Moro Corporation and Subsidiaries

Consolidated Financial Report
December 31, 2015

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RSM US LLP

Independent Auditor's Report

To the Board of Directors
Moro Corporation and Subsidiaries
Wayne, Pennsylvania

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Moro Corporation and its subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, 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 audit 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.

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Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Moro Corporation and its subsidiaries as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Blue Bell, Pennsylvania
June 1, 2016

Moro Corporation and Subsidiaries

Consolidated Balance Sheets
December 31, 2015 and 2014

	2015	2014
Assets		
Current assets:		
Cash	$ 1,706,616	$ 1,405,548
Trade receivables, net	4,655,632	5,021,625
Accounts receivable on contracts (including retentions)	9,920,065	10,124,649
Inventories	3,465,472	3,568,410
Costs and estimated earnings in excess of billings on uncompleted contracts	2,309,548	3,292,051
Prepaid income taxes	19,095	106,817
Prepaid and other current assets	419,224	255,319
Assets of discontinued operations	134,670	237,513
Total current assets	22,630,322	24,011,932
Property and equipment, net	1,602,344	1,974,903
Deferred financing fees, net of accumulated amortization of $38,580 and $7,716 in 2015 and 2014, respectively	115,737	146,601
Other assets	177,871	245,110
Deferred income taxes	309,616	540,062
Goodwill	1,434,305	1,434,305
Assets of discontinued operations	83,109	95,954
Total assets	$ 26,353,304	$ 28,448,867
Liabilities and Stockholders' Equity		
Current liabilities:		
Lines of credit	$ 9,620,256	$ 9,737,549
Current portion of long-term debt	231,007	596,298
Trade accounts payable	4,755,158	6,196,525
Accrued expenses	898,217	864,506
Due to former owners	-	129,430
Billings in excess of costs and estimated earnings on uncompleted contracts	452,835	687,074
Liabilities of discontinued operations	141,724	136,017
Total current liabilities	16,099,197	18,347,399
Long-term liabilities:		
Long-term debt	315,081	268,522
Subordinated debentures	2,775,000	2,775,000
Total long-term liabilities	3,090,081	3,043,522
Commitments and contingencies (Notes 8 and 10)		
Stockholders' equity:		
Preferred stock, $.001 par value, authorized 5,000,000 shares; none issued or outstanding	-	-
Common stock, $.001 par value, authorized 25,000,000 shares; issued and outstanding 6,369,337 shares at December 31, 2015 and 2014	6,370	6,370
Additional paid-in capital	963,205	963,205
Retained earnings	6,194,451	6,088,371
Total stockholders' equity	7,164,026	7,057,946
Total liabilities and stockholders' equity	$ 26,353,304	$ 28,448,867

See notes to consolidated financial statements.

Moro Corporation and Subsidiaries

Consolidated Statements of Operations
Years Ended December 31, 2015 and 2014

	2015	2014
Revenues:		
Construction material sales, net	**$ 20,718,647**	$ 24,309,195
Construction contracts revenue earned	**38,176,365**	47,037,373
	58,895,012	71,346,568
Cost of revenues:		
Cost of goods sold	**14,698,266**	17,953,847
Cost of construction contracts revenue earned	**28,515,515**	38,120,094
	43,213,781	56,073,941
Gross profit	**15,681,231**	15,272,627
Operating expenses	**14,816,295**	15,744,045
Income (loss) from operations	**864,936**	(471,418)
Other income (expense):		
Interest income	**87**	1,951
Interest expense	**(705,655)**	(594,881)
Other	**344,322**	62,256
	(361,246)	(530,674)
Income (loss) from continuing operations before income taxes	**503,690**	(1,002,092)
Provision for (benefit from) income taxes	**230,305**	(399,617)
Income (loss) from continuing operations	**273,385**	(602,475)
Discontinued operations:		
Loss from operations of discontinued division, net of tax expense of $72,175 in 2015 and $199,095 in 2014	**(167,305)**	(64,759)
Net income (loss)	**$ 106,080**	$ (667,234)

See notes to consolidated financial statements.

Moro Corporation and Subsidiaries

Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2015 and 2014

	Common Stock	Additional Paid-In Capital	Retained Earnings	Total
Balance, January 1, 2014	$ 6,370	$ 963,205	$ 6,755,605	$ 7,725,180
Net loss	-	-	(667,234)	(667,234)
Balance, December 31, 2014	6,370	963,205	6,088,371	7,057,946
Net income	-	-	106,080	106,080
Balance, December 31, 2015	**$ 6,370**	**$ 963,205**	**$ 6,194,451**	**$ 7,164,026**

See notes to consolidated financial statements.

Moro Corporation and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Net income (loss)	**$ 106,080**	$ (667,234)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	**633,425**	754,899
Amortization	**54,864**	31,716
Write off of accounts payable	**-**	(442,309)
Provision for bad debts	**106,960**	349,704
Gain on legal settlement	**293,581**	-
Gain (loss) on sale of property and equipment	**1,533**	(413,606)
Deferred income taxes	**230,446**	(207,397)
(Increase) decrease in:		
Trade receivables	**468,836**	(1,102,883)
Accounts receivable on contracts	**(195,957)**	4,145,307
Inventories	**102,938**	605,553
Costs and estimated earnings in excess of billings on uncompleted contracts	**982,503**	(457,212)
Prepaid income taxes	**87,722**	(75,181)
Prepaid and other current assets	**(163,905)**	17,567
Other assets	**43,239**	(206,799)
Increase (decrease) in:		
Trade accounts payable	**(1,435,660)**	(1,323,227)
Due to former owners	**(129,430)**	-
Accrued expenses	**33,711**	(1,072,777)
Billings in excess of costs and estimated earnings on uncompleted contracts	**(234,239)**	(618,010)
Net cash provided by (used in) operating activities	**986,647**	(681,889)
Cash flows from investing activities:		
Purchase of property and equipment	**(258,340)**	(459,849)
Proceeds from disposal of property and equipment	**8,786**	609,993
Net cash (used in) provided by investing activities	**(249,554)**	150,144

(Continued)

Moro Corporation and Subsidiaries

Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2015 and 2014

	2015	2014
Cash flows from financing activities:		
Payment of financing fees	$ -	$ (154,317)
Redemption of subordinated debentures	-	(25,000)
Net repayments on lines of credit	(117,293)	(1,037,665)
Proceeds of long-term debt	994,995	405,422
Principal payments of long-term debt	(1,313,727)	(471,120)
Net cash used in financing activities	(436,025)	(1,282,680)
Net increase (decrease) in cash	301,068	(1,814,425)
Cash, beginning	1,405,548	3,219,973
Cash, ending	$ 1,706,616	$ 1,405,548
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 705,655	$ 669,471
Cash paid for taxes	$ 96,351	$ 139,074

See notes to consolidated financial statements.

Note 1. Nature of Business and Operating Cycle and Summary of Significant Accounting Policies

Nature of business and operating cycle: Moro Corporation (the Company) is engaged in two lines of business – Construction Materials and Construction Contracting.

The Construction Materials line of business commenced on March 31, 2000 when the Company purchased substantially all of the operating assets of J.M. Ahle Co., Inc., a New Jersey corporation (Ahle). Ahle is a fabricator of reinforcing steel and a distributor of construction accessories sold to customers located in metropolitan New York City, throughout New Jersey and in eastern Pennsylvania. This line of business also includes the operations of Whaling City Iron (Whaling), which was purchased April 12, 2004. Whaling is a distributor of reinforcing, structural and miscellaneous steel sold to contractors, end users, and metalworking firms located in the greater Boston, MA and Providence, RI areas. The typical operating cycle for Ahle and Whaling, from receipt of a purchase order to the delivery of goods, ranges from several days to several months.

During December 2013, the Company classified its primary mechanical contracting business trading under the name Rado Enterprises, Inc. (Rado) as discontinued operations (see Note 15).

Effective March 1, 2006, the Company purchased substantially all of the operating assets and assumed certain liabilities of Appolo Heating, Inc. (Appolo). Appolo sells, installs and services heating, ventilating and air conditioning (HVAC) systems to both residential and commercial customers located primarily between the greater Albany and the Northern Westchester County sections of New York State. Effective November 1, 2007, the Company purchased substantially all of the operating assets and assumed certain liabilities of J&J Sheet Metal Works, Inc. (J&J Sheet Metal). J&J Sheet Metal fabricates and installs sheet metal ductwork sold to commercial customers located primarily in the greater Binghamton, New York area. Effective February 1, 2008, the Company purchased substantially all of the operating assets and assumed certain liabilities of J&J Heating and Cooling, Inc. (J&J Heating). J&J Heating sells, installs and services HVAC systems to both residential and commercial customers located primarily in the greater Binghamton, New York area. Effective August 1, 2010, the Company purchased substantially all of the operating assets and assumed certain liabilities of Titchener Iron Works, Inc. (Titchener). Titchener fabricates and installs structural and miscellaneous steel sold to commercial customers located primarily in the greater Binghamton, New York area. Effective September 1, 2010, the Company purchased substantially all of the operating assets and assumed certain liabilities of Rondout Electric, Inc. (Rondout). Rondout is an electrical contractor for public and private sector customers located primarily between the greater Albany and the Northern Westchester County sections of New York State. The typical operating cycle for these businesses, from the award of a contract through completion of the contract, ranges from several days up to a period of approximately two years.

The Company's products/services are used primarily in construction projects such as highways, bridges, industrial and commercial buildings, hospitals, schools, office buildings, residential structures, and other kinds of structures. The Company's customers are mainly contractors and end users.

A summary of the Company's significant accounting policies is as follows:

Principles of consolidation: The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany accounts and transactions are eliminated in consolidation.

Note 1. Nature of Business and Operating Cycle and Summary of Significant Accounting Policies (Continued)

Trade receivables and accounts receivable on contracts: Trade receivables and accounts receivable on contracts are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts, using historical experience applied to an aging of accounts, and considering a customer's financial condition, credit history and current economic conditions. Trade receivables and accounts receivable on contracts are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received.

Concentration of credit risk: The Company maintains substantially all of its depository accounts in a single financial institution. Accounts in the bank are guaranteed by the Federal Depository Insurance Corporation (FDIC) up to $250,000. At various times throughout the year the Company had cash balances that exceeded the FDIC limit. Management believes that the Company places the cash with a high credit quality financial institution.

The Company grants credit, generally without collateral, to its customers, which are public and private companies and state and federal agencies. Management believes that its contract acceptance, billing and collection policies are adequate to minimize potential credit risk.

The Company is exposed to credit loss in the event of nonperformance by its subcontractors. At December 31, 2015, management was not aware of any significant nonperforming subcontractors.

Trade receivables and accounts receivable on contracts are considered to be past due if any portion of the receivable balance is outstanding for more than 90 days unless such balances are in accordance with contract terms. Interest is generally not charged on past due trade receivables.

Inventories: Inventory is recorded at the lower of cost or market using the first-in, first-out (FIFO) method. As of December 31, 2015 and 2014, all inventories consist of raw materials, equipment and parts, which are available for resale.

Property and equipment: Property and equipment is stated at cost. Depreciation is computed using the straight-line method over the following estimated useful lives:

	Years
Machinery and equipment	7
Vehicles	5
Office equipment	5

Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful lives of the improvements.

Maintenance and repairs are charged to expense as incurred. Expenditures for major renewals and improvements that extend the useful lives of the assets are capitalized.

Deferred financing costs: Deferred financing costs arising from the incurrence of long-term debt are being amortized using the effective interest method over the life of the related debt instruments.

Note 1. Nature of Business and Operating Cycle and Summary of Significant Accounting Policies (Continued)

Goodwill: Goodwill represents the cost in excess of the fair value of the net assets acquired in purchase transactions. Goodwill is subject to periodic testing for impairment. The Company performed the qualitative impairment assessment for the years ended December 31, 2015 and 2014 and determined that there was no impairment.

Long-lived assets: Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. An impairment loss would be recognized when estimated undiscounted cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. When required, impairment losses on assets to be held and used are recognized based on the excess of the asset's carrying amount and fair value of the asset and long-lived assets to be disposed of are reported at the lower of carrying amount of fair value less cost to sell.

Revenue recognition: Revenue from product sales is recognized upon shipment to customers, title passing and all obligations of the Company have been satisfied. Provisions for returns are provided for in the same period the related sales are recorded.

Shipping and handling charges to customers are included in net sales and the related shipping and handling costs incurred by the Company are included in cost of goods sold.

Contract revenue and cost recognition: Revenues from construction contracts are recognized on the percentage-of-completion method, measured by the percentage of direct cost incurred to date to the estimated total direct cost for each contract. This method is used because management considers total direct cost to be the best available measure of progress on the contracts. Revenues from time and material contracts are recognized currently as the work is performed.

Contract costs include all direct material, labor, subcontractor and those indirect costs that relate to contract performance. All other costs are expensed as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are first determined. 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 are determined. The Company recognizes claim and contract modification costs as they are incurred and revenues when realization is probable and the amount can be reliably estimated, which is generally at the time a claim or contract modification is accepted by all parties. Because of the inherent uncertainties in estimating costs, it is at least reasonably possible that the estimates used will change in the near term.

The asset, "Costs and estimated earnings in excess of billings on uncompleted contracts," represents revenues recognized in excess of amounts billed. The liability, "Billings in excess of costs and estimated earnings on uncompleted contracts," represents billings in excess of revenues recognized.

Stock-based compensation: Stock-based compensation costs are measured based on the fair value of the equity instrument awarded and recognized over the vesting period of each award.

Use of estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 1. Nature of Business and Operating Cycle and Summary of Significant Accounting Policies (Continued)

Advertising costs: Advertising costs are charged to expense as incurred. Total advertising costs were $425,682 and $283,755 for the years ended December 31, 2015 and 2014, respectively.

Sales taxes: The Company collects sales tax in the various states in which it conducts business. The amounts collected and remitted to the states are excluded from revenues and costs of revenues.

Income taxes: The Company files a Federal consolidated tax return which includes all entities identified in "Nature of Business" section in Note 1. The Company and its subsidiaries' file separate state tax returns for each entity. Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Management evaluated the Company's tax positions and concluded that the Company had taken no uncertain tax positions that require adjustment to the consolidated financial statements.

Subsequent events: The Company has evaluated subsequent events through June 1, 2016, the date the consolidated financial statements were available to be issued.

Note 2. Contract Receivables

Contract receivables consist of the following as of December 31, 2015 and 2014:

	2015	2014
Completed contract and time and material jobs	$ 4,861,868	$ 4,170,739
Contracts in progress	3,484,540	4,597,748
Retainage (due upon completion of milestones and/or contracts)	1,573,657	1,356,162
	$ 9,920,065	$ 10,124,649

Contract receivables are net of an allowance for doubtful accounts of $38,658 and $59,163 as of December 31, 2015 and 2014, respectively.

Note 3. Property and Equipment

Property and equipment consist of the following as of December 31, 2015 and 2014:

	2015	2014
Machinery and equipment	$ 3,876,731	$ 3,821,407
Vehicles	2,335,836	2,371,495
Office equipment	999,035	1,007,796
Leasehold improvements	348,904	348,952
	7,560,506	7,549,650
Less accumulated depreciation	5,958,162	5,574,747
	$ 1,602,344	$ 1,974,903

Note 4. Costs and Estimated Earnings on Uncompleted Contracts

Information regarding uncompleted contracts as of December 31, 2015 and 2014 is as follows:

	2015	2014
Total amount of contracts in process	$ 53,923,523	$ 56,553,536
Costs incurred on uncompleted contracts	$ 34,754,285	$ 33,770,855
Estimated earnings	4,926,154	3,136,667
	39,680,439	36,907,522
Less billings to date	37,823,726	34,302,545
	$ 1,856,713	$ 2,604,977

The above is included in the accompanying consolidated balance sheets under the following captions:

	2015	2014
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 2,309,548	$ 3,292,051
Billings in excess of costs and estimated earnings on uncompleted contracts	(452,835)	(687,074)
	$ 1,856,713	$ 2,604,977

Note 5. Lines of Credit

The Company, through its subsidiaries, maintains equipment and working capital line of credit facilities. As of December 31, 2015, the Company’s maximum availability under its revolving working capital line of credit was $9,989,367, plus certain fees and expenses. The facilities are collateralized by substantially all of the Company’s assets. The credit facilities also require the Company to maintain certain financial covenants.

Note 5. Lines of Credit (Continued)

At December 31, 2015 and 2014, borrowings were $9,620,256 and $9,737,549, respectively, and unused available borrowings were $422,711 at December 31, 2015. Amounts borrowed under the facilities bear interest at the prime rate or LIBOR plus two hundred twenty-five (225) basis points. At December 31, 2015, the interest rate charged by the bank was 2.625 percent. The Company can prepay amounts under this credit facility without penalty or premium but must pay any interest accrued to the date of such prepayment.

Note 6. Long-Term Debt

Long-term debt consists of the following as of December 31, 2015 and 2014:

	2015	2014
Term loans, bank, due October 2019, payable in monthly installments of principal and interest at 4.1%	$ 132,359	$ 167,138
Term loans, banks, due dates ranging from February 2015 through September 2018, payable in monthly installments including interest at rates ranging from 1.44% to 6%	59,038	35,002
Equipment loans, banks, due dates ranging from January 2017 through June 2018, payable in monthly installments including interest at rates ranging from 4% to 4.5%	136,461	156,495
Auto loans, due dates ranging from January 2015 through July 2020, payable in monthly installments including interest at rates ranging from 0.92% to 6%	120,284	175,786
Capital lease obligations, due dates ranging from September 2015 through October 2017, payable in monthly installments	82,698	130,399
Term loan, former owner, due January 2016	15,248	200,000
	546,088	864,820
Less current portion	231,007	596,298
	$ 315,081	$ 268,522

The bank term loans and the equipment loans are secured by machinery and equipment. The auto loans are secured by the vehicles financed.

Maturities of long-term debt are as follows:

Years ending December 31:	
2016	$ 231,007
2017	163,252
2018	85,101
2019	55,079
2020	11,649
	$ 546,088

Note 6. Long-Term Debt (Continued)

Debentures: The Company's outstanding subordinated debentures consist of the following as of December 31, 2015 and 2014:

	2015	2014
8% non-convertible, maturing June 30, 2015	$ 275,000	$ 275,000
8 - 10% non-convertible, maturing various dates in 2016	2,075,000	2,075,000
8% convertible, maturing September 30, 2017	425,000	425,000
	$ 2,775,000	$ 2,775,000

The Company anticipates that the debentures that matured in 2015 or are scheduled to mature in 2016 will be extended. Interest is payable semi-annually.

The conversion price on the convertible debentures is $1.50 per common share. If all convertible debentures were converted, a total of 141,666 common shares would be issued, which the Company has reserved.

Note 7. Stock Option Plan

The Company's Stock Option Plan and Agreement (Plan) permits the grant of share options to its employees for the purpose of advancing the interests of the Company by providing an incentive to the employees through the encouragement of stock ownership in the Company by the employee. During February 2011, the Company granted 500,000 stock options to an employee. The options vest over 4 years, have an exercise price of $1 for 375,000 options and $2 for 125,000 options. The Company calculated the related expense using the Black-Scholes model and deemed the compensation expense amount to be insignificant for 2015 and 2014. Inputs to the Black-Scholes method include an estimated term of 4 years, an interest-free rate of 1.85 percent, volatility of 89 percent, a dividend rate at $0 and a stock price at the date of grant of $0.76. As of December 31, 2015, 375,000 options are exercisable and the unrecognized compensation costs approximate $200,000 (pre-tax). No options were granted during the year ended December 31, 2015.

Note 8. Commitments and Contingencies

The Company is negotiating construction contract change orders and claims with customers in the ordinary course of business. In the opinion of management, it is not possible to determine the outcome of these negotiations and no amounts have been recognized in the consolidated financial statements for these matters.

The Company, as a condition for entering into construction contracts, had outstanding surety bonds of $10,690,607 and $10,740,607 as of December 31, 2015 and 2014, respectively. The President of the Company personally guaranteed a maximum of $3,000,000 of the outstanding surety bonds as of December 31, 2015.

The Company is party to various claims arising in the ordinary course of business. Although the ultimate outcome of the claims is presently not determinable, management does not believe the outcome of these claims will have a material adverse effect on the Company's financial position or results of operations.

Note 9. Preferred Stock

The Company has authorized 5,000,000 shares of Preferred Stock, par value $.001 per share. The preferred stock may be issued in one or more series, and may have special rights, liquidation preferences, and qualifications, limitations, or restrictions as shall be stated in the resolution or resolutions providing for the issue thereof adopted by the Board of Directors of the Company, from time to time. No preferred stock has been issued as of December 31, 2015.

Note 10. Leases

One subsidiary of the Company leases a facility from a real estate entity owned by the President of the Company, who is the Company's principal stockholder. The lease, requiring annual payments of $57,000, expires in April 2020, and provides for a renewal option for an additional five years.

One subsidiary of the Company leases office space partially owned by the President of this subsidiary. The lease, requiring annual payments of $69,853, expires in October 2017.

The Company believes that the lease payments approximate the fair market value lease payments for the property based upon advice from independent professional real estate appraisal firms. The Company has not guaranteed the debt of the real estate entities owned by these related parties. The Company is committed to various other noncancelable operating leases that expire at various dates through 2021.

The minimum commitments under noncancelable leases are:

	Third Party Amount	Related Party Amount	Total
Years ending December 31:			
2016	$ 206,000	$ 166,853	$ 372,853
2017	189,000	155,211	344,211
2018	189,000	97,000	286,000
2019	189,000	97,000	286,000
2020	153,000	44,708	197,708
Thereafter	19,500	-	19,500
	$ 945,500	$ 560,772	$ 1,506,272

Total rent expense was $571,622 and $544,612 for the years ended December 31, 2015 and 2014, respectively, including related party expense of $158,176 and $161,496 for the years ended December 31, 2015 and 2014, respectively.

Note 11. Retirement Plans

The Company's sponsored retirement plans include 401(k) plans and a discretionary retirement savings plan. Union employees are covered by various union multiemployer sponsored retirement plans. Vested benefits vary in accordance with years of credited service. The Company's expense for these plans was $143,911 and $158,680 for the years ended December 31, 2015 and 2014, respectively.

Note 12. Income Taxes

The income tax provision (benefit) consisted of the following:

	2015	2014
Current:		
Federal	$ -	$ -
State	72,032	6,875
	72,032	6,875
Deferred:		
Federal	179,854	(82,357)
State	50,594	(125,040)
	230,448	(207,397)
	$ 302,480	$ (200,522)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities are approximately as follows:

	2015	2014
Deferred tax asset:		
Allowance for doubtful accounts	$ 113,728	$ 118,465
Inventories - 263 A	15,556	14,022
Federal - NOL	491,376	690,040
State - NOL	880,090	923,043
State - bonus depreciation	7,101	14,742
Acquisition costs	-	22,785
Other	123,011	85,931
	1,630,862	1,869,028
Less valuation allowance	(485,000)	(485,000)
	1,145,862	1,384,028
Deferred tax liabilities:		
Depreciation - property	(346,457)	(451,386)
Amortization - goodwill	(348,958)	(311,875)
Other	(140,831)	(80,705)
	(836,246)	(843,966)
	$ 309,616	$ 540,062

The effective income tax rate differs from the expected statutory rate due to certain permanent differences.

The Company files income tax returns in the United States Federal jurisdiction and various state jurisdictions. The United States Federal income tax returns prior to 2012 are closed. State jurisdictions have statutes of limitations that generally range from three to five years. As of December 31, 2015, the Company has Federal and state net operating loss carryforwards totaling approximately $1,406,000 and $9,996,000, respectively. As of December 31, 2015, the Company recorded a valuation allowance of $485,000 for state net operating loss carryforwards to reduce deferred tax assets to net amounts that were more likely than not to be realized.

Note 13. Major Vendors and Customers

Major vendors: For the year ended December 31, 2015, the Company had three major vendors who accounted for approximately 79 percent of total construction materials purchases and one major vendor who accounted for approximately 9 percent of total costs of construction contracts. For the year ended December 31, 2014, the Company had three major vendors who accounted for approximately 69 percent of total construction materials purchases and one major vendor who accounted for approximately 11 percent of total costs of construction contracts. Accounts payable related to these vendors at December 31, 2015 and 2014, amounted to 38 percent and 46 percent of total accounts payable, respectively.

Major customers: For the year ended December 31, 2015, the Company had one major customers who accounted for approximately 16 percent of total construction contracts revenue earned. For the year ended December 31, 2014, the Company had two major customers who accounted for approximately 25 percent of total construction contracts revenue earned. Accounts receivable related to these customers at December 31, 2015 and 2014 amounted to approximately 1 percent and 12 percent of total accounts receivable on contracts, respectively.

Note 14. Related Party Transactions

As described in Note 10 of the consolidated financial statements, the Company has entered into lease agreements with a real estate entity owned by the President of the Company who is the Company's principal stockholder and the President of one of the subsidiaries.

Note 15. Discontinued Operations

In December 2013, the Company classified its primary mechanical contracting division (fabrication of sheet metal HVAC ductwork and process piping and HVAC, piping and plumbing contracting services to customers located in the central and northeastern section of Pennsylvania) trading under the name Rado Enterprises, Inc. (Rado) as discontinued operations. At December 31, 2015 and 2014, Rado was in the process of winding down its business and liquidating its assets.

The operations of Rado for the years ended December 31, 2015 and 2014 are summarized as follows:

	2015	2014
Mechanical contracts revenue earned	$ -	$ 995,306
Costs of mechanical contracts revenue earned	54,509	976,591
Gross profit (loss)	(54,509)	18,715
Operating expenses	23,339	653,439
Loss from operations	(77,848)	(634,724)
Other income	17,282	(769,060)
Income (loss) from operations before income taxes	(95,130)	134,336
Provision for income taxes	72,175	199,095
Net loss	$ (167,305)	$ (64,759)

Note 15. Discontinued Operations (Continued)

Summarized balance sheet data for discontinued operations of Rado as of December 31, 2015 and 2014 are as follows:

	2015	2014
Assets:		
Accounts receivable on contracts (including retentions)	$ 134,670	$ 237,513
Property and equipment, net	83,109	95,954
	$ 217,779	$ 333,467
Liabilities:		
Accounts payable and accrued expenses	$ 141,724	$ 136,017
	$ 141,724	$ 136,017

Note 16. Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*. The standard outlines a single comprehensive model for companies to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers-Deferral of Effective Date*, which defers the effective date of ASU 2014-09 by one year. The new guidance is now effective for fiscal years beginning after December 15, 2018 and interim reporting periods within annual reporting periods beginning after December 15, 2019. The deferral permits early adoption for annual reporting periods beginning after December 15, 2016 and interim periods therein. The Company is currently evaluating the impact that this pronouncement will have on the Company's financial condition, results of operations, cash flows and financial statement disclosures.

In April 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. This standard changes the presentation of debt issuance costs in financial statements. Under the ASU, an entity presents such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. The new guidance is effective for fiscal years beginning after December 15, 2015, and interim periods beginning after December 15, 2016, with early adoption permitted. The adoption of this guidance is not expected to have a material impact upon the Company's financial condition, results of operations, cash flows and financial statement disclosures.

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. The amendments in the ASU require entities that measure inventory using the first-in, first-out or average cost methods to measure inventory at the lower of cost and net realizable value. Net realizable value is defined as estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. This ASU will be effective for the Company for fiscal years beginning after December 15, 2016. The Company does not expect the adoption of ASU 2015-11 to have a material effect on its consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, *Income Taxes: Balance Sheet Classification of Deferred Taxes*. ASU 2015-17 changes the classification of deferred taxes to be a noncurrent asset or liability regardless of the classification of the related asset or liability for financial reporting. The update is effective for fiscal years beginning after December 15, 2017. Early application is permitted at the beginning of an interim or annual reporting period. The Company adopted this guidance during the year ended December 31, 2015.

Note 16. Recent Accounting Pronouncements (Continued)

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* which supersedes FASB ASC Topic 840, *Leases (Topic 840)* and provides principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than twelve months regardless of classification. Leases with a term of twelve months or less will be accounted for similar to existing guidance for operating leases. Lessor accounting is mostly unchanged from the current model, but updated to align with certain changes to the lessee accounting model and the new revenue recognition standard. The ASU is effective for annual reporting periods beginning after December 15, 2019, with early adoption permitted. The impact of adopting ASU on the Organization's financial statements for subsequent periods has not yet been determined.