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, 2020 and 2019

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 sheets as of June 30, 2020 and 2019, and the related statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years 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 reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

EisnerAmper LLP

EISNERAMPER LLP
Iselin, New Jersey
December 1, 2020

The Dewey Electronics Corporation

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

	June 30, 2020	June 30, 2019
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,521,967	$ 823,608
Accounts receivable	121,286	881,096
Inventory	2,488,514	1,846,496
Prepaid expenses and other current assets	90,433	202,153
TOTAL CURRENT ASSETS	4,222,200	3,753,353
PROPERTY, PLANT AND EQUIPMENT:		
Machinery and equipment	3,369,116	3,364,917
Furniture and fixtures	277,378	268,700
	3,646,494	3,633,617
Less: accumulated depreciation	(3,575,762)	(3,564,111)
	70,732	69,506
OTHER ASSETS:		
Assets held for sale, net	735,609	709,174
Deferred tax asset	177,656	299,470
Deferred costs	65,095	65,095
TOTAL OTHER ASSETS	978,360	1,073,739
TOTAL ASSETS	$ 5,271,292	$ 4,896,598
LIABILITIES AND STOCKHOLDERS' EQUITY:		
CURRENT LIABILITIES:		
Notes payable – current portion	$ 97,931	$ 278,505
Paycheck protection program loan – current portion	133,855	-
Trade accounts payable	121,814	111,427
Accrued expenses and other liabilities	149,568	314,902
Accrued compensation and benefits payable	142,966	153,825
Accrued pension costs	404,833	402,513
TOTAL CURRENT LIABILITIES	1,050,967	1,261,172
LONG-TERM LIABILITIES		
Paycheck protection program loan – long-term portion	163,482	-
Long-term pension liability	1,184,263	1,041,317
TOTAL LONG-TERM LIABILITIES	1,347,745	1,041,317
TOTAL LIABILITIES	2,398,712	2,302,489
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, 2020 and 2019	16,934	16,934
Additional paid-in capital	2,883,970	2,883,970
Retained Earnings	1,477,295	1,055,878
Accumulated other comprehensive loss	(1,025,500)	(882,554)
	3,352,699	3,074,228
Less: Treasury stock, 326,666 shares at June 30, 2020 and 2019, at cost	(480,119)	(480,119)
TOTAL STOCKHOLDERS' EQUITY	2,872,580	2,594,109
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 5,271,292	$ 4,896,598

The Dewey Electronics Corporation

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

	Years Ended June 30,	
	2020	2019
Revenues	$ 5,151,431	$ 5,689,244
Cost of revenues	3,470,146	3,772,780
Gross profit	1,681,285	1,916,464
Selling, general and administrative expenses	1,093,674	949,375
Operating income	587,611	967,089
Interest expense	(26,759)	(37,411)
Other income – net	33,381	18,349
Net income before income tax expense/(benefit)	594,233	948,027
Current income tax expense	51,002	2,000
Deferred income tax expense/(benefit)	121,814	(299,470)
	172,816	(297,470)
NET INCOME	$ 421,417	$ 1,245,497

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

	Years Ended June 30,	
	2020	2019
Net income	$ 421,417	$ 1,245,497
Amortization of actuarial loss	(142,946)	(427,883)
Comprehensive income	$ 278,471	$ 817,614

The Dewey Electronics Corporation

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

	Common Stock		Additional Paid-in	Retained Earnings	Accumulated Other Comprehensive	Treasury Stock at Cost		Total Stockholders'
	Shares	Amount	Capital	(Deficit)	Loss	Shares	Amount	Equity
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
Net income	-	-	-	421,417	-	-	-	421,417
Minimum pension liability adjustment	-	-	-	-	(142,946)	-	-	(142,946)
Balance, June 30, 2020	1,693,397	$ 16,934	$ 2,883,970	$ 1,477,295	$ (1,025,500)	326,666	$ (480,119)	$ 2,872,580

The Dewey Electronics Corporation

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

	Years Ended June 30, 2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 421,417	$ 1,245,497
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	11,651	15,591
Provision for inventory	(12,567)	2,569
Provision for bad debts	-	(11,607)
Deferred income tax expense/(benefit)	121,814	(299,470)
Decrease/(increase) in accounts receivable	759,810	(513,772)
Increase in inventory	(629,451)	(43,601)
Decrease/(increase) in prepaid expenses and other current assets	111,720	(149,502)
Increase in accounts payable	10,387	73,399
(Decrease)/increase in accrued expenses and other liabilities	(176,193)	174,044
Increase/(decrease) in accrued pension costs	2,320	(21,105)
Total adjustments and changes in operating assets and liabilities	199,491	(773,454)
Net cash provided by operating activities	620,908	472,043
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for property, plant and equipment	(39,312)	-
Net cash used in investing activities	(39,312)	-
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment on former line of credit	-	(500,000)
Net (payments)/proceeds from line of credit	(180,574)	278,505
Proceeds from payroll protection program loan	297,337	-
Net cash provided by/(used in) financing activities	116,763	(221,495)
NET INCREASE IN CASH AND CASH EQUIVALENTS	698,359	250,548
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	823,608	573,060
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 1,521,967	$ 823,608
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	$ 26,759	$ 37,411

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 the accounting principles generally accepted in the United States of America ("U.S. GAAP").

B. Revenue Recognition

Revenues and earnings for orders for replacement parts and other short-term business are recorded when deliveries of product are made, and title and risk of loss have been transferred to the customer and collection is probable.

C. Concentration of Credit 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 are principally with Department of Defense contractors and agencies of the United States Department of Defense. The Department of Defense accounted for 72%, while three other Department of Defense contractors or agencies combined for an additional 28% of the Company's accounts receivable as of June 30, 2020. As of June 30, 2019, the Department of Defense accounted for 33% while Defense contractors combined for an additional 60% of the Company's accounts receivable.

Product Concentration Risk

In fiscal 2020, the Company derived approximately 5% of its revenues from the sale of power products, consisting of diesel operated tactical generator sets and associated hardware and electronics. In fiscal 2019, the Company derived approximately 26% 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 2020, one vendor accounted for approximately 22% of material purchases. In fiscal 2019, one vendor accounted for approximately 21% of material purchases. No other vendors accounted for more than 10% of material purchases during both fiscal years 2020 and 2019.

Customer Concentration Risks

In fiscal year 2020, the Department of Defense accounted for approximately 80% of Company revenues. In fiscal year 2019, the Department of Defense accounted for approximately 47% of Company revenues. No other customer accounted for more than 10% of the Company's revenues in fiscal years 2020 or 2019.

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. The Company determines its allowance by considering a number of factors, including the length of time accounts receivable are past due, the Company's previous loss history, the customer's current ability to pay its obligations to the Company, and the condition of the general economy and the industry as a whole. An assessment of the probability of collection is of delinquent accounts is made and an allowance is recorded when collection becomes uncertain. There was no allowance for doubtful accounts as of June 30, 2020 and 2019.

F. Inventory

Cost is determined by the first-in, first-out ("FIFO") method. Inventory is valued at the lower of cost 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 $272,000 and $285,000 at June 30, 2020 and 2019, respectively. Components of inventory cost include materials, direct labor and overhead.

G. Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 net realizable value of 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 $11,651 and $15,591 for the years ended June 30, 2020 and 2019, respectively.

The Company is pursuing sale of its building and related property at June 30, 2020. These assets, net of their accumulated depreciation at the time they became available for sale, are classified as Assets held for sale, net, on the balance sheets. Assets held for sale are not subject to depreciation. 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, 2020 (see Note 10 for subsequent events).

I. Research and 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, 2020 and 2019, the Company expensed approximately $23,000 and $14,000, 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 in the years ended June 30, 2020 and 2019.

K. Income Taxes

The Company accounts for income taxes pursuant to the asset and liability method, which requires deferred tax assets and liabilities be computed annually for temporary differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the temporary differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

As required by ASC Topic 740, *Income Taxes,* the management of the Company has evaluated the positive and negative evidence bearing upon the realizability of its deferred tax assets. Management has established a valuation allowance for pension related assets due to the uncertainty of their future realization.

The Company complies with the provisions of ASC 740-10-25 that clarifies the accounting for uncertainty in income taxes recognized in an entity's financials statements in accordance with ASC 740-10, *Accounting for Income taxes,* and prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. 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, 2020 and 2019.

Additionally, ASC 740-10 provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. 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. 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, 2020 and 2019. The Company's policy is to record income tax related interest and penalties in income tax expense.

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 costs of $65,095 as of June 30, 2020 and 2019 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, 2020 or 2019.

2. Recent Accounting Standards

A. Adopted Standards

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments – a consensus of the Emerging Issues Task Force*. The ASU amends ASC 230 by adding or clarifying guidance on the classification of certain cash receipts and payments in the statement of cash flows. The standard is effective for financial statements issued for fiscal years beginning after December 15, 2018. The Company adopted the standard effective July 1, 2019 and it did not have a material impact on the Company's financial statements.

In March 2017, the FASB issued ASU No. 2017-07, ("ASU 2017-07"), *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. ASU 2017-07 requires that the service cost component be disaggregated from the other components of net benefit cost and provides guidance for separate presentation in the income statement. ASU 2017-07 also changes the rules for capitalization of costs such that only the service cost component of net benefit cost may be capitalized rather than total net benefit cost. ASU 2017-07 is effective for fiscal years beginning after December 15, 2018. ASU 2017-07 is required to be applied retrospectively for the income statement presentation and prospectively for the capitalization of the service cost component of net periodic pension cost. The Company adopted the standard effective July 1, 2019 and it did not have a material impact on the Company's financial statements.

B. Standards Not Yet Effective

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This ASU requires an entity to recognize revenue depicting the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. It will also result in enhanced revenue related disclosures. ASU 2014-09 originally provided that it would be effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2018. However, in May 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers and Leases Effective Dates for Certain Entities*, which deferred the effective adoption date of ASU 2014-09 to apply to fiscal years and interim reporting periods within those years beginning after December 15, 2019.

In February 2016, the FASB issued its new lease accounting guidance in ASU No. 2016-02, *Lease* (*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) lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, (b) and 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, 2021. Early application is permitted.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments (Topic 326) – Credit Losses: Measurement of Credit Losses on Financial Instruments*, which provides guidance regarding the measurement of credit losses on financial instruments. The new guidance replaces the incurred loss impairment methodology in the current guidance with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to determine credit loss estimates. The ASU will be effective for annual periods beginning after December 15, 2022.

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, 2020 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, 2020	June 30, 2019
Finished goods	$ 311,574	$ 282,302
Work in progress	1,362,757	1,028,388
Raw materials	814,183	535,806
	$ 2,488,514	$ 1,846,496

4. Accrued Expenses and Other Liabilities

	June 30, 2020	June 30, 2019
Customer deposits	$ 28,786	$ 160,292
Accrued audit and accounting	35,000	37,600
Accrued warranty reserve	26,403	32,414
Other accrued expenses	37,377	82,596
Income taxes payable	22,002	2,000
	$ 149,568	$ 314,902

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 may 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, 2020, outstanding options were exercisable for ten years from the date of grant and had expiration dates ranging from December 2, 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, 2020 and 2019. The Company recorded no stock option compensation expense in either fiscal year 2020 or fiscal year 2019.

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

	Number of Shares	Weighted Average Exercise Price
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
Granted	-	-
Exercised	-	-
Forfeited	(8,000)	2.15
Balance at June 30, 2020	4,700	$ 1.84
Exercisable at June 30, 2020	4,700	$ 1.84

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, 2020:

Exercise Price	Options	Weighted Average Exercise Price	Weighted Average Remaining Life-Years
$2.00	3,000	$ 2.00	0.32
1.55	1,700	1.55	0.43
	4,700	$ 1.84	0.75

As of June 30, 2020, stock options outstanding and exercisable had an intrinsic value of $4,901.

6. Taxes on Income

Deferred tax assets and liabilities as of June 30, 2020 and 2019 consisted of the following:

	2020	2019
Deferred tax assets/(liabilities):		
Vacation accrual	$ 23,496	$ 20,075
Inventory reserve	76,566	80,098
Prepaids	(19,934)	(22,113)
Pension	446,695	405,860
Depreciation	559	1,805
Net operating loss	96,969	219,605
	624,351	705,330
Less: valuation allowance	(446,695)	(405,860)
Total deferred tax assets	$ 177,656	$ 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. The Company had pre-tax income for the years ended June 30, 2020 and 2019 and therefore management has determined that there is enough positive evidence to conclude that it is more likely than not that all deferred taxes assets and liabilities are realizable except for the pension deferred tax asset. The Company has provided a valuation allowance to offset the related pension deferred tax asset. During the year ended June 30, 2020, the valuation allowance increased by $40,835. During the year ended June 30, 2019, the valuation allowance decreased by $451,652. Federal net operating loss carryforwards expire in 2027 through 2037, respectively. As of June 30, 2020, the Company has approximately $462,000 of federal net operating losses. The actual tax expense differs from the expected amount of tax based on the federal statutory rate because there is a valuation allowance against the Company's deferred tax assets at the beginning and end of the year.

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

	Years Ended June 30,	
	2020	2019
Federal		
Current	$ -	$ -
Deferred	117,686	(277,370)
State:		
Current	51,002	2,000
Deferred	4,128	(22,100)
Income tax expense/(benefit)	$ 172,816	$ (297,470)

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

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 worked 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, 2020, the Long-Term Pension Liability on the Balance Sheet had increased over the previous year by approximately $143,000. One factor was the decrease in the Discount Rate from 3.40% to 2.55%, which resulted in an increase to the liability of approximately $383,000. The second factor was an actuarial assumption resulting from the change in mortality table, updating that assumption resulted in a decrease to the liability of approximately $176,000. The third 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 decrease to the liability of approximately $100,000.

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 its assumed discount rate will be 2.55% as of June 30, 2020, which is lower than the assumed discount rate of 3.40% as of June 30, 2019. 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 $114,000 and $85,000 in fiscal years 2020 and 2019, respectively. The estimated fiscal year 2021 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:

	2020	2019
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 3,605,881	$ 3,242,717
Interest cost	120,080	130,024
Actuarial (gain)/loss	206,828	423,341
Benefits paid plus administrative expenses	(144,886)	(190,201)
Benefit obligation at end of year	$ 3,787,903	$ 3,605,881
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 2,162,051	$ 2,205,668
Actual return on plan assets	67,783	61,446
Employer contributions	113,859	85,138
Benefits paid plus administrative expenses	(144,886)	(190,201)
Fair value of plan assets at end of year	$ 2,198,807	$ 2,162,051
Funded status	$ (1,589,096)	$ (1,443,830)
Unrecognized net loss	(1,184,263)	(1,041,317)
Accrued pension expense	$ (404,833)	$ (402,513)

	07/01/2019-06/30/2020	07/01/2018-06/30/2019
Weighted-average assumptions		
Discount rate	2.55%	3.40%
Expected return on plan assets	5.00%	5.00%
Rate of compensation increase	N/A	N/A
Measurement date	07/01/2020	07/01/2019

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, 2020	June 30, 2019
Total accrued pension liability	$ (1,589,096)	$ (1,443,830)
Accumulated other comprehensive loss, net	1,184,263	1,041,317
Net amount recognized	$ (404,833)	$ (402,513)

The accumulated benefit obligation for the Plan was $3,787,903 and $3,605,881 at June 30, 2020, and 2019, respectively.

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

	June 30, 2020	June 30, 2019
Change in net loss	$ 245,620	$ 470,785
Amortization of net loss	(102,674)	(42,902)
Net amount recognized	$ 142,946	$ 427,883

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

	June 30, 2020	June 30, 2019
Unrecognized net loss, net	$ 1,184,263	$ 1,041,317

Amounts included in Accumulated Other Comprehensive Loss as of June 30, 2020 that are expected to be recognized as a component of benefit cost during fiscal 2021 consist of amortization of net loss of $102,674.

Components of periodic pension costs for the years ended June 30, 2020 and 2019 are as follows:

	2020	2019
Service cost-benefits earned during the period	$ -	$ -
Interest cost on projected benefit obligation	120,080	130,024
Expected return on plan assets	(106,575)	(108,891)
Amortization of actuarial loss	102,674	42,902
Net periodic pension cost	$ 116,179	$ 64,035

Weighted Average Assumptions for Net Periodic Pension Expense:	2020	2019
Discount rate	3.40%	4.10%
Expected long-term rate of return on assets	5.00%	5.00%
Rate of increase in future compensation levels	N/A	N/A

The weighted average asset allocations at June 30, 2020 and 2019, by asset category are as follows:

	2020	2019
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 1M, "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, 2020:

	All Fixed Funds
Balance, June 30, 2019	$ 2,162,051
Actual return on plan assets	67,783
Purchases and sales	(31,027)
Transfers in and/or out of Level 3	-
Balance, June 30, 2020	$ 2,198,807

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

2021	$ 169,000
2022	$ 176,000
2023	$ 182,000
2024	$ 184,000
2025	$ 190,000
Five years thereafter	$ 1,006,000

8. Credit Facility

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 (also see Note 9). 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, 2020, the outstanding amount borrowed on the Crestmark Facility was $97,931 with the ability to borrow an additional amount of approximately $22,000 based on the borrowing base calculation at that date.

As of the date the financial statements were available to be issued, December 1, 2020, the outstanding amount borrowed on the Crestmark facility was $375,000.

9. Paycheck Protection Program Loan

On April 16, 2020, the Company received $297,337 from the Payroll Protection Program Loan through Crestmark. The loan accrues interest at 1% and matures April 16, 2022. The repayments terms are a six-month deferral of payments followed by eighteen monthly payments of $16,731 beginning October 16, 2020. The loan is eligible for forgiveness of all principal and accrued interest to the extent that the proceeds are used to cover eligible payroll costs, interest costs, rent, and utility costs over the eight-week period after the loan was effective as long as the borrower retains its employees and their compensation levels. Management believes the Company has met all of the loan criteria, and the loan will be forgiven.

10. Subsequent Events

The Company evaluated subsequent events through December 1, 2020, which is the date the financial statements were available to be issued.

On August 13, 2020, the Company entered into a sale and purchase agreement for the sale of the building and associated real estate for cash consideration of $4,000,000. At that same time, the Company entered into a five-year lease back agreement for office and warehouse space beginning September 1, 2020.

Future minimum rental payments under future noncancelable operating leases at June 30, 2020 are approximately as follows:

2021	$	156,000
2022		190,000
2023		196,000
2024		201,000
2025		206,000
Thereafter		34,000
Future minimum lease payments	$	983,000

The extent of the impact and effects of the recent outbreak of COVID-19 on the operations and financial performance of the Company's business will depend on future developments, including; but not limited to the duration and spread of the outbreak, related travel advisories and restrictions, the recovery time of the disrupted supply chains, the consequential staff shortages, the production delays, or the uncertainty with respect to the accessibility of additional liquidity or capital markets, all of which are highly uncertain and cannot be predicted. If the demand for the Company's services are impacted by this outbreak for an extended period, the results of its operations and/or liquidity may be materially adversely affected.