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Levi, Ray & Shoup, Inc. and Subsidiaries

Consolidated Financial Report
July 31, 2022

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Independent Auditor's Report

RSM US LLP

Stockholders
Levi, Ray & Shoup, Inc. and Subsidiaries

Opinion

We have audited the consolidated financial statements of Levi, Ray & Shoup, Inc. and its Subsidiaries (the Company), which comprise the consolidated balance sheets—income tax basis as of July 31, 2022 and 2021, the related consolidated statements of income—income tax basis, stockholders' equity—income tax basis, and cash flows—income tax basis for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of July 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with the basis of accounting the Company uses for income tax purposes.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the basis of accounting the Company uses for income tax purposes, 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 financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 GAAS will always detect a material misstatement when it exists. 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 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 financial statements.

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In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 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 the Company'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company'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.

RSM US LLP

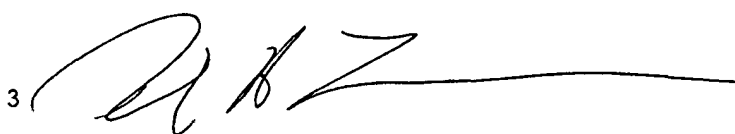
Peoria, Illinois
October 26, 2022

Levi, Ray & Shoup, Inc. and Subsidiaries

Consolidated Balance Sheets—Income Tax Basis
July 31, 2022 and 2021

	2022	2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 25,744,260	\$ 45,418,162
Marketable securities	6,823,019	5,451,419
Accounts receivable	53,761,787	46,172,782
Prepaid expenses and other assets	11,393,220	11,170,000
Total current assets	<u>97,722,286</u>	<u>108,212,363</u>
Property and equipment, net	18,559,166	19,120,695
Marketable securities	84,794,379	83,195,010
Other assets	10,208,323	11,293,708
Stock acquisitions	10,886,492	10,886,492
Amortizable goodwill, net	13,472,400	9,047,987
Total assets	<u>\$ 235,643,046</u>	<u>\$ 241,756,255</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 5,572,151	\$ 7,885,910
Accrued income taxes	2,366,805	2,291,273
Accrued expenses and other current liabilities	14,626,882	14,754,514
Deferred revenue	76,706,739	75,235,835
Total current liabilities	<u>99,272,577</u>	<u>100,167,532</u>
Total liabilities	<u>99,272,577</u>	<u>100,167,532</u>
Commitments and contingencies (Notes 5, 9, 11 and 13)		
Stockholders' equity:		
Common stock:		
Voting, no par value; 100 shares authorized, 50 shares issued and outstanding	25	25
Nonvoting, no par value; 1900 shares authorized, 950 shares issued and outstanding	475	475
Additional paid-in capital	978,295	978,295
Undistributed Subchapter S earnings	135,391,674	140,609,928
Total stockholders' equity	<u>136,370,469</u>	<u>141,588,723</u>
Total liabilities and stockholders' equity	<u>\$ 235,643,046</u>	<u>\$ 241,756,255</u>

See notes to consolidated financial statements.



Levi, Ray & Shoup, Inc. and Subsidiaries

Consolidated Statements of Income—Income Tax Basis
Years Ended July 31, 2022 and 2021

	2022	2021
Revenue:		
Software sales	\$ 116,070,359	\$ 103,635,777
Software maintenance	56,992,388	51,549,133
Third-party resales	35,892,994	26,815,212
IT services	64,874,602	57,439,610
Other operating revenue	11,108,590	9,241,172
Total revenue	284,938,933	248,680,904
Costs and expenses:		
Compensation and related expenses	107,597,582	100,292,131
Cost of third-party resales	28,405,406	21,180,964
Depreciation and amortization	1,869,728	1,917,319
Other operating expenses	64,111,584	59,047,612
Total costs and expenses	201,984,300	182,438,026
Income before other income and income taxes	82,954,633	66,242,878
Other income, net	978,650	3,219,069
Income before income taxes	83,933,283	69,461,947
Provision for income taxes	5,151,537	4,529,975
Net income	\$ 78,781,746	\$ 64,931,972

See notes to consolidated financial statements.

Levi, Ray & Shoup, Inc. and Subsidiaries

**Consolidated Statements of Stockholders' Equity—Income Tax Basis
Years Ended July 31, 2022 and 2021**

	Common Stock				Additional Paid-In Capital	Undistributed Subchapter S Earnings	Total
	Voting		Non-voting				
	Shares	Amount	Shares	Amount			
Balance, July 31, 2020	50	\$ 25	950	\$ 475	\$ 978,295	\$ 147,677,956	\$ 148,656,751
Net income	-	-	-	-	-	64,931,972	64,931,972
Cash dividends	-	-	-	-	-	(72,000,000)	(72,000,000)
Balance, July 31, 2021	50	25	950	475	978,295	140,609,928	141,588,723
Net income	-	-	-	-	-	78,781,746	78,781,746
Cash dividends	-	-	-	-	-	(84,000,000)	(84,000,000)
Balance, July 31, 2022	50	\$ 25	950	\$ 475	\$ 978,295	\$ 135,391,674	\$ 136,370,469

See notes to consolidated financial statements.

Levi, Ray & Shoup, Inc. and Subsidiaries

Consolidated Statements of Cash Flows—Income Tax Basis
Years Ended July 31, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Net income	\$ 78,781,746	\$ 64,931,972
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,869,729	1,917,319
Amortization of premiums on investments in marketable securities	638,854	685,832
Loss (gain) on disposal of property and equipment, net	(15,927)	55,849
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	(4,585,970)	3,738,514
Prepaid expenses and other current assets	(216,760)	(1,153,708)
Other assets	1,085,385	(1,459,743)
Increase (decrease) in liabilities:		
Accounts payable	(3,164,010)	116,864
Accrued expenses and other current liabilities	(466,044)	1,767,765
Deferred revenue	1,470,904	7,008,152
Net cash provided by operating activities	75,397,907	77,608,816
Cash flows from investing activities:		
Purchase of property and equipment	(359,808)	(349,897)
Proceeds from sale of property and equipment	90,746	46,000
Fulcrum acquisition	(7,192,923)	-
Gain on sale of marketable securities	2	354
Proceeds from maturities of marketable securities	10,543,371	11,316,591
Investment in marketable securities	(14,153,197)	(16,242,785)
Net cash used in investing activities	(11,071,809)	(5,229,737)
Cash flows from financing activities:		
Dividends paid	(84,000,000)	(72,000,000)
Net cash used in financing activities	(84,000,000)	(72,000,000)
Change in cash and cash equivalents	(19,673,902)	379,079
Cash and cash equivalents:		
Beginning of year	45,418,162	45,039,083
End of year	\$ 25,744,260	\$ 45,418,162
Supplemental disclosures of cash flow information:		
Cash payments for:		
Interest	\$ 14,074	\$ 75,716
Income taxes	\$ 5,227,069	\$ 3,310,418

See notes to consolidated financial statements.

Levi, Ray & Shoup, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Income Tax Basis

Note 1. Summary of Significant Accounting Policies

Business: Levi, Ray & Shoup, Inc. (LRS) develops, sells, and maintains proprietary output management software in mainframe and open system markets that are sold in approximately 120 countries around the world. In addition, LRS provides information technology solutions, consulting and mainframe computer processing services, and resells IBM computer hardware and software solutions.

LRS operates a marina business in Fort Myers, Florida, through its wholly-owned subsidiary, Diversified Yacht Services, Inc. (DYS) and a commercial and residential security business in Springfield, Illinois through its wholly-owned subsidiary Central Illinois Security, Inc. (CIS). The Company filed Q-Sub elections on both of these wholly-owned subsidiaries, DYS and CIS. LRS also operates a consulting services business through its wholly-owned subsidiary Fulcrum, a single-member LLC. The activity from all of the wholly-owned subsidiaries is included in the Company's Federal income tax filing.

LRS, Fulcrum, DYS and CIS are collectively referred to as the Company.

Basis of accounting: The books of the Company are maintained on the accrual basis of accounting, consistent with current federal income tax laws and regulations. The tax basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP) with respect to: (a) depreciable assets are depreciated over periods specified in the Internal Revenue Code (IRC) rather than over their estimated useful lives; (b) bad debts are accounted for under the direct write-off method whereas GAAP requires a reserve for doubtful accounts; (c) accounting for acquisitions which for GAAP considers other intangibles not considered for tax; (d) impairment is not considered when estimated undiscounted cash flows are less than the carrying amount of the assets; (e) tax basis income deferrals are limited to one accounting period and any deferral remaining at the end of the second period is fully recognized as income whereas GAAP requires deferred amounts to be recognized over the entire amortization period; (f) certain presentations and disclosures required by GAAP which are not included herein. In addition, the Company includes items of nontaxable revenue and nondeductible expenses in the accompanying statements of revenue and expense. The accompanying consolidated financial statements are not intended to present financial position and results of operations in conformity with GAAP.

Principles of consolidation: The consolidated financial statements include the accounts of LRS and its wholly-owned subsidiaries, Fulcrum, DYS and CIS. All significant intercompany accounts and transactions have been eliminated in the consolidation.

Classification: Current assets are cash and those assets that are reasonably expected to be realized in cash or sold or consumed within one year. Current liabilities are obligations whose liquidation is reasonably expected to require the use of current assets or the creation of other current liabilities.

Use of estimates: The preparation of the consolidated financial statements in conformity with the income tax basis of accounting requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and their reported amounts of revenue and expenses during the reporting periods. Actual results could differ from such estimates. Because many types of transactions are susceptible to varying interpretations under federal (and state) income tax laws and regulations, the amounts reported in the accompanying financial statements may be subject to change at a later date upon final determination by the taxing authorities.

Notes to Consolidated Financial Statements—Income Tax Basis

Note 1. Summary of Significant Accounting Policies (Continued)

Revenue recognition: The Company enters into contractual arrangements with the end-users of its products to sell software licenses, software maintenance, consulting and processing services and hardware, either separately or combined into multiple-element arrangements. For each arrangement, revenues are recognized when all events fixing the right to receive income have occurred and the amount can be determined with reasonable accuracy, all events test. The Company's software products are licensed to customers under both perpetual and time-based license arrangements. The Company also sells customized software under the product name Pension Gold.

Perpetual license revenue: Revenue from licenses purchased under a perpetual license agreement is recorded as revenue upon receipt of a signed perpetual license arrangement, delivery of the software license to the end-user customer and determination that the fees are fixed or determinable.

Term license revenue: The Company also licenses its software under multiyear, time-based license agreements and on a month-to-month basis under various operating lease-type rental plans. Revenue under time-based license arrangements is recognized ratably over the term of the arrangement except any license revenue deferred in one period is fully recognized in the following period. This method of deferral is consistent with IRC 451(c). The Company has a history of successfully collecting substantially all amounts due under the original terms of multiyear, time-based license arrangements without making concessions on payments. Unbilled and unearned future amounts due under multiyear noncancellable, time-based license arrangements totaled \$168,881,040 and \$150,258,555 at July 31, 2022 and 2021, respectively. Revenue related to unbilled future amounts as of July 31, 2022, will be recognized during the periods in which earned and are due in future years as follows:

	<u>Amount</u>
Years ending July 31:	
2023	\$ 59,967,761
2024	49,302,302
2025	29,063,467
2026	19,819,088
2027	6,687,899
Thereafter	<u>4,040,523</u>
	<u>\$ 168,881,040</u>

Software maintenance revenue: Revenue from annual maintenance contracts for which customers pay a fee up front in order to receive software maintenance is recognized on a straight-line basis over the periods in which the support is provided except any maintenance revenue deferred in one period is fully recognized in the following period, IRC 451(c).

IT services revenue: Consulting and processing services revenue is generally sold on a time and material basis, and the related revenue is recognized as the specific services are performed. Consulting and services revenue includes general consulting, processing services, training and other related services.

Hardware revenue: In some cases, the Company resells third-party hardware to its customers. Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, and the fee is fixed or determinable. The Company considers delivery to occur when the product is shipped, and title and risk of loss have passed to the customer.

Notes to Consolidated Financial Statements—Income Tax Basis

Note 1. Summary of Significant Accounting Policies (Continued)

Other revenue: The Company also provides other miscellaneous services as part of its DYS and CIS operations which are recognized as other operating revenue as services are performed and invoiced.

Deferred revenue: Deferred revenue represents amounts received or receivable from customers under certain license, maintenance and service agreements for which the revenue earning process has not been completed. Consistent with IRC 451(c), advance payments are recognized as revenue to the extent earned in the year of receipt. Any remaining deferral is taken into income in the next succeeding year.

Charitable contributions: Charitable contributions are recognized as an expense when committed to be paid by the Company and are included in other operating expenses in the consolidated statements of income. Charitable contributions during the years ended July 31, 2022 and 2021, were approximately \$1,003,000 and \$1,011,000, respectively.

Cash equivalents: Cash equivalents consist of money market funds, a portion of which is on deposit with related parties (see Note 10).

Concentration of credit risk: The Company maintains its cash, cash equivalents, and certain investments in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and management believes they are not exposed to any significant credit risk on cash and cash equivalents.

Related parties: Related party activity is based on the definition found in GAAP.

Marketable securities: Marketable securities are carried at cost. The cost of securities sold is based on cost as determined under the specific identification method.

Trade receivables: Trade receivables are carried at original invoice. The Company follows the direct write-off method for recording uncollectible accounts receivable. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received.

Trade accounts receivable are considered to be past due if any portion of the receivable balance is outstanding for more than 30 days. Interest may be charged on accounts that are outstanding for more than 45 days and is recognized when charged.

Foreign currency translation: The monetary assets and liabilities of the foreign branches, whose functional currency is the U.S. dollar, are translated at year-end exchange rates and nonmonetary items are translated at historical rates. Income and expense accounts are translated each month at the rate in effect at the beginning of the subsequent month, except for nonmonetary assets and liabilities, which are translated at historical rates. The effects of changes in exchange rates are included in income during the period of change. Foreign currency (losses)/gains included in other income were \$(2,394,999) and \$269,473 for the years ended July 31, 2022 and 2021, respectively, and arose primarily from fluctuations in the value of the Australian dollar, Euro, British pound sterling, and Swedish Krona against the U.S. dollar.

Levi, Ray & Shoup, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Income Tax Basis

Note 1. Summary of Significant Accounting Policies (Continued)

Property and equipment: Property and equipment is stated at cost. Depreciable assets are depreciated over periods specified in the Internal Revenue Code (IRC) as follows:

	<u>Years</u>
Buildings	39
Computer equipment and software	3-5
Other equipment, furniture, and fixtures	5-10
Aircraft	5

Other assets: Other assets include a Section 444 deposit to the Internal Revenue Service (IRS). This Section 444 deposit, held by the IRS in connection with the Internal Revenue Code (IRC) requirements for a Subchapter S Corporation with a tax year ending July 31, was \$10,208,323 and \$11,293,708 at July 31, 2022 and 2021, respectively.

Stock acquisitions: The Company records stock acquisitions as the amount paid for the target company stock after deducting the historic tax basis (carrying value) of its assets and liabilities.

Goodwill: The Company records as goodwill the excess of the purchase price over the fair value of identifiable net assets acquired in a business combination. The Company is amortizing goodwill using the straight-line method over the tax life of 15 years.

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

Note 2. Marketable Securities—At Cost

Securities with maturity dates within one year are classified as short-term marketable securities. Securities with maturity dates greater than one year are classified as long-term marketable securities. At July 31, 2022, the maturity dates of long-term marketable securities, based on current contractual maturities, extend to July 2037. Actual maturities may differ from contractual maturities because certain issuers have the right to call or prepay obligations with or without call or prepayment penalties.

	<u>2022</u>	<u>2021</u>
Short-term marketable securities:		
US Government bonds	1,778,461	-
Municipal revenue bonds	5,044,558	5,451,419
Short-term marketable securities	<u>\$ 6,823,019</u>	<u>\$ 5,451,419</u>
Long-term marketable securities:		
Equity securities	\$ 29,956,577	\$ 19,638,856
Municipal revenue bonds	54,837,802	63,556,154
Long-term marketable securities	<u>\$ 84,794,379</u>	<u>\$ 83,195,010</u>

Levi, Ray & Shoup, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Income Tax Basis

Note 3. Property and Equipment

Property and equipment at July 31, 2022 and 2021, consists of the following:

	<u>2022</u>	<u>2021</u>
Land	\$ 5,560,324	\$ 5,560,324
Buildings	19,455,433	19,455,433
Computer equipment and software	4,157,465	4,101,707
Other equipment, furniture, and fixtures	13,859,856	13,742,119
Aircraft	25,200,597	25,200,597
	<u>68,233,675</u>	<u>68,060,180</u>
Less accumulated depreciation	49,674,509	48,939,485
	<u>\$ 18,559,166</u>	<u>\$ 19,120,695</u>

Depreciation expense was \$846,519 and \$924,373 for the years ended July 31, 2022 and 2021, respectively.

Note 4. Goodwill

The changes in the net carrying amount of goodwill for the years ended July 31, 2022 and 2021, were as follows:

	<u>2022</u>	<u>2021</u>
Balance, beginning	\$ 9,047,987	\$ 10,040,933
Additions (Note 12)	5,447,623	-
Amortization	(1,023,210)	(992,946)
Balance, ending	<u>\$ 13,472,400</u>	<u>\$ 9,047,987</u>

Estimated aggregate annual amortization expense on goodwill as of July 31, 2022, in future years, is as follows:

Years ending July 31:	
2023	\$ 1,356,121
2024	1,354,727
2025	1,339,454
2026	1,339,454
2027	1,339,454
Thereafter	6,743,190
	<u>\$ 13,472,400</u>

Levi, Ray & Shoup, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Income Tax Basis

Note 5. Lease Commitments and Total Rent Expense

On November 19, 2018, upon completion of a new office building, the Company entered into a lease with a related party for an initial term of approximately 10 years. Annual rental payments due under the new lease total \$2,956,892.

In addition to the lease of the Springfield Campus, the Company has entered into leases of facilities which range from \$5,400 to \$270,000 per year and which generally have expiration dates between 2023 to 2028.

Rent expense incurred under facilities leases for the years ended July 31, 2022 and 2021, was \$5,067,492 and \$5,339,406, respectively.

The total approximate rental commitments as of July 31, 2022, are due in future years as follows:

	<u>Amount</u>
Years ending July 31:	
2023	\$ 4,256,098
2024	3,801,514
2025	3,589,390
2026	3,466,626
2027	3,301,579
Thereafter	3,546,854
	<u>\$ 21,962,061</u>

Note 6. International Operations

The Company operates eight branches with offices in the United Kingdom, Germany, Spain, Italy, France, Sweden, Australia, and Singapore. The U.S. dollar is used as the functional currency for all international operations. The following is a summary of certain significant financial information of the Company's international operations included in the accompanying consolidated financial statements:

	<u>2022</u>	<u>2021</u>
Assets	\$ 21,874,292	\$ 25,808,930
Liabilities and deferred revenue	30,251,973	31,268,971
Revenue	55,794,789	49,619,705
Foreign income tax expense	3,392,377	3,473,546
Net income	9,983,716	6,976,757

Note 7. Income Taxes

Since July 31, 1987, the Company has operated under the provisions of Subchapter S of the Internal Revenue Code. As such, the Company's net income is recognized by the stockholders of the Company for federal income tax purposes as if the Company were a partnership. Accordingly, the Company is not liable for any federal income tax. The Company files its income tax returns using the accrual basis method of accounting.

Levi, Ray & Shoup, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Income Tax Basis

Note 7. Income Taxes (Continued)

The Company also files various state and local income tax returns. Following IRS notice 2020-75, the Company elected to pay the Illinois pass-through entity tax for the year ending July 31, 2022. This allows the Company a deduction for shareholder level taxes. The pass-through entity tax was included in the accompanying statement of income – Income Tax Basis. State and local income taxes were approximately \$1,717,000 and \$940,000 for the years ended July 31, 2022 and 2021, respectively. The Company's eight foreign branches file income tax returns in their respective countries. Foreign income tax expense was approximately \$3,435,000 and \$3,590,000 for the years ended July 31, 2022 and 2021, respectively.

Net operating losses (NOLs) in foreign branches totaled approximately \$5,300,000 and \$7,300,000 at July 31, 2022 and 2021. The NOLs can be carried forward indefinitely.

With few exceptions, the Company is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for fiscal years ended before 2019.

Note 8. Retirement Plan

Effective January 1, 2005, the Company adopted a 401(k) matching contribution plan covering substantially all domestic salaried employees of the Company and eligible hourly employees of its subsidiaries. The Company matches 100% of employee contributions up to a maximum of 5% of eligible employee compensation. Employer matching contributions to the plan totaled \$2,505,453 and \$2,294,235 for the years ended July 31, 2022 and 2021, respectively.

Note 9. Self-Insurance

The Company is self-insured for medical claims up to predetermined amounts. The Company has stop-loss insurance for individual claims in excess of \$200,000 for the policy years ended December 31, 2022 and 2021. The expenses under the Company's self-insured medical program for the years ended July 31, 2022 and 2021, were \$6,704,600 and \$6,239,311, respectively.

Note 10. Related-Party Transactions

The Company enters into certain transactions with two financial institutions in which the sole controlling shareholder of the Company owns an equity interest. Cash balances on deposit were \$16,514,663 and \$32,698,909 as of July 31, 2022 and 2021, respectively. Interest income derived from cash balances on deposit with both financial institutions totaled \$128,720 and \$146,844 for the years ended July 31, 2022 and 2021, respectively. Revenue for services provided to the financial institutions totaled \$404,753 and \$298,710 for the years ended July 31, 2022 and 2021, respectively. Bank service fees expense totaled \$25,281 and \$28,262 for the years ended July 31, 2022 and 2021, respectively.

The Company paid software royalties to a related party totaling \$7,187,638 and \$6,533,692 for the years ended July 31, 2022 and 2021, respectively. Additionally, the Company has also entered into a lease with a related party (see Note 5).

Note 11. Commitments and Contingencies

Under the terms of substantially all of the Company's license agreements, the Company has agreed to indemnify customers from all damages awarded against them and all reasonable expenses incurred by them as the result of any claim of trade secret, patent, or copyright infringement asserted against them by virtue of their use of the Company's software products. In the event of an infringement claim, in the vast majority of the license agreements, the Company retains the right to (a) procure for the customer the right to continue to use the software products or (b) replace or modify the software products to make their use non-infringing.

In the majority of the license agreements, if neither option is readily available, the Company may terminate the license agreement and refund a pro rata portion of the license fees paid. Such indemnification provisions are accounted for as contingent liabilities. The likelihood that the Company would be required to make refunds to customers under any such provisions is considered remote. The amount of the indemnification is limited to the amount paid by the customer in substantially all of the license agreements, while in some arrangements the Company's liability could extend up to unlimited amounts.

The Company's standard license agreements include a product warranty provision for all products. Such warranties are accounted for as contingent liabilities. The likelihood that the Company would be required to make refunds to customers under such provisions is considered remote. The amount of refund is typically limited to the actual license fees paid by the customer; however, in some arrangements, the Company's liability could extend up to unlimited amounts.

In the ordinary course of its business activities, the Company experiences certain disputed matters which give rise to claims that may result in litigation. Management vigorously pursues appropriate resolutions to such claims, but at any point in time, some claims, which could result in lawsuits by and against the Company, remain outstanding. In the opinion of management, no outstanding claims have the potential to result in judgments which, in the aggregate, would have a material adverse effect on the Company's consolidated financial statements.

Levi, Ray & Shoup, Inc. and Subsidiaries

Notes to Consolidated Financial Statements—Income Tax Basis

Note 12. Acquisitions

On July 1, 2022, the Company acquired the equity of Fulcrum and the transaction was structured as an F reorganization providing the Company with a step up in basis. Prior to closing, the Company and seller agreed to the IRS asset allocation categories which approximated fair market value of the property received. The purchase price was allocated to certain assets acquired based on Internal Revenue Code requirements that sequentially assign portions of the purchase price to asset categories. The following table summarizes the consideration paid for the acquisition (net of cash acquired) and the amount of the net assets acquired and liabilities assumed at the acquisition date:

Fulcrum Acquisition

Fair value of total consideration transferred - cash (net of cash acquired)	<u>\$ 7,192,923</u>
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Accounts receivable	3,003,035
Rent deposits	6,460
Accounts payable and accrued expenses	<u>(1,264,195)</u>
Total identifiable net assets	<u>1,745,300</u>
Goodwill	<u>5,447,623</u>
	<u>\$ 7,192,923</u>

Goodwill associated with the acquisition was \$5,447,623. The factors that contribute to the recognition of goodwill included the acquisition of customer relationships which are expected to increase revenues and profits, and the acquisition of a talented workforce. The Company is amortizing goodwill using the straight-line method over the tax life of 15 years.

The Fulcrum acquisition agreement provides for earnout payments over a two-year period beginning July 1, 2022 and ending on June 30, 2024. Any amounts paid from the earnout would be assigned to goodwill.

Note 13. Subsequent Events

All of the effects of subsequent events that provide additional evidence about conditions that existed at the consolidated balance sheet 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 balance sheet date but arose after, but before the consolidated financial statements are available to be issued. In some cases, non-recognized subsequent events are disclosed to keep the consolidated financial statements from being misleading.

The Company has evaluated events occurring subsequent through July 31, 2022 to their potential impact to the consolidated financial statements through October 26, 2022 which is the date the consolidated financial statements were available to be issued.