REPORT OF INDEPENDENT AUDITORS AND
SINGLE AUDIT REPORTS

# The DC Central Kitchen Inc

September 30, 2021

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*Incorporated by reference only

## Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
The DC Central Kitchen Inc

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The DC Central Kitchen Inc ("TDCCK", or the "Utility"), which comprise the statement of net position as of September 30, 2020, the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 26, 2022.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Utility's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control.

A *deficiency in internal* control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Utility's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utility's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matter that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Portland, Oregon
March 26, 2021

## Report of Independent Auditors on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

To the Board of Directors
The DC Central Kitchen Inc

### Report on Compliance for Each Major Federal Program

We have audited TDCCK's (the Utility) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Utility's major federal programs for the year ended September 30, 2020. The Utility's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### *Management's Responsibility*

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on compliance for each of the Utility's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Utility's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Utility's compliance.

### *Opinion on Each of the Major Federal Programs*

In our opinion, the Utility complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2020.

## Report on Internal Control Over Compliance

Management of the Utility is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Utility's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

## Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Utility as of and for the year ended September 30, 2020, and have issued our report thereon dated March 26, 2021 which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Uniform Guidance and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Portland, Oregon
June 30, 2021

# The DC Central Kitchen Inc

## Schedule of Expenditures of Federal Awards
## September 30, 2020

| Federal Grantor/Program | CFDA # | Pass-Through Entity Identifying Number | Total Expenditures |
|---|---|---|---|
| Department of Interior | | | |
| Pass through : | | | |
| Economic, Social, and Political Development of the Territories | 15.875 | D14AF000002 | $ 2,942,390 |
| *Total Department of Interior* | | | 2,942,390 |
| Environmental Protection Agency | | | |
| Environmental Protection Consolidated Grants for the Insular Areas - Program Support | 66.600 | | 9,095,942 |
| *Total Environmental Protection Agency* | | | 9,095,942 |
| Department of Homeland Security | | | |
| Disaster Grants - Public Assistance (Presidentially Declared Disasters) | 97.036 | | 1,525,766 |
| *Total Department of Homeland Security* | | | 1,525,766 |
| Department of Treasury | | | |
| Coronavirus Relief Funds | 21.019 | | 1,558,980 |
| *Total Department of Treasury* | | | 1,558,980 |
| *Total Federal Awards Expended* | | | $ 15,123,078 |

### Note 1 – Reporting Entity

The The DC Central Kitchen Inc (TDCCK and Utility). TDCCK generates and distributes electrical power and provides food for residents of DC. TDCCK was formally established through a legislative act as of October 1, 1981. Prior to that date, utility services were provided by the Department of Public Works. The separate power authority was established to provide better accountability for the Utility's operations and cost of service. Effective October 1, 1988, the water utility and wastewater divisions of the Department of Public Works of ASG were transferred by Executive Order to TDCCK. This transfer was later approved into law in 1991. In 1995, the division of ASG was transferred by Executive Order to TDCCK. Only the transactions of TDCCK are included within the scope of the Uniform Guidance audit (the “Single Audit”).

### Note 2 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (“Schedule”) includes the federal grant activity of the Utility under programs of the federal government for the year ended September 30, 2020. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Utility receives both direct awards and pass through awards from the Government. Because the schedule presents only a selected portion of the operations of the Utility, it is not intended to and does not present the financial position, changes in net position or cash flows of the Utility.

### Note 3 – Summary of Significant Accounting Policies

Expenditures reported on the Schedule of Expenditures of Federal Awards are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Expenditures reported include any property or equipment acquisitions incurred under federal programs. Pass-through entity identifying numbers are presented where available.

TDCCK did not elect to use the 10 percent de minimis cost rate for overhead allocation.

## Section I – Summary of Auditor's Results

### Financial Statements

Type of auditor's report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weaknesses identified? ☐ Yes ☒ No
- Significant deficiencies identified? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

### Federal Awards

Internal control over major federal programs:

- Material weaknesses identified? ☐ Yes ☒ No
- Significant deficiencies identified? ☐ Yes ☒ None reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

☐ Yes ☒ No

### Identification of Federal Major Programs and Type of Auditor's Report Issued on Compliance for Major Federal Programs

| *CFDA Numbers* | *Name of Federal Program or Cluster* | *Type of Auditor's Report Issued* |
|---|---|---|
| 21.019 | Coronavirus Relief Funds | Unmodified |
| 66.600 | Environmental Protection Agency – Consolidated Grants for the Insular Areas – Program Support | Unmodified |

Dollar threshold used to distinguish between type A and type B programs: $750,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

# The DC Central Kitchen Inc
## Schedule of Findings and Questioned Costs
## Year Ended September 30, 2020

### Section II – Financial Statement Findings

No matters were reported.

### Section III – Federal Award Findings and Questions Costs

No matters were reported.

**Finding 2019–001 – Financial Statement Close Process – Cash Reconciliations (Material Weakness in Internal Controls over Financial Reporting)**

*Criteria* – A well established and documented monthly and annual close process serves to detect errors and prevent them from accumulating within a particular period. The strength of this process also helps to ensure that the monthly and annual financial information reported to management and the Board of Directors, from which key decisions are made, is as meaningful and reliable as possible.

*Condition* – During the year and at year end, cash reconciliation processes were not completed in a timely manner.

*Cause* – Though formal processes were being established during the year, turn-over of key positions within the Utility created significant delays in the cash reconciliation and approval of cash reconciliation processes.

*Effect* – Management made significant adjustments after year-end to many account balances once reconciliations were completed and reviewed.

*Recommendation*: We recommend that management establish a well-designed and efficient annual and month-end closing process with regards to cash reconciliations that would entail timely preparation and review of these reconciliations between the general ledger and sub-ledgers for significant cash accounts.

*Views of responsible officials:* Management has filled key accounting positions within the Utility and continues to enhance policies and procedures to ensure timely reconciliation and review of cash occurs.

**Status of Finding**: This prior year audit finding was resolved as cash reconciliations were completed in a timely manner.

REPORT OF INDEPENDENT AUDITORS AND COMBINED FINANCIAL STATEMENTS WITH REQUIRED SUPPLEMENTARY INFORMATION

**The DC Central Kitchen Inc**

September 30, 2022 and 2021

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# Report of Independent Auditors

To the Board of Directors
The DC Central Kitchen Inc

## Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of the The DC Central Kitchen Inc ("TDCCK", or the "Utility"), which collectively comprise the combined statements of net position as of September 30, 2020 and 2019, and the related combined statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the combined financial statements.

### *Management's Responsibility for the Combined Financial Statements*

Management is responsible for the preparation and fair presentation of these combined 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 the combined 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 combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the respective financial position of The DC Central Kitchen Inc as of September 30, 2020 and 2019, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Emphasis of Matter*

As discussed in Note 1, the combined financial statements present only the Utility, and do not present the financial position of The DC Central Kitchen, as of September 30, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### *Other Matters*

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis, the Utility's schedule of proportional share of the net pension liability, and the schedule of pension contributions on pages 35 and 36 be presented to supplement the combined financial statements. Such information, although not a part of the combined financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the combined financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the combined financial statements, and other knowledge we obtained during our audit of the combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2021 2021, on our consideration of The DC Central Kitchen internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the DC Central Kichen's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utility's internal control over financial reporting and compliance.

Portland, Oregon
March 26, 2021

On behalf of the The DC Central Kitchen Inc ("TDCCK"), management presents its combined financial statements, narrative overview and analysis of the financial activities of TDCCK for the fiscal years ended September 30, 2020 and 2019. The information contained herein is based on current known facts, decisions and other conditions that have materially affected TDCCK during these reporting periods. It is designed to provide the reader with a summary of the past two years of activities as well as our anticipated projects. We encourage readers to consider the combined financial statements presented here in conjunction with the accompanying notes that follow this report.

**Financial Highlights**

- Total assets increased by $9.1 million in fiscal year 2020. During the year, Electric division completed and closed out projects worth of $8.6 million. These projects include Cummings generator sets, Ottoville Underground Project, and vehicles and equipment purchased during the fiscal year. The equipment and vehicles purchased include bucket trucks, forklifts, cargo vans and transportation vehicles. TDCCK is in the process of replacing old vehicles and equipment to reduce repair and maintenance costs during the year.
  Water division purchased a drill rig for well drilling. These new wells will supply more water to areas with low pressure. TDCCK plans to replace old pipes within the water distribution system to reduce water loss and lifting boil water notice.
  Solidwaste division purchased two front loader trucks to assist with the trash collection when contractors are unable to collect due to their equipment breakdown.

- Total local operating revenues decreased by $4.6 million from the previous year, mainly due to the drop in fuel prices, which averaged $2.55 per gallon as well as a decrease in sales to customers primarily due to rate decreases. However, during the year, volume of loads delivered to landfill showed an increase in tipping fee revenues of $273 thousand dollars in FY2020. In addition, TDCCK continues online debit meter power purchasing allowing customers to buy power from local stores.

- TDCCK's overall local operating expenses in FY2020 excluding fuel oil expense increase slightly by$664 thousand dollars over FY2019. This increase was attributed to the increase in Electric and Pension of $2.3 million, which were offset by a decrease in Water, Wastewater, Solidwaste, and Depreciation, of $1.4 million.
- Net income before capital grants was $1.5 million in FY2020 compared to a of $474 thousand in FY2019

- Federal capital grants of $12.2 million were recorded for USEPA-funded projects, FEMA Projects and DOI funded projects for the year ended September 30, 2020.

### Overview of the Combined Financial Statements

The Annual Audit Report includes the Independent Auditor's Report, Management's Discussion and Analysis ("MD&A"), Combined Financial Statements with accompanying notes and disclosures, and required supplementary information.

The financial statements of TDCCK are designed to provide readers with an accurate overview of the Utility's finances similar to a private-sector business. They have been prepared using the accrual basis of accounting in accordance with Generally Accepted Accounting Principles ("GAAP") in the United States of America. Under this basis of accounting, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred, regardless of the timing of related cash flows. These statements offer short and long-term financial information about TDCCK's activities.

The Combined Statement of Net Position presents information on all of TDCCK's assets, deferred outflows of resources, liabilities and deferred inflows of resources and information about the nature and amounts of investments in resources (assets) and the obligations to TDCCK creditors (liabilities). It also provides the basis for computing rate of return, evaluating its capital structure and assessing the liquidity and financial flexibility of TDCCK.

The Combined Statement of Revenues, Expenses and Changes in Net Position presents information on all of the current year's revenues and expenses. It also provides a measurement of TDCCK's operations over the past year and can be used to determine whether TDCCK has successfully recovered all its costs through its rates and other charges and to also analyze profitability and credit worthiness.

The Combined Statement of Cash Flows provides relevant information about TDCCK's cash receipts and cash payments during the reporting period. This statement reports cash receipts and cash payments resulting from operating, financing and investing activities. When used with related disclosures and information, a statement of cash flows should provide insight into (a) TDCCK's ability to generate future net cash flows, (b) TDCCK's ability to meet its obligations as they come due, (c) TDCCK's needs for external financing, (d) the reasons for differences between operating income and associated cash receipts and payments and (e) the effects on TDCCK's financial position of both its cash and its non-cash investing, capital and financing transactions during the period. The changes in cash balances are an important indicator of TDCCK's liquidity and financial condition.

The Combined notes to financial statements provide additional information essential to a full understanding of the data provided in the financial statements. This includes, but is not limited to, significant accounting policies, significant financial statement balances and activities, material risks, commitments and obligations and subsequent events as applicable.

**CONDENSED STATEMENTS OF NET POSITION:**

| | 2020 | 2019 |
|---|---|---|
| ASSETS | | |
| Unrestricted current assets | $ 24,350,073 | $ 20,270,013 |
| Restricted current assets | 1,747,581 | 4,187,788 |
| Utility plant, net | 200,170,627 | 192,667,529 |
| Deferred outflows of resources from pension | 9,785,800 | 7,088,609 |
| Total assets and deferred outflows of resources | $ 236,054,081 | $ 224,213,939 |
| NET POSITION AND LIABILITIES | | |
| Liabilities and deferred inflows: | | |
| Current liabilities | $ 10,504,847 | $ 16,661,204 |
| Long-term debt, net of current portion | 384,526 | 396,884 |
| Accrued annual leave, net of current portion | 618,783 | 728,169 |
| Net pension liability | 18,463,755 | 13,263,667 |
| Deferred inflows of resources from pension | 6,935,907 | 7,721,894 |
| Total liabilities and deferred inflows of resources | 36,907,818 | 38,771,818 |
| Net position: | | |
| Net investment in utility plant | 196,245,094 | 185,375,229 |
| Restricted | 1,747,581 | 4,187,788 |
| Unrestricted | 1,153,588 | (4,120,896) |
| Total net position | 199,146,263 | 185,442,121 |
| Total net position, deferred inflows of resources, and liabilities | $ 236,054,081 | $ 224,213,939 |

Unrestricted current assets increased by $4.0 million. Unrestricted current assets are those assets that mature in less than a year. The change is primarily due to an increase in cash and cash equivalents of $6.8 million offset by decreases in accounts receivable of $900 thousand, materials and supplies of $800 thousand and prepaid expenses and other assets of $900 thousand.

Restricted current assets are those amounts required to be maintained in revenue bond fund accounts, set aside in accordance with the terms of U.S. Department of Interior capital grant agreements, other federal grant receivables, and deposits into the employee supplementary income plan. For FY2020, TDCCK realized a decrease in restricted assets of $2.4 million which is due to a decrease of federal grants receivable due to timing.

The utility plant continued to be the largest asset and accounted for 85% of total assets and deferred outflow of resources. These capital assets are used to provide services to our customers and are not available for future spending, nor used to liquidate any liabilities. Refer to the notes to the combined financial statements for additional details regarding movements in utility plant.

Current liabilities are those debts payable within one year. The Current Ratio increased from 1.40 in FY2019 to 2.39 in FY2020. Decrease in current liabilities are primarily due to a decrease in notes payable of $993 thousand, accounts payable of $2.7 million, current portion of long-term debt of $3.4 million, offset by an increase in accrued expenses of $909 thousand. Accounts payable decrease is due to an effort to bring payables current, a decrease in accrued expenses primarily due to changes made to the vacation policies and an increase in long-term debt due to current maturities. TDCCK's net position increased to $199.1 million in FY2020 compared to $185.4 million in FY2019.

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

| | 2020 | 2019 |
|---|---|---|
| OPERATING REVENUES - LOCAL | | |
| Electric | $ 46,959,407 | $ 52,246,721 |
| Water | 8,741,350 | 8,581,052 |
| Sewer | 4,114,813 | 3,868,333 |
| Solid waste | 2,984,271 | 2,988,023 |
| Other sales | 2,821,692 | 2,548,496 |
| Total operating revenues – local | 65,621,533 | 70,232,625 |
| Bad debt recovery (expense) | 319,845 | (275,473) |
| Net operating revenue – local | 65,941,378 | 69,957,152 |
| Operating grants revenues – federal | 3,090,104 | 46,244 |
| OPERATING EXPENSES – LOCAL | | |
| Fuel oil | 27,670,444 | 30,508,028 |
| Operating and maintenance: | | |
| Power production | 6,547,385 | 4,991,288 |
| Power transmission and distribution | 2,290,761 | 1,968,195 |
| Engineering services | 1,724,234 | 1,655,224 |
| Water, wastewater and solid waste | 10,963,602 | 11,639,295 |
| Pension expense | 1,561,544 | 2,074,630 |
| Depreciation | 9,052,401 | 9,777,705 |
| General and administrative | 7,111,298 | 6,481,314 |
| Total cost and operating expenses – local | 66,921,669 | 69,095,679 |
| OPERATING EXPENSES – FEDERAL | 38,316 | 61,438 |
| Net operating loss | 2,071,497 | 846,279 |
| NON OPERATING REVENUE (EXPENSES) | | |
| Interest and other income | 19,493 | 613,902 |
| Interest expense | (515,375) | (985,956) |
| Non operating expenses | (495,882) | (372,054) |
| Income (loss) before capital grants | 1,575,615 | 474,225 |
| FEDERAL CAPITAL GRANTS | 12,128,527 | 16,939,295 |
| Net change in net position | 13,704,142 | 17,413,520 |
| NET POSITION, beginning of year | 185,442,121 | 168,028,601 |
| NET POSITION, end of year | $ 199,146,263 | $ 185,442,121 |

The statement of revenues, expenses and changes in net position provides information as to the nature and source of these changes. Aggregate operating revenues increased in FY2020 compared to FY2019. A majority of the increase is attributed to the decrease in fuel expense as a result of the decrease in fuel prices during FY2020.

**Three year comparison of financial ratios**

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Net position | $ 199,146,263 | $ 185,442,121 | $ 168,028,601 |
| Total assets | $ 226,268,281 | $ 217,125,330 | $ 209,420,560 |
| Equity level | 88.01% | 85.41% | 80.24% |

**WORKING CAPITAL:**
The amount of current assets in excess of current liabilities.

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Current assets (unrestricted) | $ 24,350,073 | $ 20,270,013 | $ 23,669,612 |
| Current liabilities | $ 10,504,847 | $ 16,661,204 | $ 21,587,354 |
| Working capital | $ 13,845,226 | $ 3,608,809 | $ 2,082,258 |

**CURRENT RATIO:**
Current assets compared to current liabilities.

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Current assets (unrestricted) | $ 24,350,073 | $ 20,270,013 | $ 23,669,612 |
| Current liabilities | $ 10,504,847 | $ 16,661,204 | $ 21,587,354 |
| Current ratio | 2.32 | 1.22 | 1.10 |

**RATE OF RETURN:**
Change in net position as a percentage of net utility plant.

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Change in net position | $ 13,704,142 | $ 17,413,520 | $ 4,108,348 |
| Net utility plant | $ 200,170,627 | $ 192,667,529 | $ 184,720,193 |
| Rate of return | 6.85% | 9.04% | 2.22% |

**PROGRAM ACCOMPLISHMENTS**

TDCCK had several achievements in fiscal year 2020 of significant value to the community. The TDCCK Board of Directors and Management have been working hard to reassess TDCCK's organizational structure and continually implement ways to improve TDCCK's utility services. TDCCK's large scale renewable energy projects slowed down significantly in FY 2020 due to the pandemic. The boarder shutdown prevented investors from carrying out geotechnical, detail site investigations and due diligence work. TDCCK completed several projects of significant value to the community in FY 2020; some of which are included as follows:

## FY-2020 PROJECTS.

## Electric Projects

| | |
|---|---|
| **3 x 3MW Cummins Generator Sets** | TDCCK successfully installed and commissioned three 3.0MW QSK95 Cummins diesel generator sets in FY-2020. The Cummins generator sets will replace lower efficiency 3516 Caterpillar units and improve the overall fuel efficiency of the Tafuna plant from 13KWh/ gal to 15KWh/ gallon; a 15% improvement. Total project cost was $4.5 million. |
| **Tafuna Power Plant 13.2KV Switchgear** | TDCCK replaced the main 13.2KV Switchgear at Tafuna power plant with a new ABB vacuum switchgear system. The obsolete magna-blast circuit breaker system that was installed in 1972 was unsafe for continued operation. The new ABB switchgear was valued at $1.5 million. |
| **2 x 3.5MW GE Generator Sets** | TDCCK purchased two 3.5MW GE generators for its Tafuna plant in FY-2020. TDCCK purchased two 3.5MW GE generators for its Tafuna plant in FY-2020. undergoing installation by TDCCK engineers and technicians. The GE units have a fuel efficiency of 16 KWh / gallon and identical to the seven units commissioned at Satala power plant in 2017. Total project cost was $3 million. |
| **20 MW Solar PV Project - Power Purchase Agreement (PPA)** | Current Status – Canadian Solar is selling the 20 MW Solar PV project to Prometheus Power Investments and C2 Energy Capital. Expected Commercial Operation Date (COD) for Phase -1 is June 2022. Land for the Phase -2 for a second 10 MW has been surveyed and lease agreements are in the negotiation phase. |

| | |
|---|---|
| **42 MW Wind Generation Power Purchase Agreement (PPA)** | The 42 MW Wind Project was assigned to RAYKON RENEWABLE ENERGY. TDCCK and RAKON are working with two investors to complete their due diligence work.<br>Projected wind generation was calculated at 101,200,000 kWh per year, which represents 63% of TDCCK's annual energy production.<br>When commissioned, the 20MW Solar PV and the 42 MW Wind Generation projects will generate 121,500,000 kWh per year or 82% of energy needs. |
| **Waste to Energy Project – Power Purchase Agreement (PPA)** | The Waste to Energy (WtE) Project was awarded to Maritech in FY-2020. TDCCK is also evaluating a lower cost option to build and operate its own WTE plant. Maritech's proposal called for a 2.1 MWe plant with the daily average feedstock of 80 tons. The plant is estimated to produce 14,600 MWh of energy annually. Investment costs was estimated at $31,500,000. The commercial operation date is 24 months from the signing of the PPA. The proposed Power Purchase Rate is 14 cents per kWh. |
| **Waste Oil to Diesel Fuel Distillation Plant** | Small Scale Waste Oil to Diesel Fuel Distillation - $1,000,000<br>TDCCK was awarded a US Department of the Interior grant of $700,000 for a small scale distillation plant in Futiga. TDCCK will provide $300,000 for the project. The distillation plant will process waste oil All waste oil will be processed to diesel fuel. |
| **Aunu'u PV Project** | Aunu'u Renewable Energy – Solar PV with Battery Storage.<br>TDCCK was awarded a US Department of the Interior grant of $1,247,000 for the project. The project involves the installation of 430 kW of Solar PV panels and 1,500 kWh of battery storage. |

## Water & Wastewater Projects:

| | |
|---|---|
| **Lift Station Upgrades** | Completed Lift Station Upgrade Project consist the purchase and installation of magnetic flow meters for nineteen (19) existing lift stations and Variable Frequency Drives (VFD) for three (3) major lift stations; Hospital, Papa and Airport Lift Station. This project is USEPA funded. Total project cost was $700,000. |
| **Replacement of Upper Amouli Tank** | Completed the demolition of old tank and the installation of new glass fused Bolted-Steel 320,000 gallon water storage tank. This project is USEPA funded. Total project cost was $1,300,000. |
| **Well Exploration Project (Drilling)** | Completed the drilling of 9 new wells. It also includes the purchase of a Drill Rig ($900,000). This project is USEPA funded. Total project cost was $2,300,000. |
| **Upper Water System** | Completed the installation of one 100,000 gallons water storage tank at the Pass, a pumping station and facilities at Vaipito to pump water up to the Pass, a pipeline distribution system to the Fagasa side and a transmission line side to fill the tank. This project is USEPA funded. Total project cost was $1,800,000. |

## Solid Waste Projects:

**DOI Funded Projects**

| | |
|---|---|
| **Solid Waste Bins** | TDCCK SW received a total of 100 new 6 -cubic yards and 50 new 4-cubic yards steel bins. Total cost was $246,000. |
| **TDCCK Heavy Equipment Replacement** | Received Authorization letter on March 25th 2020 from DOI to purchase TDCCK Heavy Equipment in the amount of $1,000,000. TDCCK is awaiting delivery of two new 24 Ton Excavators and a landfill compactor that were ordered in FY-2020. |
| **Landfill Expansion Project** | TDCCK was awarded a DOI grant in the amount of $600,000 for landfill expansion works. A contract to build a concrete road to the landfill was also awarded in FY-2020. |
| **Front End Loaders Equipment** | TDCCK received an order for two new FEL garbage trucks in FY-2020; Total cost was $612,000. |

**REQUEST FOR INFORMATION**

Any requests for additional information in regards to this report may be addressed to The DC Central Kitchen Inc, Chief Financial Officer, P.O. Box 20006

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# The DC Central Kitchen Inc
## Combined Statements of Net Position

### ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

| | September 30, 2020 | September 30, 2019 |
|---|---|---|
| DEPRECIABLE UTILITY PLANT, net | $ 140,010,559 | $ 138,093,476 |
| NONDEPRECIABLE UTILITY PLANT | 60,160,068 | 54,574,053 |
| Utility plant, net | 200,170,627 | 192,667,529 |
| RESTRICTED CASH AND CASH EQUIVALENTS | 1,034,022 | 1,058,153 |
| CURRENT ASSETS | | |
| Cash and cash equivalents | 9,747,695 | 2,914,728 |
| Accounts receivable, net of allowance for doubtful accounts of $1,170,473 and $1,607,348 at September 30, 2020 and 2019, respectively | 3,559,544 | 4,528,088 |
| Unbilled revenues | 1,943,642 | 2,036,276 |
| Other accounts receivable, net of allowance for doubtful accounts of $0 at September 30, 2020 and 2019 | 826,884 | 753,517 |
| Materials, supplies, and fuel | 7,173,426 | 8,001,644 |
| Prepaid expenses and other assets | 1,098,882 | 2,035,760 |
| Total unrestricted current assets | 24,350,073 | 20,270,013 |
| RESTRICTED CURRENT ASSETS | | |
| Cash and cash equivalents – grant and bond reserves | 233,553 | 233,553 |
| Federal grants receivable | 480,006 | 2,896,082 |
| Total restricted current assets | 713,559 | 3,129,635 |
| Total current assets | 25,063,632 | 23,399,648 |
| Total assets | 226,268,281 | 217,125,330 |
| DEFERRED OUTFLOWS OF RESOURCES FROM PENSION | 9,785,800 | 7,088,609 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | $ 236,054,081 | $ 224,213,939 |



See accompanying notes.

**NET POSITION, DEFERRED INFLOW OF RESOURCES, AND LIABILITIES**

| | September 30, 2020 | September 30, 2019 |
|---|---|---|
| NET POSITION | | |
| Net investment in utility plant | $ 196,245,094 | $ 185,375,229 |
| Restricted | 1,747,581 | 4,187,788 |
| Unrestricted | 1,153,588 | (4,120,896) |
| Total net position | 199,146,263 | 185,442,121 |
| COMMITMENTS AND CONTINGENCIES | | |
| CURRENT LIABILITIES | | |
| Notes payable | 1,258,294 | 2,251,136 |
| Current portion of long-term debt | 3,541,007 | 6,895,416 |
| Accounts payable | 1,148,581 | 3,866,275 |
| Accrued leave | 1,035,646 | 898,065 |
| Accrued expenses | 3,521,319 | 2,750,312 |
| Total current liabilities | 10,504,847 | 16,661,204 |
| ACCRUED ANNUAL LEAVE, net of current portion | 618,783 | 728,169 |
| LONG-TERM DEBT, net of current portion | 384,526 | 396,884 |
| NET PENSION LIABILITY | 18,463,755 | 13,263,667 |
| Total liabilities | 29,971,911 | 31,049,924 |
| DEFERRED INFLOWS OF RESOURCES FROM PENSION | 6,935,907 | 7,721,894 |
| Total net position, deferred inflows of resources, and liabilities | $ 236,054,081 | $ 224,213,939 |

See accompanying notes.

# The DC Central Kitchen Inc

## Combined Statements of Revenues, Expenses, and Changes in Net Position

| | Years Ended September 30, 2020 | Years Ended September 30, 2019 |
|---|---|---|
| OPERATING REVENUES – LOCAL | | |
| Electricity sales | $ 46,959,407 | $ 52,246,721 |
| Water sales | 8,741,350 | 8,581,052 |
| Wastewater sales | 4,114,813 | 3,868,333 |
| Solidwaste sales | 2,984,271 | 2,988,023 |
| Other sales | 2,821,692 | 2,548,496 |
| Total operating revenues – local | 65,621,533 | 70,232,625 |
| Bad debt recovery (expense) | 319,845 | (275,473) |
| Net operating revenues – local | 65,941,378 | 69,957,152 |
| OPERATING GRANTS REVENUES – FEDERAL | 3,090,104 | 46,244 |
| OPERATING EXPENSES – LOCAL | | |
| Fuel oil | 27,670,444 | 30,508,028 |
| Operating and maintenance | | |
| Power production | 6,547,385 | 4,991,288 |
| Power transmission and distribution | 2,290,761 | 1,968,195 |
| Engineering services | 1,724,234 | 1,655,224 |
| Water, wastewater and solid waste | 10,963,602 | 11,639,295 |
| Pension expense | 1,561,544 | 2,074,630 |
| Depreciation | 9,052,401 | 9,777,705 |
| General and administrative | 7,111,298 | 6,481,314 |
| Total cost and operating expenses – local | 66,921,669 | 69,095,679 |
| OPERATING EXPENSES – FEDERAL | 38,316 | 61,438 |
| Net operating income | 2,071,497 | 846,279 |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest and other income | 19,493 | 613,902 |
| Interest expense | (515,375) | (985,956) |
| Net nonoperating revenues (expenses) | (495,882) | (372,054) |
| Income before capital grants | 1,575,615 | 474,225 |
| FEDERAL CAPITAL GRANTS | 12,128,527 | 16,939,295 |
| Change in net position | 13,704,142 | 17,413,520 |
| NET POSITION, beginning of year | 185,442,121 | 168,028,601 |
| NET POSITION, end of year | $ 199,146,263 | $ 185,442,121 |



See accompanying notes.

## Combined Statements of Cash Flows

| | Years Ended September 30, 2020 | Years Ended September 30, 2019 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from customers | $ 66,946,514 | $ 70,952,952 |
| Cash payments to suppliers for goods and services | (46,858,540) | (56,116,405) |
| Cash paid to employees | (9,464,539) | (9,527,199) |
| Operating grants received (used in) | 3,051,788 | (15,194) |
| Net cash provided by operating activities | 13,675,223 | 5,294,154 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest and other income | 19,493 | 613,902 |
| Net cash provided by investing activities | 19,493 | 613,902 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Additions to utility plant and construction work in progress | (16,555,499) | (17,725,043) |
| Federal grants received | 14,544,603 | 17,257,926 |
| Repayment of long-term debt | (3,366,767) | (3,136,264) |
| Net draws and paydown of line of credit | (992,842) | (703,085) |
| interest payments | (515,375) | (985,956) |
| Net cash used in capital and related financing activities | (6,885,880) | (5,292,422) |
| Net increase in cash and cash equivalents | 6,808,836 | 615,634 |
| CASH AND CASH EQUIVALENTS, beginning of year | 4,206,434 | 3,590,800 |
| CASH AND CASH EQUIVALENTS, end of year | $ 11,015,270 | $ 4,206,434 |
| RECONCILIATION OF NET OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | |
| Net operating income | $ 2,071,497 | $ 846,279 |
| Adjustments to reconcile net operating loss to net cash provided by operating activities: | | |
| Depreciation | 9,052,401 | 9,777,705 |
| Bad debt (recovery) expense | (319,845) | 275,473 |
| Pension related items | 1,716,910 | 2,074,630 |
| (Increase) decrease in assets: | | |
| Accounts receivable | 1,288,389 | 960,748 |
| Unbilled revenue | 92,634 | (50,761) |
| Other accounts receivable | (73,367) | (194,885) |
| Materials, supplies, and fuel | 828,218 | (547,881) |
| Prepaid expenses and other assets | 936,878 | 96,877 |
| Increase (decrease) in liabilities: | | |
| Accounts payable | (2,717,694) | (4,395,371) |
| Accrued expenses | 799,202 | (3,548,660) |
| Net cash provided by operating activities | $ 13,675,223 | $ 5,294,154 |

See accompanying notes.

### Note 1 – Organization and Summary of Significant Accounting Policies

**Organization** – The The DC Central Kitchen Inc. TDCCK generates and distributes electrical power and provides water, wastewater and solid waste services for DC. TDCCK was formally established through a legislative act by the Government (ASG) as of October 1, 1981. Prior to that date, utility services were provided by ASG's Department of Public Works. The separate power authority was established to provide better accountability for the utility's operations and cost of service. Effective October 1, 1988, the water utility and wastewater divisions of the Department of Public Works of ASG were transferred by Executive Order to TDCCK. This transfer was later approved into law in 1991. In 1995, the solidwaste division of ASG was transferred by Executive Order to TDCCK is governed by a five-member Board of Directors appointed by the Governor and confirmed by the Fono, the ASG legislative branch. The first three members serve four-year staggered terms, and the fourth and fifth members serve four-year concurrent terms. All rates charged by TDCCK are developed and promulgated in accordance with ASG Administrative Procedure Act 4.1001 and the Public Utility Regulatory Policies Act.

The combined financial statements of TDCCK include the electric, water, wastewater and solid waste divisions of TDCCK is not financially accountable for any other governmental entity.

**Basis of accounting** – TDCCK uses the flow of economic resources measurement focus. The combined financial statements of TDCCK are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental entities using the accrual basis of accounting. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**Net position** – Net position represents the residual interest in TDCCK's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted and consist of three sections: net investment in utility plant, restricted, and unrestricted. Net investment in utility plant includes capital assets, restricted and unrestricted, net of accumulated depreciation, reduced by outstanding capital debt net of debt service reserve. Net position is reported as restricted when constraints are imposed by third parties or enabling legislation. The accounts making up the restricted net position are the amounts required to be maintained in revenue bond fund accounts and amounts set aside in accordance with the terms of U.S. Department of the Interior capital grant agreements. All of TDCCK's restricted net position is expendable. All other net position is unrestricted.

**Accounting estimates** – The preparation of the combined 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 and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Note 1 – Organization and Summary of Significant Accounting Policies (continued)**

**Utility plant** – The utility plant of the electric division acquired prior to October 1, 1981, is recorded at ASG's carrying value at September 30, 1981, the date of transfer. The assets of the water and wastewater divisions were transferred to TDCCK at ASG's original cost less depreciation as of October 1, 1988. The plant assets of the solid waste division were transferred to TDCCK at ASG's original cost less accumulated depreciation in 1995. Acquisition and construction of the electric utility plant subsequent to October 1, 1981, the water and wastewater utility plants subsequent to October 1, 1988, and the solid waste utility plant subsequent to 1995 are recorded at cost. These costs include payroll and certain general and administrative costs associated with the construction activity. TDCCK capitalizes plant acquisitions with original costs in excess of $1,000.

**Depreciation** – Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets (3–40 years).

**Materials, Supplies and Fuel valuation** – Materials and supplies inventories and fuel inventories are stated at the lower of cost (using the average method) or market.

**Cash and cash equivalents** – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Restricted cash and cash equivalents are separately classified in the statements of net position.

**Accounts receivable and allowance for doubtful accounts** – TDCCK grants credit to companies, individuals and governmental agencies in DC on an unsecured basis. The allowance for doubtful accounts is established through a provision charged to expense. Accounts are charged against the allowance when management believes that the collection of the balance is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing balances that may be uncollectible based on evaluations of collectability and prior loss experience.

**Compensated absences** – Employees accrue annual leave at various rates between four to ten hours per bi-weekly pay period depending on years of service. Contract employees' annual leave varies based on the terms of the contract. Employees are not permitted to carry over more than 480 hours of annual leave from year to year. Exceptions to this limitation policy may be granted. Career service and contract employees accrue four hours of sick leave per bi-weekly pay period. Employees may accrue unlimited hours of sick leave. Employees terminated for reasons other than retirement, employees who are medically separated and employees who retire with maximum service credit of 30 years are entitled to compensation for unused accrued sick leave in excess of 239 hours at separation of service.

**Note 1 – Organization and Summary of Significant Accounting Policies (continued)**

**Pensions** – Pensions are required to be recognized and disclosed using the accrual basis of accounting. TDCCK recognizes a net pension liability for the contributory defined benefit retirement plan in which it participates, which represents TDCCK's proportional share of excess total pension liability over the pension plan assets – actuarially calculated – of a cost-sharing, multiple employer, contributory defined benefit retirement plan, measured one year prior to the fiscal year-end and rolled forward. Changes in the net pension liability during the period are recorded as pension expense or as deferred inflows of resources or deferred outflows of resources, depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the average remaining service life of all employees provided with benefits through the pension plan (active and inactive) and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and are amortized as a component of pension expense over 5 years beginning with the period in which the difference occurred.

**Deferred outflows of resources** – Deferred outflows of resources represent consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that future time.

**Deferred inflows of resources** – Deferred inflows of resources represent an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

**Revenue recognition** – Sales of electricity and water are recorded as billed to customers on a monthly billing cycle basis. For electricity billings, TDCCK factors a variable fuel surcharge into its monthly billings to recover the variable costs of fuel. Unbilled revenue represents an estimate of earned but unbilled revenues based on individual customer consumption patterns applied to the number of days of consumption between the most recent meter reading date and the end of the reporting period. At September 30, 2020, unbilled revenues are accrued based on the most recent billing cycles. Sewer is billed to commercial customers for water volume usage. Solid waste is charged a different rate by commercial and residential customers on a monthly basis depending on usage.

**Operating and non-operating revenues and expenses** – TDCCK considers revenues and costs that are directly related to utility operations to be operating revenues and expenses. Federal grant revenues utilized in operations are also classified as operating revenues. Revenues and expenses related to financing, investing and other activities are reflected as non-operating.

**Note 1 – Organization and Summary of Significant Accounting Policies (continued)**

**Operating leases** – TDCCK maintains operating leases with several landowners for well sites and pumping station sites. These leases are for terms of up to 50 years and have various expiration dates through 2040. Many of the leases are prepaid in five-to-ten year increments. Such prepayments have been included in prepaid expenses. Prepayments are discounted, and discounts are amortized on a straight-line basis over the period of prepayment. The rents payable are based on price per square foot, which, in previous years, has increased by 5% every fifth year. Many of the leases are renewable at their expiration. These renewal options allow TDCCK to retain use of the productive wells and pumping station sites. Management expects that in the normal course of business, leases for productive wells will be renewed or replaced by new leases.

**Workers' compensation** – TDCCK participates in the ASG internal service fund covering workers' compensation. TDCCK pays an annual premium to the ASG internal service fund for coverage of all workers' compensation claims. The internal service fund is self-insured against all claims. Accordingly, TDCCK does not recognize workers' compensation liabilities. Workers' compensation premiums paid to ASG were $111,284 and $93,961 for the years ended September 30, 2020 and 2019, respectively.

**Income taxes** – TDCCK is not subject to federal or local taxes on income or revenues.

**Reclassification** – Certain account reclassifications and adjustments have been made to the financial statements of the prior year in order to conform to the current year presentation. These reclassifications have no effect on previously reported combined statements of revenue, expenses and changes in net position or combined statements of net position.

**Note 2 – Deposits**

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, disclosure is required for investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 40 also requires disclosure of formal policies related to deposit and investment risks.

GASB Statement No. 40 requires disclosures for deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that, in the event of a bank failure, TDCCK's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. TDCCK does not have a deposit policy for custodial credit risk.

**Cash equivalents** – TDCCK does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk. TDCCK has not experienced any losses on such accounts and management believes it is not exposed to any significant credit risk on its deposits.

### Note 3 – Risk Management

TDCCK is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. At September 30, 2020 and 2019, TDCCK carried life insurance on behalf of its employees, directors and officers, and maintained a comprehensive business policy and general liability insurance. TDCCK also participates in ASG's self-insurance pool for workers' compensation claims, where TDCCK pays ASG 1.05% of gross payroll for workers' compensation coverage. TDCCK had no claims settlements in excess of coverage for the years ended September 30, 2020 and 2019.

Another potential area of risk relates to the price of fuel. TDCCK has incorporated a fuel factor in the billing rate that is adjusted monthly based on actual fuel costs to mitigate the possibility of substantial losses or windfalls due to the varying cost of fuel.

### Note 4 – Natural Disaster Damages

In September 2009, the Territory of DC sustained significant damage as a result of an earthquake and tsunami. TDCCK infrastructure sustained significant damage as a result of these two occurrences, and the destroyed utility plant was written off. A Presidential Federal Disaster Declaration was obtained for destruction recovery with the Federal Emergency Management Agency (FEMA) providing funding through the Government with a percentage (10%) matching share provided by TDCCK. FEMA reimbursements are made on a percentage (90%) basis of submitted allowable costs. As of September 30, 2020 and 2019, TDCCK has outstanding receivables from FEMA for tsunami restoration and other projects of $480,006 and $2,095,406, respectively.

## Note 5 – Utility Plant

A summary of changes in utility plant for the year ended September 30, 2020, is as follows:

| | Beginning Balance October 1, 2019 | Transfers and Additions | Transfers and Deletions | Ending Balance September 30, 2020 |
|---|---|---|---|---|
| Depreciable assets: | | | | |
| Support Services | $ 214,042 | $ 38,081 | $ - | $ 252,123 |
| Electric operations | 160,461,860 | 8,235,497 | (7,983,154) | 160,714,203 |
| Water operating facilities | 56,703,503 | 1,720,257 | (168,130) | 58,255,630 |
| Wastewater operating facilities | 77,078,844 | 84,577 | (90,590) | 77,072,831 |
| Solidwaste operating facilities | 4,779,057 | 852,252 | (24,000) | 5,607,309 |
| Total utility plant in service | 299,237,306 | 10,930,664 | (8,265,874) | 301,902,096 |
| Less accumulated depreciation | (161,143,830) | (9,052,401) | 8,304,694 | (161,891,537) |
| Total depreciable assets, net | 138,093,476 | 1,878,263 | 38,820 | 140,010,559 |
| Non-depreciable assets: | | | | |
| Construction work-in-progress | 54,482,908 | 14,254,004 | (8,667,989) | 60,068,923 |
| Land | 91,145 | - | - | 91,145 |
| Utility Plant, net | $ 192,667,529 | $ 16,132,267 | $ (8,629,169) | $ 200,170,627 |

A summary of changes in utility plant for the year ended September 30, 2019, is as follows:

| | Beginning Balance October 1, 2018 | Transfers and Additions | Transfers and Deletions | Ending Balance September 30, 2019 |
|---|---|---|---|---|
| Depreciable assets: | | | | |
| Support Services | $ 176,624 | $ 37,418 | $ - | $ 214,042 |
| Electric operations | 161,507,995 | 1,630,935 | (2,677,070) | 160,461,860 |
| Water operating facilities | 56,539,236 | 164,267 | - | 56,703,503 |
| Wastewater operating facilities | 77,034,429 | 44,415 | - | 77,078,844 |
| Solidwaste operating facilities | 4,754,517 | 24,540 | - | 4,779,057 |
| Total utility plant in service | 300,012,801 | 1,901,575 | (2,677,070) | 299,237,306 |
| Less accumulated depreciation | (162,573,751) | (9,777,705) | 11,207,626 | (161,143,830) |
| Total depreciable assets, net | 137,439,050 | (7,876,130) | 8,530,556 | 138,093,476 |
| Non-depreciable assets: | | | | |
| Construction work-in-progress | 34,948,284 | 21,674,804 | (2,140,180) | 54,482,908 |
| Land | 1,076,919 | (985,774) | - | 91,145 |
| Utility Plant, net | $ 173,464,253 | $ 12,812,900 | $ 6,390,376 | $ 192,667,529 |

### Note 6 – Notes Payable and Long-Term Debt

As of September 30, 2020, notes payable consist of a note drawn on a bank line of credit of $3 million for working capital requirements. The total financing package consists of two tranches – a capital expenditure loan of $9.7 million and a $3.6 million working capital term loan. The revolving line of credit will expire on May 31, 2022. Interest is at the bank's prime rate plus 3.00%, secured by all fixed and floating assets .

Changes in notes payable for the year ended September 30, 2020, are as follows:

| | Outstanding October 1, 2019 | Increases | Decreases | Outstanding September 30, 2020 |
|---|---|---|---|---|
| Note to a bank | $ 2,251,136 | $ - | $ (992,842) | $ 1,258,294 |

Changes in notes payable for the year ended September 30, 2019, are as follows:

| | Outstanding October 1, 2018 | Increases | Decreases | Outstanding September 30, 2019 |
|---|---|---|---|---|
| Note to a bank | $ 2,954,221 | $ 518,838 | $ (1,221,923) | $ 2,251,136 |

Long-term debt consists of the following at September 30:

| | 2020 | 2019 |
|---|---|---|
| Loan payable to a bank, original principal of $420,070, payable in monthly installments of $8,318 including interest at bank's prime rate plus 3.75%, fully paid on July 8, 2020, secured by chattel mortgage on the purchased vehicle. | $ - | $ 82,123 |
| Revenue bond purchased by the United States Department of Agriculture, Rural Utilities Services (RUS), original principal of $550,000, payable in monthly installments of $2,497 with interest fixed at 4.5%, due on December 20, 2040. | 396,884 | 408,698 |
| Capital expenditure loan to a bank, original principal of $9,700,000, payable in monthly installments of $191,131 including interest at bank's prime rate plus 3.00% (6.25% at September 30, 2020), due on June 5, 2020, secured by fixed and floating assets excluding Manu'a Islands Solar PV parks. | 3,528,649 | 5,818,721 |

**Note 6 – Notes Payable and Long-Term Debt (continued)**

| | 2020 | 2019 |
|---|---|---|
| Working capital term loan to a bank, original principal of $3,600,000 payable in monthly installments of $111,425 including interest at bank's prime rate plus 3.00% (6.25% at September 30, 2020), due on June 5, 2020, secured by fixed and floating assets excluding Manu'a Islands Solar PV parks. | $ - | $ 982,758 |
| Total long-term debt | 3,925,533 | 7,292,300 |
| Less current portion | 3,541,007 | 6,895,416 |
| Long-term portion of long-term debt | $ 384,526 | $ 396,884 |

Changes in long-term debt for the year ended September 30, 2020, are as follows:

| | Outstanding September 30, 2019 | Increases | Decreases | Outstanding September 30, 2020 | Current |
|---|---|---|---|---|---|
| Loans payable to a bank | $ 82,123 | $ - | $ (82,123) | $ - | $ - |
| Bond payable to RUS | 408,697 | - | (11,814) | 396,883 | 12,357 |
| Loans payable to a bank | 5,818,721 | - | (2,290,071) | 3,528,650 | 3,528,650 |
| Loans payable to a bank | 982,759 | - | (982,759) | - | - |
| | $ 7,292,300 | $ - | $ (3,366,767) | $ 3,925,533 | $ 3,541,007 |

Changes in long-term debt for the year ended September 30, 2019, are as follows:

| | Outstanding September 30, 2018 | Increases | Decreases | Outstanding September 30, 2019 | Current |
|---|---|---|---|---|---|
| Loans payable to a bank | $ 174,466 | $ - | $ (92,343) | $ 82,123 | $ 82,124 |
| Loan payable to RUS | 420,002 | - | (11,305) | 408,697 | 11,812 |
| Loans payable to a bank | 7,629,850 | - | (1,811,129) | 5,818,721 | 5,818,721 |
| Loans payable to a bank | 2,204,246 | - | (1,221,487) | 982,759 | 982,759 |
| | $ 10,428,564 | $ - | $ (3,136,264) | $ 7,292,300 | $ 6,895,416 |

The 2000 RUS water and wastewater revenue bond was issued in December 2000 in the original amount of $550,000 to finance water improvements. The bond resolution requires the establishment of a reserve account into which an amount equal to one-tenth of the annual payments of principal and interest on the bond must be deposited each year. The balance in the reserve account at September 30, 2020 and 2019, was $32,439, respectively. The resolution also requires TDCCK to maintain and collect rates and charges for water supplied and for wastewater collection and disposal services furnished that will be sufficient to pay principal and interest on the bond and normal system costs of maintenance and operation.

### Note 6 – Notes Payable and Long-Term Debt (continued)

Future minimum principal and interest payments on all long-term debt for subsequent years ending September 30 are as follows:

| | | Principal | Interest | Total |
|---|---|---|---|---|
| Years ending September 30, | 2021 | $ 3,541,007 | $ 50,425 | $ 3,591,432 |
| | 2022 | 12,924 | 17,040 | 29,964 |
| | 2023 | 13,518 | 16,446 | 29,964 |
| | 2024 | 14,139 | 15,825 | 29,964 |
| | 2025 | 14,139 | 15,825 | 29,964 |
| | 2026–2030 | 84,780 | 66,040 | 150,820 |
| | 2031–2035 | 106,127 | 43,693 | 149,820 |
| | 2036–2040 | 132,849 | 16,971 | 149,820 |
| | 2041–2043 | 6,050 | 33 | 6,083 |
| | | $ 3,925,533 | $ 242,298 | $ 4,167,831 |

### Note 7 – Noncurrent Liabilities

Changes in noncurrent liabilities for the year ended September 30, 2020, are as follows:

| | Beginning Balance October 1, 2019 | Addition | Reduction | Ending Balance September 30, 2020 | Current |
|---|---|---|---|---|---|
| Accrued annual leave | $ 1,626,234 | $ 28,195 | $ - | $ 1,654,429 | $ 1,035,646 |
| Net pension liability | 13,263,667 | 5,200,088 | - | 18,463,755 | - |
| | $ 14,889,901 | $ 5,228,283 | $ - | $ 20,118,184 | $ 1,035,646 |

Changes in noncurrent liabilities for the year ended September 30, 2019, are as follows:

| | Beginning Balance October 1, 2018 | Addition | Reduction | Ending Balance September 30, 2019 | Current |
|---|---|---|---|---|---|
| Accrued annual leave | $ 1,660,699 | $ - | $ (34,465) | $ 1,626,234 | $ 898,065 |
| Net pension liability | 15,484,803 | - | (2,221,136) | 13,263,667 | - |
| | $ 17,145,502 | $ - | $ (2,255,601) | $ 14,889,901 | $ 898,065 |

**Note 8 – Retirement Fund**

**A. General Information about the Pension Plan:**

**Plan Description:**

TDCCK is one of the sponsoring employers of the Government Employees' Retirement Fund (the Fund). The Fund is a cost sharing, multiple employer, contributory defined benefit retirement fund which was established in 1971 to provide retirement annuities to the employees of ASG. All full-time TDCCK employees, other than contract specialists, are covered by the Fund.

The Fund issues a stand-alone financial report. It may be obtained by writing to the Director, Government Employees' Retirement Fund

Plan Membership:

As of October 1, 2016 (the valuation date), the Fund's membership consisted of the following:

| | |
|---|---|
| Retirees and beneficiaries currently receiving benefits | 1,933 |
| Terminated vested employees not receiving benefits | 69 |
| | 2,002 |
| Active employees: | |
| Vested | 2,001 |
| Nonvested | 2,202 |
| | 4,203 |

**Benefits Provided:**

The Fund's retirement eligibility provisions are as follows:

Normal retirement – Age 65 with five years of service or age 55 with 30 years of service
Early retirement – Age 55 with ten years of service (reduced benefits)
Medical retirement – Member qualifies after five years of service

The annual retirement benefit, payable monthly for life, equals 2% of the highest average annual salary for three consecutive years, multiplied by the number of years of service to a maximum of 30 years (from 10% to 60%, based upon years of service). The minimum annual benefit is $600.

The member's retirement benefit is payable at the member's option in one of the following methods:

A single life annuity
A qualified joint and survivor annuity (actuarially reduced)

**Note 8 – Retirement Fund (continued)**

A surviving spouse of an active member who dies before retirement but after attaining eligibility for retirement may receive either a refund of employee contributions with interest or a life annuity equal to one-half the retirement annuity that would have been paid to the deceased member. An additional lump-sum death benefit of $2,500 to $10,000, based on years of service, is also payable to survivors of active members of the Fund. A lump-sum death benefit of $1,500 is payable to survivors of retired members of the Fund.

**Member and Employer Contributions:**

TDCCK has agreed to contribute amounts, as provided by the Code Annotated Section 7.1433, to the Fund each year at a statutory rate actuarially determined. For the year ended September 30, 2019, the actuarially determined contribution rate was 15.11% of total payroll. TDCCK's approved contribution rate was 8% of employees' regular earnings, excluding overtime.

Each active member of the Fund contributes 3% of regular earnings and earns interest at 1.5% compounded annually. Employee contributions are made through payroll deductions. Employee contributions and the related interest earned are refunded in full to members whose employment is terminated for any reason other than retirement and as a death benefit to the survivors of deceased employees not yet eligible for retirement. Employees are fully vested in the employer portion, payable as a retirement annuity, after ten years of participation in the Fund.

All employee member contributions are used to reduce the normal cost liability before the sponsors' required contribution rate is calculated. Sponsor and member contributions as a percentage of covered payroll are 8% and 3%, respectively, for the year ended September 30, 2019. The calculation of the employer's proportionate share allocation is based on fiscal year 2019 employer contributions.

TDCCK's retirement contributions for the years ended September 30, 2020 and 2019, were $776,885 and $650,250, respectively, equal to the required contributions for each year.

**Actuarial Methods and Significant Assumptions:**

The total pension liability was determined as part of an actuarial valuation as of October 1, 2018, and rolled forward using generally accepted actuarial procedures to the measurement date as of September 30, 2019, using the following actuarial assumptions:

| | |
|---|---|
| Actuarial cost method | Entry age normal cost |
| Investment rate of return | 8.0%, net of pension plan investment fees, including inflation |
| Salary increases | 4%–15% based on attained age |
| Mortality | RP-2000 Combined Mortality Table set forward six years |

**Note 8 – Retirement Fund (continued)**

The investment long-term expected rate of return of 8.0% and projected salary increases include an inflation component of 3.0%. Effective October 1, 2014, a 0.5% cost of living adjustment (COLA) was granted to retirees retroactive to October 1, 2012. The projected effect of the COLA is included in the total pension liability as of September 30, 2019 and 2020.

**Investment rate of return** – The long-term expected rate of return on the Fund's investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment fees and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

As of September 30, 2020, the geometric mean rates of return of benchmarks for each major investment class in the Fund's portfolio are as follows:

| Investment Class | Long-term Expected Rate of Return |
|---|---|
| Domestic equity | 7.1% |
| Fixed income | 5.1% |
| Real estate | 5.0% |
| ASG bond | 7.5% |
| Cash equivalents | 1.8% |
| Certificate of deposit | 1.8% |
| Securitized loans | 6.5% |
| Loans to employees | 7.5%–8.0% |

**Discount rate** – The total pension liability is calculated using a discount rate of 4.74% that is a blend of the expected investment rate of return and a high quality bond index rate. There was no change in the discount rate since the previous year. The expected investment rate of return applies for as long as the plan assets (including future contributions) are projected to be sufficient to make the projected benefit payments. If plan assets are projected to be depleted at some point in the future, the rate of return of a high quality bond index is used for the period after the depletion date.

As of September 30, 2020, the rates used to measure the Fund's total pension liability are as follows:

| | |
|---|---|
| Discount rate | 5.25% |
| Long-term expected rate of return, net of investment expenses | 8.00% |
| 20-year AA municipal bond index | 2.75% |

The projection of cash flows used to determine the Fund's discount rate assumes that member and sponsor contributions will continue at current statutory levels. Additionally, cost of living adjustments will be applied to projected benefits at the rate of 0.5% annually after expected retirement dates.

**Note 8 – Retirement Fund (continued)**

**Sensitivity of the net pension liability to changes in the discount rate** – The following presents TDCCK's net pension liability, calculated using the discount rate of 5.25%, as well as what TDCCK's net pension liability would be if it were calculated using a discount rate that is 1% point lower or 1% point higher than the current rate:

| | 1% Decrease 4.25% | Current Discount Rate 5.25% | 1% Increase 6.25% |
|---|---|---|---|
| Net pension liability | $ 22,509,340 | $ 18,463,755 | $ 15,035,547 |

**B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources Related to Pensions**

**Pension Liability:**

At September 30, 2020 and 2019, TDCCK reported a net pension liability of $18,463,755 and $13,263,667, respectively, for its proportionate share of the net pension liability. At September 30, 2020 and 2019, TDCCK's proportion of the overall liability was 9.09% and 9.32%, respectively.

**Pension Expense:**

For the years ended September 30, 2020 and 2019, TDCCK recognized pension expense of $2,593,547 and $2,074,630, respectively.

**Deferred Outflows and Inflows of Resources:**

At September 30, 2020, TDCCK reported total deferred outflows and inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between expected and actual experience | $ 1,098,878 | $ 899,389 |
| Difference between expected and actual investment experience | - | 549,783 |
| Change of assumptions | 7,293,128 | 4,256,627 |
| Contributions subsequent to the measurement date | 776,885 | - |
| Changes in proportion and difference between TDCCK contributions and proportionate share of contributions | 616,909 | 1,230,108 |
| | $ 9,785,800 | $ 6,935,907 |

**Note 8 – Retirement Fund (continued)**

At September 30, 2019, TDCCK reported total deferred outflows and inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between expected and actual experience | $ 1,348,163 | $ 621,934 |
| Difference between expected and actual investment experience | - | 675,677 |
| Change of assumptions | 4,342,462 | 5,288,069 |
| Contributions subsequent to the measurement date | 650,250 | - |
| Changes in proportion and difference between TDCCK contributions and proportionate share of contributions | 747,734 | 1,136,214 |
| | $ 7,088,609 | $ 7,721,894 |

Deferred outflows resulting from contributions subsequent to measurement date will be recognized as a reduction of the net pension liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at September 30, 2020, will be recognized in pension expense as follows:

| | | |
|---|---|---|
| Year ending September 30, | 2021 | $ 199,510 |
| | 2022 | 211,042 |
| | 2023 | 394,515 |
| | 2024 | 616,875 |
| | 2025 | 508,523 |
| | Thereafter | 142,543 |
| | | $ 2,073,008 |

### Note 9 – Employee Supplemental Income Plan

TDCCK administers the The DC Central Kitchen Inc Employee Supplemental Income Plan (the Plan) which is established to provide supplemental income for certain medical expenses. Full-time career service employees and two-year contract employees are eligible to participate in the Plan. Part-time and temporary service employees are not eligible. The Plan pays employees a fixed amount of $750 when referred off-island for medical treatment. The Plan also pays $60 per day of off-island hospital confinement and follow-up appointments. Enrolled family members are eligible for benefits at 50% of the employee rate. Employees contribute at graduated premium levels depending on the number of enrolled family members. The Plan has an annual family limit of $5,000 with a life-time limit of $10,000 per employee family group. If this limit is reached, the employee may opt to continue in the program up to a limit of $30,000, but at incrementally higher premium rates. TDCCK contributes to the Plan for all eligible employees at a rate based on the employees' family group size. All contributions from employees and employer are invested and recorded with a corresponding liability amount included in the statement of net position. All changes in the invested funds are adjusted to the corresponding liability account.

There have been no claims in excess of the value of the Plan assets.

At September 30, 2020 and 2019, plan assets of $1,034,022 and $1,058,153, respectively, are included as restricted cash and cash equivalents, and accrued liabilities of the same amount are recorded in the statement of net position. TDCCK's contributions for the years ended September 30, 2020 and 2019, were $100,913 and $96,478, respectively.

**Note 10 – Commitments**

**Lease commitments** – TDCCK leases two parcels of land owned by ASG (Parcels B and C) at a total monthly rate of $13,430 for a period of 10 years. TDCCK has options to extend the lease agreements for a total of 30 years for Parcel B and 50 years for Parcel C, subject to escalation rates after a certain number of years. TDCCK exercised the options to extend the lease agreements for Parcel B to 2039 and for Parcel C to 2060.

The following is a schedule of future minimum rental payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year as of September 30, 2020, not including the escalations and unexercised options for extensions:

| | | |
|---|---|---|
| Year ending September 30, | 2021 | $ 171,469 |
| | 2022 | 171,469 |
| | 2023 | 171,469 |
| | 2024 | 171,469 |
| | 2025–2029 | 857,345 |
| | 2030–2034 | 876,103 |
| | 2035–2039 | 879,855 |
| | 2040–2044 | 295,126 |
| | 2045–2049 | 300,128 |
| | 2020–2054 | 325,139 |
| | 2055–2059 | 330,141 |
| | 2060–2063 | 55,024 |
| | | $ 4,604,737 |

In connection with some of these operating leases, TDCCK guarantees to provide certain quantities of water to lessors.

Rent expense recognized for the years ended September 30, 2020 and 2019, amounted to $466,203 and $663,948, respectively.

**Fuel supply contracts** – In December 2013, TDCCK entered into fuel supply contracts with two local fuel distributors to purchase diesel fuel oil. The agreements are for two years commencing on December 15, 2013, with options to extend for two additional one-year terms at TDCCK's sole discretion. TDCCK extended the contracts for an additional year, commencing on January 1, 2021 through December 31, 2022.

**Construction contracts** – As of September 30, 2020, TDCCK has various on-going construction contracts of $60 million which are recorded as construction work-in-progress. Most construction projects are in the Water and Wastewater division, which are funded through United States Environmental Protection Agency (USEPA).

### Note 11 – Landfill Closure and Postclosure Care Costs

TDCCK utilizes several acres of land for its two-cell solid waste landfill site. The first cell was operated by ASG for approximately 30 years before it was transferred to TDCCK in February 1995. TDCCK has operated the landfill for approximately 12 years and has expanded the landfill to include a new section, approximately the same size and capacity as the original fill site.
September 30, 2019, the landfill cell has a remaining estimated useful life of 7 years. Total estimated closure and postclosure costs for the two landfill cells is $901,064 based on a 2003 study.

TDCCK has obtained an opinion from the Environmental Protection Agency (EPA) that DC has no local statutes governing the operation of municipal landfills and, therefore, no local regulations govern closure and postclosure requirements. As a result, management is of the opinion that TDCCK has no legal obligation under federal or local law to incur closure and postclosure costs for the two landfill sites, and no closure or postclosure costs have been accrued at September 30, 2020 and 2019.

TDCCK has a contract in place with a company for a Waste to Energy Project at the landfill. This project will reduce solid waste deposits in the landfills and extend their useful lives.

### Note 12 – Related Party Transactions and Balances

Services provided to ASG by TDCCK, including all charges for utilities, are billed to ASG and are recorded as receivables in the interfund account. Selected services provided by ASG to TDCCK are recorded as payables to ASG in the interfund account and are offset against receivables. ASG accounted for
$371,392 and $419,477 of total receivables for the years ended September 30, 2020 and 2019, respectively. ASG accounted for $479,523 and $870,559 of total accounts payables for the years ended September 30, 2020 and 2019, respectively.

TDCCK performed projects for ASG and ASG agencies. The revenues and costs of those projects are presented as nonoperating revenues and expenses in the accompanying statements of revenues, expenses and changes in net position. Outstanding receivables on those projects are included in due from ASG and ASG agencies in the accompanying statements of net position. ASG accounted for $6,672,099 and $6,234,046 of operating revenue for the years ended September 30, 2020 and 2019, respectively.

**Note 13 – Major Customers**

Transactions with one major private sector industrial customer approximated 17.4% and 18.4% of total operating revenues for the years ended September 30, 2020 and 2019, respectively. ASG accounted for approximately 9.5% of total operating revenues for the years ended September 30, 2020 and 2019, respectively.

For the year ended September 30, 2020, one customer accounted for approximately 17.4% of accounts receivable. For the year ended September 30, 2019, one customer accounted for approximately 13.8% of accounts receivable.

**Note 14 – Contingencies**

**Legal** – TDCCK is involved in various litigation involving disputes over landfill leases, including the terms of leases and the areas of land located in the landfill. The ultimate outcome of these matters and the financial impact on TDCCK's financial statements is not presently determinable and no reserves have been recorded for potential impact of these contingencies.

TDCCK is also involved in various other legal proceedings. Management believes that any losses arising from these actions will not materially affect TDCCK's financial position.

**United States Environmental Protection Agency (USEPA)** – The USEPA has issued an administrative order against TDCCK in relation to toxic gases released by a contractor at a scrap metal yard. The USEPA has completed the cleanup of the scrap metal yard for the toxic gases, during which it was discovered that the contractor buried considerable scrap metal and materials below the surface of the scrap metal yard in violation of its contract. TDCCK has completed the cleanup of the scrap metal yard for these buried materials and TDCCK is pursuing a claim against the contractor. TDCCK is negotiating with the USEPA to waive the cleanup cost it owes for the cleanup of the toxic gases. No provision has been established for this contingency.

TDCCK operates two wastewater treatment plants which are required to maintain National Pollutant Discharge Elimination System (NPDES) permits. At present, these wastewater treatment plants operate under a waiver from secondary treatment standards for ocean discharge under section 301(h) of the Clean Water Act. One of the requirements of this waiver provision is that it be reassessed before each renewal of the associated NPDES permit. In 2009, USEPA issued Tentative Decision Documents (TDD) indicating that the two facilities are unlikely to meet the criteria for waiver renewal based on operational practices and monitoring data available at that time. USEPA exercised its discretion to defer final decisions on the waiver renewal in favor of working with TDCCK to pursue process modifications and feasible treatment system upgrades which, collectively, have the potential to address the concerns identified in the TDD. USEPA has been working with TDCCK to conduct additional monitoring and evaluation, including consideration of alternative actions, to address the situation.

**Note 14 – Contingencies (continued)**

USEPA has not issued final decisions on the renewal of secondary treatment waivers for the two wastewater treatment plants which are currently operating under administrative extensions of their existing permits. The new permit is under review by the USEPA.

**Federal grants** – TDCCK has participated in a number of federally assisted grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives and regulatory authorities. The purpose of the audits is to ensure compliance with conditions relating to the granting of funds and other reimbursement regulations. TDCCK's management believes that any liability for reimbursement which may arise as the result of these audits would not be material to the financial position of TDCCK.

**Note 15 – Risks and Uncertainties**

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) a global pandemic. The related adverse public health developments, including orders to shelter-in-place, travel restrictions and mandated business closures, have adversely affected workforces, organizations, their customers, economies and financial markets globally, leading to increased market volatility and disruptions in the normal business operations.

TDCCK is currently unable to estimate the impact COVID-19 will have on its combined financial statements. The extent to which COVID-19 impacts TDCCK's combined financial condition and results of operations will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of COVID-19 and the actions to contain COVID-19 or treat its impact, among others.

# Required Supplementary Information

## Schedule of Proportional Share of the Net Pension Liability
## Last 10 Fiscal Years*

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Total Government net pension liability TDCCK's | $ 203,108,208 | $ 142,297,228 | $ 159,221,857 |
| proportionate share of the net pension liability TDCCK's | $ 18,463,755 | $ 13,263,667 | $ 15,484,803 |
| proportion of the net pension liability | 9.09% | 9.32% | 9.73% |
| TDCCK's covered-employee payroll** | $ 8,946,813 | $ 9,135,463 | $ 9,671,688 |
| TDCCK's proportionate share of the net pension liability as percentage of its covered employee payroll | 206.37% | 145.19% | 160.10% |
| Fund fiduciary net position as a percentage of the total pension liability | 48.73% | 58.72% | 55.03% |

* This data is presented for those years for which information is available.
** Covered-employee payroll data from the measurement date with one-year lag.

# The DC Central Kitchen Inc
## Schedule of Pension Contributions as of September 30, 2020
## Last 10 Fiscal Years*

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Actuarially determined contribution | $ 1,554,061 | $ 1,520,141 | $ 1,462,359 |
| Contribution in relation to the actuarially determined contribution | 715,745 | 730,837 | 773,735 |
| Contribution deficiency | $ 838,316 | $ 789,304 | $ 688,624 |
| TDCCK's covered-employee payroll | $ 8,946,813 | $ 9,135,463 | $ 9,671,688 |
| Contribution as a percentage of covered-employee payroll | 8.00% | 8.00% | 8.00% |

* This data is presented for those years for which information is available.
** Information is based on the measurement date with one-year lag as current year information is not available.


See report of independent auditors.

# Supplementary Information

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# The DC Central Kitchen Inc
## Combining Statement of Net Position
## For the Year Ended September 30, 2020

| | Electric | Water | Wastewater | Solidwaste | Other | Total | Interdivision Eliminations | Combined |
|---|---|---|---|---|---|---|---|---|
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | | | | | | | |
| DEPRECIABLE UTILITY PLANT, net | $ 89,365,205 | $ 20,360,751 | $ 29,123,018 | $ 1,085,863 | $ 75,722 | $ 140,010,559 | $ - | $ 140,010,559 |
| NONDEPRECIABLE UTILITY PLANT | 8,393,069 | 24,918,586 | 26,588,913 | 50,739 | 208,761 | 60,160,068 | - | 60,160,068 |
| Utility plant, net | 97,758,274 | 45,279,337 | 55,711,931 | 1,136,602 | 284,483 | 200,170,627 | - | 200,170,627 |
| OTHER NON-CURRENT ASSETS | | | | | | | | |
| Restricted cash and cash equivalents | - | - | - | - | 1,034,022 | 1,034,022 | - | 1,034,022 |
| CURRENT ASSETS | | | | | | | | |
| Cash and cash equivalents | 9,151,684 | 15,292 | 32,376 | (796) | 549,139 | 9,747,695 | - | 9,747,695 |
| Accounts receivable, net | 2,285,550 | 598,304 | 326,282 | 349,408 | - | 3,559,544 | - | 3,559,544 |
| Interdivisional loans | 46,392,864 | - | - | - | - | 46,392,864 | (46,392,864) | - |
| Unbilled revenue, net | 1,557,848 | (54,502) | 440,296 | - | - | 1,943,642 | - | 1,943,642 |
| Other accounts receivable, net | 580,919 | 36,831 | 1,202 | 206,252 | 1,680 | 826,884 | - | 826,884 |
| Materials, supplies, and fuel | 4,743,781 | 2,174,271 | 109,444 | - | 145,930 | 7,173,426 | - | 7,173,426 |
| Prepaid expenses and other assets | 972,950 | 102,834 | 9,607 | (59,267) | 72,758 | 1,098,882 | - | 1,098,882 |
| Total unrestricted current assets | 65,685,596 | 2,873,030 | 919,207 | 495,597 | 769,507 | 70,742,937 | (46,392,864) | 24,350,073 |
| Restricted current assets: | | | | | | | | |
| Cash and cash equivalents | 95,334 | 136,314 | - | 1,905 | - | 233,553 | - | 233,553 |
| Federal grants receivable, net | 80,226 | 346,724 | 53,056 | - | - | 480,006 | - | 480,006 |
| Total restricted current assets | 175,560 | 483,038 | 53,056 | 1,905 | - | 713,559 | - | 713,559 |
| Total current assets | 65,861,156 | 3,356,068 | 972,263 | 497,502 | 769,507 | 71,456,496 | (46,392,864) | 25,063,632 |
| Total assets | 163,619,430 | 48,635,405 | 56,684,194 | 1,634,104 | 2,088,012 | 272,661,145 | (46,392,864) | 226,268,281 |
| DEFERRED OUTFLOWS OF RESOURCES FROM PENSION | 3,431,465 | 1,387,725 | 883,098 | 485,594 | 3,597,918 | 9,785,800 | - | 9,785,800 |
| | $ 167,050,895 | $ 50,023,130 | $ 57,567,292 | $ 2,119,698 | $ 5,685,930 | $ 282,446,945 | $ (46,392,864) | $ 236,054,081 |

# The DC Central Kitchen Inc

## Combining Statement of Net Position
## For the Year Ended September 30, 2020

| | Electric | Water | Wastewater | Solidwaste | Other | Total | Interdivision Eliminations | Combined |
|---|---|---|---|---|---|---|---|---|
| NET POSITION AND LIABILITIES | | | | | | | | |
| NET POSITION (DEFICIT) | | | | | | | | |
| Net investment in utility plant | $ 94,218,329 | $ 44,893,749 | $ 55,711,931 | $ 1,136,602 | $ 284,483 | $ 196,245,094 | $ - | $ 196,245,094 |
| Restricted | 175,560 | 483,038 | 53,056 | 1,905 | 1,034,022 | 1,747,581 | - | 1,747,581 |
| Unrestricted | 53,945,654 | (21,012,604) | (10,404,117) | (15,677,190) | (5,698,155) | 1,153,588 | - | 1,153,588 |
| Total net position (deficit) | 148,339,543 | 24,364,183 | 45,360,870 | (14,538,683) | (4,379,650) | 199,146,263 | - | 199,146,263 |
| CURRENT LIABILITIES | | | | | | | | |
| Notes payable | 1,258,294 | - | - | - | - | 1,258,294 | - | 1,258,294 |
| Current portion of long-term debt | 3,539,945 | 1,062 | - | - | - | 3,541,007 | - | 3,541,007 |
| Accounts payable | 471,038 | 571,514 | 9,695 | 23,829 | 72,504 | 1,148,580 | - | 1,148,580 |
| Interdivisional loans | 2,803,160 | 19,858,656 | 9,491,862 | 15,550,305 | (1,311,119) | 46,392,864 | (46,392,864) | - |
| Accrued leave | 409,679 | 184,315 | 119,858 | 12,748 | 309,046 | 1,035,646 | - | 1,035,646 |
| Accrued expenses | 872,987 | 846,357 | 154,927 | 163,316 | 1,483,733 | 3,521,320 | - | 3,521,320 |
| Total current liabilities | 9,355,103 | 21,461,904 | 9,776,342 | 15,750,198 | 554,164 | 56,897,711 | (46,392,864) | 10,504,847 |
| NONCURRENT LIABILITIES | | | | | | | | |
| Accrued annual leave, net of current portion | 190,761 | 105,886 | 71,315 | 32,070 | 218,751 | 618,783 | - | 618,783 |
| Long-term debt, net of current portion | - | 384,526 | - | - | - | 384,526 | - | 384,526 |
| Net pension liability | 6,543,985 | 2,646,464 | 1,684,113 | 625,528 | 6,963,665 | 18,463,755 | - | 18,463,755 |
| Total liabilities | 16,089,849 | 24,598,780 | 11,531,770 | 16,407,796 | 7,736,580 | 76,364,775 | (46,392,864) | 29,971,911 |
| DEFERRED INFLOWS OF RESOURCES FROM PENSION | 2,621,503 | 1,060,167 | 674,652 | 250,585 | 2,329,000 | 6,935,907 | - | 6,935,907 |
| Total net position, liabilities and deferred inflows | $ 167,050,895 | $ 50,023,130 | $ 57,567,292 | $ 2,119,698 | $ 5,685,930 | $ 282,446,945 | $ (46,392,864) | $ 236,054,081 |

# The DC Central Kitchen Inc
## Combining Statement of Revenues
## For the Year Ended September 30, 2020

| | Electric | Water | Wastewater | Solidwaste | Other | Total | Interdivision Eliminations | Combined |
|---|---|---|---|---|---|---|---|---|
| OPERATING REVENUES – LOCAL | | | | | | | | |
| Operating sales | $ 46,959,407 | $ 8,741,350 | $ 4,114,813 | $ 2,984,271 | $ - | $ 62,799,841 | $ - | $ 62,799,841 |
| Other sales | 347,582 | 142,613 | 86,587 | 2,244,910 | - | 2,821,692 | - | 2,821,692 |
| Total operating revenues – local | 47,306,989 | 8,883,963 | 4,201,400 | 5,229,181 | - | 65,621,533 | - | 65,621,533 |
| Bad debt recovery (expense) | 247,316 | 41,212 | 9,046 | 22,271 | - | 319,845 | - | 319,845 |
| Net operating revenues – local | 47,554,305 | 8,925,175 | 4,210,446 | 5,251,452 | - | 65,941,378 | - | 65,941,378 |
| OPERATING GRANTS REVENUES – FEDERAL | 3,086,676 | - | - | 3,428 | - | 3,090,104 | - | 3,090,104 |
| OPERATING EXPENSES – LOCAL | | | | | | | | |
| Fuel oil | 27,668,233 | - | - | 2,211 | - | 27,670,444 | - | 27,670,444 |
| Operating and maintenance | | | | | | | | |
| Power production | 6,547,385 | - | - | - | - | 6,547,385 | - | 6,547,385 |
| Power transmission and distribution | 2,290,761 | - | - | - | - | 2,290,761 | - | 2,290,761 |
| Engineering services | 1,020,750 | 573,932 | 129,552 | - | - | 1,724,234 | - | 1,724,234 |
| Water, wastewater, and solid waste | - | 5,574,881 | 2,704,569 | 2,684,152 | - | 10,963,602 | - | 10,963,602 |
| Pension expense | 889,455 | 358,915 | 228,354 | 84,820 | - | 1,561,544 | - | 1,561,544 |
| Depreciation | 5,466,577 | 1,522,094 | 1,926,575 | 72,711 | 64,444 | 9,052,401 | - | 9,052,401 |
| General and administrative | 3,737,911 | 1,609,378 | 968,112 | 622,985 | 172,912 | 7,111,298 | - | 7,111,298 |
| Total costs and operating expenses – local | 47,621,072 | 9,639,200 | 5,957,162 | 3,466,879 | 237,356 | 66,921,669 | - | 66,921,669 |
| OPERATING GRANTS EXPENSES – FEDERAL | 31,811 | 1,492 | - | - | 5,013 | 38,316 | - | 38,316 |
| Net operating income (loss) | 2,988,098 | (715,517) | (1,746,716) | 1,788,001 | (242,369) | 2,071,497 | - | 2,071,497 |
| NONOPERATING REVENUES (EXPENSES) | | | | | | | | |
| Interest and other income (expense) | (38,260) | 17,989 | 13,946 | 2,500 | 23,318 | 19,493 | - | 19,493 |
| Interest expense | (496,777) | (18,598) | - | - | - | (515,375) | - | (515,375) |
| Other expense | - | - | - | - | - | - | - | - |
| Net nonoperating expenses | (535,037) | (609) | 13,946 | 2,500 | 23,318 | (495,882) | - | (495,882) |
| Income (loss) before capital grants | 2,453,061 | (716,126) | (1,732,770) | 1,790,501 | (219,051) | 1,575,615 | - | 1,575,615 |
| FEDERAL CAPITAL GRANTS | 1,472,621 | 7,453,349 | 2,364,368 | 838,189 | - | 12,128,527 | - | 12,128,527 |
| Change in net position | 3,925,682 | 6,737,223 | 631,598 | 2,628,690 | (219,051) | 13,704,142 | - | 13,704,142 |
| NET POSITION, beginning of year | 144,413,861 | 17,626,960 | 44,729,272 | (17,167,373) | (4,160,599) | 185,442,121 | - | 185,442,121 |
| NET POSITION, end of year | $ 148,339,543 | $ 24,364,183 | $ 45,360,870 | $ (14,538,683) | $ (4,379,650) | $ 199,146,263 | $ - | $ 199,146,263 |

## Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
The DC Central Kitchen Inc

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined statements of net position and related combined statements of revenues, expenses, and changes in net position and cash flows of The DC Central Kitchen Inc ("TDCCK" or the "Utility") as of and for the year ended September 30, 2020, and the related notes to the combined financial statements, which collectively comprise TDCCK's basic financial statements, and have issued our report thereon dated March 26, 2021.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered TDCCK's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of TDCCK's internal control. Accordingly, we do not express an opinion on the effectiveness of TDCCK's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether TDCCK's combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Portland, Oregon
March 26, 2021