



**Prison Rehabilitative Industries
and Diversified Enterprises, Inc.**

Financial Statements

December 31, 2019

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Independent Auditor's Report

RSM US LLP

Board of Directors
Prison Rehabilitative Industries and Diversified Enterprises, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Prison Rehabilitative Industries and Diversified Enterprises, Inc. (PRIDE), which comprise the statement of financial position as of December 31, 2019, the related statement of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Section 946.516 of the Florida State Statutes, which requires PRIDE to report under accounting principles established by the Financial Accounting Standards Board (FASB). Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PRIDE as of December 31, 2019, and the changes in net assets and its cash flows for the year then ended in accordance with the financial reporting provisions of Section 946.516 of the Florida State Statutes as described in Note B.

Basis of Accounting

We draw attention to Note B of the financial statements, which describes the basis of accounting. As described in Note B to the financial statements, the financial statements are prepared by PRIDE on the basis of the financial reporting provisions of the Section 946.516 of the Florida State Statutes, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the State of Florida. Our opinion is not modified with respect to this matter.

Restriction on Use

Our report is intended solely for the information and use of PRIDE and the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

RSM VS LLP

St. Petersburg, Florida
June 26, 2020

Prison Rehabilitative Industries and Diversified Enterprises, Inc.
Statement of Financial Position

December 31,
2019

Assets

Current assets

Cash	\$ 9,191,241
Investments in special purpose investment account	18,942,513
Trade accounts receivable, net	6,421,620
Inventories, net	12,187,834
Prison Industry Trust Fund (PITF)	235,356
Other current assets	1,039,801
Total current assets	<u>48,018,365</u>

Property, agricultural assets and equipment, net	<u>16,710,732</u>
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Total assets	<u><u>\$ 64,729,097</u></u>
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Liabilities and net assets

Current liabilities

Accounts payable	\$ 4,615,924
Accrued liabilities	1,410,539
Total current liabilities	<u>6,026,463</u>

Commitments and contingencies (Notes L and M)

Net assets

Without donor restrictions	
Undesignated	41,991,902
Invested in property, agricultural assets, and equipment	16,710,732
Total net assets	<u>58,702,634</u>

Total liabilities and net assets	<u><u>\$ 64,729,097</u></u>
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See notes to financial statements.

Prison Rehabilitative Industries and Diversified Enterprises, Inc.

Statement of Activities

	Year Ended December 31, 2019
Changes in net assets without donor restrictions	
Revenue	\$ 67,929,900
Cost of sales	(57,134,104)
Gross margin	<u>10,795,796</u>
Operating expenses (Note J)	
Distribution	3,062,427
Selling	2,777,413
General and administrative	4,980,433
Board	92,456
Legal	119,157
Inmate and transition services	605,145
Victim restitution fund - traditional	72,255
Environmental contingencies	10,016
Total operating expenses	<u>11,719,302</u>
Result of operations	(923,506)
Nonoperating revenue (expense)	
PITF income	614,574
Interest income, net of investment expense	542,726
Loss on disposal of assets	(5,025)
Interest expense	(38,584)
Pension expense	(4,443)
Other	(168,500)
Total nonoperating revenue	<u>940,748</u>
Change in net assets without donor restrictions	17,242
Net assets without donor restrictions	
Beginning	<u>58,685,392</u>
Ending	<u>\$ 58,702,634</u>

See notes to financial statements.

Prison Rehabilitative Industries and Diversified Enterprises, Inc.

Statement of Cash Flows

	Year Ended December 31, 2019
Cash flows from operating activities	
Change in net assets	\$ 17,242
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	3,176,685
Loss on disposal of assets	5,025
Provision (recovery) for doubtful accounts	143,382
Decrease (increase) in operating assets	
Trade accounts receivable, net	468,737
Inventories, net	720,201
Prison Industry Trust Fund (PITF)	61,448
Other current assets	(268,722)
Increase (decrease) in operating liabilities	
Accounts payable	2,729,865
Accrued liabilities	(879,864)
Net cash provided by operating activities	<u>6,173,999</u>
Cash flows from investing activities	
Purchase of property, agricultural assets and equipment	(1,878,731)
Proceeds from sales of property, agricultural assets and equipment	207,453
Maturities of certificates of deposit	-
Purchase of investments	(2,498,762)
Net cash used by investing activities	<u>(4,170,040)</u>
Net increase in cash	2,003,959
Cash at beginning of year	<u>7,187,282</u>
Cash at end of year	<u>\$ 9,191,241</u>
Supplemental cash flow information	
Interest paid	<u>\$ (38,584)</u>

See notes to financial statements.

Prison Rehabilitative Industries and Diversified Enterprises, Inc.

Notes to Financial Statements

December 31, 2019

Note A - Nature of Organization

Prison Rehabilitative Industries and Diversified Enterprises, Inc. (PRIDE) is a not-for-profit corporation authorized by the Florida Legislature to lease certain facilities and manage the correctional work programs of the Florida Department of Corrections (DC).

PRIDE was incorporated on December 14, 1981. The final transfer of the former correctional work programs was completed by July 1, 1984. The transfer included certain assets and liabilities of the DC correctional work program and was recorded by PRIDE at estimated fair value. In addition to these transfers, various lease agreements between PRIDE and DC provide for PRIDE to use certain land, buildings, and equipment in its operations (Note L).

PRIDE operates in a variety of industries including furniture manufacturing, agriculture, graphics and digital print technologies, sewn products, services and other general manufacturing. Through its operations in these industries, PRIDE teaches job skills, provides work training programs, and post release job placement to help reduce recidivism, inmate idleness, and provide incentive for good behavior in prison, through its Training and Mission Programs.

PRIDE receives no funding from the Florida Legislature and is totally supported by the earnings it generates from the sale of its products and services. A majority of PRIDE products are sold to state agencies and governmental entities or their contract vendors.

Note B - Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared in conformity with the financial reporting provisions of Section 946.516 of the Florida State Statutes (the Statute). The Statute requires PRIDE to prepare their financial statements in accordance with accounting principles established by the Financial Accounting Standards Board (FASB). Generally accepted accounting principles would require PRIDE's financial statements to be prepared in accordance with accounting principles established by the Government Accounting Standards Board (GASB).

Basis of Presentation

The statements of activities report all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to PRIDE's ongoing program activities. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

Cash

For purposes of reporting the statements of cash flows, PRIDE includes as cash all cash accounts which are not subject to withdrawal restrictions or penalties.

Fair Value

PRIDE follows accounting guidance that defines fair value and specifies a hierarchy of valuation techniques. The disclosure of fair value estimates is based on whether the significant inputs into the valuation are observable. In determining the level of hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs. PRIDE measures investments at fair value on a recurring basis.

The following is a brief description of the type of valuation information (inputs) that qualifies a financial asset for each level:

- Level 1 - Unadjusted quoted market prices for identical assets in active markets that are accessible by PRIDE.
- Level 2 - Observable prices in active markets for similar assets. Prices for identical or similar assets in markets that are not active. Market inputs that are not directly observable, but are derived from or corroborated by observable market data.
- Level 3 - Unobservable inputs based on PRIDE's own judgment as to assumptions a market participant would use, including inputs derived from extrapolation and interpolation that are not corroborated by observable market data.

PRIDE evaluates the various types of financial assets to determine the appropriate fair value hierarchy based upon trading activity and the observability of market inputs. PRIDE employs control processes to validate the reasonableness of the fair value estimates of its assets, including those estimates based on prices and quotes obtained from independent third-party sources.

Prison Rehabilitative Industries and Diversified Enterprises, Inc.

Notes to Financial Statements

December 31, 2019

Accounts Receivable

Accounts receivable result from sales of products to a variety of customers. Trade accounts receivable are stated at cost less an allowance. Credit is extended to customers after their financial condition has been evaluated.

Generally, collateral is not required. Management's determination of the allowance is based on an evaluation of past collection history, current economic conditions and other inherent risks.

The allowance for doubtful accounts was approximately \$154,000 as of December 31, 2019.

Inventories

Manufactured inventories are stated at the lower of cost or net realizable value and are accounted for under the first-in, first-out method. Crops in process are stated at the lower of cost or net realizable value and include all direct and indirect costs of growing crops. An obsolescence reserve is established for slow moving and potentially obsolete inventory based on review of inventory components and market conditions.

Property, Agricultural Assets, and Equipment

PRIDE capitalizes expenditures for property, agricultural assets, and equipment with costs in excess of \$5,000 and with estimated useful lives greater than one year.

Property, agricultural assets and equipment are stated at cost and are depreciated using the straight-line method over their estimated useful lives as follows:

Building and building improvements	Up to 30 years
Leasehold improvements	Up to 20 years
Machinery and equipment	3-10 years
Livestock	5 years
Office equipment and furniture	3-10 years
Software	3-10 years
Vehicles	4-6 years
Grove development	20-30 years

Impairment of Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the net carrying amount may not be recoverable. When these events occur, PRIDE measures impairment by comparing the carrying value of long-lived assets to the estimated undiscounted future cash flows resulting from the assets. If the undiscounted future cash flows are less than the carrying amount of the long-lived assets, an impairment loss is recognized. Management believes no indication of impairment existed at December 31, 2019.

Net Assets

Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- Net assets without donor restrictions include net assets available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets invested in property, agricultural assets and equipment.
- Net assets with donor restrictions include net assets subject to donor-imposed restrictions. Some donor-imposed restrictions could include restrictions that are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions could be perpetual in nature, where the donor could stipulate that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires; that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

As of December 31, 2019, PRIDE had no net assets with donor restrictions.

Revenue and Cost Recognition

Effective January 1, 2019, PRIDE adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which establishes a new standard on revenue recognition. The new standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry specific guidance. The core principle of the revenue model is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard is designed to create greater comparability for financial statement users across industries and jurisdictions and also requires enhanced disclosures. PRIDE adopted the updated guidance on January 1, 2019, using the modified retrospective method on contracts that were not completed at the date of initial application, which did not have a material impact on the financial statements.

As part of the adoption of the ASU, PRIDE made the accounting policy election to treat shipping and handling activities after the customer obtains control of the goods as a fulfillment cost and not as a promised good or service. PRIDE's revenue arrangements generally consist of a single

Prison Rehabilitative Industries and Diversified Enterprises, Inc.

Notes to Financial Statements

December 31, 2019

performance obligation to transfer promised goods or services. Based on PRIDE's evaluation process and review of its contracts with customers, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new standard. No changes were required to previously reported revenues as a result of the adoption.

Revenue is recognized on sales in PRIDE's manufacturing and service operations when control of these products are transferred or services are provided to its customers, in an amount that reflects the consideration PRIDE expects to be entitled to in exchange for those products and services. PRIDE's principal terms of sale are FOB Shipping Point and PRIDE recognizes revenue for product sales upon shipment.

Revenue is recognized in PRIDE's agricultural operations, including citrus, sugarcane, cattle and timber products, as crops, cattle and cut timber are delivered and title passes to the customer in an amount that reflects the consideration PRIDE expects to be entitled to in exchange for those products and services. Certain of PRIDE's crops are harvested by customers. Revenue is recognized on these crops at the time of harvest. PRIDE initially recognizes revenue in an amount which is estimated based on contractual and market prices, if such market price falls within the range identified in the specific contract. Differences between the estimates and the final realization of revenues at the close of the harvesting season can result in either an increase or decrease to revenues. During the periods presented, no material adjustments were made to citrus or sugarcane revenues.

Shipping Costs

Shipping costs are included in distribution expenses.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in Note J. The schedule of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated to the programs and supporting services benefited.

Federal and State Income Taxes

PRIDE is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code) as an organization described in section 501(a)(1) and 170(b)(1)(A)(vi) and Chapter 617, Florida Statutes. Accordingly, no provision for income taxes has been made.

The Internal Revenue Service (IRS) has determined that PRIDE is not required to file a Form 990 because PRIDE is classified as an affiliate of a governmental unit under Section 1.6033-2(g)(6) of the *Income Tax Regulations*.

Contributions to PRIDE are tax deductible under Section 170 of the Code. PRIDE is also qualified to receive tax deductible bequests, devises, transfers or gifts under Sections 2055, 2106, or 2522 of the Code.

Certain Other Taxes

PRIDE collects various taxes from customers and remits those amounts to applicable taxing authorities. PRIDE's policy is to exclude those taxes from sales and cost of sales.

Use of Estimates

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

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, *Leases*, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about the leasing arrangements. The amendments are effective for nonpublic companies for fiscal years beginning after December 15, 2021 (PRIDE's December 31, 2022 financial statements). PRIDE is currently evaluating the impact that adopting this guidance will have on its financial statements.

Subsequent Events

Management has evaluated subsequent events for potential recognition and disclosure through June 26, 2020, which is the date the financial statements were available to be issued. See Note R for subsequent events.

Prison Rehabilitative Industries and Diversified Enterprises, Inc.
Notes to Financial Statements
December 31, 2019

Note C - Liquidity and Availability of Resources

The following represents PRIDE's financial assets at December 31:

	<u>2019</u>
Financial assets at year-end	
Cash	\$ 9,191,241
Investments in SPIA	18,942,513
Trade accounts receivable, net	<u>6,421,620</u>
Total financial assets	<u>34,555,374</u>
Less amounts not available to be used within one year	
None	<u>-</u>
Financial assets available to meet general expenditures over the next 12 months	<u>\$ 34,555,374</u>

PRIDE's board has authorized management to invest 75% of PRIDE's cash assets in a Special Purpose Investment Account (SPIA). PRIDE maintains a minimum of 25% of total cash on hand for liquidity management needs.

Note D - Investments

Special Purpose Investment Account

The Florida State Treasury operates a special investment program for public entities. This program is authorized in Section 17.61(1), Florida Statutes, and is called the SPIA. Component units of the state, universities and colleges created by the Florida Constitution or Florida Statutes are eligible to invest in the SPIA.

Investments in the SPIA are valued at their estimated fair values in the accompanying statements of financial position.

SPIA funds are combined with state funds and are invested as part of the Treasury Investment Pool. The Treasury Investment Pool invests in a combination of short-term liquid instruments and intermediate term fixed income securities.

Earnings are posted monthly based on a pro-rata share of total Treasury earnings. Each SPIA participant is assessed a monthly administrative fee of 0.12% of their average daily balance.

PRIDE's investments in the SPIA totaled approximately \$18.94 million at December 31, 2019. SPIA investments are classified as Level 2 investments within the fair value hierarchy.

Note E - Inventories

Inventories consist of the following at December 31:

	<u>2019</u>
Raw materials and supplies	\$ 6,533,333
Work in process	298,491
Subassemblies	744,535
Finished goods	<u>3,251,193</u>
	10,827,552
Reserve for inventory obsolescence and other	<u>(178,178)</u>
	10,649,374
Crops in process	<u>1,538,460</u>
	<u>\$ 12,187,834</u>

Note F - Prison Industries Trust Fund

PRIDE is authorized by state law to hold the PIE Program Certificate for the state of Florida. PRIDE is authorized to manage and operate correctional work programs under Section 946.504 of the Florida Statutes and is authorized to deposit and withdraw funds from the Prison Industries Trust Fund (PITF).

Deposits to PITF are generated through a 50% withholding on all PIE inmate wages. The amount withheld and remitted to PITF and recognized as income was \$614,574 for the year ended December 31, 2019.

PITF consists of cash. Withdrawals from PITF are authorized by the PRIDE board of directors. The withdrawn funds are to be used by PRIDE for purposes of construction or renovation of its facilities for the expansion or establishment of correctional work programs as described in Section 946.522 of the Florida Statutes or for PIE programs as authorized under Section 946.523 of the Florida Statutes. As of December 31, 2019, PRIDE held \$235,356 in the PITF.

Prison Rehabilitative Industries and Diversified Enterprises, Inc.
Notes to Financial Statements
December 31, 2019

Note G - Property, Agricultural Assets, and Equipment

Property, agricultural assets, and equipment consist of the following at December 31:

	2019	
	Cost	Accumulated Depreciation
Land	\$ 525,181	\$ -
Building and building improvements	8,509,406	(5,660,881)
Leasehold improvements	8,057,658	(3,236,636)
Machinery and equipment	23,493,443	(17,245,278)
Livestock	1,161,387	(849,816)
Office equipment and furniture	1,583,978	(1,213,116)
Software	2,202,534	(2,085,693)
Vehicles	2,546,834	(1,885,021)
Grove development	2,952,345	(2,145,593)
	<u>\$ 51,032,766</u>	<u>(34,322,034)</u>
Net book value		<u>\$ 16,710,732</u>

Property, agricultural assets, and equipment activity is as follows for the year ended December 31, 2019:

	Balance January 1, 2019	Additions			Balance December 31, 2019
		Capital	Depreciation	Disposals	
Land					
Cost	\$ 525,181	\$ -	\$ -	\$ -	\$ 525,181
Building and Building Improvements					
Cost	8,562,943	118,433	-	(171,970)	8,509,406
Accumulated depreciation	(5,611,937)	-	(216,033)	167,089	(5,660,881)
	<u>2,951,006</u>	<u>118,433</u>	<u>(216,033)</u>	<u>(4,881)</u>	<u>2,848,525</u>
Leasehold Improvements					
Cost	8,703,784	75,444	-	(721,570)	8,057,658
Accumulated depreciation	(3,625,394)	-	(332,813)	721,570	(3,236,637)
	<u>5,078,390</u>	<u>75,444</u>	<u>(332,813)</u>	<u>-</u>	<u>4,821,021</u>
Machinery and Equipment					
Cost	25,734,371	912,366	-	(3,157,817)	23,488,920
Accumulated depreciation	(18,617,840)	-	(1,604,342)	2,981,431	(17,240,751)
	<u>7,116,531</u>	<u>912,366</u>	<u>(1,604,342)</u>	<u>(176,386)</u>	<u>6,248,169</u>
Livestock					
Cost	1,309,411	25,701	-	(173,725)	1,161,387
Accumulated depreciation	(703,087)	-	(306,513)	159,784	(849,816)
	<u>606,324</u>	<u>25,701</u>	<u>(306,513)</u>	<u>(13,941)</u>	<u>311,571</u>
Office Equipment and Furniture					
Cost	2,601,700	125,829	-	(1,143,552)	1,583,977
Accumulated depreciation	(2,096,073)	-	(259,334)	1,142,291	(1,213,116)
	<u>505,627</u>	<u>125,829</u>	<u>(259,334)</u>	<u>(1,261)</u>	<u>370,861</u>
Software					
Cost	2,922,926	108,087	-	(828,479)	2,202,534
Accumulated depreciation	(2,820,448)	-	(90,161)	824,917	(2,085,692)
	<u>102,478</u>	<u>108,087</u>	<u>(90,161)</u>	<u>(3,562)</u>	<u>116,842</u>
Vehicles					
Cost	2,506,971	297,880	-	(258,018)	2,546,833
Accumulated depreciation	(1,862,213)	-	(268,380)	245,571	(1,885,021)
	<u>644,758</u>	<u>297,880</u>	<u>(268,380)</u>	<u>(12,447)</u>	<u>661,811</u>
Grove Development					
Cost	2,811,363	214,991	-	(74,009)	2,952,345
Accumulated depreciation	(2,120,494)	-	(99,109)	74,009	(2,145,594)
	<u>690,869</u>	<u>214,991</u>	<u>(99,109)</u>	<u>-</u>	<u>806,751</u>
	<u>\$ 18,221,164</u>	<u>\$ 1,878,731</u>	<u>\$ (3,176,685)</u>	<u>\$ (212,478)</u>	<u>\$ 16,710,732</u>

Prison Rehabilitative Industries and Diversified Enterprises, Inc.
Notes to Financial Statements
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During the year ended December 31, 2019, PRIDE sold or disposed of various property, agricultural assets and equipment and recognized losses of \$5,025.

Included in building and building improvements are three buildings with a net book value of approximately \$1.1 million that are being maintained by PRIDE but are not being used in current operations. PRIDE is maintaining the buildings and depreciating them with the intent to negotiate future usage with DC.

Note H - Sales

Sales by strategic business unit are as follows for the year ended December 31:

	2019	
	Amount	% of Sales
Specialty manufacturing	\$ 21,186,201	31.2%
Graphics and digital	13,143,973	19.3%
Services	13,141,272	19.3%
Sewn products	8,679,207	12.8%
Land management	6,642,125	9.8%
General manufacturing	5,133,809	7.6%
Other	3,313	0.0%
	<u>\$ 67,929,900</u>	<u>100.0%</u>

Note I - Mission Programs

PRIDE has the following programs that are unique to its statutory mission:

- Inmate Re-Entry Services - Represents job training, vocational, and related training to assist inmates participating in PRIDE programs in acquiring job skills prior to release from incarceration.
- Transition Services - Represents post-release job placement support to ex-offenders who formerly participated in PRIDE programs, including both financial assistance and employment referral services.
- Victim Restitution Fund (traditional wages) - PRIDE voluntarily pays to DC 10 cents for every dollar of inmate compensation earned by inmates that owe victim restitution (Note K).

Note J - Functional Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Personnel costs have been allocated among program activities and management and general activities benefited based on time and effort. Such allocations are determined by management on a reasonable basis that is consistently applied. All other costs are charged directly to the appropriate functional category.

PRIDE's expenses by both their nature and their function and their allocation methodology are as follows for the year ended December 31, 2019:

	Total Program					Total Expenses
	Training Programs	Mission Programs	Services	Support Services		
Cost of goods sold	\$ 31,943,254	\$ -	\$ 31,943,254	\$ -	\$ -	\$ 31,943,254
Personnel	14,011,593	383,605	14,395,198	3,431,418	-	17,826,616
Professional fees	56,714	1,000	57,714	490,151	-	547,865
Equipment rental and other	115,427	-	115,427	780	-	116,207
Transportation and travel	1,961,587	10,093	1,971,680	65,690	-	2,037,370
Repairs and maintenance	2,212,189	841	2,213,030	198,024	-	2,411,054
Tools and supplies	3,272,590	22,755	3,295,345	232,734	-	3,528,079
Liability insurance	785,934	3,107	789,041	72,250	-	861,291
Utilities	1,646,678	2,403	1,649,081	169,077	-	1,818,158
Victim restitution	71,653	166	71,819	436	-	72,255
Depreciation and amortization	3,006,604	-	3,006,604	170,081	-	3,176,685
Other	4,010,650	181,341	4,191,991	370,633	-	4,562,624
	<u>\$ 63,094,873</u>	<u>\$ 605,311</u>	<u>\$ 63,700,184</u>	<u>\$ 5,201,274</u>	<u>\$ -</u>	<u>\$ 68,901,458</u>

Prison Rehabilitative Industries and Diversified Enterprises, Inc.

Notes to Financial Statements

December 31, 2019

Note K - Inmate Compensation Plans

Traditional Wages

Florida Statute 946, which authorizes PRIDE to manage the state's prison industries, requires an inmate compensation plan. Under the inmate compensation plan, PRIDE is required to make inmate compensation payments directly to DC. These payments are credited to the account of the inmate that performs the labor.

The cost of the traditional inmate compensation plan was \$1,174,497 for the year ended December 31, 2019. The expense is recorded as a component of cost of sales.

Prison Industries Enhancement (PIE Wages)

Pursuant to Federal Statute 18 USC 1761 (1979 Percy Amendment), inmates involved in the production of goods in interstate commerce are paid a prevailing wage as established through the Florida Agency for Workforce Innovation. Deductions taken from gross wages include 50% for the Prison Industries Trust Fund, 10% for the Crimes Compensation Fund, 10% for court-ordered payments (as applicable), and other court-ordered obligations (e.g. child support), and are not to exceed 80% of gross wages.

PRIDE is required to make inmate compensation payments directly to DC. These payments, net of applicable withholdings, are credited to the account of the inmate that performs the labor. The cost of the PIE inmate compensation plan was \$1,229,838 for the year ended December 31, 2019. The expense is recorded as a component of cost of sales.

PRIDE's payments to DC for the Crimes Compensation Fund were \$122,240 for the year ended December 31, 2019. The expense is recorded as a component of cost of sales.

Note L - Leases

PRIDE has several month-to-month and short-term operating lease agreements for machinery and equipment. Rental expense for these operating leases during the year ended December 31, 2019, was \$252,653.

There are no significant future minimum rental payments under non-cancellable operating leases as of December 31, 2019.

PRIDE leases various land, buildings, and equipment from DC. Under terms of the leases, annual lease payments are 50% of PRIDE's operating income after adjustments and reserves for capital expenditures, working capital requirements, and provision for certain other payments. Such adjusted operating income for the year ended December 31, 2019, was less than zero and, accordingly, no annual lease payments were required.

The fair value of the leased property cannot be reasonably estimated since the property is located next to correctional facilities. Therefore, in-kind revenue and expense has not been recognized in the accompanying financial statements.

Note M - Contingencies

PRIDE is subject to several lawsuits, investigations, and claims arising out of the normal conduct of its business, including those relating to commercial transactions, product liability and safety and health matters. Management believes that any liability arising from such claims would be immaterial to the accompanying financial statements.

PRIDE is responsible for an environmental contingency at one of its manufacturing operations. Remediation activity began prior to June 30, 1999, and was completed in 2008. Monitoring is expected to continue throughout the next several years. The expense associated with the ongoing costs of monitoring was \$10,016 for the year ended December 31, 2019.

Note N - Concentrations

PRIDE's operations are concentrated to operations that take place predominantly within Florida's state prisons. In addition, PRIDE's operations are heavily regulated by the state. The operations of PRIDE are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including but not limited to DC. Such administrative directives, rules and regulations are subject to change by an act of Congress, the Florida Legislature, or an administrative change mandated by DC. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

Prison Rehabilitative Industries and Diversified Enterprises, Inc.

Notes to Financial Statements

December 31, 2019

PRIDE sells a significant amount of its products to state agencies. Concentrations in the percentage of sales to the following state agencies are as follows for the year ended December 31:

	2019
Department of Highway Safety and Motor Vehicles	12%
Department of Corrections	9%
Department of Transportation	5%

All of PRIDE's cash accounts are with SunTrust Bank and are invested in an overnight sweep. The accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000. Management considers the risk of loss remote.

PRIDE's investment in the SPIA is not a deposit in a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although SPIA seeks to preserve principal, it is not a guaranteed investment.

Note O - Related Party Transactions

The Department of Corrections is a significant customer and facilities and labor provider of PRIDE (Notes I and L).

Board members who agree to receive compensation are paid an honorarium for attending in-person or via conference call for all board meetings and/or committee meetings.

Note P - Risk Management Programs

PRIDE is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; disease, damage and destruction of crops; directors' and officers' liability; auto liability; garage liability and employee dishonesty.

PRIDE minimizes these risks through insurance policies with specific limits of liability and deductibles for casualty exposures. PRIDE participates in the State of Florida Department of Financial Services property and casualty insurance program. This property coverage is on an actual cash value basis (replacement cost less accumulated depreciation) for all its locations throughout the state of Florida. For general liability coverage, PRIDE depends on the *Florida Sovereign Immunity Act*, Section 768.28 of the Florida Statutes, to limit the potential tort liability to \$200,000 per person or \$300,000 per occurrence.

PRIDE's employee health insurance is a fully-insured PPO program through Blue Cross Blue Shield of Florida: Blue Options. PRIDE's employee dental insurance is a self-insured program with maximum limits of \$2,500 per participant per year. PRIDE's employee basic life and accidental death and dismemberment insurance is a fully-insured policy up to one times an employee's salary rounded up to the nearest thousand, to a maximum of \$50,000.

PRIDE's workers' compensation insurance program is through the State of Florida Department of Financial Services and short-term disability insurance is self-insured up to specified limits. PRIDE's long-term disability insurance is fully insured. PRIDE has insurance coverage in excess of the self-insured limits that provide both specific and aggregate coverage.

Note Q - Retirement Plans

401(k) Retirement Plan

The Prison Rehabilitative Industries and Diversified Enterprises 401(k) Retirement Plan (401(k) Plan) was established in January 2001. The 401(k) Plan provides for elective contributions by qualifying employees up to the maximum limit allowed by tax regulations. A Safe Harbor provision is in effect for the 401(k) Plan allowing for immediate vesting of employer match.

Beginning 2016, under the terms of the plan, PRIDE matches employee contributions based on the first 6% of employee compensation at a rate of one dollar for each dollar contributed. PRIDE, at its discretion, may make contributions in excess of these amounts. PRIDE's employer contributions to the plan during the year ended December 31, 2019, was approximately \$475,000. There were no discretionary contributions to the 401(k) Plan for the year ended December 31 2019.

Defined Benefit Pension Plan Termination

On April 26, 2007, PRIDE's board of directors approved the termination of the Pension Plan effective August 15, 2007. On March 31, 2008, the IRS issued a favorable determination letter to terminate the Pension Plan.

Upon termination, all plan participants, whether active, terminated or retired, had the option of electing lump-sum settlements (including direct rollovers) in accordance with regulations or having annuities provided under a group contract with an insurance company. The insurance company was selected by PRIDE's retirement committee after a due diligence selection process in accordance with regulations and assisted by an independent consultant.

Prison Rehabilitative Industries and Diversified Enterprises, Inc.
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During April and May 2008, all Pension Plan participants' settlements were completed in their entirety in the form of a lump-sum distribution or an annuity.

Note R – Subsequent Events

On January 30, 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) a “Public Health Emergency of International Concern” and on March 11, 2020, declared COVID-19 a pandemic. The extent to which COVID-19 impacts the operations of PRIDE in the future will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration of the outbreak, new information that may emerge concerning the severity of COVID-19, the actions taken to contain COVID-19 or treat its impact, and the impact of each of these items on the economies and financial markets in the United States. On May 1, 2020, the DC made the decision to hold back over 90% of the inmate workforce, which included most of the PRIDE operations. This was due to concerns of the spread of COVID-19 within the prison systems where PRIDE businesses are located. It is expected that over an unspecified period of time the inmate workforce will be slowly returned in phases. At this point the pandemic has impacted sales, earnings and cash flow and will continue until such time operations return to normal.