



FINANCIAL STABILITY

Financial Capability

Spiezle has provided a financial statement as requested for the most recent two (2) years, including income statement, balance sheet, statements of cash flows and notes to financial statements.

Spiezle hires an outside independent group of accountants to perform our financial review. This review provides us reasonable assurance of the financial statements. We have provided a sealed copy in addition to this proposal.

We have also selected a dedicated subconsultant team that have established financial capability and are available to start on projects for the County immediately.

Cost Control Measures

With hundreds of renovation projects in the past 10 years, Spiezle is positioned with a unique opportunity to fully understand relevant cost control factors. It begins with our commitment to attend preliminary design meetings to fully monitor the scope of work as it develops. We have a proven comprehensive quality control program and a “fresh eyes” approach to our projects that keep our projects on time and budget. Our team will work to generate a cost model that incorporates the scope of work to establish a foundation for the construction budget ensuring that it does not exceed the intended budget established by Lake County. This cost model is constantly updated as we move through the design process so that it captures any scope of work modifications that impact the established construction budget. At the end of each design phase, our team develops a detailed cost estimate that will be reconciled with the construction manager and the County. Additionally, we will welcome collaborations with the selected construction manager and the school district to develop potential cost saving opportunities. Once approved, in writing, these cost-saving opportunities are then implemented into the design documents during the subsequent design phase.

Included on our team is Donadio and Associates to provide additional cost control measures. Anthony Donadio has completed municipal, government, educational, corporate, and commercial facilities across Florida. He will provide detailed cost analysis at the schematic design, design development, 50% construction documents, and 100% construction documents phase to provide a means of check and balance as it relates to the project budget. These cost control measures will be reviewed with the County at each phase of the design.



**SPIEZLE ARCHITECTURAL GROUP, INC.
AND SPIEZLE GROUP, INC.**

**COMBINED FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

December 31, 2020

SPIEZLE ARCHITECTURAL GROUP, INC. AND SPIEZLE GROUP, INC.

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors and Shareholders
Spiezle Architectural Group, Inc. and Spiezle Group, Inc.

We have reviewed the accompanying financial statements of Spiezle Architectural Group, Inc. and Spiezle Group, Inc. (the "Company"), which comprise the combined balance sheets as of December 31, 2020 and 2019, and the related combined statements of operations, shareholders' equity and cash flows for the years then ended, and the related notes to the combined financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

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

Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The accompanying Combined Analysis of Operations and Key Financial Ratios is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The supplementary information has been subjected to the review procedures applied in our review of the basic financial statements. We are not aware of any material modifications that should be made to the supplementary information. We have not audited the supplementary information and do not express an opinion, a conclusion, nor provide any assurance on such information.

Mercadien, P.C.
Certified Public Accountants

April 12, 2021

SPIEZLE ARCHITECTURAL GROUP, INC. AND SPIEZLE GROUP, INC.

COMBINED BALANCE SHEETS
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Current assets		
Cash	\$ 1,952,223	\$ 9,413
Accounts receivable, net of allowance for uncollectible accounts of \$101,064 (2020) and \$81,512 (2019)	4,556,467	5,526,598
Prepaid expenses	134,045	96,526
Total current assets	<u>6,642,735</u>	<u>5,632,537</u>
Security deposits	70,447	66,563
Property and equipment, net	982,717	959,030
Goodwill, net of accumulated amortization of \$165,612 (2020) and \$100,952 (2019)	514,548	544,648
Total Assets	<u>\$ 8,210,447</u>	<u>\$ 7,202,778</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Current portion of notes payable	\$ 227,978	\$ 203,949
Accounts payable	1,026,455	2,326,981
Accrued expenses	1,180,315	915,723
SARS liability	51,444	47,184
Total current liabilities	<u>2,486,192</u>	<u>3,493,837</u>
Notes payable, net of current portion	665,301	893,101
Paycheck Protection Program Loans	1,353,700	-
Total Liabilities	<u>4,505,193</u>	<u>4,386,938</u>
Shareholders' equity		
Common stock	600	600
Retained earnings	4,981,423	4,280,414
Unearned ESOP shares	(1,276,769)	(1,465,174)
Total shareholders' equity	<u>3,705,254</u>	<u>2,815,840</u>
Total Liabilities and Shareholders' Equity	<u>\$ 8,210,447</u>	<u>\$ 7,202,778</u>

SPIEZLE ARCHITECTURAL GROUP, INC. AND SPIEZLE GROUP, INC.

COMBINED STATEMENTS OF OPERATIONS
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Revenue	\$ 22,179,914	\$19,228,647
Direct costs	<u>14,230,197</u>	<u>12,066,787</u>
Gross profit	<u>7,949,717</u>	<u>7,161,860</u>
Operating expenses		
Selling and marketing	414,538	516,121
General and administrative	<u>6,315,177</u>	<u>5,375,676</u>
Total operating expenses	<u>6,729,715</u>	<u>5,891,797</u>
Income from operations	<u>1,220,002</u>	<u>1,270,063</u>
Other income (expenses)		
Interest income	684	8,774
Loss on disposal of assets	-	(9,607)
ESOP compensation	(347,105)	(281,087)
ESOP loan interest	(25,762)	(41,944)
SARS expense	<u>(26,857)</u>	<u>(24,922)</u>
Total other expenses	<u>(399,040)</u>	<u>(348,786)</u>
Income before provision for income taxes	820,962	921,277
Provision for state income taxes	<u>4,877</u>	<u>7,662</u>
Net income	<u>\$ 816,085</u>	<u>\$ 913,615</u>

SPIEZLE ARCHITECTURAL GROUP, INC. AND SPIEZLE GROUP, INC.

COMBINED STATEMENTS OF SHAREHOLDERS' EQUITY
 Years Ended December 31, 2020 and 2019

	Spiezle Architectural Group	Spiezle Group, Inc.	10,000 Shares Common Stock No Par Value	Total Common Stock	Retained Earnings	Unearned ESOP Shares	Total
Balance January 1, 2019	100	500	500	600	\$ 3,569,390	\$ (1,795,184)	\$ 1,774,806
Release of 4,638.01 ESOP shares for allocation	-	-	-	-	(202,591)	483,678	281,087
Redemption of ESOP shares	-	-	-	-	-	(153,668)	(153,668)
Net Income	-	-	-	-	913,615	-	913,615
Balance January 1, 2020	100	500	500	600	4,280,414	(1,465,174)	2,815,840
Release of 4,431.88 ESOP shares for allocation	-	-	-	-	(115,076)	462,181	347,105
Redemption of ESOP shares	-	-	-	-	-	(273,776)	(273,776)
Net Income	-	-	-	-	816,085	-	816,085
Balance December 31, 2020	\$ 100	\$ 500	\$ 500	\$ 600	\$ 4,981,423	\$ (1,276,769)	\$ 3,705,254

SPIEZLE ARCHITECTURAL GROUP, INC. AND SPIEZLE GROUP, INC.

COMBINED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Net income	\$ 816,085	\$ 913,615
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	277,128	195,552
ESOP compensation expense	347,105	281,087
Loss on disposal of assets	-	9,607
Provision for bad debt	7,747	47,330
Changes in assets and liabilities		
Accounts receivable	962,384	(2,023,741)
Prepaid expenses	(37,519)	369
Security deposits	(3,884)	5,069
Accounts payable	(1,335,086)	1,224,631
Accrued expenses	264,592	354,089
SARS liability	4,260	24,922
Net cash from operating activities	1,302,812	1,032,530
 Cash Flows from Investing Activities		
Acquisition of Alberto & Associates, Inc.	-	(325,000)
Cash received on sale of property and equipment	-	710
Purchases of property and equipment	(236,155)	(533,686)
Net cash from investing activities	(236,155)	(857,976)
 Cash Flows from Financing Activities		
Redemption of ESOP shares	(273,776)	(153,668)
Repayments of notes payable, net	(203,771)	(256,308)
Proceeds from line of credit	-	200,000
Proceeds from Paycheck Protection Program Loan	1,353,700	-
Net cash from financing activities	876,153	(209,976)
 Net change in cash	1,942,810	(35,422)
Cash, beginning of year	9,413	44,835
Cash, end of year	\$ 1,952,223	\$ 9,413
 Supplemental Disclosure of Cash Flow Information		
Interest paid	\$ 19,626	\$ 16,713
Income taxes	\$ 4,877	\$ 7,662
 Supplemental Disclosure of Non-Cash Operating and Investing Activities		
Earn-out recorded to Goodwill and Accounts Payable	\$ 34,560	\$ -

SPIEZLE ARCHITECTURAL GROUP, INC. AND SPIEZLE GROUP, INC.**NOTES TO COMBINED FINANCIAL STATEMENTS**

A. NATURE OF ORGANIZATION

Spiezle Architectural Group, Inc. ("SAG") and its affiliate Spiezle Group, Inc. ("SGI"), collectively the "Company", is an architectural firm headquartered in Mercer County, New Jersey, with offices in Pennsylvania and Florida. which provides professional design and construction consulting services primarily in the State of New Jersey. The Company specializes in the areas of educational, institutional and public-use architecture, therefore, the clients it serves are primarily municipalities and school boards.

SGI is wholly owned by the ESOP (see Note F) and SAG is majority owned by the CEO of the Company. SAG is providing all the architectural and professional services to the Company's clients and SGI is providing administrative and support services to SAG.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Principles of Combination**

The financial statements include the accounts of SAG and SGI. The financial statements have been prepared on the basis of one economic entity. All significant intercompany accounts and transactions have been eliminated in the combined financial statements.

Basis of Accounting

The combined financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Accordingly, actual results could differ from those estimates.

Cash

Cash includes highly liquid debt instruments with original maturities of ninety days or less.

The Company's Board of Directors has restricted \$626,556 and \$332 as of December 31, 2020 and 2019, respectively, for ESOP reserves. These amounts are unavailable for general operating expenses without approval from the Board of Directors.

Accounts Receivable

Accounts receivable are presented net of the allowance for doubtful accounts. The Company estimates the allowance based on an analysis of specific customers taking into account circumstances related to that customer and job.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is computed by the straight-line and declining balance methods at rates adequate to allocate the cost of applicable assets over the estimated useful lives of the respective assets.

SPIEZLE ARCHITECTURAL GROUP, INC. AND SPIEZLE GROUP, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Revenue Recognition**

The Company recognizes revenue in accordance with ASC Topic 606, *Revenue from Contracts with Customers*, which provides a five-step model for recognizing revenue from contracts with customers as follows:

1. Identify the contract with a customer.
2. Identify the performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations in the contract.
5. Recognize revenue when or as performance obligations are satisfied.

A large portion of the Company's revenue is generated through architectural design and consulting services provided to its clients. The Company's services are marketed and sold to customers in the United States in various industries, such as K-12, higher education, and healthcare facilities. Sales of services are subject to economic conditions and may fluctuate based on changes in the industry and financial markets.

The Company assesses the contract term as the period in which the parties to contract have presently enforceable rights and obligations. The contract term can differ from the stated term in contracts that include certain termination or renewal rights, depending on whether there are penalties associated with those rights. Customer contracts generally are standardized and non-cancelable for the duration of the stated contract term.

Nature of Products and Services*Architectural Design and Consulting Services*

Revenue related to architectural design and consulting services is recognized over time as the performance obligations within the contract are fulfilled. The timing of revenue recognition is based on an input measure, which is based on labor and material costs incurred to date as they relate to the estimated total cost to fulfill a performance obligation within the contract. The Company has two types of billing arrangements: fixed-fee and time-and-materials. Customers under each arrangement are invoiced regularly based on the progress of the project and the estimated percentage of completion for the performance obligations.

When the Company's contracts contain multiple performance obligations, the contract price is allocated on a relative stand-alone selling price ("SSP") basis to each performance obligation. The Company typically determines SSP based on observable selling prices of its products and services. The Company's SSP is generally observable, and the allocated prices are stated in the contracts.

SPIEZLE ARCHITECTURAL GROUP, INC. AND SPIEZLE GROUP, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Nature of Products and Services (Continued)

Client Reimbursements

Under the terms of certain contracts, the Company incurs costs which are reimbursable by its customers, and are generally subject to a mark-up by the Company. These revenues are recognized as a point in time as the costs are incurred and billed.

Total revenue recognized at a point in time and over time was as follows for the year ended December 31, 2020 or 2019:

	2020	2019
Revenue recognized at a point in time	\$ 256,864	\$ 226,347
Revenue recognized over time	21,923,050	19,002,300
Total Revenue	\$ 22,179,914	\$ 19,228,647

Transaction Price

The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring goods and services to the customer. Revenue is recorded based on the transaction price, which includes fixed consideration and estimates of variable consideration. Variable consideration generally includes expense reimbursements. The Company recognizes all reimbursable expenses as revenue as the related services are provided, using the right-to-invoice practical expedient. Reimbursable expenses are recognized as expenses in the period in which the expense is incurred.

Contract Balances

The timing of revenue recognition may not align with the right to invoice the customer. The Company records accounts receivable when it has the unconditional right to issue an invoice and receive payment, regardless of whether revenue has been recognized. If revenue has not yet been recognized, a contract liability (deferred revenue) also is recorded. If revenue is recognized in advance of the right to invoice, a contract asset (unbilled receivable) is recorded.

Opening balances as of January 1, 2019, were as follows:

	2019
Accounts receivable, net of allowance for doubtful accounts	\$ 3,550,187
Unbilled receivables	\$ 171,670
Deferred revenue	\$ -

Costs to Obtain a Contract

Any costs incurred that are incremental to the acquisition of customer contracts, such as sales commissions, would be capitalized as deferred contract costs on the balance sheet when the period of benefit is determined to be greater than one year. The Company has elected to apply the practical expedient to expense sales commissions and associated costs as incurred when the expected amortization period is one year or less. Amortization of costs is recognized on a straight-line basis commensurate with the pattern of revenue recognition. The Company did not have any deferred contract costs as of December 31, 2020 and 2019.

SPIEZLE ARCHITECTURAL GROUP, INC. AND SPIEZLE GROUP, INC.**NOTES TO COMBINED FINANCIAL STATEMENTS**

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Income Taxes**

Effective January 1, 2010, both companies elected "S" Corporation status for federal and state income tax purposes. Therefore, the shareholders will pay the federal and state taxes directly and no deferred tax assets or liabilities are recorded at December 31, 2020 or 2019. The Company pays state franchise taxes at statutory rates. For all jurisdictions the Company files income or franchise tax returns, the 2017-2019 returns are open for examination by the respective government agencies.

U.S. GAAP requires management to evaluate tax positions taken by the Company and recognize a tax liability if the Company has taken an uncertain position that more likely than not would not be sustained upon examination by taxing authorities. Management evaluated the Company's tax positions and concluded that the Company had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

The Company did not record any interest or penalties on uncertain tax positions in the accompanying combined balance sheets as of December 31, 2020 and 2019, or in the accompanying combined statements of operations for the years then ended. If the Company were to incur any income tax liability in the future, interest on any income tax liability would be reported as interest expense and penalties on any income tax liability would be reported as a component of provision for income taxes.

Employee Stock Ownership Plan (ESOP)

The Company accounts for its ESOP in accordance with the Financial Accounting Standards Board's Accounting Standards Codification ("FASB ASC") 718. Accordingly, the debt of the ESOP is recorded as debt and the shares pledged as collateral are reported as unearned ESOP shares on the balance sheet (see Notes C and F).

Goodwill

Goodwill is amortized on a straight-line basis over a ten-year period. Amortization expense for the years ended December 31, 2020 and 2019, was \$64,660 and \$37,577, respectively.

Advertising

Advertising costs are expensed as incurred. Total advertising expense charged to operations for the years ended December 31, 2020 and 2019 was \$160,454 and \$217,346, respectively.

SPIEZLE ARCHITECTURAL GROUP, INC. AND SPIEZLE GROUP, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Recent Accounting Pronouncements**

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, requiring an entity (lessee) that leases assets for a term exceeding a one-year period to recognize a right-of-use asset and corresponding lease liability on the balance sheet. ASU 2016-02 will result in lessees recognizing right-of-use assets and lease liabilities for most leases currently accounted for as operating leases under the legacy lease accounting guidance. ASU 2016-02 introduces limited changes to the lessor accounting model, none of which rise to the same level of significance as the changes made to the lessee accounting model. ASU 2016-02 also requires entities to disclose in the footnotes to their financial statements information about the amount, timing and uncertainty for the payments they make for lease agreements. In November 2019, the FASB issued ASU 2019-10, *Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)*, which extended the effective date of ASU 2016-02 for an additional year. In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Leases (Topic 842) – Effective Dates for Certain Entities*, which defers the effective date of ASU 2016-02 by an additional year. ASU 2016-02 is now effective for annual reporting periods beginning after December 15, 2021. Early adoption is permitted. ASU 2016-02 will be effective for the Company for the year ending December 31, 2022. The Company is currently evaluating the effect that the new standard will have on its combined financial statements and related disclosures.

Subsequent Events

Management has evaluated events for potential recognition and disclosure that occurred through April 12, 2021, the date the financial statements were available to be issued. Except for the matters disclosed in Note K, no items were determined by management to require disclosure.

Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

C. NOTES PAYABLE**ESOP Debt**

The Company is obligated to make contributions to its ESOP sufficient to meet the debt obligations that finance the plan. The ESOP is the 100% owner of SGI. The ESOP was financed by a \$1,626,195 term note that bore interest at a rate of 3.01%. In October 2018, the Company entered into an amended and restated term loan agreement for borrowings of \$802,000. The amended and restated term loan bears interest at a rate of 4.67% per annum and is payable in fifty-nine equal monthly installments of \$9,128 through September 2023. The loan is secured by the ESOP shares purchased with the note proceeds, and substantially all corporate assets. As of December 31, 2020 and 2019, \$499,452 and \$583,231, respectively, was outstanding on the loan.

SPIEZLE ARCHITECTURAL GROUP, INC. AND SPIEZLE GROUP, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

C. NOTES PAYABLE (CONTINUED)

Converted Term Loans

In October 2018, the Company entered into a \$400,000 convertible line of credit agreement. The convertible line of credit bears interest at a rate equal to the daily London Interbank Offered Rate ("LIBOR") rate plus 2.00%. Effective February 1, 2019, the Company converted the line of credit to a term loan. The term loan bears interest at a rate of 4.46% per annum, and principal and interest are due in sixty monthly installments through February 1, 2024. As of December 31, 2020 and 2019, \$243,827 and \$313,819, respectively, was outstanding on the loan.

In July 2019, the Company entered into a \$200,000 convertible line of credit agreement. The convertible line of credit is secured by the furniture, fixtures and equipment in the Company's Springfield, PA office location. Interest is due monthly at a rate of LIBOR plus 2.00%. As of December 31, 2019, \$200,000 was outstanding on this convertible line of credit. Effective March 6, 2020, the line of credit was converted to a term loan. The term loan bears interest at a rate equal to the LIBOR rate plus 2%, and principal and interest are due in thirty-six monthly installments through March 6, 2023.

Total future maturities of notes payable are as follows:

Years ending December 31,		
2021	\$	227,978
2022		235,568
2023		416,008
2024		13,725
		893,279
	\$	893,279

D. PAYROLL PROTECTION PROGRAM LOANS

On April 20, 2020, the SAG entered into a term note agreement as part of the United States Small Business Administration's (the "SBA") Paycheck Protection Program ("PPP"). The loan is for a principal sum of \$653,100. On May 4, 2020, SGI entered into a term note agreement as part of the SBA's PPP. The loan is for a principal sum of \$700,600. Each loan will be used to retain employees, as well as for rent and utilities. Each loan bears interest at a rate of 1% per annum payable over a two year period after the interest and principal deferral period. The SBA loans may be forgiven if certain criteria are met. The Company believes it will qualify for full forgiveness of the SGI loan, and will qualify for forgiveness of the majority of the SAG loan.

SPIEZLE ARCHITECTURAL GROUP, INC. AND SPIEZLE GROUP, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

E. PROFIT SHARING AND 401(K) PLANS

Employees who meet minimum service requirements are eligible to participate in the Company's profit sharing plan. Contributions by the Company are discretionary. Effective December 2004, this plan was frozen in connection with the creation of the ESOP (see Note F).

The Company also offers its eligible employees the option to participate in a deferred compensation plan established under Code Section 401(k) of the Internal Revenue Code. The employee may defer earnings to the maximum amount allowable by law and the Company contributes ten percent of the participant's contribution, subject to certain limitations. The Company contributed \$36,742 and \$31,926 to the plan for the years ended December 31, 2020 and 2019, respectively.

F. EMPLOYEE STOCK OWNERSHIP PLAN

In December 2004, the Company established an ESOP that covers substantially all of its employees. The ESOP owns 100% of the outstanding shares of SGI common stock. The unallocated shares of stock held by the ESOP are pledged as collateral for the debt (see Note C). The ESOP is funded by contributions made by the Company in amounts sufficient to retire the debt.

Shares of the ESOP are released based on the principal and interest payments on the debt. The shares are allocated among participants on the basis of compensation in the year of allocation. Shares released are charged to compensation expense at their average fair market value during the reporting period. Benefits become 100% vested after three years of credited service. Forfeitures of non-vested benefits will be reallocated among remaining participating employees in the same proportion as contributions. A participant who terminates employment prior to his or her normal retirement age may elect to begin to receive distribution of his or her vested account commencing by the end of the sixth plan year following the plan year in which the termination occurred.

Dividends on unallocated shares may be used by the ESOP to repay the debt to the Company and are not reported as dividends but as additional compensation expense in the financial statements. Dividends on allocated or committed to be allocated shares may also be used to repay the debt to the Company and are reported as dividends in the financial statements. The fair market value of the ESOP shares was \$89.89 and \$66.75 at December 31, 2020 and 2019, respectively. ESOP compensation expense of \$347,105 and \$281,087 has been incurred during the years ended December 31, 2020 and 2019, respectively. The ESOP shares as of December 31, 2020 and 2019, were as follows:

	2020	2019
Allocated shares	\$ 77,367	\$ 76,830
Shares released for allocation	4,432	4,638
Unreleased shares	18,201	18,532
 Total	 \$ 100,000	 \$ 100,000
 Fair value of unreleased shares at December 31	 \$ 1,636,124	 \$ 1,237,031

SPIEZLE ARCHITECTURAL GROUP, INC. AND SPIEZLE GROUP, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

F. EMPLOYEE STOCK OWNERSHIP PLAN (CONTINUED)

During the years ended December 31, 2020 and 2019, the Company repurchased 4,100.98 and 2,821.66 shares of stock, respectively, from former employees to reallocate for current employees. All of the shares repurchased in 2020 and 2019, were reallocated to unreleased shares to be allocated in future years.

G. PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of December 31:

	2020	2019
Leasehold improvements	\$ 744,146	\$ 701,283
Equipment	805,674	686,839
Furniture and fixtures	220,331	183,708
Software	289,932	252,098
Subtotal	<u>2,060,083</u>	<u>1,823,928</u>
Less accumulated depreciation	<u>1,077,366</u>	<u>864,898</u>
Total	<u>\$ 982,717</u>	<u>\$ 959,030</u>

Depreciation expense was \$212,467 and \$157,975 for the years ended December 31, 2020 and 2019, respectively.

H. COMMITMENTS AND CONTINGENCIES**Leases**

The Company leases office space in New Jersey and Pennsylvania under noncancellable agreements with various expiration dates through February 2028. Future minimum lease payments under operating leases as of December 31, 2020, are as follows:

Years ending December 31,	
2021	\$ 576,447
2022	592,018
2023	602,839
2024	543,457
2025	440,801
Thereafter	673,042
	<u>\$ 3,428,604</u>

Rent expense was \$514,741 and \$423,442 for the years ended December 31, 2020 and 2019, respectively.

Employment Agreements

The Company has entered into employment and compensation agreements with its former shareholder and other key employees.

SPIEZLE ARCHITECTURAL GROUP, INC. AND SPIEZLE GROUP, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

H. COMMITMENTS AND CONTINGENCIES (CONTINUED)**Phantom Stock Plan**

The Company has created an unfunded Phantom Stock Plan effective September 26, 2007. Units of participation in the Plan are granted at the discretion of the Company and become fully vested on the fifth anniversary of the grant date or upon certain other conditions outlined in the Plan. Payments of benefits commence five years after separation from service and are paid over a five-year period. In certain circumstances payments may commence sooner. The value of the participant's units will be determined based on the value of the common stock used for purposes of the Company's ESOP. The Plan may be amended or terminated at any time. Effective September 24, 2020, the Company's Board of Directors elected to dissolve the Phantom Stock Plan.

Keyman Life Insurance Policies

The Company is the primary beneficiary of life insurance policies held on key management personnel. The total face value of these policies is approximately \$8,000,000. The policies do not have a cash surrender value.

GS Architects, LLC Acquisition

During 2016, the Company acquired GS Architects, LLC for a price of up to \$535,000. As part of the acquisition agreement, the Company paid \$300,000 at the closing of the acquisition, and the balance, up to a maximum aggregate of \$235,000, would be covered by an earn-out over a four-year period following closing. The earn-out payments are based on gross annual billings of the GS Architects, LLC business, and range from \$15,000 to \$75,000 per year based on the billings. For the year ended December 31, 2018, the Company incurred \$35,000 of earn-out payments, which was recorded as an addition to goodwill. There was no earn-out payment for the years ended December 31, 2020 and 2019.

Alberto & Associates, Inc. Acquisition

Effective November 1, 2019, the Company acquired Alberto & Associates, Inc. for a price of up to \$735,000. As part of the acquisition agreement, the Company paid \$325,000 at the closing of the acquisition, and the balance, up to a maximum aggregate of \$415,000, would be covered by an earn-out over a five-year period following closing. The earn-out payments are based on net revenue collected of the Alberto & Associates, Inc. business and up to \$83,000 per year based on the collections. For the years ended December 31, 2020 and 2019, the Company incurred \$34,560 and \$0 of earn-out payments, respectively, which were recorded as an addition to goodwill.

SPIEZLE ARCHITECTURAL GROUP, INC. AND SPIEZLE GROUP, INC.**NOTES TO COMBINED FINANCIAL STATEMENTS**

I. CONCENTRATIONS OF RISK**Cash**

The Company maintains its cash balances in multiple financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At times during the year the Company's cash balances were above this amount.

Customers

For the years ended December 31, 2020 and 2019, one customer and two customers represented approximately 12% and 22% of revenue, respectively.

Suppliers

For each of the years ended December 31, 2020 and 2019, three consultants and one consultant represented approximately 49% and 18% of engineering and consulting expense, respectively.

J. CORONAVIRUS OUTBREAK - BUSINESS IMPACT

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Company operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the Company, to date, the Company is experiencing a delay in certain projects, which can cause a delay in future revenues and cash flows. Additionally, it is reasonably possible that estimates made in the financial statements have been, or will be, materially and adversely impacted in the near term as a result of these conditions, including collectability of receivables and impairment losses related to goodwill.

K. PW MOSS, LLC FORMATION

During March 2021, PW Moss, LLC ("PW Moss") was formed to provide construction management services. The Company and PW Moss intend to enter into a management and services agreement whereby the employees of PW Moss will be employed by the Company. The Company will act as the sole and exclusive manager and administrator of day-to-day business functions of PW Moss.

SUPPLEMENTARY INFORMATION

SPIEZLE ARCHITECTURAL GROUP, INC. AND SPIEZLE GROUP, INC.

COMBINED ANALYSIS OF OPERATIONS
Years Ended December 31, 2020 and 2019

	2020		2019	
	Amount	% of Revenue	Amount	% of Revenue
Revenue	\$ 22,179,914	100.00	\$ 19,228,647	100.00
Direct costs				
Salaries - direct	4,786,888	21.58	3,799,040	19.76
Payroll taxes - direct	285,488	1.29	288,427	1.50
Engineering and consulting fees	8,647,691	38.99	7,433,705	38.66
Printing	288,757	1.30	298,418	1.55
Postage and delivery	17,571	0.08	19,629	0.10
Meals and entertainment	2,871	0.01	7,565	0.04
Auto and travel	111,040	0.50	125,573	0.65
Fees and permits	9,047	0.04	2,136	0.01
Other expenses	80,844	0.36	92,294	0.48
Total Direct Costs	14,230,197	64.15	12,066,787	62.75
Gross profit	7,949,717	35.85	7,161,860	37.25
Operating expenses				
Selling and marketing				
Salaries - marketing	230,611	1.04	251,502	1.31
Temporary services	7,250	0.03	7,950	0.04
Advertising and promotion	164,104	0.74	223,306	1.16
Auto and travel	12,428	0.06	32,839	0.17
Meals and entertainment	145	-	524	-
Total selling and marketing expense	414,538	1.87	516,121	2.68

SPIEZLE ARCHITECTURAL GROUP, INC. AND SPIEZLE GROUP, INC.

COMBINED ANALYSIS OF OPERATIONS (CONTINUED)
Years Ended December 31, 2020 and 2019

	2020		2019	
	Amount	% of Revenue	Amount	% of Revenue
Operating expenses (continued)				
General and administrative				
Salaries - indirect	1,803,827	8.13	1,576,439	8.20
Administrative salaries	1,836,919	8.28	1,436,503	7.47
Employee benefits	572,550	2.58	531,592	2.76
401(k) expense	36,742	0.17	31,926	0.17
Payroll taxes	352,323	1.59	236,427	1.23
Human resources fees	51,361	0.23	64,142	0.33
Recruiting advertising	6,620	0.03	5,787	0.03
Employee relations	12,992	0.06	21,206	0.11
Employee training	31,037	0.14	35,619	0.19
Professional fees	109,548	0.49	163,718	0.85
Insurance	115,855	0.52	130,644	0.68
Rent	514,741	2.32	423,442	2.20
Equipment leases	51,756	0.23	41,893	0.22
Depreciation and amortization	277,128	1.25	195,551	1.02
Repairs and maintenance	14,061	0.06	10,076	0.05
Computer expenses	316,502	1.43	261,257	1.36
Utilities	104,504	0.47	30,960	0.16
Telephone and internet	70,727	0.32	64,933	0.34
Auto and travel	74,912	0.34	75,084	0.39
Meals and entertainment	4,815	0.02	21,357	0.11
Office expenses, net of reimbursements	(107,155)	(0.48)	(126,825)	(0.66)
Postage and delivery	1,626	0.01	(90)	-
Dues and subscriptions	47,080	0.21	38,306	0.20
Licenses and permits	3,024	0.01	5,668	0.03
Real estate taxes	4,329	0.02	1,928	0.01
Bad debts	7,747	0.03	47,330	0.25
Interest expense	19,626	0.09	16,713	0.09
Miscellaneous	(20,020)	(0.09)	34,090	0.18
Total general and administrative	6,315,177	28.46	5,375,676	27.97
Total operating expenses	6,729,715	30.33	5,891,797	30.65
Income from operations	1,220,002	5.52	1,270,063	6.60

SPIEZLE ARCHITECTURAL GROUP, INC. AND SPIEZLE GROUP, INC.

COMBINED ANALYSIS OF OPERATIONS (CONTINUED)

Years Ended December 31, 2020 and 2019

	2020		2019	
	Amount	% of Revenue	Amount	% of Revenue
Other income				
Interest income	684	-	8,774	0.05
Total other income	684	-	8,774	0.05
Income before other expenses	1,220,686	5.52	1,278,837	6.65
Other expenses				
Loss on disposal of assets	-	-	9,607	0.05
ESOP compensation	347,105	1.56	281,087	1.46
ESOP loan interest	25,762	0.12	41,944	0.22
SARS expense	26,857	0.12	24,922	0.13
Total other expenses	399,724	1.80	357,560	1.86
Income before provision for income taxes	820,962	3.72	921,277	4.79
Provision for state income taxes	4,877	0.02	7,662	0.03
Net income	\$ 816,085	3.70	\$ 913,615	4.76

SPIEZLE ARCHITECTURAL GROUP, INC. AND SPIEZLE GROUP, INC.

KEY FINANCIAL RATIOS

Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Working Capital Ratio	2.67	1.61
Profitability Ratio	3.68%	4.75%
Return on Assets	9.94%	12.68%