

**EISNERAMPER**

**THE DEWEY ELECTRONICS  
CORPORATION**

**FINANCIAL STATEMENTS**

**JUNE 30, 2021 and 2020**



# THE DEWEY ELECTRONICS CORPORATION

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## 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 (the "Company"), which comprise the balance sheets as of June 30, 2021 and 2020, 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

Iselin, New Jersey

October 7, 2021



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# THE DEWEY ELECTRONICS CORPORATION

## Balance Sheets

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

	June 30,	
	2021	2020
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,928,115	\$ 1,521,967
Accounts receivable	565,629	121,286
Inventory	4,473,674	2,488,514
Income tax receivable	408,662	-
Prepaid expenses and other current assets	173,083	90,433
	<u>8,549,163</u>	<u>4,222,200</u>
Total current assets		
Property and equipment, net	503,100	70,732
Assets held for sale, net	104,160	735,609
Intangible assets, net of accumulated amortization	200,772	-
Deferred tax asset	198,951	177,656
Security deposits	31,167	-
Deferred costs	-	65,095
	<u>9,587,313</u>	<u>5,271,292</u>
Total assets		
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Line of credit	\$ 434,814	\$ 97,931
Paycheck protection program loan - current portion	-	133,855
Trade accounts payable	306,762	121,814
Deferred gain on sale of assets - current portion	165,764	-
Customer deposits	1,394,246	28,786
Accrued expenses and other liabilities	1,087,631	668,581
	<u>3,389,217</u>	<u>1,050,967</u>
Total current liabilities		
Long-term debt, net of current maturities:		
Paycheck Protection Program loan - long-term portion	364,403	163,482
Deferred gain on sale of assets, net of current	524,919	-
Long-term pension liability	1,046,214	1,184,263
	<u>5,324,753</u>	<u>2,398,712</u>
Total liabilities		
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, 2021 and 2020	16,934	16,934
Additional paid-in-capital	2,883,970	2,883,970
Retained earnings	2,729,226	1,477,295
Accumulated other comprehensive loss	(887,451)	(1,025,500)
	<u>4,742,679</u>	<u>3,352,699</u>
Less: Treasury stock, 326,666 shares at cost	(480,119)	(480,119)
	<u>4,262,560</u>	<u>2,872,580</u>
Total stockholders' equity		
	<u>\$ 9,587,313</u>	<u>\$ 5,271,292</u>

# THE DEWEY ELECTRONICS CORPORATION

## Statements of Income

(See independent accountant's review report and notes to financial statements)

	Year Ended June 30,	
	2021	2020
Net sales	\$ 4,764,201	\$ 5,151,431
Cost of goods sold	4,237,366	3,470,146
Gross profit	526,835	1,681,285
Selling, general and administrative expenses	1,283,223	1,093,674
(Loss) earnings from operations	(756,388)	587,611
Other income (expense):		
Interest expense	(38,592)	(26,759)
Gain on debt forgiveness	297,337	-
Gain on sale of property and equipment	2,182,697	-
Other (expense) income	(20,418)	33,381
Total other income	2,421,024	6,622
Net income before provision for income taxes	1,664,636	594,233
Provision for income taxes:		
Current income tax expense	434,000	51,002
Deferred income tax (benefit) expense	(21,295)	121,814
Total provision for income taxes	412,705	172,816
<b>Net income</b>	<b>\$ 1,251,931</b>	<b>\$ 421,417</b>

# THE DEWEY ELECTRONICS CORPORATION

## Statements of Comprehensive Income

*(See independent accountant's review report and notes to financial statements)*

	Year Ended June 30,	
	2021	2020
Net income	\$ 1,251,931	\$ 421,417
Amortization of actuarial income (loss)	138,049	(142,946)
Comprehensive income	<u>\$ 1,389,980</u>	<u>\$ 278,471</u>

## THE DEWEY ELECTRONICS CORPORATION

### Statements of Stockholders' Equity

(See independent accountant's review report and notes to financial statements)

Years Ended June 30, 2021 and 2020

	Common Stock			Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock at Cost		Total Stockholders' Equity
	Shares	Amount	Additional Paid-In Capital			Shares	Amount	
<b>Balance, June 30, 2019</b>	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)
<b>Balance, June 30, 2020</b>	1,693,397	16,934	2,883,970	1,477,295	(1,025,500)	326,666	(480,119)	2,872,580
Net income	-	-	-	1,251,931	-	-	-	1,251,931
Minimum pension liability adjustment	-	-	-	-	138,049	-	-	138,049
<b>Balance, June 30, 2021</b>	<b>1,693,397</b>	<b>\$ 16,934</b>	<b>\$ 2,883,970</b>	<b>\$ 2,729,226</b>	<b>\$ (887,451)</b>	<b>326,666</b>	<b>\$ (480,119)</b>	<b>\$ 4,262,560</b>

# THE DEWEY ELECTRONICS CORPORATION

## Statements of Cash Flows

(See independent accountant's review report and notes to financial statements)

	Year Ended June 30,	
	2021	2020
<b>Cash flows from operating activities:</b>		
Net income	\$ 1,251,931	\$ 421,417
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	76,590	11,651
Reserve for obsolete inventory	-	(12,567)
Gain on debt forgiveness	(297,337)	-
Amortization of deferred gain	(138,136)	-
Deferred income tax (benefit) expense	(21,295)	121,814
Gain on sale of property and equipment	(2,182,697)	-
(Increase) decrease in:		
Accounts receivable	(444,343)	759,810
Inventory	(1,723,934)	(629,451)
Prepaid expenses and other current assets	(82,650)	111,720
Income tax receivable	(408,662)	-
Security deposit	(31,167)	-
Increase (decrease) in:		
Accounts payable	184,948	10,387
Customer deposits	1,365,460	(131,506)
Accrued expenses and other liabilities	(31,508)	(42,367)
Net cash (used in) provided by operating activities	<u>(2,482,800)</u>	<u>620,908</u>
<b>Cash flows from investing activities:</b>		
Acquisition of business	(150,000)	-
Payments for purchases of property and equipment	(370,398)	(39,312)
Proceeds from sale of property and equipment	<u>3,708,060</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>3,187,662</u>	<u>(39,312)</u>
<b>Cash flows from financing activities:</b>		
Net proceeds from (payments on) line of credit	336,883	(180,574)
Proceeds from paycheck protection program loan	<u>364,403</u>	<u>297,337</u>
Net cash provided by financing activities	<u>701,286</u>	<u>116,763</u>
<b>Net change in cash and cash equivalents</b>	<b>1,406,148</b>	<b>698,359</b>
Cash and cash equivalents - beginning	<u>1,521,967</u>	<u>823,608</u>
<b>Cash and cash equivalents - ending</b>	<u><u>\$ 2,928,115</u></u>	<u><u>\$ 1,521,967</u></u>
<b>Supplemental disclosures of cash paid:</b>		
Interest	\$ 38,592	\$ 26,759
Income taxes	\$ 583,500	\$ -
<b>Supplemental disclosure of non-cash operating and investing activities:</b>		
Inventory, patents, and property and equipment purchased in exchange for future cash and contingent consideration (see Note D)	\$ 450,558	\$ -



# THE DEWEY ELECTRONICS CORPORATION

## Notes to Financial Statements

(See independent accountants' review report)

June 30, 2021 and 2020

### NOTE A - 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.

#### [1] 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").

#### [2] Revenue recognition:

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2014-09, as amended, *Revenue from Contracts with Customers: (Topic 606)*. Topic 606 superseded the existing revenue recognition guidance, including industry-specific guidance. The new standard introduces a five-step model to achieve its core principle of the entity recognizing revenue to depict the transfer of goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, and on transfer of control, as opposed to transfer of risk and rewards. The standard also expands the required financial statement disclosures regarding revenue recognition. The Company adopted Topic 606 on July 1, 2020, using the modified retrospective method and which did not have a material impact on its financial statements.

Revenue is recognized when a performance obligation is satisfied, which is when the expected goods or services are transferred to the customer, in an amount that reflects the consideration to which the entity expects to receive. The Company enters into contracts that can include different products, which are generally capable of being distinct and accounted for as separate performance obligations. In such situations, contract values are allocated to each performance obligation based on its relative estimated standalone selling price. The Company's contracts do not include any variable considerations. Revenue is recognized when control passes to the customer, which is generally the point at which the product is delivered to the customer and when collectability is reasonably assured.

Revenue includes certain shipping and handling costs. Shipping and handling costs associated with outbound freight are account for as fulfillment cost and included in cost of goods sold.

The Company's payment terms vary by contract with each customer based on the goods offered. There are no financing components to the contracts.

Contract assets are recorded when goods are delivered in advance of the Company's unconditional right to payment. There were no contract assets as of June 30, 2021 and 2020.

Contract liabilities are recorded when cash payments are received in advance of when revenue is recognized. Contract liabilities are presented as customer deposits on the balance sheets and were \$1,394,246 and \$28,786 as of June 30, 2021 and 2020, respectively.

For the year ended June 30, 2020, revenue was recognized upon delivery of the product, where the title and risk of loss was transferred to the customer, and collection is probable.

# THE DEWEY ELECTRONICS CORPORATION

## Notes to Financial Statements

(See independent accountants' review report)

June 30, 2021 and 2020

### NOTE A - BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### [3] Concentration risks:

##### *Concentration of cash balances:*

The Company is subject to concentrations of credit risk primarily from cash. 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.

##### *Product concentration risk:*

For the year ended June 30, 2021, the Company derived approximately 49% of its revenues from the sale of power products, consisting of diesel operated tactical generator sets and associated hardware and electronics. For the year ended June 30, 2020, the Company derived approximately 5% of its revenues from sales of these products.

##### *Supplier concentration risks:*

For the year ended June 30, 2021, the Company had one significant vendor which supplied components for its generator products which accounted for approximately 11% of material purchases. For the year ended June 30, 2020, one vendor accounted for approximately 22% of material purchases. A major supplier is defined as one representing more than 10% of the Company's purchases. The Company believes that other suppliers could provide for the Company's inventory needs on comparable terms.

##### *Customer concentration risks:*

For the year ended June 30, 2021, the Company had four major customers representing 69% (29%, 18%, 12%, and 10%) of net sales and 54% of outstanding accounts receivable. For the year ended June 30, 2020, the Company had one major customer representing 80% of net sales and 72% of outstanding accounts receivable.

The Company's customers are the United States Department of Defense and Department of Defense contractors and agencies.

#### [4] 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.

#### [5] 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 times 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 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, 2021 and 2020.

**THE DEWEY ELECTRONICS CORPORATION**

**Notes to Financial Statements**

*(See independent accountants' review report)*

**June 30, 2021 and 2020**

**NOTE A - BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**[6] Inventory:**

Cost is determined by the first-in, first-out ("FIFO") method. Inventory is stated at the lower of cost or net realizable value and consists of raw materials, work in process and finished goods. 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 as of June 30, 2021 and 2020. Components of inventory cost include materials, work in process, direct labor and overhead that have not been charged to specific contracts.

**[7] Use of estimates:**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("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.

**[8] Property, plant, and equipment:**

Property, plant, and equipment are stated at cost less accumulated depreciation. Expenditures for maintenance and repairs are expensed currently, while renewals and betterments that materially extend the life of an asset are capitalized. Depreciation is provided on a straight-line basis over estimated useful lives of the assets, as follows:

	<b>Estimated Useful Life</b>
Machinery and equipment	3 - 10 years
Leasehold improvements	Shorter of estimated useful life or lease term
Furniture and fixtures	10 years

The Company was pursuing the 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. The Company sold its building and a portion of its related property during the year ended June 30, 2021. The remaining land remains classified as assets held for sale, net, on the balance sheets as the Company is pursuing the sale of the remaining land as of June 30, 2021 (see Note O).

**[9] Intangible assets, cost of patents:**

The cost of patents is being amortized over the lesser of their estimated useful lives or the legal life of the patent on a straight-line basis. Patents are being amortized over five years. Costs of patents included on the balance sheet represent related costs for patent applications. If a patent is awarded in the future, the related costs will be capitalized and amortized as described above; if a patent is denied, the cost will be expensed.

# THE DEWEY ELECTRONICS CORPORATION

## Notes to Financial Statements

(See independent accountants' review report)

June 30, 2021 and 2020

### NOTE A - BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### [10] Research and development costs:

The Company expenses its research and development costs as incurred. These costs consist primarily of salaries and material costs. The Company expensed approximately \$80,000 and \$23,000 of research and development costs for the years ended June 30, 2021 and 2020, respectively.

#### [11] 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, 2021 and 2020.

#### [12] 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 period 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 financial 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, 2021 and 2020.

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, 2021 and 2020.

# THE DEWEY ELECTRONICS CORPORATION

## Notes to Financial Statements

(See *independent accountants' review report*)

June 30, 2021 and 2020

### NOTE A - BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### [13] 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.

#### [14] 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 for the years ended June 30, 2021 or 2020.

#### [15] Reclassifications:

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

#### [16] Business combinations:

The Company accounts for acquired businesses using the acquisition method of accounting, which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill, and any excess of the estimated fair value over the purchase prices is considered a bargain purchase and recorded as a gain on acquisition. Acquisition-related expenses are recognized separately from the business combinations and are expensed as incurred.

#### [17] Paycheck Protection Program loan:

On March 27, 2020, Congress enacted the Coronavirus Aid Relief, and Economic Security Act ("CARES Act"). The Paycheck Protection Program ("PPP") established by the CARES Act, implemented by the U.S. Small Business Administration ("SBA"), provides businesses with funds to pay payroll and other costs during the Coronavirus ("COVID-19") outbreak. The Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act ("Economic Aid Act"), a part of the Consolidated Appropriations Act, 2021 package, extends the PPP to include a second round of funding for qualified borrowers. During fiscal years 2021 and 2020, the Company applied for and received PPP funds under both programs and the Company has elected to record the PPP funds as a loan under FASB's ASC 470 *Debt*. During the fiscal year 2021, the Company applied for and received forgiveness on the first round of PPP funds received which is recognized as a gain on debt extinguishment (see Note M).

#### [18] Subsequent events:

The Company evaluated subsequent events through October 7, 2021, which is the date the financial statements were available to be issued.

## THE DEWEY ELECTRONICS CORPORATION

### Notes to Financial Statements

(See independent accountants' review report)

June 30, 2021 and 2020

#### NOTE B - RECENT ACCOUNTING STANDARDS

In February 2016, the FASB issued its new lease accounting guidance in ASU No. 2016-02, *Leases* (Topic 842). The new 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 will be effective for nonpublic businesses for fiscal years beginning after December 15, 2021. Early application is permitted. The Company is currently evaluating the effect that this new guidance will have on the financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses* (Topic 326) *Measurement of Credit Losses on Financial Instruments*. ASU No. 2016-13 significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not 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 No. 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 No. 2016-13 is effective for fiscal years beginning after December 15, 2022. Early adoption is permitted. The Company is currently evaluating the effect of this new guidance on the financial statements and related disclosures.

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*, that applies to all employers that sponsor defined benefit pension or other postretirement plans. The amendments modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. ASU No. 2018-14 is effective for fiscal years ending after December 15, 2021. Early adoption is permitted. The Company is currently evaluating the effect of this new guidance on the financial statements and related disclosures.

#### NOTE C - SALE-LEASEBACK AGREEMENT AND DEFERRED COSTS

On August 13, 2020, the Company entered into a sale and purchase agreement to sell the Company's building, improvements, and land. The Company received cash consideration of approximately \$4,000,000 as of the date of the agreement and entered into a five-year sale-leaseback agreement for office and warehouse space beginning September 1, 2020 (see Note N[1]).

## THE DEWEY ELECTRONICS CORPORATION

### Notes to Financial Statements

(See independent accountants' review report)

June 30, 2021 and 2020

#### NOTE C - SALE-LEASEBACK AGREEMENT AND DEFERRED COSTS (CONTINUED)

The following table summarizes the value of assets sold and considerations received on the date of sale:

Purchase price:	
Proceeds	\$ 4,000,000
Expenses of sale	<u>(291,940)</u>
Net purchase price	<u>3,708,060</u>
Assets sold:	
Land	546,855
Building	84,594
Deferred costs	<u>65,095</u>
Total assets sold	<u>696,544</u>
Gain on sale of assets	3,011,517
Deferred gain on sale-leaseback	<u>(828,820)</u>
Total gain on financial statements	<u>\$ 2,182,697</u>

The deferred gain on the sale-leaseback will be amortized over the lease term (see Note N).

#### NOTE D - ACQUISITION OF BUSINESS

Effective September 28, 2020, the Company entered into an Asset Purchase Agreement with INI Power Systems ("INI") and Corbel Structured Equity Partners ("Corbel") for the purchase of INI, of which Corbel was a lender and creditor. As part of the Asset Purchase Agreement, the Company acquired certain tangible and intangible assets from INI. The original aggregate cash purchase price for the purchased assets was \$300,000, of which \$150,000 was paid at the close of the Asset Purchase Agreement and the additional \$150,000 is expected to be paid on September 28, 2021. The parties also entered into a royalty agreement whereby the purchaser is required to make royalty payments for a defined period ("contingent consideration") (see Note N[2]).

A summary of the purchase consideration for the acquisition is as follows:

Consideration:	
Cash consideration	\$ 150,000
Future cash consideration	150,000
Contingent consideration	<u>300,558</u>
Total purchase consideration	<u>\$ 600,558</u>

# THE DEWEY ELECTRONICS CORPORATION

## Notes to Financial Statements

(See independent accountants' review report)

June 30, 2021 and 2020

### NOTE D - ACQUISITION OF BUSINESS (CONTINUED)

The following table summarizes the estimated fair values of intangible and tangible assets and liabilities assumed acquired as the date of the acquisition:

Inventory	\$	261,226
Fixed assets, net		103,130
Intangible assets:		
Patents		<u>236,202</u>
Net assets acquired	\$	<u><u>600,558</u></u>

### NOTE E - INVENTORY

Inventory, net of provision, consists of the following:

	June 30,	
	2021	2020
Finished goods	\$ 429,622	\$ 311,574
Work in progress	2,156,596	1,362,757
Raw materials	<u>1,887,456</u>	<u>814,183</u>
	<u>\$ 4,473,674</u>	<u>\$ 2,488,514</u>

### NOTE F - INTANGIBLE ASSETS

Intangible assets associated with the assets purchased from INI (see Note D) are being amortized over their estimated useful lives or legal life, as described in Note A[11]. Amortization was \$35,430 and \$0 for the years ended June 30, 2021 and 2020, respectively. Amortization expense is expected to be approximately \$48,000 per year for the next 4 years and approximately \$8,000 in 2026.

The Company's intangible assets consist of the following:

	June 30,	
	2021	2020
Patents	\$ 266,048	\$ 29,846
Less: accumulated amortization	<u>65,276</u>	<u>29,846</u>
Intangibles, net	<u>\$ 200,772</u>	<u>\$ -</u>



## THE DEWEY ELECTRONICS CORPORATION

### Notes to Financial Statements

(See independent accountants' review report)

June 30, 2021 and 2020

#### NOTE G - PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows:

	June 30,	
	2021	2020
Leasehold improvements	\$ 239,934	\$ -
Furniture and fixtures	329,801	277,378
Machinery and equipment	<u>2,520,442</u>	<u>3,339,271</u>
	3,090,177	3,616,649
Less: accumulated depreciation	<u>(2,587,077)</u>	<u>(3,545,917)</u>
	<u>\$ 503,100</u>	<u>\$ 70,732</u>

Depreciation and amortization expense was \$41,160 and \$11,651 for the years ended June 30, 2021 and 2020, respectively.

#### NOTE H - ACCRUED EXPENSES AND OTHER LIABILITIES

	June 30,	
	2021	2020
Accrued pension costs	\$ 385,838	\$ 404,833
Accrued royalties	279,665	-
Other accrued expenses	17,847	37,377
Accrued acquisition payable (see Note D)	150,000	-
Accrued compensation and benefits payable	141,598	142,966
Accrued audit and accounting	69,280	35,000
Accrued warranty reserve	43,403	26,403
Income taxes payable	-	22,002
	<u>\$ 1,087,631</u>	<u>\$ 668,581</u>

#### NOTE I - 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.

## THE DEWEY ELECTRONICS CORPORATION

### Notes to Financial Statements

(See independent accountants' review report)

June 30, 2021 and 2020

#### NOTE I - STOCK OPTION PLANS (CONTINUED)

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 the fair market value of the stock on the date of grant.

As of June 30, 2021, outstanding options that are exercisable for ten years from the date of grant and had an expiration date of September 21, 2021. No additional options may be granted under this plan.

There were no stock options granted during the years ended June 30, 2021 and 2020. The Company recorded no stock option compensation expense for the fiscal years ended June 30, 2021 and 2020.

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

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>
Balance at June 30, 2019	12,700	\$ 2.03
Granted	-	-
Exercised	-	-
Forfeited	<u>(8,000)</u>	<u>2.15</u>
Balance at June 30, 2020	4,700	1.84
Granted	-	-
Exercised	-	-
Forfeited	<u>(3,000)</u>	<u>2.00</u>
Balance at June 30, 2021	<u>1,700</u>	<u>\$ 1.55</u>
Exercisable at June 30, 2021	<u><u>1,700</u></u>	<u><u>\$ 1.55</u></u>

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, 2021:

<u>Exercise Price</u>	<u>Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Life-Years</u>
<u>\$ 1.55</u>	<u>1,700</u>	<u>\$ 1.55</u>	<u>0.2</u>
<u><u>\$ 1.55</u></u>	<u><u>1,700</u></u>	<u><u>1.55</u></u>	<u><u>0.2</u></u>

As of June 30, 2021, stock options outstanding and exercisable had an intrinsic value of \$5,848. Subsequent to year end, the remaining options expired and were not exercised.

# THE DEWEY ELECTRONICS CORPORATION

## Notes to Financial Statements

(See independent accountants' review report)

June 30, 2021 and 2020

### NOTE J - TAXES ON INCOME

Deferred tax assets and liabilities as of June 30, 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
Deferred tax assets/(liabilities):		
Vacation accrual	\$ 32,115	\$ 23,496
Inventory reserve	76,566	76,566
Prepaid expenses	(23,768)	(19,934)
Pension	402,550	446,695
Deferred gain	194,151	-
Property and equipment	(80,113)	559
Net operating loss	-	96,969
	<u>601,501</u>	624,351
Less: valuation allowance	<u>(402,550)</u>	<u>(446,695)</u>
Total deferred tax assets	<u>\$ 198,951</u>	<u>\$ 177,656</u>

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, 2021 and 2020, and therefore, management has determined that there is enough positive evidence to conclude that it is more-likely-than-not that all deferred tax 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, 2021, the valuation allowance decreased by \$44,145. During the year ended June 30, 2020, the valuation allowance increased by \$40,835. As of June 30, 2020, the Company had 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) for the years ended June 30, consisted of the following:

	<u>2021</u>	<u>2020</u>
Federal:		
Current	\$ 200,000	\$ -
Deferred	34,222	117,686
State:		
Current	234,000	51,002
Deferred	<u>(55,517)</u>	<u>4,128</u>
Income tax expense	<u>\$ 412,705</u>	<u>\$ 172,816</u>

## THE DEWEY ELECTRONICS CORPORATION

### Notes to Financial Statements

(See independent accountants' review report)

June 30, 2021 and 2020

#### NOTE K - 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, 2021, the long-term pension liability on the balance sheet decreased over the previous year by approximately \$138,000. Two main factors effected the decrease. The first factor was an increase in the Discount Rate from 2.55% to 2.65%, which resulted in a decrease to the liability of approximately \$46,000. The second factor was amortization of unrecognized gain and asset loss deferred, which resulted in a decrease to the liability of approximately \$92,000.

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 2.65% as of June 30, 2021, which is higher than the assumed discount rate of 2.55% as of June 30, 2020. 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 \$139,000 and \$114,000 for the years ended June 30, 2021 and 2020, respectively. The estimated fiscal year 2022 minimum contribution to the Plan is approximately \$36,000.

# THE DEWEY ELECTRONICS CORPORATION

## Notes to Financial Statements

(See independent accountants' review report)

June 30, 2021 and 2020

### NOTE K - PENSION PLAN (CONTINUED)

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:

	<u>2021</u>	<u>2020</u>
Benefit obligation at beginning of year	\$ 3,787,903	3,605,881
Interest cost	94,469	120,080
Actuarial (gain)/loss	(46,516)	206,828
Benefits paid plus administrative expenses	<u>(165,810)</u>	<u>(144,886)</u>
Benefit obligation at end of year	<u>\$ 3,670,046</u>	<u>3,787,903</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 2,198,807	\$ 2,162,051
Actual return on plan assets	66,257	67,783
Employer contributions	138,740	113,859
Benefits paid plus administrative expenses	<u>(165,810)</u>	<u>(144,886)</u>
Fair value of plan assets at end of year	<u>\$ 2,237,994</u>	<u>\$ 2,198,807</u>
Funded status	\$ (1,432,052)	\$ (1,589,096)
Unrecognized net loss	<u>(1,046,214)</u>	<u>(1,184,263)</u>
Accrued pension expense	<u>\$ (385,838)</u>	<u>\$ (404,833)</u>
	<u>07/01/2020-</u> <u>06/30/2021</u>	<u>07/01/2019-</u> <u>06/30/2020</u>
Weighted-average assumptions:		
Discount rate	2.65%	2.55%
Expected return on plan assets	4.50%	5.00%
Rate of compensation increase	N/A	N/A
Measurement date	07/01/2021	07/01/2020

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:

	<u>2021</u>	<u>2020</u>
Total accrued pension liability	\$ (1,432,052)	\$ (1,589,096)
Accumulated other comprehensive loss, pre-tax	<u>(1,046,214)</u>	<u>(1,184,263)</u>
Net amount recognized	<u>\$ (385,838)</u>	<u>\$ (404,833)</u>

# THE DEWEY ELECTRONICS CORPORATION

## Notes to Financial Statements

(See independent accountants' review report)

June 30, 2021 and 2020

### NOTE K - PENSION PLAN (CONTINUED)

The accumulated benefit obligation for the Plan was \$3,670,046 and \$3,787,903 at June 30, 2021 and 2020, respectively.

Other changes in Plan assets and benefit obligations recognized in the other comprehensive loss for each fiscal year are as follows:

	<u>June 30,</u>	
	<u>2021</u>	<u>2020</u>
Change in net loss	\$ (14,130)	\$ 245,620
Amortization of net loss	<u>(123,919)</u>	<u>(102,674)</u>
Amortization of actuarial income (loss)	<u>\$ (138,049)</u>	<u>\$ 142,946</u>

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

	<u>June 30,</u>	
	<u>2021</u>	<u>2020</u>
Unrecognized net loss, pre-tax	<u>\$ 1,046,214</u>	<u>\$ 1,184,263</u>

Amounts included in Accumulated Other Comprehensive Loss as of June 30, 2021 that are expected to be recognized as a component of benefit cost during fiscal 2021 consist of amortization of net loss of approximately \$123,000.

Components of periodic pension costs for the years ended June 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Service cost-benefits earned during the period	\$ -	\$ -
Interest cost on projected benefit obligation	94,469	120,080
Expected return on plan assets	(98,643)	(106,575)
Amortization of actuarial loss	<u>123,919</u>	<u>102,674</u>
Net periodic pension cost	<u>\$ 119,745</u>	<u>\$ 116,179</u>

	<u>2021</u>	<u>2020</u>
Weighted average assumptions for net periodic pension expense:		
Discount rate	2.55%	3.40%
Expected long-term rate of return on assets	4.50%	5.00%
Rate of increase in future compensation levels	N/A	N/A

# THE DEWEY ELECTRONICS CORPORATION

## Notes to Financial Statements

(See independent accountants' review report)

June 30, 2021 and 2020

### NOTE K - PENSION PLAN (CONTINUED)

The weighted average asset allocations at June 30, 2021 and 2020, by asset category are as follows:

	<u>2021</u>	<u>2020</u>
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 A[13], "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, 2021.

	<u>All Fixed Funds</u>
Balance, June 30, 2020	\$ 2,198,807
Actual return on plan assets	66,257
Purchases and sales	(27,070)
Transfers in and/or out of Level 3	-
	<u>                    </u>
Balance, June 30, 2021	<u>\$ 2,237,994</u>

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

2022	\$ 183,000
2023	183,000
2024	185,000
2025	192,000
2026	198,000
Five years thereafter	1,024,000

# THE DEWEY ELECTRONICS CORPORATION

## Notes to Financial Statements

(See independent accountants' review report)

June 30, 2021 and 2020

### NOTE L - 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 was for two years with a two-year renewal option that was exercised in October of 2020. 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. As of June 30, 2021, the outstanding amount borrowed on the Crestmark Facility was \$434,814 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, October 7, 2021, the outstanding amount borrowed on the Crestmark facility was \$16,081.

### NOTE M - PAYCHECK PROTECTION PROGRAM LOAN

On April 16, 2020, the Company received \$297,337 from the Payroll Protection Program ("PPP") Loan through Crestmark. The loan accrued interest at 1% and was scheduled to mature on April 16, 2022. On March 29, 2021, the Company received forgiveness of the entire balance of the principal and interest of the loan, which was recorded as debt forgiveness on the statement of income.

On April 15, 2021, the Company received \$364,403 from the PPP Loan through Crestmark. The loan accrues interest at 1% and matures on April 15, 2026. The repayment terms include a deferral period of sixteen months followed by forty-four monthly payments of \$6,230 beginning on October 15, 2022. 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.

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

2022	\$	-
2023		54,000
2024		72,000
2025		73,000
2026		73,000
Five years thereafter		92,000



# THE DEWEY ELECTRONICS CORPORATION

## Notes to Financial Statements

(See independent accountants' review report)

June 30, 2021 and 2020

### NOTE N - COMMITMENTS AND CONTINGENCIES

#### [1] Operating lease:

On August 13, 2020, the Company entered into a sale and purchase agreement with an unrelated third party (see Note C). The Company sold the building and associated real estate for cash consideration of \$4,000,000. In conjunction with the sale, the Company, the existing tenant before execution of the Sale and Purchase Agreement, entered into a lease with the buyer to leaseback the property. The lease has a term of five years with a renewal option for a period of five years. Under FASB ASC 840-40, this transaction meets the criteria of a sale-leaseback transaction and, as a result, the related gain on the sale of the property is deferred to be amortized in proportion to the related gross rental charged to expense over the related lease term. Total amortization of the related gain for the year ended June 30, 2021 was approximately \$138,000 and was recorded as a reduction of rent expense. The remaining unamortized gain was approximately \$691,000 as of June 30, 2021.

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

2022	\$	191,000
2023		196,000
2024		201,000
2025		206,000
2026		<u>34,000</u>
Future minimum lease payments	\$	<u>827,000</u>

Rent expense and common area maintenance charges for the year ended June 30, 2021, excluding the amortization of the gain on sale, was approximately \$211,000.

#### [2] Royalty agreement:

The Company is obligated, through September 28, 2025, to pay a royalty fee equal to 15% of gross revenues or proceeds from the use of purchased assets (see Note D). Payment is due within 30 days after the end of each calendar quarter. There was no royalty expense for the years ended June 30, 2021 and 2020. The Company accrued \$300,558 of expected royalty fees in conjunction with the purchased assets and there were \$279,665 of accrued royalties as of June 30, 2021. Accrued royalties related to the purchase are required to be re-measured at the end of each fiscal year. The Company re-measured the accrued royalties at June 30, 2021 and determined there were no changes from the original amount.

#### [3] Contingencies:

The extent of the impact and effects of the coronavirus ("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.

### NOTE O - SUBSEQUENT EVENTS

On July 22, 2021, the Company entered into an agreement to sell the remaining assets held for resale for approximately \$2,250,000. The scheduled closing date is currently December 31, 2021.