THE DEWEY ELECTRONICS CORPORATION
27 MULLER ROAD, OAKLAND, NEW JERSEY 07436 • TEL. (201)337-4700 • FAX: (201)337-3976

FINANCIAL STATEMENTS

For Fiscal Years Ended
June 30, 2019 and 2018

INDEX TO FINANCIAL STATEMENTS

EisnerAmper LLP
111 Wood Avenue South
Iselin, NJ 08830-2700
T 732.243.7000
F 732.951.7400
www.eisneramper.com

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors and Stockholders of
The Dewey Electronics Corporation

We have reviewed the accompanying financial statements of The Dewey Electronics Corporation, which comprise the balance sheet as of June 30, 2019, and the related statements of operations, comprehensive income, stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company 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 financial statements that are free from material misstatement whether due to fraud or error.

Accountants' Responsibility

Our responsibility is to conduct the review engagements 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 review, 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.

Report on 2018 Financial Statements

The 2018 financial statements were audited by us, and we expressed an unmodified opinion on them in our report dated December 10, 2018. We have not performed any auditing procedures since that date.

EisnerAmper LLP

EISNERAMPER LLP
Iselin, New Jersey
November 4, 2019

The Dewey Electronics Corporation

Balance Sheets
(See independent accountants' review report and notes to financial statements)

	June 30, 2019 (unaudited)	June 30, 2018 (audited)
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	**$ 823,608**	$ 573,060
Accounts receivable, less allowance for doubtful accounts of $0 and $11,607	**881,096**	355,717
Inventory	**1,846,496**	1,805,464
Prepaid expenses and other current assets	**202,153**	52,651
TOTAL CURRENT ASSETS	**3,753,353**	2,786,892
PROPERTY, PLANT AND EQUIPMENT:		
Assets held for sale, net	**709,174**	709,174
Machinery and equipment	**3,364,917**	3,364,917
Furniture and fixtures	**268,700**	268,700
	4,342,791	4,342,791
Less: accumulated depreciation	**(3,564,111)**	(3,548,520)
	778,680	794,271
Deferred tax asset	**299,470**	-
Deferred costs	**65,095**	65,095
TOTAL ASSETS	**$ 4,896,598**	$ 3,646,258
LIABILITIES AND STOCKHOLDERS' EQUITY:		
CURRENT LIABILITIES:		
Advances on line of credit	**$ 278,505**	$ 500,000
Trade accounts payable	**111,427**	38,028
Accrued expenses and other liabilities	**314,902**	159,800
Accrued compensation and benefits payable	**153,825**	134,883
Accrued pension costs	**402,513**	423,618
TOTAL CURRENT LIABILITIES	**1,261,172**	1,256,329
LONG-TERM PENSION LIABILITY	**1,041,317**	613,434
TOTAL LIABILITIES	**2,302,489**	1,869,763
Commitments and contingencies		
STOCKHOLDERS' EQUITY:		
Preferred stock, par value $1.00; authorized 250,000 shares, issued and outstanding-none	**-**	-
Common stock, par value $.01; authorized 3,000,000 shares; 1,693,397 shares issued and 1,366,731 shares outstanding at June 30, 2019 and 2018	**16,934**	16,934
Additional paid-in capital	**2,883,970**	2,883,970
Retained earnings (accumulated deficit)	**1,055,878**	(189,619)
Accumulated other comprehensive loss	**(882,554)**	(454,671)
	3,074,228	2,256,614
Less: Treasury stock, 326,666 shares at June 30, 2019 and 2018, at cost	**(480,119)**	(480,119)
TOTAL STOCKHOLDERS' EQUITY	**2,594,109**	1,776,495
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 4,896,598**	$ 3,646,258

The Dewey Electronics Corporation

Statements of Operations
(See independent accountants' review report and notes to financial statements)

	Year Ended June 30,	
	2019	**2018**
	(unaudited)	**(audited)**
Revenues	**$ 5,689,244**	$ 4,566,816
Cost of revenues	**3,772,780**	3,277,019
Gross profit	**1,916,464**	1,289,797
Selling, general and administrative expenses	**949,375**	1,053,403
Operating income	**967,089**	236,394
Interest expense	**(37,411)**	(34,624)
Other income – net	**18,349**	44,476
Net income before income tax benefit	**948,027**	246,246
Income tax (benefit)/expense:		
Deferred income tax benefit	**(299,470)**	-
Current income tax expense	**2,000**	-
	(297,470)	-
NET INCOME	**$ 1,245,497**	$ 246,246

Statements of Comprehensive Income
(See independent accountants' review report and notes to financial statements)

	Year Ended June 30,	
	2019	**2018**
	(unaudited)	**(audited)**
Net income	**$ 1,245,497**	$ 246,246
Amortization of actuarial (losses)/gains	**(427,883)**	57,750
Comprehensive income	**$ 817,614**	$ 303,996

The Dewey Electronics Corporation

Statements of Stockholders' Equity
(See independent accountants' review report and notes to financial statements)

	Common Shares	Stock Amount	Additional Paid-in Capital	Retained Earnings/ (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Treasury Stock at Cost Shares	Treasury Stock at Cost Amount	Total Stockholders' Equity
Balance, June 30, 2017	1,693,397	$ 16,934	$ 2,883,970	$ (435,865)	$ (512,421)	326,666	$ (480,119)	$ 1,472,499
Net income	-	-	-	246,246	-	-	-	246,246
Minimum pension liability adjustment	-	-	-	-	57,750	-	-	57,750
Balance, June 30, 2018	1,693,397	16,934	2,883,970	(189,619)	(454,671)	326,666	(480,119)	1,776,495
Net income	-	-	-	1,245,497	-	-	-	1,245,497
Minimum pension liability adjustment	-	-	-	-	(427,883)	-	-	(427,883)
Balance, June 30, 2019	**1,693,397**	**$ 16,934**	**$ 2,883,970**	**$ 1,055,878**	**$ (882,554)**	**326,666**	**$ (480,119)**	**$ 2,594,109**

The Dewey Electronics Corporation

Statements of Cash Flows
(See independent accountants' review report and notes to financial statements)

	Year Ended June 30,	
	2019	**2018**
	(unaudited)	**(audited)**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	**$ 1,245,497**	$ 246,246
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of assets	**-**	(15,000)
Depreciation	**15,591**	26,227
Provision for inventory reserve	**2,569**	61,817
Provision for bad debts	**(11,607)**	11,607
Deferred income taxes	**(299,470)**	-
Increase in trade accounts receivable	**(513,772)**	(164,246)
Increase in inventory	**(43,601)**	(101,794)
(Increase)/Decrease in prepaid expenses and other current assets	**(149,502)**	11,538
Increase in accounts payable	**73,399**	14,836
Increase/(Decrease) in accrued expenses and other liabilities	**174,044**	(11,394)
(Decrease)/Increase in accrued pension costs	**(21,105)**	13,053
Total adjustments and changes in operating assets and liabilities	**(773,454)**	(153,356)
Net cash provided by operating activities	**472,043**	92,890
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of assets	**-**	15,000
Net cash provided by investing activities	**-**	15,000
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment on line of credit	**(500,000)**	-
Net proceeds from line of credit	**278,505**	-
Net cash used in financing activities	**(221,495)**	-
NET INCREASE IN CASH AND CASH EQUIVALENTS	**250,548**	107,890
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**573,060**	465,170
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 823,608**	$ 573,060
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	**$ 37,411**	$ 29,204

1. Business and Summary of Significant Accounting Policies

The Dewey Electronics Corporation (the "Company") is a systems oriented military electronics development, design and manufacturing organization based in Oakland, New Jersey with a focus on compact diesel power generation solutions.

A. Basis of Accounting

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

B. Revenue Recognition

Revenues and earnings for orders are recorded when deliveries of product are made, title and risk of loss have been transferred to the customer and collection is probable.

C. Concentration Risks

Concentration of Credit Risks

The Company is subject to concentrations of credit risk primarily from cash and accounts receivable. The Company maintains accounts with financial institutions that exceed the current federally insured maximum of $250,000. The Company minimizes risks associated with cash by periodically reviewing the credit quality of its primary financial institutions. The Company's accounts receivable is principally with Department of Defense contractors and agencies of the United States Department of Defense. The Department of Defense accounted for 33%, while three other Department of Defense contractors combined for an additional 60% of the Company's accounts receivable as of June 30, 2019. As of June 30, 2018, the Department of Defense accounted for 27% while three other Department of Defense contractors combined for an additional 49% of the Company's accounts receivable.

Product Concentration Risk

In fiscal 2019, the Company derived approximately 26% of its revenues from the sale of power products, consisting of diesel operated tactical generator sets and associated hardware and electronics. In fiscal 2018, the Company derived approximately 31% of its revenues from sales of these products.

Supplier Concentration Risks

The Company is primarily dependent on four vendors to supply qualified components for its generator products. During fiscal year 2019, one vendor accounted for approximately 21% of material purchases. In fiscal 2018, one vendor accounted for approximately 13% of material purchases. No other vendors accounted for more than 10% of material purchases during both fiscal years 2019 and 2018.

Customer Concentration Risks

In fiscal year 2019, one customer accounted for approximately 47% of Company revenues. In fiscal year 2018, two customers accounted for approximately 55% of Company revenues. No other customer accounted for more than 10% of the Company's revenues in fiscal years 2019 or 2018.

D. Cash and Cash Equivalents

The Company considers investments in all highly liquid debt instruments with an original maturity of three months or less at the date of purchase to be cash equivalents.

E. Accounts Receivable

The Company regularly reviews its trade receivables for probability of collection. An assessment of the probability of collection of delinquent accounts is made and an allowance is recorded when collection becomes uncertain. The allowance for doubtful accounts as of June 30, 2019 and 2018, total $0 and $11,607, respectively.

F. Inventory

Inventory is valued at the lower of cost on a first-in, first-out basis, or net realizable value. Management uses a defined methodology to periodically review the inventory valuation for obsolescence and identification of slow-moving parts. The Company established an allowance for obsolete and slow-moving inventory of approximately $285,000 and $282,000 at June 30, 2019 and 2018, respectively. Components of inventory cost include materials, direct labor and overhead that have not been charged to specific contracts.

G. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. These estimates include, among others, lower of cost or market estimates for inventories, realization of deferred tax assets, allowances for doubtful accounts, provision for inventory reserve, revenue recognition and certain accrued expenses. Actual results could differ from those estimates.

H. Property, Plant, and Equipment

Property, plant, and equipment are stated at cost. Allowance for depreciation is provided on a straight-line basis over estimated useful lives of three to ten years for machinery and equipment, ten years for furniture and fixtures, and twenty years for building and improvements. Depreciation expense was $15,591 and $26,227 for the years ended June 30, 2019 and 2018, respectively.

The Company has been pursuing monetization of its real estate and believes, as of November 4, 2019, the sale of the building and land is probable, though not assured, within the next 12 months. This has resulted in the reclassification of land and building improvements, as well as the accumulated depreciation of such assets, to Assets held for sale, net for both periods presented. The carrying value of the Assets held for sale, net were compared to the estimated fair value based on appraisals and offers, less costs to sell, noting no indicators of impairment as of June 30, 2019.

I. Development Costs

The Company expenses its research and development costs as incurred. These costs consist primarily of salaries and material costs. For the fiscal years ended June 30, 2019 and 2018, the Company expensed approximately $14,000 and $13,000, respectively, of research and development costs. Research and development projects performed under contracts for customers are billed to the customer and are recorded as contract costs as incurred.

J. Impairment of Long-Lived Assets

The Company reviews the recoverability of all long-term assets, including the related useful lives, whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset might not be recoverable. If required, the Company compares the estimated undiscounted future net cash flows to the related asset's carrying value to determine whether there has been an impairment. If an asset is considered impaired, the asset is written down to fair value, which is based either on discounted cash flows or appraised values in the period the impairment becomes known. There were no impairments of long-term assets for the years ended June 30, 2019 and 2018.

K. Income Taxes

Under the asset and liability method of accounting for taxes under FASB Accounting Standards Codification ("ASC") Topic 740, *Income Taxes*, deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The effect on deferred tax assets and liabilities of a change in tax laws is recognized in the results of operations in the period the new laws are enacted. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not, that such assets will be realized.

The Company accounts for uncertain tax positions in accordance with Generally Accepted Accounting Principles in the U.S. Income tax positions must meet a more-likely-than-not recognition in order to be recognized in the financial statements. Management has evaluated the tax positions taken and has determined that there are no uncertain tax positions taken or expected to be taken that would require the recognition of an income tax asset or liability as of June 30, 2019 and 2018. The Company recognizes potential accrued interest and penalties related to unrecognized tax benefits within operations as income tax expense. As new information becomes available, the assessment of the recognition threshold and the measurement of the associated tax benefit of uncertain tax positions may result in financial statement recognition or de-recognition.

L. Deferred Costs

The Company is continuing to actively pursue possible methods of monetizing the undeveloped and unused portion of its property, by its sale and/or development. Refer to Note 1H for discussion of assets held for sale, net. To that end, the Company has deferred $65,095 as of June 30, 2019 and 2018 of costs incurred related to these efforts, which will be recognized upon consummation of a sale of the land and/or building, or upon indication of impairment.

M. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The accounting guidance includes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices for identical assets or liabilities in active markets;

Level 2 – Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability; and

Level 3 – Unobservable inputs for the asset or liability, which include management's own assumption about the assumptions market participants would use in pricing the asset or liability, including assumptions about risk.

N. Stock-Based Compensation

The Company computes the value of stock options granted under its Stock Option Plans using the Cox-Roth-Rubenstein Binomial Tree Method. The value of the options is then amortized over the vesting period of the options using the straight-line method. No stock options were granted in fiscal years ended June 30, 2019 or 2018.

O. Subsequent Events

The Company evaluated subsequent events through November 4, 2019, which is the date the financial statements were available to be issued.

2. Recent Accounting Standards

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which is applicable for all entities that enter into contracts with customers to transfer goods and services or enter into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. This ASU supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance. The core principle of this ASU is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects. There are five steps to achieve this core principle. Entities can either apply this standard retrospectively to each prior reporting period presented or retrospectively apply with the cumulative effect at the date of initial application. ASU No. 2014-09 is effective for annual reporting periods in private companies beginning after December 15, 2018.

In February 2016, the FASB issued its new lease accounting guidance in ASU No. 2016-02, *Leases (Topic 842)*. The ASU will require lessees to recognize for all leases (with terms of more than 12 months) at the commencement date the following a) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and b) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Lessees will no longer be provided with a source of off-balance sheet financing. ASU No. 2016-02 is effective for nonpublic businesses for fiscal years beginning after December 15, 2020. Early application is permitted.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments.* ASU 2016-13 significantly changes how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. Current U.S. GAAP contains an incurred loss methodology for recognizing credit losses and delays the recognition until it is probable that a loss has been incurred. ASU 2016-13 introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments (including trade receivables). For private companies, ASU 2016-13 is effective for fiscal years beginning after December 15, 2020. Early adoption is permitted.

In August 2016, the FASB issued ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)* ("ASU 2016-15"). The amendments in ASU 2016-15 address eight specific cash flow issues and apply to all entities that are required to present a statement of cash flows under ASC Topic 230, *Statement of Cash Flows*. The amendments in ASU 2016-15 are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, however an entity that elects early adoption must adopt all of the amendments within the same period. Early adoption within an interim period is accepted, but adjustments must be applied retrospectively as of the beginning of the fiscal year that includes that interim period.

In March 2017, the FASB issued ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which changes how employers that sponsor defined benefit pension or other postretirement benefit plans present the net periodic benefit cost in the statement of operations. The new guidance requires entities to report the service cost component in the same line item or items as other compensation costs. The other components of net benefit cost are required to be presented in the statements of operations separately from the service cost component and outside the subtotal of loss from operations. ASU 2017-07 also provides that only the service cost component is eligible for capitalization. The new standard is effective for fiscal years beginning after December 15, 2018, with adoption to be applied on a retrospective basis.

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement – Reporting Comprehensive Income.* This ASU allows a reclassification from accumulated other comprehensive loss to retained earnings for stranded tax affects resulting from the Tax Cuts and Jobs Act enacted in December 2017. This ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2018 and early adoption is permitted. This guidance must be applied either on a prospective basis in the period of adoption, or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the U.S. tax law changes are recognized.

In August 2018, the FASB issued ASU No. 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans.* The amendments in this ASU modify and clarify the disclosure requirements for employers that sponsor defined benefit pension and other postretirement plans. ASU 2018-14 is effective for fiscal years ending after December 15, 2021, and early adoption is permitted.

The Company expects to adopt the ASUs described above when effective and is currently evaluating the effect on its financial statements. Other Accounting Standards Updates first effective after June 30, 2019 are not expected to have a material effect on the Company's financial position or results of operations.

3. Inventory

Inventory, net of provision, consists of:

	June 30, 2019	June 30, 2018
Finished goods	**$ 282,302**	$ 495,909
Work in progress	**1,028,388**	707,558
Raw materials	**535,806**	601,997
	$ 1,846,496	$ 1,805,464

4. Accrued Expenses and Other Liabilities

	June 30, 2019	June 30, 2018
Customer deposits	**$ 160,292**	$ -
Accrued audit and accounting	**37,600**	49,096
Accrued warranty reserve	**32,414**	34,979
Other accrued expenses	**82,596**	75,725
Income taxes payable	**2,000**	-
	$ 314,902	$ 159,800

5. Stock Option Plans

On September 22, 2011, the Board of Directors of the Company adopted the Company's 2011 Stock Option Plan (the "2011 Plan"), which was approved by the shareholders of the Company on December 8, 2011. Under this plan, options to purchase a maximum of 133,000 shares of common stock may be granted to any employee of the Company, including officers. Such options may be either incentive stock options or non-qualified options and must be granted with an exercise price no less than the fair market value of the stock on the date of the grant. No stock options have been granted under this plan.

On December 2, 1998, the Company adopted its Stock Option Plan of 1998 (the "1998 Plan") which was amended and restated effective December 5, 2001, pursuant to which options to purchase a maximum of 85,000 shares of common stock may be granted to executives and key employees. Incentive stock options could be granted under this plan with an exercise price no less than fair market value of the stock on the date of grant. As of June 30, 2019, outstanding options were exercisable for ten years from the date of grant and had expiration dates ranging from March 31, 2020 to September 21, 2021. No additional options may be granted under this plan.

There were no stock options granted during the years ended June 30, 2019 and 2018. The Company recorded no stock option compensation expense in either fiscal year 2019 or fiscal year 2018.

The changes in the number of shares under options outstanding are as follows:

	Number of Shares	Weighted Average Exercise Price
Balance at June 30, 2017	14,500	$ 1.98
Granted	-	-
Exercised	-	-
Forfeited	-	-
Balance at June 30, 2018	14,500	1.98
Granted	-	-
Exercised	-	-
Forfeited	(1,800)	1.60
Balance at June 30, 2019	12,700	$ 2.03
Exercisable at June 30, 2019	12,700	$ 2.03

At the Annual Meeting of Stockholders on December 5, 2001, the Company adopted a Stock Option Plan for Non-Employee Directors (the "Directors Plan"). The number of shares issuable upon exercise of options, which may be granted under this plan, shall not exceed 50,000 shares of common stock. No options have been granted under this plan.

Listed below is a summary of the stock options outstanding and exercisable at June 30, 2019:

Exercise Price	Options	Weighted Average Exercise Price	Weighted Average Remaining Life-Years
2.24	5,000	$ 2.24	0.8
2.00	6,000	2.00	1.5
1.55	1,700	1.55	2.2
	12,700	$ 2.03	1.3

As of June 30, 2019, stock options outstanding and exercisable had an intrinsic value of $15,186.

6. Taxes on Income

Deferred tax assets and liabilities as of June 30, 2019 and 2018 consisted of the following:

	2019	2018
Deferred tax assets/(liabilities):		
Vacation accrual	**$ 20,075**	$ 26,204
Allowance for doubtful accounts	**-**	3,263
Inventory reserve	**80,098**	79,376
Prepaids	**(22,113)**	(10,102)
Pension	**405,860**	291,515
Depreciation	**1,805**	893
Net operating loss	**219,605**	466,363
	705,330	857,512
Less: valuation allowance	**(405,860)**	(857,512)
Total deferred tax asset	**$ 299,470**	$ -

As of each reporting period, management considers both positive and negative factors that could affect its view of future realization of deferred tax assets. As of June 30, 2019, since the Company achieved pretax income, management determined that there is enough positive evidence to conclude that it is more likely than not that certain deferred taxes are realizable. Accordingly, the valuation allowance was reduced for the net operating losses utilized in the current year as well as for deferred tax asset amounts that are now expected to be realized. Federal and state net operating loss carryforwards expire in 2027 through 2037 and 2030 through 2037, respectively. As of June 30, 2019, the Company has approximately $1,023,000 of federal net operating losses and approximately $67,000 of state net operating losses. The actual tax (recovery)/expense differs from the expected amount of tax based on the federal statutory rate because there was a full valuation allowance against the Company's deferred tax assets at the beginning and end of the year.

Income tax (benefit)/expense consists of the following for the years ended:

	June 30,	
	2019	2018
Federal		
Current	**$ -**	$ -
Deferred	**(277,370)**	-
State:		
Current	**2,000**	-
Deferred	**(22,100)**	-
Income tax benefit	**$ (297,470)**	$ -

The Company applies the elements of ASC Topic 740, which clarifies the accounting for uncertainty in income taxes recognized in the financial statements. This interpretation prescribes a recognition threshold, and a measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return. There were no significant matters determined to be unrecognized tax benefits taken or expected to be taken in a tax return that have been recorded on the Company's financial statements for the years ended June 30, 2019 or 2018.

Additionally, ASC Topic 740 provides guidance on the recognition of interest and penalties related to income taxes. There were no interest or penalties related to income taxes that have been accrued or recognized as of and for the years ended June 30, 2019 and 2018. The Company's policy is to record income tax related interest and penalties in income tax expense.

The Company files corporate tax returns in the United States, both in the Federal jurisdiction and in various state jurisdictions.

The Tax Cuts and Jobs Act ("Tax Act") was enacted on December 22, 2017 and introduces significant changes to the U.S. income tax law. Effective in 2018, the Tax Act reduced U.S. statutory tax rates from 34% to 21%. Accordingly, the Company re-measured its deferred taxes as of June 30, 2018 to reflect the reduced rate that will apply in future periods when these deferred taxes are settled or realized.

7. Pension Plan

The Company has a non-contributory defined benefit retirement plan covering substantially all its employees, which is qualified under the Internal Revenue Code (the "Plan"). In general, employees can receive an amount per month equal to 0.8% multiplied by their years of service (up to a maximum of 35 years of service) multiplied by their average monthly earnings (based on earnings during the five years preceding retirement), up to a specified maximum of $850 per month for life assuming normal retirement at age 65. The maximum benefit increases approximately 8% for each year work beyond normal retirement date. The Plan was frozen for future eligibility and accrual of benefits as of December 31, 2017. Upon the employee's death, 50% of the monthly benefit is payable to the employee's spouse for life. The Company's policy is to contribute to the Plan the amounts allowable under Internal Revenue Service regulations.

As of June 30, 2019, the Long-Term Pension Liability on the Balance Sheet had increased over the previous year by approximately $400,000. One factor was the decrease in the Discount Rate from 4.10% to 3.40%, which resulted in an increase to the liability of approximately $293,000. The second factor was an actuarial review of assumptions regarding 'normal retirement date' at age 65. More of our employees are now working past age 65, and updating that assumption resulted in an additional increase to the liability of approximately $131,000.

The investment policy of the Company for its pension plan is to maximize value within the context of providing benefit security for Plan participants. The Plan assets are invested in a fixed income investment account.

The Company has assumed, based upon high quality corporate bond yields with similar maturities as the benefit obligation, AA rated or higher, that it's assumed discount rate will be 3.40% as of June 30, 2019, which is lower than the assumed discount rate of 4.10% as of June 30, 2018. The Company's management conducts an analysis, which includes a review of plan asset investments, and projected future performance of those investments to determine the plan's assumed long-term rate of return.

The Company expects to continue to contribute within the range of legally acceptable contributions as identified by the Plan's enrolled actuary. The Company made cash contributions to the Plan of approximately $85,000 and $78,000 in fiscal years 2019 and 2018, respectively. The estimated fiscal year 2020 minimum contribution to the Plan is approximately $93,000.

The following tables provide information about changes in the benefit obligation and Plan assets and the funded status of the Company's pension plan as of June 30:

	2019	2018
Benefit obligation at beginning of year	**$ 3,242,717**	$ 3,280,722
Service cost	**-**	25,049
Interest cost	**130,024**	117,071
Actuarial loss/(gain)	**423,341**	(57,059)
Benefits paid plus administrative expenses	**(190,201)**	(123,066)
Benefit obligation at end of year	**$ 3,605,881**	$ 3,242,717
Fair value of plan assets at beginning of year	**$ 2,205,668**	$ 2,198,973
Actual return on plan assets	**61,446**	51,285
Employer contributions	**85,138**	78,473
Benefits paid plus administrative expenses	**(190,201)**	(123,066)
Fair value of plan assets at end of year	**$ 2,162,051**	$ 2,205,665
Funded status	**$ (1,443,830)**	$ (1,037,052)
Unrecognized net loss	**(1,041,317)**	(613,434)
Accrued pension expense	**$ (402,513)**	$ (423,618)

	07/01/2018-06/30/2019	**07/01/2017-06/30/2018**
Weighted-average assumptions		
Discount rate	**3.40%**	4.10%
Expected return on plan assets	**5.00%**	5.00%
Rate of compensation increase	**N/A**	2.75%
Measurement Date	**07/01/2019**	07/01/2018

Set forth below is a summary of the amounts reflected in the Company's Balance Sheet at the end of the last two fiscal years:

	June 30, 2019	**June 30, 2018**
Total accrued pension liability	**$ (1,443,830)**	$ (1,037,052)
Accumulated other comprehensive loss, pre-tax	**1,041,317**	613,434
Net amount recognized	**$ (402,513)**	$ (423,618)

The accumulated benefit obligation for the Plan was $3,605,881 and $3,242,717 at June 30, 2019, and 2018, respectively.

Other changes in Plan assets and benefit obligations recognized in the Other Comprehensive Income/(Loss) for each fiscal year are as follows:

	June 30, 2019	June 30, 2018
Change in net loss	**$ 470,785**	$ 860
Amortization of net loss	**(42,902)**	(58,610)
Net amount recognized	**$ 427,883**	$ (57,750)

Accumulated Other Comprehensive Loss consisted of the following amounts that had not, as of year-end, been recognized in net benefit cost:

	June 30, 2019	June 30, 2018
Unrecognized net loss, pre-tax	**$ 1,041,317**	$ 613,434

Amounts included in Accumulated Other Comprehensive Loss as of June 30, 2019 that are expected to be recognized as a component of benefit cost during fiscal 2020 consist of amortization of net loss of $42,902.

Components of periodic pension costs as of June 30, 2019 and 2018 are as follows:

	2019	2018
Service cost-benefits earned during the period	**$ -**	$ 25,049
Interest cost on projected benefit obligation	**130,024**	117,071
Expected return on plan assets	**(108,891)**	(109,206)
Amortization of actuarial loss	**42,902**	58,610
Net periodic pension cost	**$ 64,035**	$ 91,524

Weighted Average Assumptions for Net Periodic Pension Expense:	2019	2018
Discount rate	**4.10%**	3.75%
Expected long-term rate of return on assets	**5.00%**	5.00%
Rate of increase in future compensation levels	**N/A**	2.75%

Retirement Plan for Employees of The Dewey Electronics Corporation's weighted average asset allocations at June 30, 2019 and 2018, by asset category are as follows:

	2019	2018
Asset Category		
Fixed Funds with Guaranteed Interest Rates	**100%**	100%

Fair Value of Plan Assets

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). See Note 1-M, "Fair Value Measurements," for a description of the fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

All the Plan's investments are in fixed funds with guaranteed interest rates, which are valued using evaluated bid prices based on a compilation of observable market information or a broker quote in a non-active market. Inputs used vary by type of security, but include spreads, yields, rate benchmarks, rate of prepayment, cash flows, rating changes and collateral performance and type. All fixed income funds are included as a Level 3 measurement.

The following table sets forth a summary of changes of fair value of the Retirement Plan's Level 3 assets for the fiscal year ended June 30, 2019.

	All Fixed Funds
Balance, June 30, 2018	$ 2,205,668
Actual return on plan assets	61,446
Purchases and sales	(105,063)
Transfers in and/or out of Level 3	-
Balance, June 30, 2019	$ 2,162,051

The expected future benefit payments for the years ending June 30, are as follows:

2020	$ 163,000
2021	$ 179,000
2022	$ 186,000
2023	$ 192,000
2024	$ 197,000
Five years thereafter	$ 1,047,000

8. Credit Facility

As of June 30, 2018, the Company maintained a line of credit with TD Bank, NA for $500,000. The balance was repaid to TD Bank in December of 2018 and the line of credit was terminated.

On October 19, 2018, the Company entered into a loan and security agreement with Crestmark Financial ("Crestmark"), a division of MetaBank, for an asset-based credit facility with a maximum borrowing of $1,650,000. Crestmark is an FDIC approved bank headquartered in Troy, Michigan. The agreement between the Company and Crestmark includes a borrowing base calculation tied to accounts receivable, raw materials and finished goods inventory, as well as machinery and equipment. There is an additional component tied to costs, including WIP, on contracts where the U.S. Government is the end customer. The calculation shall be 85% of eligible accounts receivable; 50% of eligible inventory up to the lesser of $500,000 or 100% of eligible accounts receivable; and 75% of eligible machinery and equipment, not to exceed $150,000. The "eligibility" is based upon meeting certain criteria specified by Crestmark. The Company also has the ability to borrow 75% of the incurred cost of materials needed to perform contracts where the U.S. Government is the end customer, not to exceed $500,000 and at the discretion of Crestmark. The interest rate on the agreement shall be 3.75% above Prime Rate as listed in the Wall Street Journal. The effective rate, including all expenses and fees, is expected to be between 10.5% and 11.5%. The agreement is in place for two years with options to extend, for an additional two years. An initial fee of $12,605 was paid to Crestmark for various expenses including an onsite field exam, administrative expense as well as a machinery and equipment appraisal. There is a minimum borrowing amount of $375,000. At closing of the Loan (October 19, 2018) and on each anniversary thereafter, the Company will pay Crestmark a loan fee of 1% of the maximum amount. The loan and security agreement grants Crestmark a security interest in substantially all assets of the Company, other than the land, building and improvements. The loan and security agreement will be automatically renewed for a period of two years unless terminated in writing by the Company no later than 60 days prior to the end of the initial term.

As of June 30, 2019, the outstanding amount borrowed on the Crestmark facility was $278,505 with the ability to borrow an additional amount of approximately $559,000 based on the borrowing base calculation at that date.

As of November 4, 2019, the outstanding amount borrowed on the Crestmark facility was $308,906.