THE DEWEY ELECTRONICS CORPORATION
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FINANCIAL STATEMENTS

For Fiscal Years Ended
June 30, 2018 and 2017

INDEX TO FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of The Dewey Electronics Corporation (the "Company"), which comprise the balance sheets as of June 30, 2018 and 2017, and the related statements of operations, comprehensive income/(loss), stockholders' equity, and cash flows for each of the years then ended, and the related notes to the financial statements.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

EISNERAMPER

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Dewey Electronics Corporation as of June 30, 2018 and 2017, and the results of its operations and its cash flows for each of the years then ended in accordance with accounting principles generally accepted in the United States of America.

EisnerAmper LLP

EISNERAMPER LLP
Iselin, New Jersey
December 10, 2018

The Dewey Electronics Corporation

Balance Sheets

	June 30, 2018	June 30, 2017
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	$ 573,060	$ 465,170
Accounts receivable, less allowance for doubtful accounts of $11,607 and $0	355,717	203,078
Inventory	1,805,464	1,765,487
Prepaid expenses and other current assets	52,651	64,189
TOTAL CURRENT ASSETS	2,786,892	2,497,924
PROPERTY, PLANT AND EQUIPMENT:		
Assets held for sale, net	709,174	713,502
Machinery and equipment	3,364,917	3,364,917
Furniture and fixtures	268,700	268,700
	4,342,791	4,347,119
Less: accumulated depreciation	(3,548,520)	(3,526,621)
	794,271	820,498
DEFERRED COSTS	65,095	65,095
TOTAL ASSETS	$ 3,646,258	$ 3,383,517
LIABILITIES AND STOCKHOLDERS' EQUITY:		
CURRENT LIABILITIES:		
Notes payable – current portion	$ 500,000	$ 500,000
Trade accounts payable	38,028	23,192
Accrued expenses and other liabilities	159,800	186,813
Accrued compensation and benefits payable	134,883	119,264
Accrued pension costs	423,618	410,565
TOTAL CURRENT LIABILITIES	1,256,329	1,239,834
LONG-TERM PENSION LIABILITY	613,434	671,184
TOTAL LIABILITIES	1,869,763	1,911,018
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, 2018 and 2017	16,934	16,934
Additional paid-in capital	2,883,970	2,883,970
Accumulated deficit	(189,619)	(435,865)
Accumulated other comprehensive loss	(454,671)	(512,421)
	2,256,614	1,952,618
Less: Treasury stock, 326,666 shares at June 30, 2018 and 2017, at cost	(480,119)	(480,119)
TOTAL STOCKHOLDERS' EQUITY	1,776,495	1,472,499
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 3,646,258	$ 3,383,517

See accompanying Notes to the Financial Statements

The Dewey Electronics Corporation

Statements of Operations

	Years Ended June 30,	
	2018	2017
Revenues	$ 4,566,816	$ 3,325,993
Cost of revenues	3,277,019	3,027,126
Gross profit	1,289,797	298,867
Selling, general and administrative expenses	1,053,403	1,284,331
Operating income/(loss)	236,394	(985,464)
Interest expense	(34,624)	(17,029)
Other income – net	44,476	19,881
NET INCOME/(LOSS)	$ 246,246	$ (982,612)

Statements of Comprehensive Income/(Loss)

	Years Ended June 30,	
	2018	2017
Net income/(loss)	$ 246,246	$ (982,612)
Amortization of actuarial gains	57,750	340,822
Comprehensive income/(loss)	$ 303,996	$ (641,790)

See accompanying Notes to the Financial Statements

The Dewey Electronics Corporation

Statements of Stockholders' Equity
Years Ended June 30, 2018 and 2017

	Common Shares	Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock at Cost Shares	Treasury Stock at Cost Amount	Total Stockholders' Equity
Balance, June 30, 2016	1,693,397	$ 16,934	$ 2,882,842	$ 546,747	$ (853,243)	331,366	$ (487,028)	$ 2,106,252
Net income (loss)	-	-	-	(982,612)	-	-	-	(982,612)
Minimum pension liability adjustment	-	-	-	-	340,822	-	-	340,822
Exercise of stock options	-	-	1,128	-	-	(4,700)	6,909	8,037
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

See the accompanying Notes to the Financial Statements

The Dewey Electronics Corporation

Statements of Cash Flows

	Years ended June 30, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income/(loss)	$ 246,246	$ (982,612)
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:		
Gain on sale of assets	(15,000)	-
Depreciation	26,227	40,294
Provision for inventory	61,817	96,415
Provision for bad debts	11,607	-
(Increase)/Decrease in accounts receivable	(164,246)	294,784
(Increase)/Decrease in inventory	(101,794)	28,006
Decrease in prepaid expenses and other current assets	11,538	41,858
Increase/(Decrease) in accounts payable	14,836	(100,303)
Decrease in accrued expenses and other liabilities	(11,394)	(83,161)
Increase in accrued pension costs	13,053	109,336
Total adjustments and changes in operating assets and liabilities	(153,356)	427,229
Net cash provided by/(used in) operating activities	92,890	(555,383)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for property, plant and equipment	-	(27,226)
Proceeds from sale of assets	15,000	-
Net cash provided by/(used in) investing activities	15,000	(27,226)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Short-term borrowings	-	500,000
Proceeds from the exercise of stock options	-	8,037
Net cash provided by financing activities	-	508,037
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	107,890	(74,572)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	465,170	539,742
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 573,060	$ 465,170
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	$ 29,204	$ 14,876

See the accompanying Notes to the Financial Statements

1. Business and Summary of Significant Accounting Policies

The Dewey Electronics Corporation 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. 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.

Revenues and estimated earnings under long-term defense contracts (including research and development contracts) are recorded using the percentage-of-completion method of accounting, measured as the percentage of costs incurred to estimated total costs of each contract. These calculations require management to estimate the cost to complete open orders. Changes between those estimates and the actual cost of completion of delivery orders impact the revenue recognition in each reporting period. Estimates are adjusted as necessary on a quarterly basis. For research and development contracts, total costs incurred are compared to total expected costs for each contract.

For those contracts where revenue has been recognized using the percentage-of-completion method of accounting, provisions for estimated losses on uncompleted contracts are made in the period in which such losses become known. Changes in job performance, job conditions, and estimated profitability may result in revisions to costs and income and are recognized in the period in which the revisions become known. As of June 30, 2018 and 2017, the Company had no uncompleted contracts for which revenue has been recognized on a percentage of completion basis.

B. 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 are principally with Department of Defense contractors and agencies of the United States Department of Defense. The Department of Defense accounted for 27%, while three other Department of Defense contractors or agencies combined for an additional 49% of the Company's accounts receivable as of June 30, 2018. As of June 30, 2017, the Department of Defense accounted for 55% of the Company's accounts receivable.

Product Concentration Risk

In fiscal 2018 the Company derived approximately 31% of its revenues from the sale of power products, consisting of diesel operated tactical generator sets and associated hardware and electronics. In fiscal 2017, the Company derived approximately 28% 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 2018, one vendor accounted for approximately 13% of material purchases. In fiscal 2017, two vendors accounted for approximately 12% of material purchases. No other vendors accounted for more than 10% of material purchases during both fiscal years 2018 and 2017.

Customer Concentration Risks

In fiscal year 2018, two customers accounted for approximately 55% of Company revenues. In fiscal year 2017, two customers accounted for approximately 58% of Company revenues. No other customer accounted for more than 10% of the Company's revenues in fiscal years 2018 or 2017.

C. Liquidity

The accompanying financial statements and notes have been prepared assuming that the Company will continue as a going concern in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2014-15 *Presentation of Financial Statements – Going Concern*. For the fiscal year ended June 30, 2018, the Company had net income of approximately $246,000 and net cash inflows from operations of approximately $93,000. Net cash inflows from operations were principally due to the net income, non-cash adjustments for depreciation, inventory reserves, and allowance for doubtful accounts, partially offset by increases in accounts receivables and inventory. The Company believes that the Company's current cash and its new line of credit (described in Note 10 below), combined with progress payments as well as billings at the time of delivery of products, will be sufficient to support liquidity requirements, working capital needs and capital expenditures at their current or expected levels for one year from the date these financial statements were issued. However, if our performance expectations fall short (including our failure to generate expected levels of sales) or our expenses exceed expectations, we may need to reduce our expenses to continue our operations. Our failure to do so would have a material adverse impact on our prospects and financial condition.

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, 2018 and 2017, total $11,607 and $0, respectively.

F. Inventory

Cost is determined by the first-in, first-out (FIFO) method. Inventory is valued at the lower of cost or market. 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 $282,000 and $221,000 at June 30, 2018 and 2017, 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.

The Company has been pursuing monetization of its real estate and believes, as of December 10, 2018, 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, 2018.

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, 2018 and 2017, the Company expensed $13,000 and $7,000, 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, 2018 and 2017.

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. 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, 2018 and 2017 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, 2018 or 2017.

O. Subsequent Events

The Company evaluated subsequent events through December 10, 2018, which is the date the financial statements were available to be issued. Refer to Note 9.

2. Recent Accounting Standards

In May 2014, the FASB issued ASU 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, 2017. However, in August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers - Deferral of Effective Date*, 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, 2018.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*, which requires an entity to classify deferred tax liabilities and assets as noncurrent in a classified statement of financial position. This ASU will align the presentation of deferred income tax assets and liabilities with International Financial Reporting Standards ("IFRS"). It applies to all entities and is effective for annual periods ending after December 15, 2017, with early adoption permitted. Adoption of this ASU did not have a material impact on our financial statements.

In June 2016, the FASB issued ASU 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, 2020.

In August 2016, the FASB issued ASU 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, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, provided that all of the amendments are adopted in the same period.

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 will be effective for fiscal years and interim periods 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.

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, 2018 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, 2018	June 30, 2017
Finished goods	$ 495,909	$ 324,150
Work in progress	707,558	757,442
Raw materials	601,997	683,895
	$ 1,805,464	$ 1,765,487

4. Accrued Expenses and Other Liabilities

	June 30, 2018	June 30, 2017
Customer deposits	$ -	$ 27,559
Accrued audit & accounting	49,096	60,000
Accrued warranty reserve	34,979	21,758
Other accrued expenses	75,725	77,496
	$ 159,800	$ 186,813

5. Stock Option Plan

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, 2018, outstanding options were exercisable for ten years from the date of grant, and had expiration dates ranging from December 2, 2018 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, 2018 and 2017. The Company recorded no stock option compensation expense in either fiscal year 2018 or fiscal year 2017.

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

	Number of Shares	Weighted Average Exercise Price
Balance at June 30, 2016	20,700	$ 1.92
Granted	-	-
Exercised	(4,700)	1.71
Forfeited	(1,500)	2.03
Balance at June 30, 2017	14,500	1.98
Granted	-	-
Exercised	-	-
Forfeited	-	-
Balance at June 30, 2018	14,500	$ 1.98
Exercisable at June 30, 2018	14,500	$ 1.98

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, 2018:

Exercise Price	Options	Weighted Average Exercise Price	Weighted Average Remaining Life-Years
$1.60	1,800	$1.60	0.4
2.24	5,000	2.24	1.8
2.00	6,000	2.00	2.5
1.55	1,700	1.55	3.2
	14,500	$1.98	2.1

As of June 30, 2018, stock options outstanding and exercisable had an intrinsic value of $1,485.

6. Taxes on Income

Deferred tax assets and liabilities as of June 30, 2018 and 2017 consisted of the following:

	2018	2017
Deferred tax assets/(liabilities):		
Vacation accrual	$ 26,204	$ 35,950
Allowance for doubtful accounts	3,263	-
Inventory reserve	79,376	88,268
Prepaids	(10,102)	(21,399)
Pension	291,515	432,908
Depreciation	893	(12,550)
Net operating loss	466,363	847,342
	857,512	1,370,519
Less: valuation allowance	(857,512)	(1,370,519)
Total deferred tax assets	$ -	$ -

The Company has provided a valuation allowance against its net deferred taxes as it believes that it is more likely than not that it will not realize the tax attributes. Federal and state net operating loss carry-forwards expire in 2027 through 2037 and 2030 through 2037, respectively. As of June 30, 2018, the Company has approximately $1,903,000 and $939,000 of federal and state net operating losses, respectively. The actual tax expense differs from the expected amount of tax based on the federal statutory rate because there is a full valuation allowance against the Company's deferred tax assets at the beginning and end of the year. Accordingly, the usage of net operating loss in the current year resulted in the reduction of the valuation allowance.

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

	Years Ended June 30,	
	2018	2017
Federal		
Current	$ -	$ -
Deferred	421,334	(333,689)
State:		
Current	-	-
Deferred	(4,492)	(59,155)
	416,842	(392,844)
Change in valuation allowance	(416,842)	392,844
Income tax expense	$ -	$ -

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, 2018 or 2017.

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, 2018 and 2017. 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 Company is subject to tax examination for fiscal tax years of 2015 through 2017.

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 remeasured 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. The accounting for the tax effects of the Tax Act were completed during the year ending June 30, 2018.

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. 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.

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 4.10% as of June 30, 2018, which is higher than the assumed discount rate of 3.75% as of June 30, 2017. 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 $78,000 and $80,000 in fiscal years 2018 and 2017, respectively. The estimated fiscal year 2019 minimum contribution to the Plan is approximately $84,000.

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

	2018	2017
Benefit obligation at beginning of year	$ 3,280,722	$ 3,464,138
Service cost	25,049	55,575
Interest cost	117,071	118,979
Actuarial (gain)/loss	(57,059)	(256,099)
Benefits paid plus administrative expenses	(123,066)	(101,871)
Benefit obligation at end of year	$ 3,242,717	$ 3,280,722
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 2,198,973	$ 2,150,904
Actual return on plan assets	51,288	69,754
Employer contributions	78,473	80,186
Benefits paid plus administrative expenses	(123,066)	(101,871)
Fair value of plan assets at end of year	$ 2,205,668	$ 2,198,973
Funded status	$ (1,037,049)	$ (1,081,749)
Unrecognized net loss	(613,431)	(671,184)
Accrued pension expense	$ (423,618)	$ (410,565)

	07/01/2017-06/30/2018	07/01/2016-06/30/2017
Weighted-average assumptions		
Discount rate	4.10%	3.75%
Expected return on plan assets	5.00%	5.00%
Rate of compensation increase	2.75%	2.75%
Measurement Date	07/01/2018	07/01/2017

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, 2018	June 30, 2017
Total accrued pension liability	$ (1,037,049)	$ (1,081,749)
Accumulated other comprehensive loss, pre-tax	613,431	671,184
Net amount recognized	$ (423,618)	$ (410,565)

The accumulated benefit obligation for the Plan was $3,242,717 and $3,280,722 at June 30, 2018, and 2017, 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, 2018	June 30, 2017
Change in net loss / (gain)	$ 860	$ (219,364)
Amortization of net loss	(58,610)	(121,458)
Net amount recognized	$ (57,750)	$ (340,822)

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

	June 30, 2018	June 30, 2017
Unrecognized net loss, pre-tax	$ 613,431	$ 671,184

Amounts included in Accumulated Other Comprehensive Loss as of June 30, 2018 that are expected to be recognized as a component of benefit cost during fiscal 2019 consist of amortization of net loss of $58,610.

Components of periodic pension costs as of June 30, 2018 and 2017 are as follows:

	2018	2017
Service cost-benefits earned during the period	$ 25,049	$ 55,575
Interest cost on projected benefit obligation	117,071	118,979
Expected return on plan assets	(109,206)	(106,490)
Amortization of actuarial loss	58,610	121,458
Net periodic pension cost	$ 91,524	$ 189,522

Weighted Average Assumptions for Net Periodic Pension Expense:	2018	2017
Discount rate	3.75%	3.50%
Expected long-term rate of return on assets	5.00%	5.00%
Rate of increase in future compensation levels	2.75%	2.75%

Retirement Plan for Employees of Dewey Electronics Corporation's weighted average asset allocations at June 30, 2018, and 2017, by asset category are as follows:

	2018	2017
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 of 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, 2018.

	All Fixed Funds
Balance, June 30, 2017	$ 2,198,973
Actual return on plan assets	51,288
Purchases and sales	(44,593)
Transfers in and/or out of Level 3	-
Balance, June 30, 2018	$ 2,205,668

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

2019	$	147,000
2020	$	161,000
2021	$	173,000
2022	$	178,000
2023	$	182,000
Five years thereafter	$	975,000

8. Credit Facility

As of the end of the fiscal year ended June 30, 2018, the Company maintained a line of credit (the "Line of Credit") with TD Bank, NA (the "Bank") for $500,000. The Line of Credit was extended to October 31, 2018.

As of December 10, 2018, the Company has repaid its loan in full to the Bank and the Company no longer operates under a Line of Credit with the Bank.

9. Related Party Transactions

Effective November 16, 2017, the Company entered into Promissory Notes with two members of the Board of Directors for $250,000 each. The Promissory Notes may be borrowed against upon the expiration of the senior credit facility with TD Bank, N.A. The Promissory Notes shall bear interest at 8% per annum, and the scheduled maturity date is November 16, 2019. Initial commitment fees payable as of the effective date in connection with the Promissory Notes totaled $10,000. In addition, the unused portion of both Promissory Notes will be assessed a 1% fee on a quarterly basis, beginning 180 days following the effective date. There have been no borrowings against these Promissory Notes. Accrued interest payable as of June 30, 2018 is $5,000.

10. Subsequent Events

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 $350,000. 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.

As of this filing date, December 10, 2018, the outstanding amount borrowed on the Crestmark facility was $415,227.