MORO CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

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CONTENTS

	Pages
INDEPENDENT AUDITORS' REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
Balance Sheets	2
Statements of Operations	3
Statements of Changes in Stockholders' Equity	4
Statements of Cash Flows	5
NOTES TO FINANCIAL STATEMENTS	6 - 17

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

Moro Corporation

We have audited the accompanying consolidated financial statements of Moro Corporation and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 our audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entities' preparation and fair presentation of the consolidated 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 entities' 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Moro Corporation and Subsidiaries as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mayer Hoffman McCann P.C.

Plymouth Meeting, Pennsylvania
April 30, 2019

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MORO CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2018 and 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash	$ 2,239,511	$ 2,010,274
Accounts receivable, net	2,469,455	3,502,421
Contract receivables, net	7,780,182	9,288,651
Inventories	3,657,895	3,575,716
Costs and estimated earnings in excess of billings on uncompleted contracts	2,375,962	1,494,856
Prepaid expenses and taxes	1,015,956	1,158,482
Assets of discontinued operations	483,332	206,402
TOTAL CURRENT ASSETS	20,022,293	21,236,802
PROPERTY AND EQUIPMENT, net of accumulated depreciation and amortization	1,112,620	1,135,031
OTHER ASSETS		
Other assets	-	2,725
Deferred income taxes, net	269,815	223,041
Goodwill	1,502,805	1,447,805
TOTAL OTHER ASSETS	1,772,620	1,673,571
TOTAL ASSETS	$ 22,907,533	$ 24,045,404
LIABILITIES		
CURRENT LIABILITIES		
Note payable - lines of credit	$ 5,338,776	$ 6,540,802
Current portion of long-term debt, net of unamortized deferred financing fees	124,250	97,882
Accounts payable	2,703,472	2,793,663
Accrued expenses and other current liabilities	1,569,939	1,734,101
Income tax payable	387,162	822,883
Billings in excess of costs and estimated earnings on uncompleted contracts	565,265	747,138
Liabilities of discontinued operations	405,295	306,197
TOTAL CURRENT LIABILITIES	11,094,159	13,042,666
LONG-TERM LIABILITIES		
Long-term debt, less current portion above and net of unamortized deferred financing fees	176,613	130,491
Subordinated debentures	2,275,000	2,425,000
TOTAL LONG-TERM LIABILITIES	2,451,613	2,555,491
TOTAL LIABILITIES	13,545,772	15,598,157
STOCKHOLDERS' EQUITY		
Preferred stock, $.001 par value; 5,000,000 shares authorized; -0- shares issued and outstanding	-	-
Common stock, $.001 par value; 25,000,000 shares authorized; 6,369,337 shares issued; 6,119,337 shares outstanding	6,370	6,370
Additional paid-in capital	963,205	963,205
Retained earnings	8,492,186	7,577,672
	9,461,761	8,547,247
Treasury stock, at cost, 250,000 shares	(100,000)	(100,000)
TOTAL STOCKHOLDERS' EQUITY	9,361,761	8,447,247
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 22,907,533	$ 24,045,404

See Notes to Financial Statements

MORO CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31, 2018 and 2017

	2018	% of Earned Revenues	2017	% of Earned Revenues
EARNED REVENUES				
Construction material sales	$ 13,140,956	24.0	$ 16,393,677	27.9
Construction contract revenues earned	41,585,043	76.0	42,294,939	72.1
TOTAL EARNED REVENUES	54,725,999	100.0	58,688,616	100.0
COST OF EARNED REVENUES				
Cost of goods sold	9,670,956	17.7	11,116,265	18.9
Cost of construction contracts	28,621,594	52.3	30,151,335	51.4
TOTAL COST OF EARNED REVENUES	38,292,550	70.0	41,267,600	70.3
GROSS PROFIT	16,433,449	30.0	17,421,016	29.7
GENERAL AND ADMINISTRATIVE EXPENSES	14,262,394	26.1	15,048,067	25.6
INCOME FROM OPERATIONS	2,171,055	3.9	2,372,949	4.1
OTHER INCOME (EXPENSE)				
Interest expense, including $30,864 of amortization of deferred financing fees for each of the years ended December 31, 2018 and 2017	(526,059)	(1.0)	(541,768)	(0.9)
Interest income	259	-	946	-
Gain on disposal of property and equipment	2,142	-	7,241	-
Other income (expense), net	8,402	-	776	-
NET OTHER INCOME (EXPENSE)	(515,256)	(1.0)	(532,805)	(0.9)
INCOME FROM CONTINUING OPERATIONS BEFORE PROVISION FOR INCOME TAX EXPENSE	1,655,799	2.9	1,840,144	3.2
PROVISION FOR INCOME TAX EXPENSE	400,945	0.7	459,766	0.8
INCOME FROM CONTINUING OPERATIONS	1,254,854	2.2	1,380,378	2.4
DISCONTINUED OPERATIONS				
Loss from operations of discontinued division, net of tax benefit of $90,470 and $226,641 for the years ended December 31, 2018 and 2017, respectively.	(340,340)	(0.6)	(469,427)	(0.8)
NET INCOME	$ 914,514	1.6	$ 910,951	1.6

See Notes to Financial Statements

MORO CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2018 and 2017

	Common Stock		Additional	Retained	Treasury Stock		Total Stockholders'
	Shares	Amount	Paid-in Capital	Earnings	Shares	Amount	Equity
Balances, December 31, 2016	6,369,337	$ 6,370	$ 963,205	$ 6,666,721	250,000	$ (100,000)	$ 7,536,296
Net income	-	-	-	910,951	-	-	910,951
Balances, December 31, 2017	6,369,337	6,370	963,205	7,577,672	250,000	(100,000)	8,447,247
Net income	-	-	-	914,514	-	-	914,514
Balances, December 31, 2018	6,369,337	$ 6,370	$ 963,205	$ 8,492,186	250,000	$ (100,000)	$ 9,361,761

See Notes to Financial Statements

MORO CORPORATION AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 914,514	$ 910,951
Adjustments to reconcile net income to net cash flows from operating activities		
Depreciation and amortization	465,695	542,429
Amortization of deferred financing fees	30,864	30,864
Bad debt expense	95,325	210,051
Withdrawal liability expense	276,858	434,677
Deferred income taxes	(46,774)	(174,878)
Gain on disposal of property and equipment	(2,142)	(7,241)
Loss on abandonment of assets from discontinued operations	-	76,293
Decrease (increase) in operating assets		
Accounts receivable, net	1,032,083	869,496
Contract receivables, net	1,414,027	(959,094)
Inventories	(82,179)	(85,156)
Costs and estimated earnings in excess of billings on uncompleted contracts	(881,106)	248,640
Prepaid expenses and taxes	142,526	(545,867)
Increase (decrease) in operating liabilities		
Accounts payable	(90,191)	(717,586)
Accrued expenses and other current liabilities	(441,020)	268,786
Income taxes payable	(435,721)	552,327
Net assets from discontinued operations	(177,832)	46,004
Billings in excess of costs and estimated earnings on uncompleted contracts	(181,873)	94,706
Total adjustments	1,118,540	884,451
NET CASH FLOWS FROM OPERATING ACTIVITIES	2,033,054	1,795,402
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(302,643)	(251,984)
Proceeds from disposal of property and equipment	24,913	44,297
Decrease in other assets	2,725	40,798
Increase in goodwill	(37,500)	(6,000)
NET CASH FLOWS FROM INVESTING ACTIVITIES	(312,505)	(172,889)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net repayments under note payable - lines of credit	(1,202,026)	(1,740,554)
Repayment of withdrawal liability included in liabilities from discontinued operations	-	(289,785)
Repayments of long-term debt	(139,286)	(200,654)
Repayments of subordinated debentures	(150,000)	(50,000)
NET CASH FLOWS FROM FINANCING ACTIVITIES	(1,491,312)	(2,280,993)
NET INCREASE (DECREASE) IN CASH	229,237	(658,480)
CASH, BEGINNING OF YEAR	2,010,274	2,668,754
CASH, END OF YEAR	$ 2,239,511	$ 2,010,274

See Notes to Financial Statements

(1) Summary of significant accounting policies

Nature of business - The operations of Moro Corporation ("Moro") and its wholly-owned subsidiaries (collectively referred to as the "Company") consist primarily of the fabrication and sale of construction materials and construction contracting.

Principles of consolidation - The consolidated financial statements include the accounts of Moro and its wholly-owned subsidiaries, Appolo Heating, Inc. ("Appolo"), J&J Sheet Metal Works, Inc. ("J&J"), Titchener Iron Works, Inc. ("Titchener"), Rondout Electric, Inc. ("Rondout"), J.M. Ahle Co., Inc. ("Ahle") and its unincorporated division Whaling City Iron ("Whaling"), and Rado Enterprises, Inc. ("Rado"). All material intercompany accounts and transactions are eliminated.

Appolo's operations consist of sales, installation, and service of heating, ventilation, and air conditioning systems and related piping and sheet metal work, primarily in the greater Albany and Northern Westchester County sections of New York State.

J&J's operations consist of fabrication and installation of sheet metal ductwork to commercial customers primarily in the greater Binghamton, New York area.

Titchener's operations consist of fabrication and installation of structural and miscellaneous steel to commercial customers primarily in the greater Binghamton, New York area.

Rondout's operations consist of electrical contracting services for public and private sector customers primarily in the greater Albany and Northern Westchester County sections of New York State.

Ahle's operations consist of fabrication of reinforced steel and distribution of construction accessories in the Metropolitan New York City, New Jersey, and Eastern Pennsylvania areas. Ahle's operations include the operations of Whaling, whose operations consist of distribution of reinforcing, structural, and miscellaneous steel in the greater Boston, MA and Providence, RI areas.

During 2013, the Company classified the operations of Rado as discontinued operations and as of December 31, 2018, the liquidation of Rado is nearly complete. See Note 15.

The Company extends credit to its customers, the majority of which are located in Central/Northern New York State, and do not require collateral. Appolo, J&J, and Rondout, as a condition for entering into some of their construction contracts, had outstanding surety bonds as of December 31, 2018 and 2017.

Use of estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Management's estimates and assumptions include, but are not limited to, estimates of contract revenue, costs and gross profit, collectability of contract and accounts receivable, the value of goodwill, and salvage values and estimated useful lives of property and equipment. Management's estimates and assumptions are derived from, and are continually evaluated based upon, available information, judgment, and experience. Because of inherent uncertainties in estimating costs on construction contracts, it is at least reasonably possible that the estimates used will change within the near term.

(1) Summary of significant accounting policies (continued)

Operating cycle - Assets and liabilities related to long-term contracts are included in current assets and current liabilities in the accompanying consolidated balance sheets as they will be liquidated in the normal course of contract completion, although this may require more than one year.

Revenues and cost recognition - Revenues from fixed-price construction contracts are recognized on the percentage-of-completion method, measured by percentage of costs incurred to date to estimated total costs for each contract. This method is used because management considers expended costs to be the best available measure of progress on these contracts.

Contract costs include all direct labor, material, subcontract costs, and other direct costs, and allocated indirect costs related to contract performance. General and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in estimated job profitability, resulting from job performance, job conditions, contract penalty provisions, claims, change orders, and settlements are accounted for as changes in estimates in the current period. Claims are included in revenues when realization is probable and can be reliably estimated.

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.

Revenues from time and material contracts and construction material sales are recognized using the accrual method of accounting and when it is realized or realizable and earned. This occurs when there is persuasive evidence of an arrangement, delivery has occurred, sales price is fixed and determinable, and collection is reasonably assured.

Revenues on service contracts are deferred and credited to contract revenues on the straight-line basis over the life of the contracts. The contracts are generally a one-year duration.

The costs of shipping and handling are recognized at the time the products are shipped or delivered to the customer and are included in cost of earned revenues in the consolidated statements of operations.

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.

Cash - The Company considers cash on hand and bank checking, savings, and money market accounts to be cash.

Concentration of credit risk - At times throughout the year, the Company may maintain certain bank accounts in excess of the FDIC insured limit. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk in these accounts.

As of December 31, 2017, approximately 20% of the Company's contract receivables were with two customers. During the year ended December 31, 2017, approximately 10% of total construction contract revenues earned were from one customer. There were no customers with contract receivables or with construction contract revenues greater than ten percent of total contract receivables or total construction contract revenues, respectively, as of and during the year ended December 31, 2018.

(1) Summary of significant accounting policies (continued)

Concentration of credit risk (continued) - During the year ended December 31, 2017, approximately 10% of total construction material sales were from one customer. There were no customers with revenues greater than ten percent of total construction materials sales during the year ended December 31, 2018. As of December 31, 2018 and 2017, approximately 21% and 16%, respectively, of the Company's accounts receivable were with one customer.

Contract and accounts receivable - Contract and accounts receivable are carried at cost, less an allowance for losses. The Company does not accrue finance or interest charges. On a periodic basis, the Company evaluates its contract and accounts receivable and establishes an allowance for losses, based on the history of past write-offs and collections and current credit conditions. A receivable is written off when it is determined that all collection efforts have been exhausted. All nonpublic funded projects are collateralized by normal contractor lien rights against the property. As of December 31, 2018 and 2017, the allowance for losses totaled $113,420 and $17,775, respectively.

Inventories - Inventories are stated at the lower of cost or net realizable value using the first-in, first-out method. Cost is determined by using average cost. Market is based upon realizable value, less allowance for selling and distribution expenses and normal gross profit. Maintenance, operating, and other supplies are expensed as incurred. As of December 31, 2018 and 2017, all inventories consist of raw materials, equipment, and parts which are available-for-sale.

Property and equipment - The cost of property and equipment is depreciated over the estimated useful lives of the related assets. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful lives of the assets. Depreciation and amortization are computed on the straight-line method for financial reporting purposes.

Maintenance and repairs are charged to operations when incurred. Betterments and renewals are capitalized. When property and equipment are sold or otherwise disposed of, the asset accounts and related accumulated depreciation or amortization accounts are relieved, and any gain or loss is included in operations.

The estimated useful lives of property and equipment are:

Assets	Estimated Useful Lives
Machinery and equipment	7 Years
Vehicles	5 Years
Office equipment	5 Years

Goodwill - Goodwill represents the excess of cost over fair value of net assets acquired through Moro's acquisition of its subsidiaries. The Company accounts for goodwill in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 350, "Goodwill and Other Intangible Assets." Under ASC Topic 350, goodwill is not amortized but is reviewed at least annually for impairment based upon the fair value of the underlying cash flows. As of December 31, 2018 and 2017, the Company completed its annual impairment testing and no impairment adjustment was required in these consolidated financial statements.

(1) Summary of significant accounting policies (continued)

Income taxes - The Company accounts for income taxes using the liability method. Under the liability method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year-end based on enacted tax laws and statutory tax rates applicable to the periods in which the 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. Income tax expense is the tax payable for the year and the change during the year in deferred tax assets and liabilities.

The Company accounts for the effect of any uncertain tax positions using FASB ASC Topic 740-10, "Income Taxes," based on a "more likely than not" threshold applied to the recognition of the tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a "cumulative probability assessment" that aggregates the estimated tax liability for all uncertain tax positions. Interest and penalties assessed, if any, are accrued as income tax expense. The Company has determined that it has no tax positions resulting in an uncertainty requiring recognition.

Advertising expense - The Company expenses advertising costs as they are incurred. Advertising expense for the years ended December 31, 2018 and 2017, was approximately $556,000 and $532,000, respectively.

Recent accounting pronouncements - In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)," that will supersede most current revenue recognition guidance, including industry-specific guidance. The core principle of the new guidance is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. Additionally, the guidance requires disclosures related to the nature, amount, timing, and uncertainty of revenue that is recognized. The amendments are required to be adopted for the Company's December 31, 2019 consolidated financial statements. Early adoption is permitted. Transition to the new guidance may be done using either a full or modified retrospective method. The Company is currently evaluating the full effect that the adoption of this standard will have on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)," to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the consolidated balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 creates a new ASC Topic 842, "Leases," to replace the previous ASC Topic 840, "Leases." ASU 2016-02 affects both lessees and lessors, although for the latter the provisions are similar to the previous model, but updated to align with certain changes to the lessee model and also the new revenue recognition provisions contained in ASU 2014-09. For nonpublic entities, the amendments in this ASU are effective for fiscal years beginning after December 15, 2019, and interim reporting periods within fiscal years beginning after December 15, 2020. Early adoption is permitted. The Company is currently evaluating the impact that the adoption of this guidance will have on the Company's consolidated financial statements.

(2) Contract receivables, net

Contract receivables, net consist of the following as of December 31, 2018 and 2017:

	2018	2017
Billed		
Completed contracts and time and materials jobs	$ 3,813,870	$ 3,984,163
Contracts in progress	2,736,980	3,781,453
Retainage	1,271,448	1,540,810
	7,822,298	9,306,426
Less allowance for losses	42,116	17,775
	$ 7,780,182	$ 9,288,651

(3) Costs and estimated earnings on uncompleted contracts

Costs and estimated earnings on uncompleted contracts consist of the following as of December 31, 2018 and 2017:

	2018	2017
Costs incurred on uncompleted contracts	$ 11,034,134	$ 13,020,147
Estimated earnings	2,929,155	2,472,470
	13,963,289	15,492,617
Less billed to date	12,152,592	14,744,899
	$ 1,810,697	$ 747,718

Included in the accompanying consolidated balance sheets under the following captions:

	2018	2017
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 2,375,962	$ 1,494,856
Billings in excess of costs and estimated earnings on uncompleted contracts	(565,265)	(747,138)
	$ 1,810,697	$ 747,718

(4) Property and equipment

The following is a summary of property and equipment, at cost, less accumulated depreciation and amortization:

	2018	2017
Cost		
Machinery and equipment	$ 3,671,450	$ 3,607,937
Vehicles	2,111,739	2,277,298
Office equipment	1,132,287	990,301
Leasehold improvements	187,269	242,161
Total cost	7,102,745	7,117,697
Accumulated depreciation and amortization	(5,990,125)	(5,982,666)
Net property and equipment	$ 1,112,620	$ 1,135,031

(4) Property and equipment (continued)

Depreciation and amortization expenses for the years ended December 31, 2018 and 2017, were $465,695 and $542,429, respectively.

(5) Note payable - lines of credit

The Company, through its subsidiaries, maintains equipment and working capital line of credit facilities with a financial institution. As of December 31, 2018, the Company's maximum availability under these line of credit facilities was $9,566,000, plus certain fees and expenses. These facilities are collateralized by substantially all of the Company's assets as well as a guarantee of a stockholder/officer of the Company. The credit facilities also require the Company to maintain certain financial covenants. In December 2018, the bank issued a waiver on the facilities as a result of the Company making repayments of the subordinated debentures during the years ended December 31, 2018 and 2017, which are not permitted under the terms of the facilities. These lines of credit are subject to renewal on September 30, 2019, and have historically been renewed on an annual basis.

As of December 31, 2018 and 2017, borrowings under these line of credit facilities were $5,338,776 and $6,540,802, respectively. These borrowings bear interest at the prime rate or LIBOR plus two-hundred twenty-five (225) basis points (effective rate of 4.90% as of December 31, 2018). The Company may prepay amounts under the credit facility without penalty or premium but must pay any interest accrued to the date of such prepayment.

(6) Long-term debt, net of unamortized deferred financing fees

Long-term debt, net of unamortized deferred financing fees, consists of the following as of December 31, 2018 and 2017:

	2018	2017
Notes payable to various banks, due in monthly installments totaling approximately $8,000, including interest at various rates up to 6.49%, expiring at various dates through October 2023 and secured by vehicles and equipment.	$ 115,085	$ 214,555
Notes payable to various finance companies, due in monthly installments totaling approximately $3,800, including interest at various rates up to 6.10%, expiring at various dates through September 2023 and secured by vehicles and equipment.	140,173	67,827
Note payable to an individual, due in quarterly installments of $6,250, interest free, through November 2021.	68,750	-
Total long-term debt	324,008	282,382
Unamortized deferred financing fees, amortization of $2,552 per month through September 2019.	(23,145)	(54,009)
	300,863	228,373
Less current portion, net	124,250	97,882
Long-term portion, net	$ 176,613	$ 130,491

(6) Long-term debt, net of unamortized deferred financing fees (continued)

Annual maturities of long-term debt and annual amortization of deferred financing fees are as follows:

Years Ending December 31,	Annual Maturities	Amortization of Financing Fees
2019	$ 147,395	$ 23,145
2020	90,552	-
2021	64,474	-
2022	14,803	-
2023	6,784	-
	$ 324,008	$ 23,145

(7) Union pension withdrawal liabilities

In 2017, Rado was assessed a withdrawal liability from a multiemployer pension plan for a local union to which it had contributed on behalf of certain union employees. The amount of the original assessment was $897,315 and called for thirteen quarterly installment payments of $72,446 from April 2017 through March 2020, with a final payment of $41,889 due in June 2020. The Company commenced an arbitration proceeding against the local fund in this matter, based on its rights under the Multiemployer Pension Plan Amendments Act of 1980 ("MPPAA") while making the installment payments in order to be in compliance with the MPPAA. In 2018, the arbitration proceedings were concluded and the total assessment was reduced to $507,122. The amounts recorded to discontinued operations for this assessment for the years ended December 31, 2018 and 2017, was $72,446 and $434,677, respectively.

In addition, during the year ended December 31, 2018, Rado was assessed a withdrawal liability from a national multiemployer pension plan totaling $276,858. As of December 31, 2018, the Company accrued the full amount of the assessment as of December 31, 2018, which was paid in January 2019.

(8) Subordinated debentures

The Company's outstanding subordinated debentures consist of the following as of December 31, 2018 and 2017:

	2018	2017
8% nonconvertible, maturing December 31, 2020	$ 275,000	$ 275,000
10% nonconvertible, maturing December 30, 2020	800,000	925,000
8% convertible, maturing December 30, 2020	400,000	425,000
8% nonconvertible, maturing December 31, 2020	700,000	700,000
8% nonconvertible, maturing December 31, 2020	100,000	100,000
	$ 2,275,000	$ 2,425,000

Interest on these subordinated debentures is paid 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.

(9) Stock option plan

The Company's Stock Option Plan and Agreement (the "Plan") permits the granting of stock options to its employees for the purpose of advancing the interests of the Company by providing an incentive to the employee through the encouragement of stock ownership in the Company by the employee.

During 2011, the Company granted 500,000 stock options to an employee. The options vested in equal amounts over four (4) years and 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 Option Pricing model and deemed the compensation expense amount to be insignificant. As of December 31, 2018, 250,000 options are available to be exercised and the unrecognized compensation costs approximate $130,000 (pre-tax).

During 2018, the Company granted 550,000 stock options to an employee. The options vest in equal amounts over four (4) years and have an exercise price of $1.10. The Company calculated the related expense using the Black-Scholes Option Pricing model and deemed the compensation expense amount to be insignificant. As of December 31, 2018, none of these options were vested and none were available to be exercised.

No options were granted during the year ended December 31, 2017.

(10) Related-party transactions

Variable interest entities - FASB ASC Topic 810-10, "Consolidations," provides a framework for identifying variable interest entities ("VIEs") and determining when a company should include the assets, liabilities, noncontrolling interests, and results of activities of a VIE in its financial statements. In general, a VIE is a corporation, partnership, limited liability company, trust, or any other legal structure used to conduct activities or hold assets that: (1) has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support, (2) has a group of equity owners that lack the ability to direct the activities of the entity that most significantly impact its economic performance through voting or similar rights, or (3) has a group of equity owners that lack the obligation to absorb losses of the entity or the right to receive returns of the entity.

An entity with a variable interest in a VIE should consolidate the VIE if that entity has the power to direct the activities that most significantly impact the economic performance of the VIE and the obligation to absorb losses or the right to receive benefits of the VIE that could be significant to the VIE. The entity that consolidates the VIE is called the primary beneficiary. The primary beneficiary can be an entity without voting control of the VIE. Upon consolidation, the primary beneficiary generally must initially record all of the VIE's assets, liabilities, and noncontrolling interests under the guidance on business combinations.

The Company has VIE relationships with several other entities. Management has determined that the Company is not the primary beneficiary of these entities. The Company is not subject to any risk of loss related to these entities.

Rent expense - The Company leases office space and land from entities related through common ownership. See Note 12.

(11) Income taxes

The provision for income tax expense, including the provision for income tax expense (benefit) from discontinued operations, for the year ended December 31, 2018 and 2017, consists of the following:

	2018	2017
Current portion		
Federal	$ 196,338	$ -
State	67,363	58,247
	263,701	58,247
Deferred		
Federal	(29,749)	237,434
State	76,523	(62,556)
	46,774	174,878
Total income tax expense	$ 310,475	$ 233,125

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. As of December 31, 2018 and 2017, the significant components of the Company's deferred tax assets and liabilities are as follows:

	2018	2017
Deferred tax asset:		
Allowance for losses	$ 60,568	$ 37,333
Inventories - 263A	9,599	9,443
Service contracts	151,837	159,215
State - NOL	394,944	326,971
State - bonus depreciation	12,963	4,413
Other	65,331	67,538
	695,242	604,913
Deferred tax liabilities:		
Depreciation - property	(113,861)	(92,016)
Amortization - goodwill	(250,123)	(221,222)
Other	(61,443)	(68,634)
	(425,427)	(381,872)
Deferred income taxes, net	$ 269,815	$ 223,041

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

As of December 31, 2018, the Company has available Federal and State net operating loss carryforwards of approximately $0 and $5,100,000, respectively, which expire at various dates through December 31, 2030.

(12) Commitments and contingencies

The Company leases facilities from entities owned by the principal stockholder of the Company under monthly leases and lease commitments extending past 2018. These lease commitments require annual payments of approximately $9,000 and expire at various dates through July 2020.

The Company also leases a facility partially owned by the president of J&J on a month-to-month basis with lease payments approximating $6,000 per month.

In addition, the Company leases facilities, vehicles, and equipment from unrelated parties under various operating lease agreements. These leases require annual payments totaling approximately $47,000 and expire at various dates through October 2022.

The minimum commitments under noncancellable leases are:

Years Ending December 31,	Related Parties	Unrelated Third Parties	Total
2019	$ 103,000	$ 542,000	$ 645,000
2020	48,000	368,000	416,000
2021	-	158,000	158,000
2022	-	46,000	46,000
	$ 151,000	$ 1,114,000	$ 1,265,000

Rent expense totaled approximately $717,000 and $710,000 for the years ended December 31, 2018 and 2017, respectively.

The Company may be involved in various legal actions from time to time arising in the normal course of business. In the opinion of management, there are no matters outstanding that would have a material adverse effect on the financial position or results of operations of the Company.

(13) Backlog

The following schedule shows a reconciliation of backlog representing signed contracts in existence as of December 31, 2018:

Balance - December 31, 2017	$ 10,974,520
New contracts and contract adjustments, 2018	45,372,907
	56,347,427
Less contract revenue earned, 2018	41,585,043
Balance - December 31, 2018	$ 14,762,384

(14) Employee benefit plans

Each subsidiary of the Company sponsors a 401(k) profit sharing plan for its employees who are not subject to collective bargaining agreements and who meet specified age and service requirements. The plans provide for participants to make contributions which may be matched by each subsidiary of the Company at its discretion. Additionally, each subsidiary of the Company can make profit sharing contributions at its discretion, not to exceed the maximum allowable by the Internal Revenue Code. Total contributions made to these plans were approximately $138,000 and $171,000 for the years ended December 31, 2018 and 2017, respectively.

(15) Discontinued operations

In December 2013, the Company classified Rado as discontinued operations. As of December 31, 2018, Rado was in the process of winding down its business and liquidating its assets.

The operations of Rado for the years ended December 31, 2018 and 2017, are summarized as follows:

	2018	2017
Earned revenues	$ -	$ -
Cost of earned revenues	-	-
Gross loss	-	-
Operating expenses	8,997	158,084
Loss from operations	(8,997)	(158,084)
Other expense	421,813	498,969
Loss from operations before income taxes	(430,810)	(657,053)
Provision for income tax benefit	(90,470)	(187,626)
Net loss	$ (340,340)	$ (469,427)

Summarized balance sheet data for the discontinued operations of Rado as of December 31, 2018 and 2017, is as follows:

	2018	2017
Assets:		
Cash and cash equivalents	$ 276,930	$ -
Contracts receivable (including retention), net	206,402	206,402
	$ 483,332	$ 206,402
Liabilities:		
Accounts payable and accrued expenses	$ 128,437	$ 161,305
Withdrawal liability payable	276,858	144,892
	$ 405,295	$ 306,197

(16) Cash flow disclosures

The following is a summary of supplemental cash flow information for the years ended December 31, 2018 and 2017:

Cash paid during the year for:	2018	2017
Interest	$ 499,536	$ 615,994
Income taxes	$ 447,595	$ 390,000

The following is a summary of noncash investing and financing activities:

During the year ended December 31, 2018, the Company acquired the customer list and assets of a third-party business. As part of the acquisition, the Company entered into a note payable to an individual in the amount of $75,000, $17,500 of which financed the acquisition of goodwill and $57,500 financed the acquisition of equipment.

During the year ended December 31, 2018, the Company disposed of equipment costing $481,007 with accumulated depreciation of $458,236. During the year ended December 31, 2017, the Company acquired property and equipment costing $163,412 by incurring long-term debt in the same amount.

During the year ended December 31, 2017, the Company disposed of equipment costing $570,470 with accumulated depreciation of $533,414. During the year ended December 31, 2017, the Company acquired property and equipment costing $39,325 by incurring long-term debt in the same amount.

During the year ended December 31, 2017, Rado abandoned leasehold improvements with a net book value of $76,293 that were classified as long-term assets from discontinued operations.

(17) Subsequent events

The Company has evaluated subsequent events through April 30, 2019, which is the date the consolidated financial statements were available to be issued.

In March 2019, the Company received a workers' compensation self-insurance assessment of approximately $123,000 related to years prior to December 31, 2018. The Company is expected to begin making payments on this assessment in June 2019 and has not recorded this amount in the consolidated 2018 financial statements.

In February 2019, the Company was awarded a settlement in the amount of $150,000 from a former employee. The Company has not recorded this amount in the consolidated 2018 financial statements.