASU 2020-05 for an additional year. Organizations may elect to adopt the guidance for annual reporting periods beginning after December 15, 2019 and for interim periods within annual reporting periods beginning after December 15, 2020. Early adoption is still permitted.

FASB issued ASU 2019-01, *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 Statement of Financial Position and disclosing key information about leasing arrangements. During 2020, the FASB issued ASU 2020-05 and delayed the implementation date by one year. The ASU is effective for non public entities beginning after December 15, 2021. Early adoption is still permitted. The ASU can be applied at the beginning of the earliest period presented using a modified retrospective approach or applied at the beginning of the period of adoption recognizing a cumulative-effect adjustment.

DCCK plans to adopt the new ASUs at the required implementation dates, and management is currently in the process of evaluating the adoption methods and the impact of the new standards on its accompanying financial statements.

D.C. CENTRAL KITCHEN, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

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

Economic uncertainties -

On March 11, 2020, the World Health Organization declared the Coronavirus disease (COVID-19) a global pandemic. As a result of the spread of COVID-19, economic uncertainties have arisen which may negatively impact DCCK's operations. The overall potential impact is unknown at this time.

2. **INVESTMENTS**

In accordance with FASB ASC 820, *Fair Value Measurement*, DCCK has 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 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 DCCK has 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 were no transfers between levels in the fair value hierarchy during the years ended June 30, 2020. Transfers between levels are recorded at the end of the reporting period, if applicable.

- *Money market funds* - The money market funds are open-end funds that are registered with the Securities and Exchange Commission (SEC) and are deemed to be actively traded.
- *Common stocks* - Valued at the closing price reported on the active market in which the individual securities are traded.
- *U.S. Government bonds* - Valued at the closing price reported in the active market in which the individual securities are traded.
- *Equity mutual funds* - Valued at the daily closing price as reported by the fund. Mutual funds held by DCCK 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 DCCK are deemed to be actively traded.
- *Certificates of deposit* - Generally valued at original cost plus accrued interest, which approximates fair value.

D.C. CENTRAL KITCHEN, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

2. INVESTMENTS (Continued)

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, 2020.

Asset Class:	Level 1	Level 2	Level 3	Total
Money market funds	\$ 1,050,986	\$ -	\$ -	\$ 1,050,986
Common stocks	5,046	-	-	5,046
U.S. Government bonds	524,698	-	-	524,698
Equity mutual funds	2,153,779	-	-	2,153,779
Certificates of deposit	-	249,120	-	249,120
TOTAL	\$ 3,734,509	\$ 249,120	\$ -	\$ 3,983,629

Included in investment loss are the following:

Interest and dividends	\$ 69,801
Realized and unrealized loss	(273,043)
Less: management fees	(568)
TOTAL INVESTMENT LOSS	\$ (203,810)

3. GRANTS RECEIVABLE

As of June 30, 2020, grantors to DCCK had made written promises to give, of which \$591,667 remained due and outstanding. Following is a schedule of amounts due, by year, as of June 30, 2020:

Receivable due in less than one-year	\$ 341,667
Receivable due in one to five years	250,000
Total	591,667
Less: Current portion	(341,667)
CONTRIBUTIONS AND GRANTS RECEIVABLE, NET OF CURRENT PORTION	\$ 250,000

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. DCCK repaid the full outstanding balance of this loan during the year ended June 30, 2020.

For the year ended June 30, 2020, interest expense totaled \$5,206, and is included in interest and bank fees on the accompanying Statement of Functional Expenses. The loan agreements contained various covenants, which among other things, place restrictions on DCCK's ability to incur additional indebtedness.

D.C. CENTRAL KITCHEN, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

5. FEDERAL LOAN PAYABLE

On April 14, 2020, DCK received loan proceeds in the amount of \$1,462,500 under the Paycheck Protection Program. The promissory note calls for monthly principal and interest payments amortized over the term of the promissory note with a deferral of payments for the first six months. Under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the promissory note may be forgiven by the Small Business Administration in whole or in part. DCK intends to use the proceeds for purposes consistent with the Paycheck Protection Program and believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan. DCK intends to apply for forgiveness after completing the 24 week period.

6. LINE OF CREDIT

DCK maintains a \$1,750,000 bank line of credit which matures March 1, 2021. Amounts borrowed under this agreement bear interest at the bank's prime rate (4.25% at June 30, 2020). The line is secured by inventory, receivables and equipment. During the year ended June 30, 2020, all outstanding amounts were fully repaid and the line of credit did not have an outstanding balance as of June 30, 2020.

For the year ended June 30, 2020, interest expense was \$52,672, and is included in interest and bank fees in the accompanying Statement of Functional Expenses.

The line of credit agreement contain various covenants, which among other things, place restrictions on DCK's ability to incur additional indebtedness without prior written consent.

7. BOARD DESIGNATED NET ASSETS

As of June 30, 2020, net assets without donor restrictions have been designated by the Board of Directors for the following purposes:

Operating Reserve	<u>\$ 1,200,000</u>
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8. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at June 30, 2020:

MLK Cafe	\$ 50,000
Culinary Job Training	480,000
Passage of Time	625,000
Development	100,000
Capital Campaign	<u>1,026,420</u>
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	<u>\$ 2,281,420</u>

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

Culinary Job Training	\$ 210,000
Passage of Time	325,000
Development	<u>50,000</u>
NET ASSETS RELEASED FROM DONOR RESTRICTIONS	<u>\$ 585,000</u>

D.C. CENTRAL KITCHEN, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

9. CAMPUS KITCHEN PROJECT

The Campus Kitchen Project (CKP) is a national organization that empowers student volunteers to fight hunger in their community. In 2002, CKP was incorporated as an affiliated corporation under common control with D.C. Central Kitchen, Inc. (DCCK). DCCK did not provide any operating grants to CKP during the year ended June 30, 2020. CKP entered into a Memorandum of Understanding with the Food Recovery Network (FRN) that will transition management of the remaining affiliate schools from CKP to FRN. During the year ended June 30, 2020, CKP was successfully dissolved. The dissolution resulted in a distribution of assets of \$401,370 from CKP to DCCK, as presented on the accompanying Statement of Activities and Change in Net Assets.

10. LIQUIDITY AND AVAILABILITY

Financial assets available for use for general expenditures within one year of the Statement of Financial Position date comprise the following:

Cash and cash equivalents	\$ 2,860,442
Investments	2,783,629
Accounts receivable	1,597,760
Grants and contributions receivable	<u>341,667</u>
Subtotal financial assets available within one year	7,583,498
Less:	
Time restricted funds > 1 year	(250,000)
Donor purpose restricted funds	(1,656,420)
Board designated funds	<u>(1,200,000)</u>
FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR	<u>\$ 4,477,078</u>

DCCK has a policy to structure their financial assets to be available and liquid as their obligations become due. As of June 30, 2020, DCCK has financial assets equal to approximately three months of operating expenses. In addition, DCCK has a line of credit agreement (as further discussed in Note 6) which allows for additional available borrowings up to \$1,750,000.

11. CONTRIBUTED SERVICES AND MATERIALS

During the year ended June 30, 2020, DCCK was the beneficiary of donated services and materials which allowed DCCK 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, 2020:

Donated food and beverage	\$ 734,631
Donated rent	250,000
Donated professional services	<u>147,178</u>
TOTAL CONTRIBUTED SERVICES AND MATERIALS	<u>\$ 1,131,809</u>

D.C. CENTRAL KITCHEN, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

11. CONTRIBUTED SERVICES AND MATERIALS (Continued)

The following programs and supporting services have benefited from these donated services for the year ended June 30, 2020:

Community Meals	\$ 809,631
Healthy School Food	75,000
Healthy Corners	25,000
Culinary Job Training	50,000
Management and General	<u>172,178</u>
TOTAL	<u>\$ 1,131,809</u>

12. LEASE COMMITMENTS

During the year ended June 30, 2020, DCCK leased space in Washington, D.C., under a lease agreement which originated in November 2010 and was extended in 2015 for an additional five years. The lease was extended again in 2020 for an additional year. Base rent is \$194,758 per year, plus a proportionate share of expenses, increasing by a factor of 3% per year.

In February 2019, DCCK entered into a sublease for office space in Washington, D.C. The lease will expire at the end of October 2020. Base rent is \$5,320 per month, increasing to \$5,333 per month.

During the year ended June 30, 2019, DCCK entered into an additional sublease for space in Washington, D.C. The sublease commenced on April 1, 2019 and will continue for ten years. Under this sublease, DCCK is only required to pay its proportionate share of the lessor's operating expenses. Accordingly, management is unable to calculate the future minimum lease payments under this sublease.

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 Statement of Financial Position.

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

Year Ending June 30, 2021	<u>\$ 95,201</u>
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Rent expense for the year ended June 30, 2020 was \$368,618, and is included in purchased facilities space on the accompanying Statement of Functional Expenses. For the year ended June 30, 2020, the deferred rent liability aggregated to \$4,134.

13. RETIREMENT PLAN

DCCK provides a Safe Harbor 401(k) retirement plan for all employees. Employees are eligible to participate in the Plan after six full months of employment. DCCK 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, 2020, contributions to the Plan totaled \$508,863 and is included in personnel expenses in the Statement of Functional Expenses.

D.C. CENTRAL KITCHEN, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

14. SUBSEQUENT EVENTS

In preparing these financial statements, DCCK have evaluated events and transactions for potential recognition or disclosure through October 21, 2020, the date the financial statements were issued.