



*Reports of Independent Auditors in
Accordance with Uniform Guidance and
Consolidated Financial Statements with Supplementary Information*

PRIDE Industries

June 30, 2021 and 2020



Table of Contents

REPORT OF INDEPENDENT AUDITORS	1
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CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statements of Financial Position (in thousands).....	4
Consolidated Statements of Activities and Changes in Net Assets (in thousands).....	5
Consolidated Statements of Functional Expenses (in thousands)	6
Consolidated Statements of Cash Flows (in thousands)	7
Notes to Consolidated Financial Statements (in thousands).....	9

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards.....	35
Notes to the Schedule of Expenditures of Federal Awards	36

REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>.....	37
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REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE AS REQUIRED BY THE UNIFORM GUIDANCE	39
Schedule of Findings and Questioned Costs.....	41

Report of Independent Auditors

The Board of Directors
PRIDE Industries

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of PRIDE Industries (the Company), which comprise the consolidated statements of financial position as of June 30, 2021 and 2020, the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our 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 consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of PRIDE Industries as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reported dated October 27, 2021, on our consideration of the Company's 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 Company'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 Company's internal control over financial reporting and compliance.

Moss Adams LLP

Sacramento, California
October 27, 2021

Consolidated Financial Statements

PRIDE Industries
Consolidated Statements of Financial Position (in thousands)
June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 15,810	\$ 1,614
Accounts receivable, net	48,132	41,975
Unbilled revenue	13,497	6,137
Inventories, net	4,232	3,788
Unrestricted investments	2,756	-
Prepaid expenses	2,357	1,672
Other current assets, net	2,215	1,176
	<u>88,999</u>	<u>56,362</u>
NONCURRENT ASSETS		
Restricted cash	360	2,743
Restricted investments	4,644	4,962
Fixed assets, net of accumulated depreciation	44,759	44,665
Intangible assets, net	2,893	-
Other assets, net	1,773	1,711
	<u>143,428</u>	<u>110,443</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 18,064	\$ 17,239
Accrued expenses	28,001	16,893
Current portion of deferred revenue	428	109
Current portion of self-insurance liabilities	4,267	4,058
Current portion of capital lease obligations	2,585	2,707
Current portion of long-term debt	4,010	3,492
	<u>57,355</u>	<u>44,498</u>
LONG-TERM LIABILITIES		
Deferred revenue, net of current portion	825	-
Self-insurance liabilities, net of current portion	5,182	5,593
Capital lease obligations, net of current portion	5,268	3,768
Long-term debt, net of current portion	30,130	30,776
Other long-term liabilities	967	648
	<u>99,727</u>	<u>85,283</u>
COMMITMENTS AND CONTINGENCIES (Note 14)		
NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>43,701</u>	<u>25,160</u>
Total liabilities and net assets	<u>\$ 143,428</u>	<u>\$ 110,443</u>

PRIDE Industries

Consolidated Statements of Activities and Changes in Net Assets (in thousands)
Years Ended June 30, 2021 and 2020

	2021	2020
REVENUES		
Product sales and services	\$ 346,297	\$ 314,567
Fees	22,662	24,440
Contributions	475	403
Grants and other	894	574
	370,328	339,984
EXPENSES		
Program activities	313,483	288,621
Management and general	42,771	45,433
	356,254	334,054
Change in net assets without donor restrictions from operations	14,074	5,930
NONOPERATING ACTIVITY		
Net gain on disposal of fixed assets	292	104
Loss on asset impairment	(2,118)	(410)
Interest expense, net	(1,932)	(2,654)
Investment income, net	84	310
Other income	194	390
Provision for income taxes	1	-
Inherent contribution from acquisition (Note 16)	7,946	-
	18,541	3,670
NET ASSETS WITHOUT DONOR RESTRICTIONS, beginning of year	25,160	25,094
Cumulative effect of a change in accounting principle related to revenue recognition (Note 2)	-	(3,604)
	-	(3,604)
NET ASSETS WITHOUT DONOR RESTRICTIONS, end of year after cumulative effect of a change in accounting principle related to revenue recognition	\$ 43,701	\$ 25,160

PRIDE Industries
Consolidated Statements of Functional Expenses (in thousands)
Years Ended June 30, 2021 and 2020

	Program Activities		Management and General		Total	
	2021	2020	2021	2020	2021	2020
Salaries, taxes, and benefits	\$ 204,633	\$ 185,681	\$ 26,128	\$ 30,429	\$ 230,761	\$ 216,110
Direct materials	40,198	42,400	69	174	40,267	42,574
Contract labor and subcontractors	37,348	32,173	371	606	37,719	32,779
AbilityOne program fees	6,803	5,809	-	-	6,803	5,809
Depreciation and amortization	6,006	5,999	1,466	1,971	7,472	7,970
Occupancy, net	3,018	3,553	1,200	175	4,218	3,728
Vehicle	3,480	3,347	34	60	3,514	3,407
Equipment	2,388	1,939	276	607	2,664	2,546
Office and telephone	2,530	2,351	1,275	1,019	3,805	3,370
Employee training and recruitment	1,745	1,130	889	1,135	2,634	2,265
Travel	361	631	54	369	415	1,000
Professional services	1,033	857	4,446	2,622	5,479	3,479
Computer hardware and software	3,605	1,717	2,495	3,029	6,100	4,746
Insurance	679	492	2,142	1,871	2,821	2,363
Marketing, promotion, and other	(344)	542	1,926	1,366	1,582	1,908
Total expenses	\$ 313,483	\$ 288,621	\$ 42,771	\$ 45,433	\$ 356,254	\$ 334,054

See accompanying notes to consolidated financial statements.

PRIDE Industries
Consolidated Statements of Cash Flows (in thousands)
Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net increase in net assets without donor restrictions	\$ 18,541	\$ 3,670
Adjustment to reconcile increase in net assets to net cash from operating activities:		
Net gain on disposal of fixed assets	(292)	(104)
Loss on asset impairment	2,118	410
Net realized and unrealized loss (gain) on investments	30	(195)
Depreciation and amortization	7,472	7,970
Provision for (recoveries) losses	(398)	97
Reserve for inventory obsolescence	118	260
Donated equipment	-	(23)
Inherent contribution from acquisition	(7,946)	-
Change in cash resulting from changes in:		
Accounts receivable	(3,968)	212
Unbilled revenue	(7,360)	6,045
Inventories	(562)	71
Prepaid expenses	(1,344)	190
Other assets	424	(530)
Accounts payable	535	1,076
Accrued expenses	10,376	2,908
Deferred revenue	1,134	3
Other long-term liabilities	259	156
Self-insurance liabilities	(252)	763
	<u>18,885</u>	<u>22,979</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of fixed assets	179	132
Acquisition of fixed assets, net of financing	(203)	(412)
Purchases of restricted investments	(14,601)	(12,011)
Proceeds from sale or maturity of restricted investments	12,133	14,435
Cash received in acquisition	2,832	-
	<u>340</u>	<u>2,144</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net payments from line of credit	-	(16,693)
Payments on long-term debt and capital lease obligations, net	(7,412)	(6,701)
	<u>(7,412)</u>	<u>(23,394)</u>
NET CHANGE IN CASH AND RESTRICTED CASH	11,813	1,729
CASH AND RESTRICTED CASH, beginning of year	<u>4,357</u>	<u>2,628</u>
CASH AND RESTRICTED CASH, end of year	<u>\$ 16,170</u>	<u>\$ 4,357</u>

PRIDE Industries
Consolidated Statements of Cash Flows (in thousands) (continued)
Years Ended June 30, 2021 and 2020

SUPPLEMENTAL CASH-FLOW INFORMATION

Interest paid	<u>\$ 1,953</u>	<u>\$ 2,671</u>
Income taxes paid	<u>\$ -</u>	<u>\$ 96</u>
Income tax penalties paid	<u>\$ -</u>	<u>\$ 35</u>
Acquisition of fixed assets by capital lease	<u>\$ 5,176</u>	<u>\$ 1,756</u>
Acquisition of fixed assets by long-term debt	<u>\$ 3,680</u>	<u>\$ 1,967</u>
Reduction of net assets balance from change in accounting principle related to revenue recognition	<u>\$ -</u>	<u>\$ 3,604</u>
Acquisition		
Fair value of assets acquired from acquisition	\$ 9,435	\$ -
Fair value of liabilities assumed from acquisition	<u>(1,489)</u>	<u>-</u>
Inherent contribution from acquisition	<u>\$ 7,946</u>	<u>\$ -</u>

PRIDE Industries

Notes to Consolidated Financial Statements (in thousands)

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization and principles of consolidation – The consolidated financial statements consist of eight affiliated entities: PRIDE Industries, PRIDE Industries One, Inc. (PRIDE One), PRIDE Government (formerly Crossroads Diversified Services, Inc.), PRIDE Federal (formerly Crossroads Facility Services, Inc.), Social Enterprise Assurance Co., LLC (SEAssure), Creative Business Assurance, LLC (CBA LCC), Creative Business Assurance, PCC (CBA PCC), and Captive 2.0 IC (C2IC), collectively referred to as “the Company.” All significant intercompany accounts and transactions have been eliminated during consolidation.

PRIDE Industries and PRIDE One were incorporated in the state of California pursuant to general not-for-profit corporation law on March 7, 1966, and January 1, 1997, respectively. PRIDE Industries and PRIDE One share a common board of directors. SEAssure, a subsidiary of PRIDE Industries, is a single member limited liability captive insurance company licensed by the Department of Insurance, Securities and Banking in the District of Columbia. SEAssure is operating pursuant to the District of Columbia Limited Liability Company Act and the Captive Insurance Company Act. On July 1, 2016, SEAssure began operations, providing various indemnity coverages to PRIDE Industries and PRIDE One. CBA LCC, a Delaware limited liability company, was formed on November 8, 2018, as a single-parent limited liability company wholly owned by PRIDE Industries. CBA PCC is a protected cell captive insurance company formed as a District of Columbia C-corporation on December 28, 2018. A license to operate was issued on the same date. CBA PCC is owned and controlled by CBA LCC. C2IC, a subsidiary of PRIDE Industries, is a corporation formed under the Department of Insurance, Securities and Banking in the District of Columbia on December 28, 2018. C2IC was formed as an incorporated cell of CBA PCC, for the purpose of reinsuring the medical stop-loss coverage for PRIDE Industries and was dissolved on December 29, 2020 without being capitalized.

On July 1, 2020, PRIDE Industries completed the acquisition of Crossroads Diversified Services, Inc. (CDS), a nonprofit corporation, and its wholly owned subsidiary, Crossroads Facility Services, Inc. (CFS), a for-profit corporation (Note 16). Upon acquisition, CDS transitioned to be a single-member nonprofit, with PRIDE Industries as the single member and subsequent to the acquisition, CFS was reorganized to be a direct subsidiary of PRIDE Industries. During the year ended June 30, 2021, the entities were renamed PRIDE Government and PRIDE Federal, respectively.

The Company operates as an outsourced service contractor to create employment for people with disabilities. Through the integrated facility, manufacturing and logistics, recruitment, and community-based employment support services, the Company provides employment opportunities for people with disabilities throughout the United States.

Basis of presentation – The consolidated financial statements are presented in conformity with accounting principles generally accepted in the United States of America (GAAP).

Cash – For purposes of the consolidated statements of cash flows, the Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. As of June 30, 2021 and 2020, the Company did not hold any cash equivalents.

The Company places certain cash deposits in banks that are federally insured in limited amounts. The Company has not experienced any losses on these deposits. These deposits are held primarily at Wells Fargo Bank N.A., which management believes has a high credit rating and the ability to return the Company’s deposits on request.

The Company’s accounting policy is to classify negative book balances as current liabilities under accounts payable, net of positive book balances in cash accounts with the same bank.

PRIDE Industries
Notes to Consolidated Financial Statements (in thousands)

Restricted cash – Restricted cash consists of deposits held on behalf of the Company, the majority of which is restricted to use for paying claims in its workers’ compensation self-insurance program.

	2021	2020
Cash	\$ 15,810	\$ 1,614
Restricted cash	360	2,743
Total cash and restricted cash shown in the consolidated statements of cash flows	\$ 16,170	\$ 4,357

Investments – Unrestricted investments consist of reserves strategically invested to cover long-term claim payments needs with the Company’s captive insurance entities. Restricted investments consist of holdings in two trust funds. Substantially all funds in one trust are restricted for use as required reserves for claims in its workers’ compensation self-insurance program. The other trust, which was reduced to a minimal required balance during the year ended June 30, 2021, was restricted as collateral against the revolving line of credit (Note 10) in order to free up liquidity sources for the Company.

The Company accounts for its investments in securities in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 320, *Investments – Debt and Equity Securities*. Management determines the appropriate classification of its investments in debt and equity securities at the time of purchase and reevaluates such determination at each statement of financial position date.

All of the Company’s investments are carried at fair value. Unrealized gains and losses relating to investments are reported in nonoperating activity in the accompanying statements of activities and changes in net assets.

Allowance for doubtful accounts – Trade accounts receivable are stated at the amount management expects to collect from outstanding balances after allowances for discounts, returns, and bad debts, taking into account credit worthiness of customers. Management provides for probable uncollectible amounts through a charge to earnings and an increase to a valuation allowance based on its assessment of the credit risk of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a reduction to accounts receivable (see Note 4). Accounts receivable are pledged as collateral under the Company’s line of credit agreement (see Note 10).

Inventories – Inventories, which consist primarily of direct materials used in the manufacturing business and finished goods purchased for its logistics business, are valued at a lower of actual cost determined using the first-in, first-out method or net realizable value (see Note 5). Cost elements of assembled items include raw materials, transportation, direct labor, and overhead. Net realizable value is based upon the estimated sales value less cost of distribution and selling costs.

PRIDE Industries

Notes to Consolidated Financial Statements (in thousands)

Fixed assets – Fixed assets are stated at cost (if purchased) or at fair value at the time of gifting (if contributed), net of accumulated depreciation or amortization. Assets under capital leases are recorded at their fair value at the date of acquisition, measured by the present value of the minimum lease payments upon commencement of the lease agreements. Assets with a cost greater than \$2,500 are capitalized. Certain labor and materials costs incurred during the development phase of internally developed software projects are capitalized to the extent management believes it is probable that the relevant future economic benefits attributable to the software will flow to the Company and their cost can be measured reliably. Other costs incurred during the research and implementation phases of internally developed software projects are expensed as incurred. Assets acquired with federal funds are capitalized at cost and separately identified in the accounting records, as required by the terms of the related grants and contracts. Major improvements and betterments that extend the useful life of assets are capitalized.

Costs of maintenance and repairs are charged to expense as incurred. Upon retirement, sale or disposal of fixed assets, the costs and related accumulated depreciation are removed from the accounts, and gains or losses, if any, are reflected in the consolidated statement of activities as nonoperating activities.

Interest is capitalized based on capitalized project costs at the average borrowing rate for debt held by the Company, or, for project costs funded by a specific debt instrument, at the borrowing rate for the applicable debt.

The cost of fixed assets, other than land, is depreciated over the estimated useful lives of the related assets. Leasehold improvements and fixed assets under capital leases are amortized over the shorter of the life of the asset or the term of the lease. Depreciation and amortization are determined using the straight-line method over the following estimated useful lives:

Buildings, building improvements, and leasehold improvements	5 to 30 years
Equipment and furniture	2 to 15 years
Vehicles	3 to 10 years
Leased equipment and vehicles	3 to 7 years
Computer software	3 to 7 years

Long-lived assets – Long-lived assets consist primarily of fixed assets. The assessment of recoverability of carrying value is based on an analysis of operating results and consideration of other significant events or changes in the business environment. If the Company has indications of impairment, management will evaluate whether impairment exists on the basis of undiscounted expected future cash flows from operations, before interest, over the remaining useful lives of related assets. If impairment exists, the carrying amount of long-lived assets would be reduced to their estimated fair value. The Company had impairment losses of \$2,118 and \$410 during the years ended June 30, 2021 and 2020, respectively.

Intangible assets – Intangible assets consist of the customer relationships, which are stated at fair value, net of accumulated amortization. The intangible asset is amortized using the straight-line method over the estimated useful life of fifteen years.

Self-insured risks – The Company is self-insured up to deductible limits for workers' compensation, employment practices liability (EPLI), and business automobile liability (Auto). During the years ended June 30, 2021 and 2020, the Company had the following deductible limits on the policies:

<u>Coverage</u>	<u>Deductible Limit</u>
Workers' compensation	\$1,000

PRIDE Industries
Notes to Consolidated Financial Statements (in thousands)

EPLI	\$250 to \$500
Auto	\$100-unlimited

Effective January 1, 2018, the Company has a self-insured medical plan that provides medical benefits to employees electing coverage under the plan, which operates on a calendar year basis. To limit the exposure, the Company has stop-loss coverage with a third-party insurer for amounts over \$125 per covered person. On January 1, 2020, this stop-loss limit was raised to \$500 per covered person. Effective January 1, 2021, the Company ceased self-insuring any medical plans.

The ultimate costs of such claims attributable to the Company are accrued when the incidents that give rise to the claims occur. Estimated losses from asserted and unasserted claims are accrued, based on actuarial estimates of the ultimate costs of the claims and the relationship of past reported incidents to eventual claims payments. All relevant information, including the Company's own historical experience, recent settlements, the nature and extent of existing asserted claims and reported incidents, claim frequency and independent actuarial analyses of this information, is used in estimating the expected amount of claims as determined to be appropriate in management's judgment. The accrual also includes an actuarial estimate of the losses that will result from unreported incidents, which are probable of having occurred before the end of the reporting period. The estimates of ultimate claim costs, including costs associated with litigating or settling claims, have been discounted based on the Company's estimated long-term borrowing rate for liabilities of a similar duration using discount rates of 1% to 5% at both June 30, 2021 and 2020. The current portion of the liability for self-insurance claims presented in the consolidated statements of financial position represents the estimated claims payable within one year from the date of the consolidated statements of financial position. Although the Company considers its experience and industry data in determining such liabilities, assumptions and projections as to future events are necessary and ultimate losses may differ significantly from projected amounts.

The Company also maintains a self-insured program for unemployment claims. The ultimate cost related to this program includes expenses for claims filed and paid in addition to an accrual for the estimated expenses incurred in connection with claims incurred but not reported. The liability for unpaid claims is included in current portion of self-insurance liabilities.

Estimated losses in connection with self-insured risks are reviewed and adjusted, if necessary, at each quarterly reporting date. Changes in the estimated losses are recognized as increases or decreases in expense.

Functional allocation of expenses – The consolidated statements of functional expense present expenses by function and natural classification. Expenses directly attributable to a specific functional area of the Company are reported as expenses of those functional areas. Since the Company's mission includes improving the quality of life for people with disabilities through its programs that provide employment opportunities, all direct and indirect costs of these revenue-generating activities are included in the program activities function in the consolidated statements of activities and changes in net assets. Shipping and handling costs are included in program expenses. The Company incurs general and administrative support costs common to the administration of the Company and each of its programs, including the costs of personnel, premises and other expenditures for corporate services and information technology functions. These expenses are included in management activities in the consolidated statements of activities and changes in net assets. A portion of general and administrative costs that benefit multiple functional areas have been allocated across program activities based on estimates of employee time incurred and on resource usage. The basis for allocation is reviewed regularly by management.

PRIDE Industries

Notes to Consolidated Financial Statements (in thousands)

Net assets – In accordance with accounting guidance applicable to not-for-profit organizations, the Company classifies its net assets into two categories based on the existence or absence of donor-imposed restrictions on contributions as described below. The categories are net assets with donor restrictions and net assets without donor restrictions as described below. At June 30, 2021 and 2020, all net assets were classified as without donor restrictions.

- Net assets with donor restrictions include those resources that have been restricted by donor to specific use or the passage of time.
- Net assets without donor restrictions are all the remaining net assets of the Company, including those derived from revenues of project activities, government grants, and donations and pledges without donor restrictions. Net assets without donor restrictions may be in part limited as to use by contractual agreements with outside parties. A portion of these net assets may be designated by the Board of Directors for specific purposes. As of June 30, 2021 and 2020, the Company had no board designated net assets.

When a donor restriction expires, that is when a stipulated purpose restriction is accomplished or a time restriction ends, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions. However, contributions with donor restrictions for which restrictions are met in the same reporting period as the contribution is received are recorded as net assets without donor restrictions.

Revenue recognition – The Company recognizes revenue in accordance with ASC 606, *Revenue from Contracts with Customers*. The core principle of ASC 606 is to recognize revenue when control of promised goods or services is transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. To achieve the core principle of ASC 606, the Company performs the following steps:

- Identify the contract(s) with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when (or as) we satisfy a performance obligation.

The majority of the Company's consolidated revenues are product sales and services, which represent integrated facility services of \$306,095 and \$279,344 and manufacturing and logistics services of \$22,642 and \$35,223 for the fiscal years ended June 30, 2021 and 2020, respectively.

Product sales and services (integrated facilities services) – Revenues from integrated facilities services are primarily attributed to U.S. government and commercial contracts that include, but are not limited to, facility operations and maintenance, base operations and logistics support, and construction and capital improvements.

The majority of the integrated facilities services are firm fixed priced performance obligations that are recognized as revenue over time using the output method. These performance obligations generally consist of periodic services performed over the contract period. The services provided are based on a series of performance obligations and the consideration for these services are paid on a firm fixed price amount.

PRIDE Industries

Notes to Consolidated Financial Statements (in thousands)

Certain on-demand maintenance and negotiated long-term construction contracts represent indefinite delivery indefinite quantity (IDIQ) performance obligations. These performance obligations are provided on an ad-hoc basis that are negotiated and then agreed upon with the customer. These represent stand-ready obligations that consist of variable consideration based on the negotiated consideration. The Company has elected to use the “Most Likely Amount” method to estimate the variable consideration where the transaction price for each obligation will be estimated based on the consideration most likely to be received. These services generally take between two to twelve months to complete, and revenue is recognized over time based on inputs or costs incurred relative to the estimated amount of total inputs, also referred to as the input method.

Product sales and services (manufacturing and logistics services) – The Company recognizes revenue for sales of manufactured products and logistic services, including electronics manufacturing services, supply chain management and kitting, fulfillment and distribution services, at a point in time when the customer obtains control of the product, which generally coincides with the date the product is shipped to customers. Product sales are recorded at the stated price or rate per product net of estimated allowances for discounts and returns.

Fees – Revenue from fees represent transportation and rehabilitation services that include, but are not limited to, employment opportunities, training, evaluation, education and other support services. Each daily service is distinct as revenue from these services are recognized over time as the services transferred to the customer are substantially the same during each daily period. Contracts for transportation and rehabilitation services are stand-ready obligations, as they do not include a specified number of trips or service hours.

Contributions – Revenue from contributions are recognized as revenue when an unconditional promise, in substance, to give is received by the Company.

Grants and other – Revenue from grants are recognized when expenditures that are reimbursable under the terms of the grants are incurred.

Financing components – The Company does not have any significant financing components as payment is received at or shortly after the invoice due date.

Contract assets and liabilities – Progress billings on contracts are based on contract terms, generally fixed monthly amounts or agreed upon amounts upon completion of services for integrated facility services or upon delivery of services or products for manufactured products. As such, billings may precede or follow recognition of revenue. The difference between billing amounts and revenue is recognized as either an asset or a liability. The asset, “unbilled revenue,” represents revenue recognized in excess of amounts billed. The liability, “deferred revenue,” represents billings in excess of revenue recognized.

Costs to obtain a contract – Costs to obtain a contract represent costs that are incremental to the acquisition of customer contracts, which consists mainly of sales commissions. The Company determines that the incentive portion of its sales commission plans qualify for capitalization when the contract period is longer than a year. These commissions are amortized over the customer life on a straight-line basis over the term of the contract. Costs incurred to obtain a contract will be expensed as incurred when the amortization period is less than one year. As of June 30, 2021 and 2020, the ending commission amounts included within other current assets, net in the accompanying consolidated statements of financial position were \$81 and \$63, respectively, which represent amounts expected to be recognized within the next year and the ending amounts included within other assets, net were \$137 and \$159, respectively and will be recognized as expense after one year.

Contract costs include, among other items, direct and indirect labor, materials, subcontractor costs, and travel.

PRIDE Industries

Notes to Consolidated Financial Statements (in thousands)

Income taxes – PRIDE Industries, PRIDE One, and PRIDE Government, are all not-for-profit organizations under Section 501(c)(3) of the Internal Revenue Code and similar state statutes and are exempt from federal and state income taxes on activities within their exempt purposes. The companies are classified by the Internal Revenue Service as “other than private foundation” organizations. Under certain circumstances, the companies may be liable for income taxes on unrelated business income pursuant to Section 501(b) of the Internal Revenue Code. There was no unrelated business income for the years ended June 30, 2021 and 2020.

PRIDE Federal, CBA PCC, and C2IC are for-profit organizations and, accordingly, are subject to federal and state income taxes. Timing differences, if any, are reflected as deferred tax assets or liabilities.

In the event the Company had a tax position that was uncertain of being sustained, the Company would apply the minimum probability threshold specified in accounting guidance on income tax accounting to determine whether a financial statement liability or benefit should be recognized. There were no uncertain tax positions at June 30, 2021 and 2020.

As single members, SEAssure and CBA LLC are disregarded for federal tax purposes and therefore do not record any tax assets or liabilities relating to federal taxes. Due to the differing requirements for federal and state taxes, SEAssure and CBA LLC are required to file a U.S. state franchise tax return in California. For the years ended June 30, 2021 and 2020, there were no interest or penalties recognized and recorded as a component of the franchise tax position relating to these entities.

The Company’s tax returns are subject to examination by federal and state jurisdictions. There are no examinations currently in process. The Company is no longer subject to examinations for years before 2018 and 2017 for federal and state tax jurisdictions, respectively.

Advertising – Advertising costs are charged to expenses when incurred. Advertising costs totaled \$103 and \$184 for the years ended June 30, 2021 and 2020, respectively, and are included in marketing, promotion, and other expense and allocated between program activities and management and general expenses based on the nature of the advertising.

Rent expense – In connection with operating lease agreements that provide for escalating rent payments over time, rent expense is recognized on a straight-line basis over the term of the agreement. The difference between rent expense recognized and payments made is accrued as a liability and included in other long-term liabilities. The amount accrued for rent recognized in advance of payments was \$25 and \$0 at June 30, 2021 and 2020, respectively, and is included in other long-term liabilities on the consolidated statements of financial position.

Measure of operations – The Company reports a measure of operations by presenting the change in net assets without donor restrictions from operations as a subtotal in the consolidated statements of activities and changes in net assets in order to improve comparability of information about ongoing operations. Operating activities are defined by the Company as all activities other than financing and investing activities (interest expense and interest income), gains and losses on sales of fixed assets, and infrequently occurring transactions of a nonoperating nature. Amortization of the deferred portion of gain on sale-leaseback transactions is included in operating income as an offset to rent expense.

PRIDE Industries
Notes to Consolidated Financial Statements (in thousands)

Concentrations – The Company had concentrations of sales, inventory purchases, and accounts receivable and unbilled revenue as follows:

	Percentage of Total	
	2021	2020
SALES		
Agencies of the United States government	56%	59%
Agencies of the state of California	16%	16%
ACCOUNTS RECEIVABLE AND UNBILLED REVENUE		
Agencies of the United States government	51%	59%
Agencies of the state of California	21%	16%

The Company's contracts, with agencies of the United States government under the AbilityOne program, generally consist of long-term contracts that are cancellable by the government at the expiration of each one-year segment. In some cases, the contracts have durations of less than a year. Contracts under the AbilityOne program, enacted by the Javits-Wagner-O'Day (JWOD) Act, are listed in the federal register as allocated to the designated nonprofit contractor entity. The government cannot terminate contracts with the Company without significant performance issues, unless complying with the JWOD Act.

Approximately 32% of the Company's employees are members of various unions.

Reclassifications – Certain amounts in the consolidated financial statements as of June 30, 2020, and for the year then ended have been reclassified to conform to the presentation in the consolidated financial statements for the year ended June 30, 2021. Such classifications had no effect on cash and net assets at June 30, 2020, or the changes in net assets for the year then ended.

Use of estimates in the preparation of consolidated financial statements – The preparation of consolidated financial statements in conformity with generally accepted accounting principles 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair value of financial instruments – The Company determines the fair value of its investments in accordance with FASB ASC 820, *Fair Value Measurements and Disclosures*. FASB ASC 820 focuses on the price that would be received to sell the asset, which is referred to as the exit price and provides guidance on how to measure fair value, when required, under existing accounting standards. FASB ASC 820 established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels as follows:

Level 1 – Observable inputs that reflect quoted prices for identical assets in active markets that the Company has the ability to access at the measurement date.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets in active markets;
- Quoted prices for identical or similar assets in inactive markets;
- Inputs other than quoted prices that are observable for the asset; or

PRIDE Industries

Notes to Consolidated Financial Statements (in thousands)

- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset.

Level 3 – Unobservable inputs reflecting the Company’s estimates of the assumptions that market participants would use in pricing the asset (including assumptions about risk).

The Company reports certain alternative investments using net asset value (NAV) per share as determined by investment managers under the so-called “practical expedient”. The practical expedient allows NAV per share to represent fair value for reporting purposes when the criteria for using this method are met.

Due to the short-term nature of cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses, their carrying value approximates their fair value. Considerable judgment is required to develop estimates of fair value. The use of different market assumptions and/or estimation methodologies may affect the estimated fair value amounts. The fair value estimates are based on pertinent information available to management as of June 30, 2021 and 2020. Accordingly, the estimates are not necessarily indicative of the amounts the Company could have realized in a current market exchange.

Risk and uncertainties– In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) a global pandemic and a public health emergency. Facility closures or disruption in operations of the Company’s customers or suppliers could adversely impact the Company’s results of operations to the extent that COVID-19 or any other epidemic harms the global economy. The Company cannot estimate the impact on its operations and financial results, and the duration and intensity of the impact of the coronavirus and resulting disruption to the Company’s operations is uncertain.

Subsequent events – Subsequent events are events or transactions that occur after the consolidated financial statement date but before the consolidated financial statements are available to be issued. The Company recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statement of financial position, including the estimates inherent in the process of preparing the consolidated financial statements. The Company’s consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated statements of financial position but arose after the consolidated statements of financial position date and before the consolidated financial statement are available to be issued. Subsequent events have been evaluated through October 27, 2021, the date the consolidated financial statements were available to be issued. (See Note 17).

NOTE 2 – ADOPTION OF REVENUE ACCOUNTING STANDARD

Upon the adoption of ASC 606 and ASC 340-40, *Other Assets and Deferred Costs – Contracts with Customers*, the Company recorded a net decrease to the opening balance of net assets without donor restrictions of \$3,604 as of July 1, 2019. The adoption's cumulative effect primarily related to the following changes in the statements of financial position:

- Prior to ASC 606, the Company recognized revenue from certain integrated facility services contracts on a percentage of completion basis (over time using the input method). As these services are based on a series of performance obligations provided monthly, under ASC 606 revenue is recognized over time using the output method. As of the adoption date, the Company recorded a net decrease in account receivables, unbilled revenue and deferred revenue.
- The Company previously recognized revenue from IDIQ project service performance obligations on customer contracts at a point in time, typically at completion of the entire project. Upon adoption of ASC 606 the Company recognizes revenue over time using the input method for these performance obligations, resulting in a net increase in unbilled revenue and net decrease in inventory as of the adoption date.
- Internal commission costs were previously expensed as earned monthly. As these commission costs represent costs to obtain a contract, under ASC 606, the Company capitalizes these costs and amortizes them over the contract life (which is generally on a straight-line basis over the term of the contract). In addition, the related commission payable is included within accrued expenses related to the anticipated commission amount remaining to be paid out. This resulted in a net increase in other assets and accrued expenses as of the adoption date.

In connection with the adoption of ASC 606, the Company elected the following transition practical expedients: (i) to reflect the aggregate of all contract modifications that occurred prior to the date of initial application when identifying satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price; and (ii) to apply the standard only to contracts that are not completed at the initial date of application. Because contract modifications are minimal, there is not a significant impact as a result of electing these practical expedients.

PRIDE Industries
Notes to Consolidated Financial Statements (in thousands)

The cumulative effect of adopting ASC 606 and ASC 340-40 on the consolidated statement of financial position as of June 30, 2020, was as follows:

	Amounts before cumulative effect of a change in accounting principle related to revenue recognition June 30, 2020	Effect of a change in accounting principle related to revenue recognition	As reported June 30, 2020
CURRENT ASSETS			
Unbilled revenue	\$ 8,920	\$ (2,783)	\$ 6,137
Inventories, net	5,256	(1,468)	3,788
Other assets, current portion	-	1,176	1,176
NONCURRENT ASSETS			
Other assets, net	1,552	159	1,711
CURRENT LIABILITIES			
Accrued expenses	16,853	40	16,893
Deferred revenue	-	109	109
NET ASSETS WITHOUT DONOR RESTRICTIONS	\$ 22,392	\$ 2,768	\$ 25,160

The cumulative effect adopting ASC 606 and ASC 340-40 on the consolidated statement of activities and changes in net assets for the year ended June 30, 2020, was as follows:

	Amounts before cumulative effect of a change in accounting principle related to revenue recognition June 30, 2020	Effect of a change in accounting principle related to revenue recognition	As reported June 30, 2020
REVENUES			
Product sales and services	\$ 312,585	\$ 1,982	\$ 314,567
EXPENSES			
Program activities	291,439	(2,818)	288,621
Change in net assets without donor restrictions from operations	\$ 6,766	\$ (836)	\$ 5,930

PRIDE Industries
Notes to Consolidated Financial Statements (in thousands)

NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditures, that is without donor-imposed restriction or other restrictions limiting their use, within one year of the consolidated statement of financial position consist of the following at June 30:

	2021	2020
Cash	\$ 15,810	\$ 1,614
Accounts receivable, net	48,132	41,975
Unbilled revenue	13,497	6,137
Net financial assets available to meet cash needs for general expenditures within one year	\$ 77,439	\$ 49,726

To manage liquidity, the Company has a revolving line of credit of up to \$65,000 that it may draw on to meet its liquidity needs. This line of credit is tied to the Company's main operating bank account via an auto borrow/auto repay feature and is drawn upon as needed. Cash availability is monitored closely by management. See further discussion of the line of credit at Note 10.

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable consists primarily of receivables resulting from services provided or sales of products. Accounts receivable balances at June 30, 2021 and 2020, are net of allowances for doubtful collection of \$284 and \$751, respectively.

NOTE 5 – INVENTORIES

Inventories consist of the following at June 30:

	2021	2020
Direct materials	\$ 3,505	\$ 3,197
Work in progress	294	146
Finished goods	502	680
Miscellaneous supplies	64	87
	4,365	4,110
Allowance for obsolescence	(133)	(322)
Total inventories, net	\$ 4,232	\$ 3,788

PRIDE Industries
Notes to Consolidated Financial Statements (in thousands)

NOTE 6 – RESTRICTED CASH

Restricted cash consists of the following at June 30:

	<u>2021</u>	<u>2020</u>
Grant deposits	\$ 4	\$ 4
Endowments	307	251
Captive trust	<u>49</u>	<u>2,488</u>
Total restricted cash	<u>\$ 360</u>	<u>\$ 2,743</u>

NOTE 7 – INVESTMENTS

Investments are contained in two trust accounts with restricted assets in support of the collateral obligation of the Company for the workers' compensation policy and a surety bond. In May 2021, the second trust account transferred all funds except for \$10 to an unrestricted open-ended fund account as a result of a reduction in the collateral obligations.

Investments in debt and equity securities carried at fair value, as of June 30, are as follows:

	<u>2021</u>		<u>2020</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Restricted:				
Corporate bonds	\$ 2,004	\$ 1,983	\$ 4	\$ 4
U.S. government treasuries	2,654	2,661	4,763	4,958
Unrestricted:				
Open-end fund - equity	<u>2,772</u>	<u>2,756</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 7,430</u>	<u>\$ 7,400</u>	<u>\$ 4,767</u>	<u>\$ 4,962</u>

Net unrealized (losses) gains amounted to (\$30) and \$195 and are included in investment income in the consolidated statements of activities and changes in net assets for the years ended June 30, 2021 and 2020, respectively.

NOTE 8 – FAIR VALUE MEASUREMENTS

The fair value measurement level selected within the fair value hierarchy discussed in Note 1 is based on using the lowest level of input that is significant to the fair value measurement. There were no material transfers between fair value hierarchy levels for any invested assets recorded at fair value during 2021 and 2020. The valuation techniques used by the Company maximize the use of observable inputs and minimize the use of unobservable inputs.

PRIDE Industries
Notes to Consolidated Financial Statements (in thousands)

Securities recorded using Level 2 fair values are priced using standard inputs, when available, which include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. Inputs used also take into consideration market indicators, industry and economic events. There have been no changes in the Level 2 fair value methodologies used by the Company during 2021 and 2020.

The following is a description of the inputs used for invested assets recorded using Level 2 fair values:

Corporate bonds: Value based on the defined sector, benchmark yields, yield to maturity, and adjustments related to corporate actions. In addition to the standard inputs described above, certain bonds are valued using vendor trading platform data.

The following is a description of the inputs used for invested assets recorded at net asset value:

Open-end fund - equity – the Company uses the NAV as a practical expedient to determine the fair value of all the underlying investments which do not have readily determinable fair value and prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

Debt and equity securities held by the Company as of June 30, 2021 and 2020, are recorded at fair value in accordance with FASB ASC 820, as further described in Note 1. The Company measures the fair value of these securities as of June 30, as follows:

	Balance as of June 30, 2021	Level 1	Level 2	Level 3	NAV
U.S. government treasuries	\$ 2,661	\$ 2,661	\$ -	\$ -	\$ -
Corporate bonds	1,983	-	1,983	-	-
Open-end fund - equity	2,756	-	-	-	2,756
Total investments	\$ 7,400	\$ 2,661	\$ 1,983	\$ -	\$ 2,756
	Balance as of June 30, 2020	Level 1	Level 2	Level 3	NAV
U.S. government treasuries	\$ 4,958	\$ 4,958	\$ -	\$ -	\$ -
Corporate bonds	4	-	4	-	-
Total investments	\$ 4,962	\$ 4,958	\$ 4	\$ -	\$ -

PRIDE Industries
Notes to Consolidated Financial Statements (in thousands)

NOTE 9 – FIXED ASSETS

Fixed assets consist of the following at June 30:

	<u>2021</u>	<u>2020</u>
Land	\$ 4,502	\$ 4,502
Buildings, improvements, and leasehold improvements	24,602	24,550
Equipment, furniture, and computer software	52,648	53,076
Vehicles	<u>28,369</u>	<u>25,125</u>
	110,121	107,253
Accumulated depreciation and amortization	<u>(65,362)</u>	<u>(62,588)</u>
Total fixed assets, net	<u>\$ 44,759</u>	<u>\$ 44,665</u>

All fixed assets are pledged as collateral under the Company's various debt agreements. Included in the amounts above are assets under capital leases with capitalized costs of \$13,775 and \$13,603 as of June 30, 2021 and 2020, respectively (see Note 12).

Equipment, furniture, and computer software includes capitalized software development costs for the Company's enterprise resource planning (ERP) system and other software resources. Capitalized development costs for software projects at June 30:

	<u>2021</u>	<u>2020</u>
Development costs for software placed in service	\$ 7,238	\$ 11,165
Development costs for software, not yet in service	-	135
Cumulative capitalized interest expense for software costs	<u>449</u>	<u>449</u>
Total capitalized development costs for software	<u>\$ 7,687</u>	<u>\$ 11,749</u>

Total depreciation and amortization expenses of \$7,265 and \$7,970, includes amortization expense of \$1,157 and \$1,247 on capitalized software, and \$2,721 and \$2,720 on assets under capital leases during the years ended June 30, 2021 and 2020, respectively.

The Company obtains transportation equipment through grants with the California Department of Transportation (Caltrans). Caltrans remains a lienholder on the equipment until Caltrans determines that the asset has reached the end of its useful life. At that time, Caltrans reverts ownership to the Company. Use of these assets is limited primarily to transporting persons with disabilities. Included in the total amount of vehicles above are assets acquired with government grants, including the Caltrans grants, with total net book values of \$1,350 and \$1,608 as of June 30, 2021 and 2020, respectively.

The Company uses certain government-owned equipment and vehicles in connection with the performance of certain government contracts. These assets are not reported as part of the Company's fixed assets.

PRIDE Industries
Notes to Consolidated Financial Statements (in thousands)

NOTE 10 – LINE OF CREDIT

As of June 30, 2021 and 2020, the Company has a revolving line of credit agreement (the Agreement) with a three-bank lender group. The Agreement is for \$65,000, subject to available collateral consisting of 85% of eligible receivables, which is reduced by outstanding borrowings, the amount of irrevocable letters of credit issued on the Company's behalf (up to \$10,000), and other borrowing base reserves. The Company has the option to increase the line to \$85,000 subject to a minimum average availability requirement measured at the time of the applicable line increase based on the prior 30 days' average availability. As of June 30, 2021, the Company had no outstanding borrowings, letters of credit issued of \$426, other borrowing base reserves of \$7,079, and a net available borrowing base of \$27,792. As of June 30, 2020, the Company had no outstanding borrowings, letters of credit issued of \$250, other borrowing base reserves of \$6,080, and a net available borrowing base of \$27,181. The Agreement bears interest at the per annum rate determined by the Daily Three-Month LIBOR plus an applicable margin based on a combination of the Company's debt service coverage and excess availability. As of June 30, 2021 and 2020, the interest rate was 1.65% and 2.3%, respectively. The Agreement has an expiration date of July 29, 2022.

PRIDE Industries, PRIDE One, PRIDE Government, and PRIDE Federal pledged their depository accounts, accounts receivable, inventories, fixed assets (except for real estate facilities), and other assets as collateral under the Agreement. The Agreement contains restrictive financial covenants including a limitation on unfinanced capital expenditures and a requirement to maintain minimum debt service coverage. Included in the amendment dated February 18, 2020 (effective February 1, 2020), is a covenant to maintain excess availability through September 2020. As of June 30, 2021 and 2020, the Company was in compliance with these covenants.

The Company has net capitalized fees for legal services and closing costs associated with the Agreement totaling \$96 and \$185 at June 30, 2021 and 2020, respectively, that are being amortized over the remaining three-year term of the Agreement.

The Company has an arrangement under its line of credit where it has a zero-balance sweep bank account with a lockbox for the collection of receipts and management of borrowings on the Company's line of credit. Under that arrangement, any positive balances on deposit in the zero-balance account are used daily to reduce borrowings under the line of credit. Borrowings from the line of credit are made daily and are deposited in other accounts to cover clearing outstanding checks and other cash disbursements.

PRIDE Industries

Notes to Consolidated Financial Statements (in thousands)

NOTE 11 – LONG-TERM DEBT

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

	Interest Rate	2021	2020
Equipment facility, four notes payable, monthly payments of \$153 including principal and interest due April 2023, collateralized by equipment with net book value of \$545 and \$1,554 as of June 30, 2021 and 2020, respectively.	2.88% to 3.50%	\$ 1,262	\$ 2,460
Tenant improvements, one note payable for \$150, monthly payments of \$6 including principal and interest due September 2021, collateralized by tenant improvements with a net book value of \$12 and \$21 as of June 30, 2021 and 2020, respectively.	7.00%	3	20
Equipment facility, four notes payable, monthly payments of \$104 including principal and interest, due March 2026, collateralized by equipment with net book value of \$3,600 and \$5,336 at June 30, 2021 and 2020, respectively.	2.50% to 4.25%	5,367	6,720
Building and land, note payable, monthly payments of \$75, due April 2027, collateralized by building and land with net book value of \$23,105 and \$23,792 at June 30, 2021 and 2020, respectively. Fixed interest rate of 5.12% with additional variable swap component.	30-Day LIBOR plus 173 basis points	21,355	22,251
Building and land, note payable, monthly payments of \$21, due September 2028, collateralized by two facilities with net book value of \$336 and \$483 at June 30, 2021 and 2020, respectively.	8.00%	2,573	2,600
Equipment facility, three notes payable, up to \$4,886 total borrowing capacity with draw period open through October 2021, monthly payments including principal and interest through October 2026, collateralized by equipment with net book value of \$3,010 and \$206 at June 30, 2021 and 2020, respectively.	3.03%	3,215	217
Equipment facility, one note payable, monthly payments including principal and interest, due January 2025, uncollateralized.	2.83%	365	-
Total		34,140	34,268
Current portion		(4,010)	(3,492)
Long-term debt		<u>\$ 30,130</u>	<u>\$ 30,776</u>

The equipment notes contain restrictive financial covenants including a limitation on unfinanced capital expenditures and requirements to maintain a fixed charge coverage ratio. One note, collateralized by a building and land, contains certain financial covenants including a fixed charge coverage ratio and a minimum liquidity reserve. As of June 30, 2021 and 2020, the Company was in compliance with these covenants.

PRIDE Industries
Notes to Consolidated Financial Statements (in thousands)

Aggregate principal maturities on long-term debt over the next five years are as follows:

<u>Years ending June 30,</u>	
2022	\$ 4,010
2023	3,410
2024	3,128
2025	2,513
2026	1,901
Thereafter	<u>19,178</u>
	<u><u>\$ 34,140</u></u>

NOTE 12 – CAPITAL LEASES

The Company has certain buildings, equipment, vehicles, and computer software under capital leases with interest rates between 2.05% and 7.04% expiring through June 2026. The assets and liabilities are recorded at the lower of the present value of the minimum lease payments or of fair market value of the assets. The assets are amortized over the lesser of the term of the lease or the useful life of the assets.

Following is a summary of assets held under capital leases (see Note 9) as of June 30:

	<u>2021</u>	<u>2020</u>
Buildings, improvements, and leasehold improvements	\$ 38	\$ 85
Equipment and computer software	1,290	5,600
Vehicles	<u>5,921</u>	<u>11,173</u>
	7,249	16,858
Accumulated depreciation and amortization	<u>(6,717)</u>	<u>(10,026)</u>
Net fixed assets under capital leases	<u><u>\$ 532</u></u>	<u><u>\$ 6,832</u></u>

PRIDE Industries
Notes to Consolidated Financial Statements (in thousands)

Future minimum payments under capital lease obligations as of June 30, 2021, are as follows:

<u>Years ending June 30,</u>	<u>Minimum Rental Payments</u>
2022	\$ 3,354
2023	2,179
2024	1,298
2025	924
2026	494
	<u>8,249</u>
Less amount representing imputed interest	<u>396</u>
Present value of net minimum lease payments	7,853
Current portion	<u>2,585</u>
Noncurrent portion	<u><u>\$ 5,268</u></u>

NOTE 13 – SELF-INSURED RISKS

Estimated self-insurance liabilities include both reported claims and estimated claims incurred but not reported and include the following at June 30:

	<u>2021</u>	<u>2020</u>
Workers' compensation	\$ 8,212	\$ 7,865
Auto	515	345
EPLI	413	584
Employee medical coverage	118	306
Unemployment programs	191	551
	<u>9,449</u>	<u>9,651</u>
Total self-insured liabilities	<u>9,449</u>	<u>9,651</u>
Current portion	<u>(4,267)</u>	<u>(4,058)</u>
Noncurrent portion	<u><u>\$ 5,182</u></u>	<u><u>\$ 5,593</u></u>

The Company made payments on aggregate self-insurance claims and insurance premiums amounting to \$7,571 and \$9,844 for the years ended June 30, 2021 and 2020, respectively.

In connection with its workers' compensation program, the Company is required to provide collateral to its stop-loss coverage insurer for its commitment to fulfill claims for open policy years dating back to 2005. The Company was required to pledge amounts of cash and investment for payment of workers' compensation claims. These amounts are held in trust for the benefit of the stop-loss insurer and are classified as restricted on the accompanying statements of financial position. The total amount pledged for its workers' compensation program was \$4,683 and \$4,692 as of June 30, 2021 and 2020, respectively, and is included in restricted cash and investments on the accompanying consolidated statements of financial position.

PRIDE Industries
Notes to Consolidated Financial Statements (in thousands)

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Operating leases – The Company leases equipment and facilities under operating leases. As of June 30, 2021, future annual minimum rental payments required under operating leases that have an initial or remaining noncancelable lease term in excess of one year are as follows:

<u>Years ending June 30,</u>	
2022	\$ 1,578
2023	580
2024	266
2025	149
2026	114
Thereafter	<u>268</u>
	<u><u>\$ 2,955</u></u>

Rent expense under all operating leases totaled \$2,717 and \$3,178 for the years ended June 30, 2021 and 2020, respectively. Rent expense is recognized on a straight-line basis over the lease term rather than when payments are due.

Consigned inventory – The Company holds inventory on consignment for others in connection with contracts to perform distribution, assembly, or manufacturing services. Consigned inventory is not included in the consolidated financial statements as assets because the Company does not hold title or have the risks and rewards of ownership. The Company has custodial risks in connection with consigned inventory and could be responsible for losses. The Company believes that it maintains insurance that is sufficient to cover potential casualty losses and that no significant contingent liability exists in connection with inventory held on consignment as of June 30, 2021 and 2020.

Litigation – The Company is a defendant in a number of legal actions. While the final outcome cannot be determined at this time, management and the counsel are of the opinion that the ultimate liability, if any, from the final resolution of these matters will not have a material effect on the Company's consolidated financial statements.

Indemnifications – The Company is party to a variety of agreements under which it may be obligated to indemnify the other party for certain matters. Primarily, these agreements are standard indemnification arrangements entered into in the ordinary course of business. Pursuant to these arrangements, the Company may agree to indemnify, hold harmless, and reimburse the indemnified parties for losses suffered or incurred by the indemnified party, generally customers, in connection with any claims arising out of the services that the Company provides. The Company also incurs costs to defend lawsuits or settle claims related to these indemnification arrangements, and in most cases these costs are paid from the insurance program. Although the Company attempts to place limits on such indemnification arrangements related to the size of the contract, the maximum obligation may not be explicitly stated and, as a result, the maximum potential amount of future payments the Company could be required to make under these arrangements is not determinable.

The Company's certificate of incorporation and bylaws may require indemnification of the Company's directors and officers for certain liabilities that were incurred as a result of their status or service to the Company as a director or officer. The amount of these obligations cannot be reasonably estimated.

PRIDE Industries

Notes to Consolidated Financial Statements (in thousands)

U.S. government contracts, investigations and claims – The Company has U.S. Government contracts that are funded incrementally on a year-to-year basis. Changes in government policies, priorities or funding levels through agency or program budget reductions by the U.S. Congress or executive agencies could have a material adverse effect on the Company's cash flow, financial condition or results of operations. Furthermore, contracts with the U.S. Government may be terminated or suspended by the U.S. Government at any time, with or without cause. Such contract suspensions or terminations could otherwise adversely affect the Company's cash flow, financial condition, or results of operations.

On an ongoing basis, departments and agencies of the U.S. Government have the authority to investigate various transactions and operations of the Company, and the results of such investigations may lead to administrative, civil or criminal proceedings, the ultimate outcome of which could be fines, penalties, repayments or compensatory or treble damages. U.S. Government regulations provide that certain findings against a contractor may lead to suspension or debarment from future U.S. Government contracts. Suspension or debarment could have a material adverse effect on the Company because of its reliance on U.S. Government contracts.

U.S. Government agencies, including the Defense Contract Audit Agency (DCAA) and others, periodically audit and review a contractor's performance on government contracts, indirect rates and pricing practices, and compliance with applicable contracting and procurement laws, regulations and standards. Accordingly, costs billed or billable to the U.S. Government customers are subject to potential adjustment upon audit by such agencies. They also review the adequacy of the contractor's compliance with government standards for its accounting and management internal control systems.

NOTE 15 – EMPLOYEE BENEFIT PLANS

Defined contribution plans

The Company offers a defined contribution plan to all nonhighly compensated employees, subject to meeting eligibility requirements. The PRIDE Industries Retirement and Profit-Sharing Plan (the PRIDE 401(k) Plan) allows participants to contribute to the PRIDE 401(k) Plan and direct the investment of their account balances. The Company may make matching contributions at its discretion under Section 401(k) of the Internal Revenue Service Code (IRS Code). Matching contributions made by the Company to the PRIDE 401(k) Plan were \$526 and \$499 for the years ended June 30, 2021 and 2020, respectively. In addition, under certain prevailing wage contracts, the Company is required to make wage rate contributions to the accounts of participants. Employer wage rate contributions to the PRIDE 401(k) plan were \$6,453 and \$6,514 for the years ended June 30, 2021 and 2020, respectively.

With the acquisition of Crossroads Diversified Services, Inc. (Note 16) on July 1, 2020, the Company assumed a defined contribution plan covering substantially all the employees of Crossroads Diversified Services, Inc. and Crossroads Facility Services, Inc. The Crossroads Diversified Services, Inc. 401(k) Plan (the CDS 401(k) Plan) allowed employees of the two acquired entities to contribute directly to the CDS 401(k) Plan and direct the investment of their accounts, including eligible loans. During the year ended June 30, 2021, the Company made matching contributions of \$18. Effective January 1, 2021, the CDS 401(k) Plan was amended to disallow new elective deferral contributions and any continuing employees of the two acquired entities became eligible to participate in the PRIDE 401(k) Plan.

PRIDE Industries

Notes to Consolidated Financial Statements (in thousands)

Deferred compensation plans

The Company offers a defined contribution plan to all highly compensated employees, subject to meeting eligibility requirements. The PRIDE Industries 403(b) Plan (the 403(b) Plan) allows participants to contribute to the 403(b) Plan and direct the investment of their account balances under Section 403 of the IRS Code. Employer matching contributions are allowed for the 403(b) Plan. During the years ended June 30, 2021 and 2020, the Company made no employer matching contributions to the 403(b) Plan.

The Company also has nonqualified 457(b) and 457(f) deferred compensation retirement plans. The 457(b) plan permits eligible employees to defer a portion of their compensation and allows for employer discretionary contributions within federal contribution limits. No such employer contributions were made to the 457(b) plan for the years ended June 30, 2021 and 2020. The 457(f) plan permits employer discretionary contributions in compliance with the deferred compensation rules of Section 409A of the IRS Code. Contributions to the 457(f) were \$19 and \$37 for the years ended June 30, 2021 and 2020, respectively. Deferred compensation retirement plan investments are recorded in the Company's consolidated statements of financial position for the same amount as the corresponding future deferred compensation retirement plan liability.

Multi-employer pension plans

The Company contributes to various multi-employer plans under collective bargaining agreements (CBAs) that cover its union-represented employees. For certain union employees, the Company contributes to multi-employer pension plans jointly administered by industry and union representatives. Because of the nature of multi-employer plans, the risk of participating in U.S. multi-employer pension plans is different from single-employer pension plans in the following aspects:

- Assets contributed to the multi-employer plan by one employer may be used to provide benefits of employment to other participating employers.
- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If the Company stops participating in some of its multi-employer pension plans, it may be required to pay those plans an amount based on the underfunded status of the entire plan.

The Company's participation in these plans for the years ended June 30, 2021 and 2020, is outlined in the following table. All information in the table is as of June 30, 2021, unless otherwise noted. The Plan Protection Act (PPA) zone status column ranks the funded status of multi-employer pension plans depending upon a plan's current and projected funding. The zone status is based on information that the Company received from the plan. Among other factors, the plan is in the Red Zone (Critical) if it has a current funded percentage less than 65%. A plan is in the Yellow Zone (Endangered) or Orange Zone (Seriously Endangered) if it has a current funded percentage of less than 80% or projects a credit balance deficit within seven years. A plan is in the Green Zone (Healthy) if it has a current funded percentage greater than 80% and does not have a projected credit balance deficit within seven years. The Funding Improvement Plan (FIP)/Rehabilitation Plan (RP) status column indicates plans for which a FIP or RP is either pending or in place.

PRIDE Industries
Notes to Consolidated Financial Statements (in thousands)

The following table contains information about the Company's multi-employer pension plans for the years ended June 30, 2021 and 2020:

Plan Name	EIN/PN	PPA Status		FIR/RP Status Pending/ Implemented	Company Contributions		Expiration of CBAs
		(1) 2021	2020		2021	2020	
Central pension fund of the IUOE & participating employers	36-6052390/001	Green	Green	N/A	\$1,586	\$1,579	9/30/2023 to 10/31/2025
Building service pension plan	91-6034670/001	Red	Red	Implemented (2)	-	43	(3)
Total contributions to multi-employer pension plans					<u>\$ 1,586</u>	<u>\$ 1,622</u>	

(1) The EIN/PN column provides the Employer Identification Number and the three-digit plan number assigned to the plan by the Internal Revenue Service.

(2) For the respective plans, a funding surcharge was not in effect during the years presented.

(3) The Company began participating in the Building Service Pension Plan as of January 1, 2018 and exited the plan on December 31, 2019.

The Company was not listed as providing more than 5% of the total contributions to the above plans per the most currently available Forms 5500 (as of the plan's year-end). The Company currently has no intention of withdrawing from any of the multi-employer pension plans in which the Company participates. There have been no significant changes that affect the comparability of total contributions for any of the periods presented other than those noted above.

Multi-employer defined contribution plans

In addition to the contributions noted above, the Company also makes contributions to multi-employer defined contribution plans. During the years ended June 30, 2021 and 2020, the contributions to the defined contribution plans were \$2,892 and \$3,186, respectively.

Multi-employer post-retirement benefit plans

The Company also contributes to several multi-employer post-retirement health and welfare plans based on obligations arising under collective bargaining agreements covering union-represented employees. These plans may provide medical, pharmacy, dental, vision, mental health, and other benefits to employees as determined by the trustees of each plan. The majority of the contributions benefit active employees and as such, may not constitute contributions to a post-retirement benefit plan. However, since the Company is unable to separate contribution amounts to post-retirement benefit plans from contribution amounts paid to benefit active employees, the Company categorizes all such amounts as contributions to post-retirement benefit plans. During the years ended June 30, 2021 and 2020, the contributions to such plans were \$14,451 and \$14,552, respectively. There have been no significant changes that affect the comparability of total contributions for any of the periods presented.

PRIDE Industries
Notes to Consolidated Financial Statements (in thousands)

NOTE 16 – ACQUISITION

On July 1, 2020, PRIDE Industries completed the acquisition of PRIDE Government (formerly Crossroads Diversified Services, Inc.) and PRIDE Federal (formerly Crossroads Facility Services, Inc.). The acquisition allows for an expansion of employment support services in the Sacramento area and landscaping and janitorial services to government and private-sector clients while continuing to serve PRIDE’s mission. Contracts from the two acquired entities will be transferred to PRIDE Industries and PRIDE Industries One, Inc. to align with the existing lines of business and allow for efficiencies in administration.

In connection with the business combination, the Company valued assets acquired and liabilities assumed using net book value, which approximates fair value. In addition, the fair value of customer contract relationships was determined using the net present value of expected future cash flows and recorded as an intangible asset.

The table below summarizes the recognized amounts of assets acquired and liabilities assumed at the date of acquisition:

Cash	\$	2,832
Accounts receivable, net		1,767
Prepaid expenses		380
Fixed assets, net		870
Intangible assets		3,100
Other assets, net		<u>486</u>
 Total assets		 <u>9,435</u>
 Accounts payable		 290
Accrued expenses		732
Deferred revenue		10
Self-insurance liabilities		50
Long-term debt		371
Other long-term liabilities		<u>36</u>
 Total liabilities		 <u>1,489</u>
 Total identifiable net assets acquired		 <u>\$ 7,946</u>

No consideration was paid for the acquisition and as a result, the full amount of identifiable net assets acquired was recorded as an inherent contribution from acquisition on the accompanying consolidated statements of activities and changes in net assets.

Intangible assets consist of the following at June 30, 2021:

	Gross Carrying Amount	Accumulated Amortization
Customer contract relationships	\$ 3,100	\$ (207)

Amortization expense for the year ended June 30, 2021 was \$207. The intangible assets are being amortized over 15 years.

PRIDE Industries

Notes to Consolidated Financial Statements (in thousands)

The future amortization of the intangible asset is as follows:

<u>Years ending June 31,</u>	
2022	\$ 207
2023	207
2024	207
2025	207
2026	207
Thereafter	<u>1,860</u>
	<u>\$ 2,893</u>

NOTE 17 – SUBSEQUENT EVENT

On August 1, 2021, PRIDE Industries completed the acquisition of Partnerships with Industry (PWI), a nonprofit corporation. Upon acquisition, PWI merged into PRIDE Industries. The acquisition allows for an expansion in rehabilitation and placement services and expanded presence in the San Diego area, while continuing to serve PRIDE's mission. Contracts and employees from PWI were transferred to PRIDE Industries.

In connection with the acquisition, PRIDE acquired \$3,388 in tangible assets. Management's preliminary estimate of the fair value of assets acquired and liabilities assumed with the acquisition was \$3,183 of cash and \$150 of receivables, and \$59 of liabilities. There was no consideration given.

Supplementary Information

PRIDE Industries
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2021

<u>Federal Grantor/Cluster-Program Title</u>	<u>Award Period</u>	<u>Assistance Listing Number</u>	<u>Award Number</u>	<u>Federal Expenditures</u>
U.S. Department of Labor				
<i>Pass-Through Programs From:</i>				
Sacramento Employment and Training Agency - WIOA Adult Program - part of the WIOA Cluster	07/1/2020 - 06/30/2021	17.258	132201SWCS	\$ 57,260
Sacramento Employment and Training Agency - WIOA On Job Training - part of the WIOA Cluster	06/1/2019 - 03/31/2021	17.258	132999DEA	26,664
Sacramento Employment and Training Agency - WIOA Youth Activities - part of the WIOA Cluster	07/1/2020 - 06/30/2021	17.259	132301OS-19E	86,988
Sacramento Employment and Training Agency - WIOA Dislocated Worker Formula Grants - part of the WIOA Cluster	07/1/2020 - 06/30/2021	17.278	132201SWCS	57,780
Total WIOA Cluster				<u>228,692</u>
Total U.S. Department of Labor				<u>228,692</u>
U.S. Department of Health and Human Services				
Temporary Assistance for Needy Families	07/1/2020 - 06/30/2021	93.558	DHA-CDS-02-21	<u>123,980</u>
Total U.S. Department of Health and Human Services				<u>123,980</u>
U.S. Department of Education				
<i>Pass-Through Programs From:</i>				
State of California Department of Rehabilitation - Rehabilitation Services Vocational Rehabilitation Grants to States	07/1/2018 - 06/30/2021	84.126	30712	<u>244,848</u>
Total U.S. Department of Education				<u>244,848</u>
Social Security Administration				
Work Incentives Planning and Assistance Program	07/1/2020 - 06/30/2021	96.008	6 WIP15050457-05-01	<u>244,795</u>
Total Social Security Administration				<u>244,795</u>
Total Expenditures of Federal Awards				<u>\$ 842,315</u>

PRIDE Industries
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2021

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of PRIDE Industries (the Company) under programs of the federal government for the year ended June 30, 2021. The information in this Schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of the Company, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Company.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 – INDIRECT COST RATE

The Company did not elect to use the 10% de minimis cost rate allowed under the Uniform Guidance.

NOTE 4 – SUB-RECIPIENTS

The Company did not provide federal awards to any sub-recipients during the year ended June 30, 2021.



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

The Board of Directors
PRIDE Industries

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 consolidated financial statements of PRIDE Industries (the Company), which comprise the consolidated statement of financial position as of June 30, 2021, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 27, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Company's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company'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 Company's consolidated 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 Company's consolidated 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 consolidated financial statements. 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 results of that testing, and not to provide an opinion on the effectiveness of the Company'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 Company's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss Adams LLP

Sacramento, California

October 27, 2021



Report of Independent Auditors on Compliance for Each Major Federal Program and on Internal Control over Compliance as Required by the Uniform Guidance

The Board of Directors
PRIDE Industries

Report on Compliance for Each Major Federal Program

We have audited PRIDE Industries' (the Company) 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 Company's major federal programs for the year ended June 30, 2021. The Company'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 the 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 Company'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 the 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 Company'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 Company's compliance.

Opinion on Each Major Federal Program

In our opinion, the Company 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 June 30, 2021.

Report on Internal Control over Compliance

Management of the Company 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 Company'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 Company'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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Moss Adams LLP

Sacramento, California
October 27, 2021

PRIDE Industries
Schedule of Findings and Questioned Costs
Year Ended June 30, 2021

Section I – Summary of Auditor’s Results

Financial Statements

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

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) 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 Each Major Federal Program and Type of Auditor’s Report Issued on Compliance for Each Major Federal Program:

<i>Assistance Listing Number</i>	<i>Name of Federal Program or Cluster</i>	<i>Type of Auditor’s Report Issued on Compliance for Each Major Federal Program</i>
17.258/17.259/17.278	<i>Workforce Innovation and Opportunity Act of 2014 (WIOA) Cluster</i>	<i>Unmodified</i>
84.126	<i>Rehabilitation Services— Vocational Rehabilitation Grants to States</i>	<i>Unmodified</i>

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

PRIDE Industries
Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2021

Auditee qualified as low-risk auditee? Yes No

Section II – Financial Statement Findings

None noted

Section III – Federal Award Findings and Questioned Costs

None noted

