

HOFFMAN & HOFFMAN, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020



HOFFMAN & HOFFMAN, INC. AND SUBSIDIARIES
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Bernard Robinson & Company, L.L.P.

Independent Auditor's Report

To the Board of Directors (Management)
Hoffman & Hoffman, Inc.
Greensboro, NC

Opinion

We have audited the accompanying consolidated financial statements of Hoffman & Hoffman, Inc. (the Company), which comprise the balance sheet as of December 31, 2021 and 2020, and the related statements of operations, owners' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the assets and net assets of Hoffman & Hoffman, Inc. as of December 31, 2021 and 2020, and its results of operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report. We are required to be independent of Hoffman & Hoffman, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibility of Management for the 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, and 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Hoffman and Hoffman, Inc.'s ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America will always detect a material misstatement when it exists.

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Hoffman & Hoffman, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Hoffman & Hoffman, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheet and the consolidating statement of income are presented for purposes of additional analysis and are 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 information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Bernard Robinson & Company, P.C.

Greensboro, North Carolina
May 20, 2022

HOFFMAN & HOFFMAN, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2021 and 2020

	<u>Assets</u>	
	<u>2021</u>	<u>2020</u>
Current Assets:		
Cash and cash equivalents	\$ 13,826,041	\$ 10,591,036
Contracts receivable, including retainage of \$2,810,543 - 2021 and \$2,750,297 - 2020, net of allowance for doubtful accounts of \$59,034 - 2021 and \$80,663 - 2020	17,606,635	16,014,472
Accounts receivable, trade, net of allowance for doubtful accounts of \$160,000 - 2021 and 2020	43,198,402	39,523,280
Other receivables	831,610	421,154
Inventories	4,908,914	4,078,778
Work orders in process	1,242,480	797,169
Costs and estimated earnings in excess of billings on uncompleted contracts	2,777,927	2,416,434
Prepaid expenses and other current assets	884,554	840,832
Total current assets	<u>85,276,563</u>	<u>74,683,155</u>
Other Assets:		
Cash value of life insurance	597,532	564,739
Other investment	291,599	245,300
Intangibles, net	55,904	64,400
Goodwill, net	13,230,206	1,789,749
	<u>14,175,241</u>	<u>2,664,188</u>
Equipment and Leasehold Improvements:		
Computers and software	1,552,610	1,363,178
Automobiles	8,620,261	7,054,767
Leasehold improvements	5,267,027	5,083,349
Warehouse office	477,565	457,792
Equipment	882,778	896,702
Construction in progress	9,971,505	9,552,950
	<u>26,771,746</u>	<u>24,408,738</u>
Less accumulated depreciation and amortization	11,200,311	9,558,479
	<u>15,571,435</u>	<u>14,850,259</u>
Total assets	<u>\$ 115,023,239</u>	<u>\$ 92,197,602</u>

Liabilities and Stockholders' Equity

	<u>2021</u>	<u>2020</u>
Current Liabilities:		
Accounts payable, trade	\$ 8,766,559	\$ 10,461,237
Contracts and other payables	4,429,983	2,399,269
Accrued expenses and other liabilities	25,028,916	23,515,278
Customer deposits	22,200	97,346
Billings in excess of costs and estimated earnings on uncompleted contracts	6,286,357	4,821,062
Current portion of long-term debt	800,000	-
	<u>45,334,015</u>	<u>41,294,192</u>
Noncurrent Liabilities:		
Long-term debt, net of current portion	7,200,000	-
Line of credit	1,141,437	3,852,129
Total liabilities	<u>53,675,452</u>	<u>45,146,321</u>
Stockholders' Equity:		
Common stock, par value \$0.10 per share, authorized 500,000,000 shares; issued and outstanding 556,000 shares in 2021 and 2020	55,600	55,600
Additional paid in capital	5,160,239	4,734,076
Unearned employee stock ownership plan shares	(17,277,242)	(18,905,299)
Noncontrolling interests in consolidated entities	949,257	-
Retained earnings	72,459,933	61,166,904
	<u>61,347,787</u>	<u>47,051,281</u>
Total liabilities and stockholders' equity	<u>\$ 115,023,239</u>	<u>\$ 92,197,602</u>

HOFFMAN & HOFFMAN, INC. AND SUBSIDIARIES
Consolidated Statements of Income
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Net Sales and Contract Revenue Earned	\$ 311,869,197	\$ 283,744,373
Cost of Goods Sold and Cost of Revenue Earned	<u>215,627,066</u>	<u>196,008,280</u>
Gross profit	96,242,131	87,736,093
Commission Income	<u>1,678,833</u>	<u>2,188,719</u>
	<u>97,920,964</u>	<u>89,924,812</u>
Operating Expenses:		
Selling	49,341,941	44,648,016
General and administrative expenses	<u>37,281,272</u>	<u>33,524,756</u>
	<u>86,623,213</u>	<u>78,172,772</u>
Operating income	11,297,751	11,752,040
Other Income (Expense), net	<u>203,722</u>	<u>520,308</u>
Income before income taxes	11,501,473	12,272,348
Income Taxes, net	<u>184,187</u>	<u>247,557</u>
Net income before noncontrolling interest	11,317,286	12,024,791
Net income attributable to noncontrolling interest	<u>24,257</u>	<u>-</u>
Net income attributable to controlling interest	<u>\$ 11,293,029</u>	<u>\$ 12,024,791</u>

HOFFMAN & HOFFMAN, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2021 and 2020

	Common Stock	Additional Paid in Capital	Unearned Employee Stock Ownership Plan Shares	Noncontrolling Interest in Consolidated Entities	Retained Earnings	Total
Balance, January 1, 2020, as previously stated	\$ 55,590	\$ 3,196,876	\$ (5,218,623)	\$ -	\$ 49,142,113	\$ 47,175,956
Issuance of Common Stock	10	-	-	-	-	10
Stock Redemption	-	-	(14,490,030)	-	-	(14,490,030)
Net Income	-	-	-	-	12,024,791	12,024,791
ESOP shares released	-	1,537,200	803,354	-	-	2,340,554
Balance, December 31, 2020	55,600	4,734,076	(18,905,299)	-	61,166,904	47,051,281
Contributions	-	-	-	925,000	-	925,000
Net income	-	-	-	24,257	11,293,029	11,317,286
ESOP shares released	-	426,163	1,628,057	-	-	2,054,220
Balance, December 31, 2021	<u>\$ 55,600</u>	<u>\$ 5,160,239</u>	<u>\$ (17,277,242)</u>	<u>\$ 949,257</u>	<u>\$ 72,459,933</u>	<u>\$ 61,347,787</u>

HOFFMAN & HOFFMAN, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Net income	\$ 11,317,286	\$ 12,024,791
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,955,739	1,827,842
Amortization	402,376	239,466
Release of ESOP Shares	2,054,220	1,501,299
Change in cash value of life insurance over premiums charged	(32,793)	(31,556)
Gain on disposal of fixed assets	(96,537)	(73,988)
Bad debt, net of recoveries	42,787	15,753
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable, trade	(3,724,244)	(5,603,696)
Contracts receivable	(1,585,828)	2,751,763
Other receivables	(410,456)	(21,399)
Inventories	(830,136)	(387,083)
Work orders in process	(445,311)	(115,187)
Cost and estimated earnings in excess of billings on uncompleted contracts	(361,493)	(77,500)
Prepaid expenses and other current assets	(43,722)	(46,016)
Increase (decrease) in:		
Accounts payable	(1,694,678)	655,726
Contracts and other payables	2,030,714	(1,329,516)
Accrued expenses and other liabilities	1,513,638	3,255,545
Customer deposits	(75,146)	97,346
Billings in excess of costs and estimated earnings on uncompleted contracts	1,465,295	(2,275,804)
Net cash provided by operating activities	<u>11,481,711</u>	<u>12,407,786</u>
Cash flows from investing activities:		
Purchase of equipment and leasehold improvements	(2,731,066)	(11,266,218)
Proceeds from sale of vehicles	150,688	150,688
Payment of collateral to captive insurance program	(46,299)	(69,880)
Purchase of intangible assets	(11,834,337)	-
Net cash used in investing activities	<u>(14,461,014)</u>	<u>(11,185,410)</u>
Cash flows from financing activities:		
Net repayments on line of credit	(2,710,692)	3,852,129
Proceeds from issuance of long-term debt	8,000,000	-
Contributions	925,000	-
Issuance of unearned employee stock ownership plan shares	-	(14,490,030)
Net cash provided by (used in) financing activities	<u>6,214,308</u>	<u>(10,637,901)</u>
Net increase (decrease) in cash and cash equivalents	3,235,005	(9,415,525)
Cash and cash equivalents, beginning of year	<u>10,591,036</u>	<u>20,006,561</u>
Cash and cash equivalents, end of year	<u>\$ 13,826,041</u>	<u>\$ 10,591,036</u>
Supplemental disclosures of cash flow information:		
Cash payments for income taxes	<u>\$ 184,187</u>	<u>\$ 133,931</u>
Cash payments for interest expense	<u>\$ 19,229</u>	<u>\$ 344</u>

See Notes to Consolidated Financial Statements

HOFFMAN & HOFFMAN, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

NOTE A - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Hoffman & Hoffman, Inc. ("H&H") operates primarily as a manufacturer's representative of heating and air conditioning equipment, principally in North Carolina, South Carolina, Virginia and Tennessee. Hoffman & Hoffman, Inc. sells on credit terms it establishes for individual customers.

Hoffman Building Technologies, Inc. ("HBT") specializes in the programming, implementation and servicing of HVAC controls equipment, principally in North Carolina, South Carolina and Virginia. HBT enters into long-term construction contracts that sometimes extend beyond one year.

Hoffman Mechanical Solutions, Inc. ("HMS") provides commercial and industrial HVAC preventative maintenance and repair services to customers throughout North Carolina, South Carolina, Virginia and Tennessee.

Hoffman & Hoffman Ireland, Limited ("HHIL") operates in a managerial and support role to the Company's foreign based construction contracts.

Heat Transfer Sales, LLC ("HTS") operates primarily as a manufacturer's representative of hydronic pumping equipment and systems, principally in North Carolina and South Carolina. HTS also engages in the business of fabricating, servicing, and maintaining hydronic pumping equipment.

Upper Asbury, LLC ("UA") operates as a real estate holding entity for the Company's newly acquired facility located in Charlotte, NC. As of December 31, 2021, the facility is under construction with the intent to be fully operating during year ending December 31, 2022.

Hoffman Custom Solutions ("HCS") is owned 80% by H&H and 20% by a noncontrolling interest. HCS operates primarily as a manufacturer's representative of a custom air handler line, principally in North and South Carolina.

SafTDek ("SD") specializes in the selling a fall protection platform systems for technicians working on elevated machinery.

Principles of Consolidation

The consolidated financial statements include the accounts of H&H, HHIL, HBT, HMS, HTS, UA, HCS and SD (collectively referred to as the "Company"). All significant intercompany transactions and profits have been eliminated.

Change in Income Tax Status

Effective January 1, 2017, the Company elected S Corporation status for federal income tax purposes. Generally, the income of an S Corporation is not subject to federal income tax at the corporate level, but rather the shareholders are required to include a pro-rata share of the corporation's taxable income or loss in their personal income tax returns, irrespective of whether dividends have been paid. Due to temporary differences, the Company previously had deferred income taxes. For the year ended December 31, 2017, the previously unreversed temporary differences were included in current income tax expense.

HOFFMAN & HOFFMAN, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

NOTE A - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Change in Income Tax Status (Continued)

In the event the Company recognizes a taxable gain from the sale of assets held at January 1, 2018 prior to January 1, 2022, it will be required to pay federal income taxes thereon to the extent that such gain cannot be attributed to the period since the effective date of its election. No provision has been made for any built-in gains since the Company's intention is to retain all assets on which the tax would be due until after January 1, 2022 or to use other tax-planning strategies that would eliminate any such tax. As of December 31, 2021, the Company does not anticipate any activity resulting in taxable gains subject to federal income taxes.

A summary of the Company's significant accounting policies follows:

Cash and Cash Equivalents

For cash flow purposes, the Company considers all cash accounts, which are not subject to withdrawal restrictions or penalties and certificates of deposit with an original maturity of three months or less as cash and cash equivalents.

Contracts Receivable

The Company records contracts receivable at total unpaid balance, which approximates estimated fair value. The Company determines past-due status of individual contracts receivable based on the contractual terms of the original sale. The Company establishes an allowance for estimated uncollectible amounts based on the current composition of receivables, existing economic conditions and management's assessment of a customer's ability to pay. Contract receivables that management believes to be ultimately not collectible are written off upon such determination.

Accounts Receivable, Trade

Accounts receivable, trade are recorded at total unpaid balance, net of allowance for doubtful accounts. The Company determines past-due status of individual accounts receivable based on the original billing date and does not charge interest for amounts over 90 days past due. The Company estimates its allowance for doubtful accounts based on a combination of factors, including the Company's knowledge of the current composition of receivables, historical losses, existing economic conditions and management's assessment of a customer's ability to pay. Accounts receivable that management believes to be ultimately not collectible are written off upon such determination.

Inventory

Inventory is valued at the lower of cost or net realizable value. Cost is determined using the first-in, first-out (FIFO) method.

Customer Deposits

Cash received prior to shipment of the related inventory or prior to services performed are credited to customer deposits. These amounts are recognized as sales when the goods are shipped or service is performed.

HOFFMAN & HOFFMAN, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

NOTE A - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Equipment and Leasehold Improvements

Equipment and leasehold improvements are stated at cost. Depreciation is provided under the straight-line method. Assets are depreciated over their estimated useful lives. Leasehold improvements are amortized over the shorter of the estimated lives of the improvements or the lease term. Management has determined the following useful lives based on type of asset:

Equipment	5 years
Software	3 years
Furniture and fixtures	5-7 years
Leasehold improvements	7-31 years

Goodwill

The Company uses the accounting alternatives provided in FASB Accounting Standards Codification Topic 350: *Accounting for Goodwill* and Topic 805: *Accounting for Identifiable Intangible Assets in a Business Combination*. These accounting alternatives allow the Company to no longer recognize separately customer-related intangible assets or noncompetition agreements from goodwill, and goodwill is amortized on a straight-line basis over a period of ten years, or less than ten years if any entity can demonstrate that another useful life is more appropriate. The Company has amortized approximately \$375,000 and \$231,000 of goodwill for the years ended December 31, 2021 and 2020, respectively. The Company tests for goodwill impairment upon the occurrence of an event or circumstance that may indicate the fair value of the Company is less than its carrying amount and has elected to perform this test at the entity level. No indicators of impairment were identified during the years ended December 31, 2021 and 2020.

Sales Taxes

The Company collects sales tax from customers and records the sales tax as a liability, included in accrued expenses and other liabilities on the balance sheet. Those taxes are remitted to the appropriate state and local taxing authorities when due.

Revenue Recognition

The Company derives its revenues primarily from contracts with customers to sell, install, and service heating and cooling equipment. A majority of contracts contain one performance obligation. However, many contracts may contain multiple distinct promises or multiple contracts which are reviewed at contract inception to determine if they represent multiple performance obligations. When a contract has a single performance obligation, the entire transaction price is attributed to that performance obligation. When a contract has more than one performance obligation, the transaction price is allocated to each performance obligation based on the estimated relative standalone selling price at the inception of the contract, which is typically determined using cost plus an appropriate margin. Revenues are recognized when control is transferred to its customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those products. Sales and other taxes the Company collects concurrent with revenue-producing activities are excluded from revenue.

HOFFMAN & HOFFMAN, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

NOTE A - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Revenue Recognition (Continued)

For performance obligations related to the sale of parts, control transfers to the customer at a point in time. The Company's principal terms of sale are FOB Shipping Point and FOB Destination and the Company transfers control and records revenue for product sales either upon shipment or delivery to the customer, respectively.

For performance obligations related to services performed, control transfers to the customer over time as the services typically create or enhance an asset that the customer controls as the asset is created or enhanced. Revenue is recorded based on the percentage of costs incurred to date to the estimated total costs for each contract. Contract costs include all direct material, subcontracted and labor costs and those indirect costs related to contract performance, such as indirect labor, field offices, equipment, repairs, and depreciation. Changes in job performance, job conditions, and estimated profitability may result in revisions to costs and income and are recognized in the period in which the revisions are determined. An amount equal to contract costs attributable to claims is included in revenue when realization is probable and the amount can be reliably estimated.

Subsequent to the inception of a contract, the transaction price could change for various reasons, including executed change orders or contract modifications. Changes that are accounted for as an adjustment to existing performance obligations are allocated on the same basis as at contract inception. Otherwise, changes are accounted for as a separate performance obligation. Changes in job performance, job conditions, and estimated profitability may result in revisions to costs and are recognized in the period in which the revisions are determined. An amount equal to contract costs attributable to claims is included in revenue when realization is probable and the amount can be reliably estimated.

The nature of the Company's business gives rise to variable consideration, including rebates, allowances, and returns that generally decrease the transaction price which reduces revenue. These variable amounts are generally credited to the customer, based on achieving certain levels of sales activity, product returns or price concessions. Variable consideration is estimated at the most likely amount that is expected to be earned. Estimated amounts are included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Estimates of variable consideration are estimated based upon historical experience and known trends.

The following table disaggregates the Company's revenue based on the timing of satisfaction of performance obligations for the year ended December 31, 2021:

	<u>2021</u>	<u>2020</u>
Performance obligations satisfied at a point in time	\$229,967,439	\$208,697,907
Performance obligations satisfied over time	<u>81,901,758</u>	<u>75,046,466</u>
Total net sales	<u>\$311,869,197</u>	<u>\$283,744,373</u>

HOFFMAN & HOFFMAN, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

NOTE A - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Use of Estimates

The preparation of the consolidated 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 the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Company, with the consent of its shareholders, has elected under the Internal Revenue Code to be an S Corporation. In lieu of corporate income taxes, the shareholders of an S Corporation are taxed on their proportionate share of the Company's taxable income. Therefore, no provision or liability for federal income taxes has been included in the financial statements. However, the Company did pay income taxes for various states that do not recognize S Corporation status that allows pass through to the shareholders.

The Company adheres to the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the consolidated financial statements. Under this guidance, the Company may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. No material uncertain tax positions were identified for the year ended December 31, 2021.

Subsequent Events

All the effects of subsequent events that provide additional evidence about conditions that existed at the consolidated financial statement date, including the estimates inherent in the process of preparing the consolidated financial statements, are recognized in the consolidated financial statements. The Company does not recognize subsequent events that provide evidence about conditions that did not exist at the consolidated financial statement date but arose after, but before the consolidated financial statements are available to be issued. In some cases, unrecognized subsequent events are disclosed to keep the consolidated financial statements from being misleading.

The Company has evaluated events and transactions for potential recognition or disclosure through May 20, 2022, which is the date the consolidated financial statements were available to be issued.

HOFFMAN & HOFFMAN, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

NOTE B - CONTRACTS IN PROGRESS

Contracts receivable consist of the following as of December 31:

	<u>2021</u>	<u>2020</u>
Billings	\$ 14,855,126	\$ 13,344,838
Retainages	<u>2,810,543</u>	<u>2,750,297</u>
Total contracts receivable expected to be received within one year	17,665,669	16,095,135
Less allowance for doubtful accounts	<u>(59,034)</u>	<u>(80,663)</u>
Total contracts receivable, net of allowance	<u>\$ 17,606,635</u>	<u>\$ 16,014,472</u>

Costs and estimated earnings on uncompleted contracts are as follows as of December 31:

	<u>2021</u>	<u>2020</u>
Costs incurred on uncompleted contracts	\$ 93,737,829	\$ 65,706,898
Gross profit recognized under the percentage-of-completion method	<u>32,258,094</u>	<u>24,710,286</u>
	125,995,923	90,417,184
Less billings on uncompleted jobs	<u>129,504,353</u>	<u>92,821,812</u>
	<u>\$ (3,508,430)</u>	<u>\$ (2,404,628)</u>

The amounts above on uncompleted contracts are included in the accompanying balance sheets under the following captions:

	<u>2021</u>	<u>2020</u>
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 2,777,927	\$ 2,416,434
Billings in excess of costs and estimated earnings on uncompleted contracts	<u>(6,286,357)</u>	<u>(4,821,062)</u>
	<u>\$ (3,508,430)</u>	<u>\$ (2,404,628)</u>

NOTE C - GOODWILL AND OTHER INTANGIBLES

Goodwill and intangibles consist of the following as of December 31, 2021 and 2020:

	<u>2021</u>			Weighted Average Estimated Life (Years)
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	
Goodwill	\$ 14,525,552	\$ 1,295,346	\$ 13,230,206	10
Customer lists	<u>127,440</u>	<u>71,536</u>	<u>55,904</u>	15
	<u>\$ 14,652,992</u>	<u>\$ 1,366,882</u>	<u>\$ 13,286,110</u>	
	<u>2020</u>			
Goodwill	\$ 2,691,215	\$ 901,466	\$ 1,789,749	10
Customer lists	<u>127,440</u>	<u>63,040</u>	<u>64,400</u>	15
	<u>\$ 2,818,655</u>	<u>\$ 964,506</u>	<u>\$ 1,854,149</u>	

HOFFMAN & HOFFMAN, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

NOTE C - GOODWILL AND OTHER INTANGIBLES (Continued)

Estimated future amortization expense including the amortization of intangible assets for the next five years is as follows:

<u>Year Ending December 31:</u>	
2022	\$ 1,417,284
2023	1,417,284
2024	1,417,284
2025	1,405,203
2026	1,404,787

NOTE D - LINE OF CREDIT

The Company entered into a five-year term revolving line of credit arrangement with a financial institution. The line of credit has a borrowing limit of \$15,000,000 and is secured by a first lien on the assets of the Company and its subsidiaries. Interest is payable monthly and accrues at the One Month LIBOR plus 1.27% per annum, as adjusted monthly. The line matures December 22, 2026.

NOTE E - LONG-TERM DEBT

In December 2021, the Company entered into a promissory note with a financial institution. The note accrues interest at LIBOR plus 1.35%, with a floor of 2.35% (2.35% at December 31, 2021). The note requires monthly principal payments of \$66,667 plus interest with all unpaid principal and interest due in December 2028.

Maturities on the note subsequent to December 31, 2021 are as follows:

<u>Year Ending December 31:</u>	
2022	\$ 800,000
2023	800,000
2024	800,000
2025	800,000
2026	800,000
Thereafter	<u>4,000,000</u>
	<u>\$ 8,000,000</u>

NOTE F - RELATED PARTY TRANSACTIONS

During 2021, the Company leased buildings from 7 related party limited liability companies. Related party rent expense for the years ended December 31, 2021 and 2020 totaled approximately \$402,000 and \$800,000, respectively.

HOFFMAN & HOFFMAN, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

NOTE G - OPERATING LEASES

The Company leases sales offices and various office equipment that require future minimum annual payments. Total rent expense for these operating leases, including the related party lease discussed in Note E above, for the years ended December 31, 2021 and 2020, was approximately \$2,148,000 and \$1,896,000, respectively.

The following is a schedule by years of the future minimum rental-commitment lease payments due under these operating leases:

<u>Year Ending December 31:</u>	
2022	\$ 675,100
2023	316,493
2024	258,241
2025	175,264
2026	25,710
	<u>\$ 1,450,808</u>

NOTE H - ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consist of the following at December 31:

	<u>2021</u>	<u>2020</u>
Salaries and bonuses	\$ 3,193,703	\$ 4,065,831
Commissions	10,788,094	11,114,004
Contributions and employee stock ownership plan	8,408,970	5,982,807
Sales taxes	684,715	940,605
Other	1,953,434	1,412,031
	<u>\$ 25,028,916</u>	<u>\$ 23,515,278</u>

NOTE I - BACKLOG (UNAUDITED)

The following schedule summarizes changes in backlog on contracts for the year ended December 31, 2021. Backlog represents the amount of revenue the Company expects to realize from work to be performed on uncompleted contracts in progress at year-end and from contractual agreements on which work has not yet begun.

Backlog at January 1, 2021	\$ 27,243,522
New contracts and change orders during 2021	<u>95,796,760</u>
	123,040,282
Less contract revenue earned during 2021	<u>82,506,947</u>
Backlog at December 31, 2021	<u>\$ 40,533,335</u>

HOFFMAN & HOFFMAN, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

NOTE J - EMPLOYEE STOCK OWNERSHIP PLAN AND PROFIT SHARING

The Company established an employee stock ownership plan ("ESOP") and a related trust for the benefit of its employees. Effective February 19, 2020, the Company amended its Articles of Incorporation to execute a one hundred to one capital stock split, retroactively applied. As of December 31, 2020 and 2019, 556,000 shares of the Company's common stock are held by the employee stock ownership trust ("ESOT"), which was established to fund the ESOP. The trust agreement provides that the Company shall contribute an amount for each plan year as the Company's Board of Directors shall determine in cash or in shares of Company stock. The benefit with respect to each participant becomes partially vested based on the participant's years of service beginning with two years of service and becomes fully vested with six years of service or the occurrence of certain specified events.

On December 22, 2016, the plan purchased 201,200 shares of the Company's issued and outstanding stock for the amount of \$13,385,000 as approved by the Company's Board of Directors. These shares were purchased using the proceeds of a loan from the Company. The stock is held in a trust established under the plan. The ESOP will obtain the funds to repay the borrowings from the Company through contributions made by the Company to the trust. Unallocated shares serve as collateral for the borrowing. The trust will receive any dividends and distributions made with regards to the secured shares. Shares are released from collateral and are allocated to plan participants as payments of principal and interest are made. The number of shares released in any year is determined by the ESOP Loan and Pledge Agreement in accordance with plan provisions. At December 31, 2021 and 2020, there were 506,382 and 489,531 shares that have been allocated to employees, respectively.

Company contribution expense is based on two valuations; the actual cash contributed and funded to the plan, which is formulated based on a discretionary percentage of eligible compensation and the appreciation of released shares from acquired value to current fair market value at time of release. Company contribution expense made directly to the ESOP was approximately \$7,569,000 and \$6,822,000 for the years ended December 31, 2021 and 2020, respectively. Company contribution expense recorded due to the fair market value appreciation of allocated shares released was approximately \$2,054,000 and \$1,501,000 for the years ended December 31, 2021 and 2020, respectively. At December 31, 2021 and 2020, unreleased shares totaled 144,025 and 160,876, respectively. The appraised fair value of these shares at December 31, 2021 and 2020 was approximately \$30,700,000 and \$31,200,000, respectively.

In order to make a cash payout of a terminated participant's vested interest in the ESOP, the Company may be required to purchase some or all of the shares allocated to the participant's account at their fair market value. During 2020, the plan purchased 94,507 shares of the Company's issued and outstanding stock for the amount of \$14,504,982 as approved by the Company's Board of Directors. The cost of the shares acquired by the plan was the appraised fair value of the shares when acquired. During 2021, the Company was not required to purchase any stock.

HOFFMAN & HOFFMAN, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

NOTE K - CONCENTRATIONS AND CREDIT RISKS

The Company maintains its cash in financial institutions insured by the Federal Deposit Insurance Corporation. Deposit accounts, at times, may exceed federally insured limits.

During the years ended December 31, 2021 and 2020, approximately 13% and 14% of purchases were made from one vendor, respectively.

HOFFMAN & HOFFMAN, INC. AND SUBSIDIARIES
Consolidating Balance Sheet
December 31, 2021

	Hoffman & Hoffman, Inc.	Hoffman Building Technologies, Inc.	Hoffman Mechanical Solutions, Inc.	Hoffman & Hoffman Ireland, Ltd.	Heat Transfer Sales, LLC	Upper Asbury, LLC	Hoffman Custom Solutions, LLC.	SafTDek, LLC.	Eliminations	Total
Assets										
Current Assets:										
Cash and cash equivalents	\$ 7,731,611	\$ 4,112,014	\$ 1,136,469	\$ 234,866	\$ 372,282	\$ 812	\$ 237,097	\$ 890	\$ -	\$ 13,826,041
Contracts receivable, net	-	13,449,060	4,348,330	263,586	-	-	-	-	(454,341)	17,606,635
Trade accounts receivable	36,933,644	-	-	-	3,406,774	-	3,169,467	-	(311,483)	43,198,402
Intercompany receivables	-	-	-	-	-	7,327,972	-	-	(7,327,972)	-
Other receivables	596,344	677	-	79,303	131,815	-	23,472	-	(1)	831,610
Inventories	3,050,079	721,668	35,021	-	1,102,146	-	-	-	-	4,908,914
Work orders in process	-	172,648	959,617	-	110,215	-	-	-	-	1,242,480
Costs and estimated earnings in excess of billings on uncompleted contracts	-	2,228,832	192,537	356,558	-	-	-	-	-	2,777,927
Prepaid expenses and other current assets	543,477	156,130	136,737	5,245	39,829	-	3,136	-	-	884,554
	<u>48,855,155</u>	<u>20,841,029</u>	<u>6,808,711</u>	<u>939,558</u>	<u>5,163,061</u>	<u>7,328,784</u>	<u>3,433,172</u>	<u>890</u>	<u>(8,093,797)</u>	<u>85,276,563</u>
Other Assets:										
Notes receivable due from affiliates	6,257,352	-	-	-	-	-	-	-	(6,257,352)	-
Cash value of life insurance	597,532	-	-	-	-	-	-	-	-	597,532
Investment in affiliates	16,838,095	-	-	-	-	-	-	-	(16,838,095)	-
Other investment	291,599	-	-	-	-	-	-	-	-	291,599
Intangibles, net	55,904	-	-	-	-	-	-	-	-	55,904
Goodwill, net	1,564,395	6,658,200	687,777	-	-	-	4,319,834	-	-	13,230,206
	<u>25,604,877</u>	<u>6,658,200</u>	<u>687,777</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,319,834</u>	<u>-</u>	<u>(23,095,447)</u>	<u>14,175,241</u>
Equipment and Leasehold Improvements:										
Computers and software	809,382	507,853	235,375	-	-	-	-	-	-	1,552,610
Automobiles	393,972	3,972,134	4,373,047	-	-	-	-	-	(118,892)	8,620,261
Leasehold improvements	4,598,983	399,359	68,762	-	199,923	-	-	-	-	5,267,027
Warehouse office	477,565	-	-	-	257,194	-	-	-	-	477,565
Equipment	383,644	-	241,940	-	-	-	-	-	-	882,778
Construction in progress	108,538	-	-	-	-	9,862,967	-	-	-	9,971,505
	<u>6,772,084</u>	<u>4,879,346</u>	<u>4,919,124</u>	<u>-</u>	<u>457,117</u>	<u>9,862,967</u>	<u>-</u>	<u>-</u>	<u>(118,892)</u>	<u>26,771,746</u>
Less accumulated depreciation and amortization	5,519,623	3,072,597	2,405,179	-	282,173	-	-	-	79,261	11,200,311
	<u>1,252,460</u>	<u>1,806,749</u>	<u>2,513,946</u>	<u>-</u>	<u>174,944</u>	<u>9,862,967</u>	<u>-</u>	<u>-</u>	<u>(39,631)</u>	<u>15,571,435</u>
	<u>\$ 75,712,492</u>	<u>\$ 29,305,978</u>	<u>\$ 10,010,434</u>	<u>\$ 939,558</u>	<u>\$ 5,338,005</u>	<u>\$ 17,191,751</u>	<u>\$ 7,753,006</u>	<u>\$ 890</u>	<u>\$ (31,228,875)</u>	<u>\$ 115,023,239</u>

	Hoffman & Hoffman, Inc.	Hoffman Building Technologies, Inc.	Hoffman Mechanical Solutions, Inc.	Hoffman & Hoffman Ireland, Ltd.	Heat Transfer Sales, LLC	Upper Asbury, LLC	Hoffman Custom Solutions, LLC	SaftDek, LLC	Eliminations	Total
Liabilities and Stockholders' Equity										
Current Liabilities:										
Accounts payable, trade	\$ 6,808,884	\$ -	\$ -	\$ -	\$ 1,025,508	\$ -	\$ 1,079,247	\$ -	\$ (147,080)	\$ 8,766,559
Contracts and other payables	381,825	2,822,801	1,450,973	321,678	-	-	-	-	(547,294)	4,429,983
Intercompany payables	6,989,147	162,319	133,538	-	9,113	-	30,251	3,604	(7,327,972)	-
Accrued expenses and other liabilities	16,719,346	3,999,548	2,770,899	2,087	1,363,492	15,144	158,400	-	-	25,028,916
Customer deposits	22,200	-	-	-	-	-	-	-	-	22,200
Billings in excess of costs and estimated earnings on uncompleted contracts	-	5,218,860	346,737	546,937	-	-	173,823	-	-	6,286,357
Current maturities on long term debt	-	-	-	-	-	800,000	-	-	-	800,000
	<u>30,921,402</u>	<u>12,203,528</u>	<u>4,702,147</u>	<u>870,702</u>	<u>2,398,113</u>	<u>815,144</u>	<u>1,441,721</u>	<u>3,604</u>	<u>(8,022,346)</u>	<u>45,334,015</u>
Noncurrent Liabilities:										
Line of credit due to Hoffman & Hoffman, Inc.	-	4,654,319	-	-	38,033	-	-	-	(4,692,352)	-
Note payable due to Hoffman & Hoffman, Inc.	-	-	-	-	-	-	1,565,000	-	(1,565,000)	-
Long term debt	-	-	-	-	-	7,200,000	-	-	-	7,200,000
Line of credit	1,141,437	-	-	-	-	-	-	-	-	1,141,437
	<u>1,141,437</u>	<u>4,654,319</u>	<u>-</u>	<u>-</u>	<u>38,033</u>	<u>7,200,000</u>	<u>1,565,000</u>	<u>-</u>	<u>(6,257,352)</u>	<u>8,341,437</u>
Stockholders' Equity:										
Common stock	55,600	-	-	-	-	-	-	-	-	55,600
Capital contributions	-	(1,936,583)	1,163,854	-	-	-	-	-	772,729	-
Additional paid in capital	5,160,239	-	-	-	2,823,849	9,483,426	3,700,000	-	(16,007,275)	5,160,239
Unearned employee stock ownership plan shares	(17,277,242)	-	-	-	-	-	-	-	-	(17,277,242)
Noncontrolling interest in consolidated entities	-	-	-	-	-	-	949,257	-	-	949,257
Retained earnings (deficit)	55,711,056	14,384,714	4,144,433	68,856	78,010	(306,819)	97,028	(2,714)	(1,714,631)	72,459,933
	<u>43,649,653</u>	<u>12,448,131</u>	<u>5,308,287</u>	<u>68,856</u>	<u>2,901,859</u>	<u>9,176,607</u>	<u>4,746,285</u>	<u>(2,714)</u>	<u>(16,949,177)</u>	<u>61,347,787</u>
	<u>\$ 75,712,492</u>	<u>\$ 29,305,978</u>	<u>\$ 10,010,434</u>	<u>\$ 939,558</u>	<u>\$ 5,338,005</u>	<u>\$ 17,191,751</u>	<u>\$ 7,753,006</u>	<u>\$ 890</u>	<u>\$ (31,228,875)</u>	<u>\$ 115,023,239</u>

HOFFMAN & HOFFMAN, INC. AND SUBSIDIARIES
Consolidating Statement of Income
Year Ended December 31, 2021

	Hoffman & Hoffman, Inc.	Hoffman Building Technologies, Inc.	Hoffman Mechanical Solutions, Inc.	Hoffman & Hoffman Ireland, Ltd.	Heat Transfer Sales, LLC	Upper Asbury, LLC	Hoffman Custom Solutions, LLC	SafTDek, LLC	Eliminations	Total
Net sales	\$ 214,821,444	\$ -	\$ -	\$ -	\$ 20,043,340	\$ -	\$ -	\$ -	\$ (4,897,345)	\$ 229,967,439
Contract revenue earned	-	48,980,013	33,526,934	1,130,566	-	-	2,719,181	-	(4,454,936)	81,901,758
	214,821,444	48,980,013	33,526,934	1,130,566	20,043,340	-	2,719,181	-	(9,352,281)	311,869,197
Cost of good sold	149,282,254	-	-	-	13,558,150	-	2,306,368	-	(3,605,916)	161,540,856
Cost of revenue earned	-	33,875,501	25,030,016	989,599	-	-	-	-	(5,808,906)	54,086,210
	149,282,254	33,875,501	25,030,016	989,599	13,558,150	-	2,306,368	-	(9,414,822)	215,627,066
Gross profit	65,539,190	15,104,512	8,496,918	140,967	6,485,190	-	412,813	-	62,541	96,242,131
Commission income	1,651,337	-	-	-	27,496	-	412,813	-	-	1,678,833
	67,190,527	15,104,512	8,496,918	140,967	6,512,686	-	412,813	-	62,541	97,920,964
Operating expenses:										
Selling	44,616,737	3,095,958	190,958	-	1,286,637	-	150,900	751	-	49,341,941
General and administrative	14,589,147	11,521,681	6,211,790	90,552	6,022,167	177,900	125,695	1,963	(1,459,623)	37,281,272
	59,205,884	14,617,639	6,402,748	90,552	7,308,804	177,900	276,595	2,714	(1,459,623)	86,623,213
Operating income (loss)	7,984,643	486,873	2,094,170	50,415	(796,118)	(177,900)	136,218	(2,714)	1,522,164	11,297,751
Other income (expense), net	1,668,884	47,117	129,930	(30,237)	(18,015)	(15,144)	(14,933)	-	(1,563,880)	203,722
Income (loss) before income taxes	9,653,527	533,990	2,224,100	20,178	(814,133)	(193,044)	121,285	(2,714)	(41,716)	11,501,473
Income taxes, net	85,488	92,911	-	5,788	-	-	-	-	-	184,187
Net income (loss) before noncontrolling interests	9,568,039	441,079	2,224,100	14,390	(814,133)	(193,044)	121,285	(2,714)	(41,716)	11,317,286
Net income attributable to noncontrolling interests	-	-	-	-	-	-	24,257	-	-	24,257
Net income (loss) attributable to controlling interests	\$ 9,568,039	\$ 441,079	\$ 2,224,100	\$ 14,390	\$ (814,133)	\$ (193,044)	\$ 97,028	\$ (2,714)	\$ (41,716)	\$ 11,293,029