YOUR FIRE AND SECURITY SOLUTION

AFA PROTECTIVE SYSTEMS, INC.
2019 ANNUAL REPORT

Originally founded in 1873, AFA has provided uninterrupted central station alarm service to its customers for longer than anyone in the industry.

Corporate Profile

AFA's Central Station service consists of a detecting system installed in subscribers' premises and frequently owned, serviced, monitored, inspected and maintained by AFA. The vast majority of signals from subscribers' premises are transmitted to AFA's Central Stations via subscribers' telephone lines, Digital Cellular networks or over the Internet. AFA presently operates redundant UL Listed and FM Approved state-of-the-art computerized Central Stations servicing the United States. Our Central Stations operate twenty-four hours a day, seven days a week and monitor AFA subscriber locations, as well as locations for customers of approximately 94 Alarm Dealers who do not have their own central stations. Upon receipt of an alarm signal, AFA personnel take the appropriate action, which may include alerting Fire or Police Departments, verifying an alarm condition, notifying its subscribers, and dispatching AFA personnel or other response agents to the protected premises.

The Primary Scope of AFA's Services Includes:

- Fire detection systems;
- Burglar and vandalism detection;
- Monitoring of subscriber-owned systems;
- Access control systems;
- Smoke detection;
- Installation, maintenance and testing of high-rise life safety systems;
- Emergency communication systems;
- Sprinkler alarm supervision;
- Elevator alarm supervision;
- Video surveillance systems;
- Remote video surveillance;
- Video verification of alarm;
- Industrial process supervision, including temperature;
- Sump pump and air conditioning supervision;
- Flood detection;
- Boiler supervision;
- Remote access to and control of alarm system;
- Investigator response.

The majority of the Company's revenues comes from the sale and installation of specialized alarm systems, including sophisticated high-rise fire and life safety systems which the Company designs and installs to meet proliferating fire and life safety codes. The Company is also a provider of video surveillance systems and intrusion related services whereby customers can remotely view and control their own systems.

AFA does not manufacture detecting equipment. Technology continues to change rapidly and new equipment is so readily available that AFA can better meet subscribers' needs by selecting quality products available from the industry's top suppliers.

AFA's core revenues include the recurring annual service fees paid by customers for Central Station monitoring, inspection and maintenance services.

Letter To Our Stockholders

Just a short time ago I was looking forward to writing a positive review of 2019 and my continued optimism for further growth in 2020. This has now been overshadowed by the Coronavirus (COVID-19) pandemic facing not only our business, but the nation and the entire world we live in. Thus, we must first give pause to hope our leaders can promptly defeat this virus and mitigate the illness and loss of life it is causing and restore our way of life, including the business environment we rely on.

Moving on to my review of last year, 2019 met our lofty expectations and was indeed an overall excellent year for the Company. Sticking to our plan and riding the momentum created during the previous few years, our results continued to improve and we experienced our best year in over a decade. Among our achievements were a significant improvement in earnings and an all-time high year-end amount of recurring revenue.

Net income in 2019 amounted to $2,201,000 or $13.61 per share, as compared to $1,101,000 or $6.81 per share in 2018. Cash flow from operating activities in 2019 amounted to $3,967,000 or $24.52 per share, as compared to $600,000 or $3.71 per share in 2018. Overall revenues rose from the prior year: $83,088,000 in 2019 as compared to $77,742,000 in 2018.

Our most notable achievement was our highest ever year-to-year growth in the Company's recurring annual revenue base. Propelled in large part by the addition of services at JFK airport into the growing niche of our airport portfolio, we ended 2019 at yet another historical Company high of $35,584,000, representing a growth in this metric of $2,754,000, or 8.4%. This was achieved despite a slightly higher than usual rate of attrition. Due to a few sizeable losses at some branches, in 2019 we saw our gross attrition rate rise to 7.8%. It is worth noting however, that even at this rate our performance in controlling attrition was still far better than the reported industry average which was approximately 50% higher.

The jump in earnings during the year was fueled by three distinct factors. First, the addition of the JFK contract in March proved to be a complete success, both for the Company and the airport. Second, the Company's net expense related to medical benefits was markedly reduced to a level far below what we had experienced in recent years. This was the result of our adjusting the employee cost sharing two years ago and a much lower claim experience during the year, possibly aided by certain wellness initiatives instituted at that time. Finally, we were successful in improving what we have been stressing in recent years, that of the need to increase our gross margins. In 2019, we achieved that goal as our gross margins rose by a full one and a half percentage points as compared to the prior year. This was attributable to completing most of our lower margin work in prior years so that most work performed in 2019 was on more recent, higher margin sales.

Total sales bookings increased by 8% during 2019, to $38,498,000. The best news in this regard is that this increase in bookings was entirely based upon higher sales of recurring revenues, which more than doubled as compared with the prior year. Conversely, for the first time in many years, our Company-wide backlog decreased about 10%, ending at $14,725,000. This reduction was attributable to our operations departments keeping pace with installations, as well as a larger portion of newer non-installation sales, such as inspection contracts, which are made operational immediately. Still, at current levels the backlog is healthy and provides a good base going forward.

Our National Accounts Division had another solid year. It achieved an across-the-board 10% growth in new sales, including the addition of new accounts and securing expansions and/or extensions with existing accounts. In addition, for the second year in a row this Division was able to retain all of its existing chain accounts. Thus, what I stated last year at this time is confirmed: that our brand and ability to perform is well respected in the retail market.

Branch level performances were consistent with their recent pasts. Once again, the flagship New York branch continued to lead the way, posting increases in total sales, earnings, and year-end recurring revenue. The branch also was able to contain its gross attrition to 5.5%, well below the Company and industry norms.

The New England branch had mixed results. Positives included a significant increase in gross margins, as well as maintaining its levels of earnings and recurring revenue base. However, a falloff in new sales and a rise in attrition prevented the branch from reaching its full potential.

Results in our New Jersey and Mid-Atlantic branches were steady overall as compared with the prior year, but individual components were mixed. The Northern New Jersey branch had a rebound in new sales, up by 30% and was able to increase its backlog. However, its gross margins were lower and profitability decreased about 15%. The Mt. Laurel branch had a solid year highlighted by a 15% increase in new sales and a 50% increase in earnings. Our Mid-Atlantic office improved its recurring revenue base by almost 10% and backlog by 5%, but new sales fell by 20%.

Once again, our Southern branches disappointed. In Georgia, the new leadership team installed in 2018 failed to produce the hoped for turnaround. New sales and backlog fell over 25% from the prior year and earnings continued to lag. The branch also experienced double its normal attrition. In response, we decided to scale the branch back and by the end of 2019 we had eliminated all unproductive management and sales personnel. Rather than start over again with yet another new management/sales team, we restructured the branch with our lead operations and sales personnel in charge and are now having them focus primarily on restoring branch earnings. We believe their seasoned experience, coupled with our core recurring revenue base in the region and the reduction in overhead, will provide immediate help.

Our decision to split our Florida operation into two distinct branches appears to show promise. Although it did not result in immediate earnings improvement in 2019, new sales in the branches rose by 80% and their combined recurring revenue base remained steady despite a large attrition rate caused by some significant losses. We are particularly optimistic about this region because the State of Florida recently passed legislation requiring thousands of new code-driven fire alarm communications systems be installed in the immediate future. Our two branches in the area are ready and able to meet this pent-up demand, which if realized should be the catalyst to finally propel these branches into meaningful contributors.

Moving forward, we are looking to expand upon areas and niches where we have been most successful. Traditional fire alarm services, which have always been our mainstay and where we excel best, remain at the core of our business. But we are cognizant of niche areas that we have been successful with as of late. Our National Accounts Division falls into this category and has grown exponentially during its 20 year existence. The more recent niche with airports has proved to be a great source for growth. Now armed with a cadre of successful experiences with some of the Nation’s most prominent airports, we are optimistic that we will soon parlay those experiences into opportunities at other major airports.

As of this writing, predicting our performance in 2020 is virtually impossible because of the uncertainty caused by the COVID-19 situation. Absent that factor, we were expecting 2020 to be a year of continued improvement and growth throughout the Company. Indeed, up until the middle of March the Company was on that path with good sales numbers, a lower attrition rate, and solid earnings. Now, just like the rest of the country, we are dealing internally with the disruption of social distancing. In addition, we face an uncertain immediate horizon with respect to new sales and collections because of the obvious difficulty in making in-person customer contact, as well as some customers’ own resulting financial difficulties from their interrupted operations. Fortunately, we are fortified with our strong recurring revenue base and the fact that much of that base is for essential services that customers need in order to operate their own businesses and buildings. The same holds true for potential new sales; especially for fire-related systems which are code driven and hence required.

Over our 147-year history we have operated in the face of wars, strikes, legal challenges and economic turndowns. Each time the Company weathered the storm. While we have never faced a challenge quite like this, if our history tells us anything it is that our Company is resilient and we will come through this well positioned to thrive going forward.

Robert Kleinman

Robert D. Kleinman
Chairman and Chief Executive Officer

AFA Protective Systems, Inc. and Subsidiaries

Consolidated Balance Sheets

December 31,	2019	2018
Assets		
Current assets		
Cash and restricted cash	$ 1,865,140	$ 1,333,216
Accounts receivable, net	16,119,389	16,316,578
Inventories, net	4,151,895	5,025,572
Prepaid expenses and other current assets	1,590,248	1,117,880
Total current assets	23,726,672	23,793,246
Property, plant and equipment, net	5,682,357	5,707,885
Goodwill and intangible assets, net	3,484,846	4,116,313
Other assets	461,450	413,556
Total assets	$33,355,325	$34,031,000
Liabilities and Stockholders' Equity		
Current liabilities		
Current portion of long-term debt	$ 1,833,184	$ 3,004,815
Accounts payable	4,791,494	4,744,287
Accrued expenses and other current liabilities	4,656,221	5,215,809
Deferred revenues	5,600,258	6,570,788
Total current liabilities	16,881,157	19,535,699
Long-term debt	—	833,184
Deferred income taxes, net	531,604	343,874
Pension obligation, net	2,425,257	2,162,471
Accrued postretirement benefits	72,329	73,448
Deferred revenues	1,811,577	1,876,558
Total liabilities	21,721,924	24,825,234
Commitments and Contingencies		
Stockholders' equity		
Common stock, $1 par value; 1,500,000 shares authorized; 161,758 and 161,758 shares issued and outstanding in 2019 and 2018, respectively	161,758	161,758
Additional paid-in capital	3,055,429	3,055,429
Retained earnings	11,021,100	8,398,367
Accumulated other comprehensive loss	(2,604,886)	(2,409,788)
Total stockholders' equity	11,633,401	9,205,766
Total liabilities and stockholders' equity	$33,355,325	$34,031,000

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Income and Comprehensive Income

Years Ended December 31,	2019	2018
Revenues		
Sales	$46,396,519	$43,785,727
Service	36,691,397	33,956,097
	83,087,916	77,741,824
Costs and expenses		
Cost of sales	34,070,135	32,939,721
Cost of services	21,760,363	20,489,769
Depreciation and amortization	1,980,755	1,953,498
Selling, general, and administrative	22,031,959	20,654,493
	79,843,212	76,037,481
Income from operations	3,244,704	1,704,343
Interest income	71,463	109,407
Interest expense	(117,037)	(99,317)
Income before provision for income taxes	3,199,130	1,714,433
Provision for income taxes	998,000	613,000
Net income	$ 2,201,130	$ 1,101,433
Earnings per share	$ 13.61	$ 6.81
Weighted average number of shares outstanding	161,758	161,758
Dividends per share	$ 2.00	$ 2.00
Comprehensive income		
Net income	$ 2,201,130	$ 1,101,433
Unrealized (loss) gain on minimum pension and postretirement liability, net of taxes	(195,098)	246,522
Comprehensive income	$ 2,006,032	$ 1,347,955

The accompanying notes are an integral part of these consolidated financial statements.

AFA Protective Systems, Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity

Years Ended December 31, 2019 and 2018

	Number of Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balances at December 31, 2017	161,768	$161,768	$ 3,055,449	$ 7,622,385	$ (2,656,310)	$ 8,183,292
Net income	–	–	–	1,101,433	–	1,101,433
Cash dividends	–	–	–	(323,531)	–	(323,531)
Unrealized gain on minimum pension and postretirement liability, net	–	–	–	–	246,522	246,522
Purchase and retirement of common stock	(10)	(10)	(20)	(1,920)	–	(1,950)
Balances at December 31, 2018	161,758	161,758	3,055,429	8,398,367	(2,409,788)	9,205,766
Cumulative effect of change in accounting principle (Note 2)	–	–	–	**745,118**	–	**745,118**
Net income	–	–	–	**2,201,130**	–	**2,201,130**
Cash dividends	–	–	–	**(323,515)**	–	**(323,515)**
Unrealized gain on minimum pension and postretirement liability, net	–	–	–	–	**(195,098)**	**(195,098)**
Balances at December 31, 2019	**161,758**	**$161,758**	**$3,055,429**	**$11,021,100**	**$(2,604,886)**	**$11,633,401**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

Years Ended December 31,	2019	2018
Cash flows from operating activities		
Net income	$ 2,201,130	$ 1,101,433
Adjustments to reconcile net income to net cash provided by operating activities		
Inventory reserves	50,000	30,000
Depreciation and amortization	1,980,755	1,953,498
Deferred income taxes	(131,606)	(55,744)
Foregiveness of promissary note	–	(24,730)
Loss on interest rate swap	7,798	–
Changes in operating assets and liabilities		
Accounts receivable	947,215	(3,627,156)
Inventories	(612,460)	(195,158)
Prepaid expenses and other current assets	(260,368)	(180,764)
Other assets	(6,612)	19,067
Accounts payable	47,207	438,340
Accrued expenses and other current liabilities	(559,588)	104,705
Deferred revenues	225,054	1,041,656
Accrued pension and postretirement benefits	78,489	(5,231)
Net cash provided by operating activities	3,967,014	599,916
Cash flows from investing activities		
Capital expenditures	(1,106,760)	(1,219,526)
Advanced deposit for computer servers	–	(217,000)
Acquisitions of alarm contracts	–	(13,890)
Net cash used in investing activities	(1,106,760)	(1,450,416)
Cash flows from financing activities		
Dividends paid	(323,515)	(323,531)
Purchase and retirement of common stock	–	(1,950)
Proceeds from borrowings under line of credit	2,250,000	4,550,000
Repayments of line of credit	(3,850,000)	(1,950,000)
Repayments of promissory note	(35,490)	(40,070)
Repayments of term loans	(369,325)	(1,289,048)
Net cash (used in) provided by financing activities	(2,328,330)	945,401
Net increase in cash and restricted cash	531,924	94,901
Cash and restricted cash		
Beginning of year	1,333,216	1,238,315
Ending of year	$ 1,865,140	$ 1,333,216
Supplemental disclosures of cash flow information		
Cash paid for		
Income taxes	$ 1,367,416	$ 491,990
Interest	117,037	99,317
Advanced deposit for computer servers transferred to Property, plant and equipment	217,000	–

The accompanying notes are an integral part of these consolidated financial statements.

1. Organization and Basis of Presentation

Description of the Business

AFA Protective Systems, Inc. and its Subsidiaries (the "Company") is engaged in the installation, operation, maintenance and sale of protective systems to safeguard life and property from a variety of hazards. Operations are conducted primarily in the eastern United States.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of AFA Protective Systems, Inc. and its subsidiaries, all of which are wholly owned. All intercompany balances and transactions have been eliminated in consolidation.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of the accompanying 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, liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include accounting for contracts with customers utilizing the cost-to-cost input method, the allowance for doubtful accounts, inventory obsolescence, intangible assets, certain accruals, pension and postretirement benefits and income taxes.

Cash and Restricted Cash

Cash held at financial institutions may at times exceed federally insured amounts. Restricted cash is comprised of cash withheld from employees to fund flexible spending accounts that are maintained for the employee healthcare plan. At December 31, 2019 and 2018, restricted cash amounted to $82,973 and $94,139, respectively. The Company believes it mitigates its risks by maintaining its cash deposits with major financial institutions.

Accounts Receivable

Accounts receivable which consists of accounts receivable and unbilled receivables are carried at original invoice amounts less an estimate made for uncollectible receivables based on a review of outstanding amounts on a regular basis. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history and current economic conditions. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

Inventories

Inventories consist of finished goods, work in progress and parts which are carried at the lower of cost (on a first-in, first-out basis) or net realizable value, with cost being determined on a standard cost basis. Inventory reserves, which are charged to cost of sales, are established for slow moving, excess and obsolete stock on hand and are re-evaluated periodically to give effect to sales results and changing market conditions.

Property, Plant and Equipment

Property, plant and equipment are recorded at their historical cost and depreciated over their estimated useful lives, which range from 3 to 30 years. Maintenance and repairs are charged to expense as incurred; renewals and improvements that extend the life of the asset are capitalized. Upon retirement or sale, the asset cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gains or loss, if any, is included in the results of operations for the year. Leasehold improvements are amortized over the shorter of the lease term or remaining useful life of the related assets.

Central station equipment, equipment in subscribers' premises and other equipment are depreciated primarily by accelerated methods. The straight-line method is used for buildings and leasehold improvements.

Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in business circumstances indicate the carrying value of the assets may not be recoverable. In reviewing for impairment, the Company compares the carrying value of the assets to the estimated undiscounted future cash flows expected from the use of the assets and their eventual disposition. When the estimated undiscounted future cash flows are less than their carrying amount, an impairment loss is recognized equal to the difference between the assets' fair value and its carrying amount. The Company believes the future cash flows to be received from its long-lived assets exceed the assets' carrying value, and accordingly, the Company has not recognized any impairment losses for the years ended December 31, 2019 and 2018.

Goodwill and Intangible Assets

The Company follows the provisions of Accounting Standards Codification ("ASC") 350 "Goodwill and Other Intangible Assets." Goodwill reflects the cost of an acquisition in excess of the fair values assigned to identifiable net assets acquired. Identifiable intangible assets represent primarily alarm contracts arising from acquisitions and are amortized over their estimated useful lives. Goodwill is not amortized but instead is reviewed annually for impairment or more frequently if impairment indicators arise. The Company tests for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable or at least annually at December 31 of each year. In the event that the Company determines that the value has become impaired, the Company will incur a charge for the amount of the impairment during the fiscal period in which the determination is made. The Company completed its review and determined there was no impairment during the years ended December 31, 2019 and 2018, respectively.

Fair Value of Financial Instruments

In assessing the fair value of financial instruments at December 31, 2019 and 2018, the Company has used a variety of methods and assumptions, which were based on estimates of market conditions and risks existing at the time. The fair value of financial instruments, including cash and restricted cash, accounts receivable, accounts payable and accrued expenses, approximate their carrying value because of the current nature of these instruments. Pursuant to the accounting guidance for recognition and measurement of financial assets and liabilities, the fair value of debt is not required to be disclosed. The Company's interest rate swaps have been measured at fair value.

Derivative Financial Instruments

The Company accounts for derivative instruments in accordance with ASC 815 "Derivatives and Hedging." ASC 815 requires that the Company recognize all derivatives as assets or liabilities and measure those instruments at fair value. The Company uses derivatives primarily for the purpose of hedging exposure to changes in interest rates.

On February 5, 2014, the Company entered into an interest rate swap that qualifies for hedge accounting. The fair value of the swap asset was approximately $0 and $3,000 at December 31, 2019 and 2018, respectively.

On October 29, 2015, the Company entered into a second interest rate swap that qualifies for hedge accounting. The fair value of the swap asset was approximately $0 and $17,000 at December 31, 2019 and 2018, respectively.

Comprehensive Income

ASC 220 "Comprehensive Income," establishes rules for the reporting and display of comprehensive income and its components in the consolidated financial statements. Comprehensive income consists of net income, unrealized gains or losses on minimum pension and postretirement liability, and the fair value of its interest rate swaps, net of income taxes.

Revenue Recognition

In periods before January 1, 2019, service charges to alarm system subscribers, for services rendered over a maximum period of one year, were deferred and taken into income as earned over the service period. Advance service billings on new subscribers were also deferred and reflected in income over the respective term of the contract. Selling expenses in connection with obtaining new subscribers were expensed when incurred.

The percentage-of-completion method was used for the recognition of revenue from sales of security systems under long-term contracts in accordance with ASC 605-35 "Revenue Recognition—Construction Type and Production Type Contracts," and was based on the ratio of costs incurred to date on the contract to total estimated contract costs, after providing currently for all known or anticipated losses.

In 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). This ASU requires that an entity 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 based on the assessment (as outlined in ASU 2014-09).

The Company adopted Topic 606, effective January 1, 2019 (the date of initial application). The Company has elected the modified retrospective adoption method whereby the cumulative effect of the initial application is presented in the opening balance sheet. Accordingly, the comparative information presented for 2018 was not restated. Instead, it was accounted for according to the Company's historical revenue recognition policies. The adoption of Topic 606 resulted in an increase in retained earnings at January 1, 2019 of $745,118. The adjustment primarily relates to the cumulative net income impact relating to the change of revenue recognition timing and the deferral of sales commissions. As a result of the adoption of Topic 606, accounts receivable increased by $969,772, inventory decreased by $1,436,137, prepaid expenses and other current assets increased by $212,000, other assets increased by $278,000, deferred revenue decreased by $1,040,819, and deferred income taxes increased by $319,336. The amount of revenue recognized considers terms of sale that create variability in the amount of consideration that the Company ultimately expects to be entitled to in exchange for the products or services, and is subject to an overall constraint that a significant revenue reversal will not occur in future periods. Sales and other related taxes collected from customers and remitted to government authorities are excluded from revenue.

The Company recognizes revenue from contracts to design, manufacture and install alarm systems on an over time basis measured using a cost-to-cost input method based on the relationship between actual costs incurred and total estimated costs at completion. The cost-to-cost input method is used as it best depicts the transfer of control to the customer that occurs as the Company incurs costs. These costs primarily include inventory, labor, and subcontractor charges. Changes to the original estimates may be required during the life of the contract and such estimates are reviewed monthly. Costs incurred to obtain the contract, such as commissions, are deferred and recognized as control is transferred to the customer.

Equipment in subscribers' premises represent installed property, plant and equipment at the customer's place of business for which the Company retains ownership and deferred costs directly related to the customer acquisition and system installation. Fees for monitoring and maintenance services are recognized over time on a straight-line basis over the contract term which best depicts the transfer of control to the customer.

The Company also enters into service and maintenance agreements with customers. For these arrangements, revenue is recognized over time on a straight-line basis over the respective contract term. Direct and incremental selling costs for new customers, such as commissions, are deferred and recorded as other current and noncurrent assets within the consolidated balance sheet and are amortized on a straight-line basis over the life of the contract.

In all other cases, including unscheduled repair or replacement services, the Company recognizes the related revenue at the point in time when control over the goods or services transfers to the customer. The Company recorded $12,811,611 and $11,021,388 in 2019 and 2018, respectively, relating to unscheduled repair or replacement services, which is classified as a component of Service revenue in the consolidated statements of income and comprehensive income.

If contract modifications result in additional goods or services that are distinct from those transferred before the modification, they are accounted for prospectively as if the Company entered into a new contract. If the goods or services in the modification are not distinct from those in the original contract, sales and gross profit are adjusted using the cumulative catch-up method for revisions in estimated total contract costs and contract values. Estimated losses are recorded when identified.

Payment terms vary across and within each of the above contract types. The Company has evaluated its contracts and has determined that no significant financing component exists.

Advertising Costs

Costs for advertising are expensed when incurred. Advertising expense was approximately $443,200 and $581,300 for the years ended December 31, 2019 and 2018, respectively.

Earnings per Share

Earnings per share is computed by dividing net income by the weighted average number of shares outstanding during the reporting period. The Company has no additional dilutive securities.

Income Taxes

Deferred income taxes are provided for the tax effects of differences between the financial reporting and tax bases of the Company's assets and liabilities at the enacted tax rates in effect for the years in which the differences are expected to reverse. The Company evaluates the recoverability of deferred tax assets and establishes a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Management's judgment is required in determining the realizability of the deferred tax assets and liabilities, and any valuation allowances recorded. The net deferred tax assets may need to be adjusted in the event that tax rates are modified, or management's estimates of future taxable income change, such that deferred tax assets or liabilities are expected to be recovered or settled at a different tax rate than currently estimated. In addition, valuation allowances may need to be adjusted in the event that management's estimate of future taxable income changes from the amounts currently estimated.

The Company recognizes tax liabilities when, despite the Company's belief that its tax return positions are supportable, the Company believes that certain positions may not be fully sustained upon review by tax authorities. Benefits from tax positions are measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences impact income tax expense in the period in which such determination is made. Interest and penalties, if any, related to accrued liabilities for tax positions are included in interest expense.

Concentration of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, are primarily trade accounts receivable. Customers in the commercial real estate industry, principally commercial building properties, account for a substantial portion of trade receivables. Credit risk with respect to trade receivables is generally minimized due to the large corporations and other organizations the Company services. Accounts receivable due from a major customer amounted to approximately $2,092,900 and $1,812,600 at December 31, 2019 and 2018, respectively. Billings to this customer amounted to approximately $8,248,500 and $7,616,600 for the years ended December 31, 2019 and 2018, respectively.

New Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases ("ASU 2016-02"). The objective of ASU 2016-02 is to require lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by lease agreements. The ASU will also require additional footnote disclosures regarding other key information from leasing arrangements. For nonpublic reporting entities, ASU 2016-02 is effective for reporting periods beginning after December 15, 2020. The Company has not adopted this guidance as of December 31, 2019 and is currently evaluating the impact that adopting this guidance will have on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"). The new guidance is intended to reduce diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 addresses the statement of cash flows reporting for specific types of transactions, including cash payments for debt prepayment or extinguishment costs, cash payments for settlement of zero coupon debt instruments, cash payments for the settlement of contingent consideration arising in a business combination, cash payments from the resolution of insurance claims, cash payments received from the settlement of corporate-owned life insurance policies, distributions received from equity method investments, and beneficial interests obtained in a securitization of financial assets. The Company adopted ASU 2016-15 effective January 1, 2019, and this did not have a material impact on the consolidated financial statements.

3. ACCOUNTS RECEIVABLE, NET

Accounts receivable consists of the following:

December 31,	2019	2018
Trade receivables, including progress bills and amounts due on completed contracts	**$13,822,625**	$14,094,207
Costs and estimated earnings in excess of billings on uncompleted contracts	**2,576,764**	2,502,371
	16,399,389	16,596,578
Less: Allowance for doubtful accounts	**(280,000)**	(280,000)
	$16,119,389	$16,316,578

Cost and estimated earnings on uncompleted contracts and related amounts billed were as follows:

December 31,	2019	2018
Costs incurred on uncompleted contracts	**$ 7,394,213**	$ 6,834,588
Estimated earnings	**3,005,122**	2,466,393
	10,399,335	9,300,981
Less: Billings to date	**(8,229,001)**	(7,069,515)
	2,170,334	2,231,466
Costs and estimated earnings in excess of billings (included in accounts receivable)	**(2,576,764)**	(2,502,371)
Billings in excess of costs (included in accrued expenses and other current liabilities)	**$ (406,430)**	$ (270,905)

Costs and estimated earnings in excess of billings on uncompleted contracts arise in the consolidated balance sheets when revenues have been recognized but the amounts cannot be billed under the terms of the contracts. Such amounts are recoverable from customers based upon various measures of performance, including achievement of certain milestones or completion of the contract. Substantially all amounts recorded as costs and estimated earnings in excess of billings on uncompleted contracts at December 31, 2019, are expected to be billed and collected within one year.

4. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net consists of the following:

	Estimated	December 31,	
	Useful Lives	2019	2018
Land	–	**$ 242,000**	$ 242,000
Buildings and improvements	30 years	**4,679,235**	4,679,235
Equipment in subscribers' premises	10-25 years	**9,786,732**	9,933,499
Central station and other equipment	3-10 years	**3,196,444**	3,057,060
Installations in progress	*	**102,666**	341,796
		18,007,077	18,253,590
Less: Accumulated depreciation		**(12,324,720)**	(12,545,705)
		$ 5,682,357	$ 5,707,885

*Depreciation expense commences once equipment is fully installed and operational.

Depreciation expense was $1,349,288 and $1,323,332 for the years ended December 31, 2019 and 2018, respectively.

5. GOODWILL AND INTANGIBLE ASSETS, NET

Goodwill and intangible assets, net as of December 31, 2019 and December 31, 2018 consists of the following:

December 31,	2019	2018
Goodwill	**$ 441,301**	$ 441,301
Intangible assets	**3,043,545**	3,675,012
	$3,484,846	$4,116,313

The Company determined that there was no goodwill impairment in 2019 and 2018. Therefore, there have not been any adjustments recorded to goodwill.

Intangible assets as of December 31, 2019 and December 31, 2018 are comprised of the following:

	Estimated Useful Lives	Remaining Average Useful Lives	2019 Gross Amount	2019 Accumulated Amortization	2019 Net
Alarm contracts and contract intangibles	5-15 years	7	**$7,256,439**	**$(4,224,810)**	**$3,031,629**
Non compete and other agreements	5 years	2	**32,500**	**(20,584)**	**11,916**
			$7,288,939	**$(4,245,394)**	**$3,043,545**

	Estimated Useful Lives	Remaining Average Useful Lives	2018 Gross Amount	2018 Accumulated Amortization	2018 Net
Alarm contracts and contract intangibles	5-15 years	8	$7,256,439	$(3,599,844)	$3,656,595
Non compete and other agreements	5 years	3	32,500	(14,083)	18,417
			$7,288,939	$(3,613,927)	$3,675,012

The Company determined that there was no impairment of intangible assets in 2019 and 2018. The changes in the carrying amount of intangible assets for the years ended December 31, 2019 and 2018 are as follows:

Balance at December 31, 2017	$ 4,291,288
Addition resulting from acquisition	13,890
Amortization	(630,166)
Balance at December 31, 2018	3,675,012
Amortization	(631,467)
Balance at December 31, 2019	**$3,043,545**

Future estimated amortization expense of intangible assets is as follows as of December 31, 2019:

Years Ending December 31,	
2020	$ 509,094
2021	410,272
2022	356,105
2023	354,746
2024	354,746
Thereafter	1,058,582
	$ 3,043,545

6. Long-Term Debt

Long-term debt consists of the following:

December 31,	**2019**	2018
Term loan	$ –	$ 83,611
Second term loan	**809,524**	1,095,238
Line of credit	**1,000,000**	2,600,000
Promissory note	**23,660**	59,150
	1,833,184	3,837,999
Less: Current portion	**(1,833,184)**	(3,004,815)
	$ –	$ 833,184

On December 1, 2010, the Company entered into a $5,500,000 five-year term loan from its primary bank collateralized by a blanket U.C.C. filing against its assets. On January 31, 2014, the Company refinanced its term loan combining outstanding advances of $3,000,000 on its working capital line of credit with the balance due on the term loan. The new $5,108,307 five-year term loan maintains the same terms and conditions as the loan it superseded, with repayment to be made in monthly principal installments of $83,611 with an interest rate of LIBOR plus 1.75%. In connection with the refinanced term loan, the Company entered into an interest rate swap to fix its interest rate at 2.98% over the life of the term loan. The term loan was repaid in 2019.

On October 26, 2015, the Company entered into a second term loan combining outstanding advances of $1,400,000 on its working capital line of credit and $600,000 of additional borrowings. The new $2,000,000 five-year term loan maintains the same terms and conditions as the other existing term loan, with repayment to be made in monthly principal installments of $23,809 with an interest rate of LIBOR plus 1.75%. In connection with the second term loan, the Company entered into a new interest rate swap to fix its interest rate at 3.12% over the life of the term loan. The interest rate swap matures in 2020.

The term loan agreements contain various restrictive covenants which include, but are not limited to, maintenance of certain income to debt service ratios and certain adjusted earnings requirements, as defined. The Company was in compliance with all covenants during both 2019 and 2018.

The Company has a $5,000,000 working capital line of credit with its primary bank. The line of credit is collateralized by a blanket U.C.C. filing against all its assets and expires July 31, 2020. Interest is payable at the Prime Rate, which was 4.75% as of December 31, 2019. On April 28, 2020 the Company amended its borrowing agreement, with a new expiration date of May 31, 2021 and a corresponding increase in the interest rate to the Prime Rate, plus 1.25%. The weighted average borrowing rate during 2019 was approximately 5.4%.

In November 2016, the Company acquired certain assets, primarily customer alarm maintenance and monitoring contracts, of Pro-Tech Security Ltd. for $325,000 of which $174,341 was in the form of a promissory note to the seller, with repayment to be made in 45 monthly principal installments of $3,874. Effective June 2018, pursuant to agreement between the Company and the seller, the outstanding note payable was reduced by $24,730 and the remaining monthly payments were lowered to $2,957.

The total debt balance outstanding as of December 31, 2019 is due in 2020.

7. Deferred Revenues

Deferred revenues consist of annual service and other charges and advance service charges. Annual service and other charges represent customer billings for services not yet rendered for which the maximum billing period is one year and have been reflected as a current liability. Advance service charges consist of charges billed to customers at the time of new installations. The portion of these charges expected to be recognized within one year has been classified as current on the consolidated balance sheets at December 31, 2019 and 2018. An analysis of deferred revenues is as follows:

	Annual Service and Other Charges	Advance Service Charges	Total
Balances at December 31, 2017	$ 4,571,788	$ 2,833,902	$ 7,405,690
Billings	33,759,885	1,237,868	34,997,753
Amortizations to income	(32,778,585)	(1,177,512)	(33,956,097)
Balances at December 31, 2018	5,553,088	2,894,258	8,447,346
Billings	**34,647,860**	**1,008,026**	**35,655,886**
Amortizations to income	**(35,583,691)**	**(1,107,706)**	**(36,691,397)**
Balances at December 31, 2019	**$ 4,617,257**	**$2,794,578**	**$ 7,411,835**

	Annual Service and Other Charges	Advance Service Charges	Total
Current	**$ 4,617,257**	**$ 983,001**	**$ 5,600,258**
Long-term	–	**1,811,577**	**1,811,577**
Balances at December 31, 2019	**$ 4,617,257**	**$2,794,578**	**$ 7,411,835**

	Annual Service and Other Charges	Advance Service Charges	Total
Current	$ 5,553,088	$ 1,017,700	$ 6,570,788
Long-term	–	1,876,558	1,876,558
Balances at December 31, 2018	$ 5,553,088	$ 2,894,258	$ 8,447,346

8. Common Stock

Employee Stock Appreciation Rights

The Company periodically issues stock appreciation rights ("SARS") to employees which are only redeemable upon sale of the Company or change in its control, as defined. At December 31, 2019 and 2018, there are 12,250 SARS issued and outstanding. As the sale of the Company or change in its control, as defined, are contingent events, no compensation expense has been recorded until such events are probable.

9. Income Taxes

Components of the provision for income taxes are as follows:

December 31,	**2019**	2018
Current		
Federal	**$ 657,504**	$ 526,636
State and local	**386,997**	247,760
	1,044,501	774,396
Deferred		
Federal	**(21,553)**	(119,953)
State and local	**(24,948)**	(41,443)
	(46,501)	(161,396)
Total provision for income taxes	**$ 998,000**	$ 613,000

A reconciliation of the federal statutory rate and the Company's effective tax rate follows:

	2019	2018
Federal statutory rate	**21.0%**	21.0%
State and local income taxes, net of federal income tax benefit	**8.9**	9.5
Other items	**1.3**	5.3
Effective rate	**31.2%**	35.8%

The effective tax rate differed from the federal statutory tax rate primarily as result of state income taxes, tax credits and certain expenses not deductible for income tax purposes.

The tax effects of the significant temporary differences which comprise the deferred tax assets and liabilities at December 31 are as follows:

December 31,	2019	2018
Deferred Tax Assets		
Advance service revenue	**$ 776,677**	$ 797,777
Benefit plans	**795,011**	716,508
Other	**152,667**	128,164
Deferred tax assets	**1,724,355**	1,642,449
Deferred Tax Liabilities		
Intangibles	**(568,166)**	(716,166)
Depreciation	**(1,284,640)**	(1,192,840)
Other	**(403,153)**	(77,317)
Net deferred tax liabilities	**$ (531,604)**	$ (343,874)

The Company has not recorded any liabilities for uncertain tax positions as of December 31, 2019. With limited exceptions, the Company is no longer subjected to tax audits by taxing authorities for years through 2015 for all jurisdictions. Although the outcome of tax audits is always uncertain, the Company believes that its tax positions are all highly certain of being sustained under audit.

Interest expense and penalties related to income tax matters are recognized as a component of interest expense. For the years ended December 31, 2019 and 2018, the Company did not record any liabilities or expenses related to tax penalties and related interest.

10. Pension and Postretirement Benefits

The Company maintains a noncontributory defined benefit pension plan for its hourly union employees who met certain requirements of age, length of service and hours worked per year. The benefits provided are based upon years of service and the employee's compensation during the last five years of employment. The Company's funding policy is to contribute annually at least the minimum amount required by Federal regulations. Effective October 15, 1996, the collective bargaining agreement covering the New York/New Jersey union employees was terminated following a strike, which resulted in a workforce reduction. Accordingly, the plan was amended effective December 31, 1996, to eliminate benefit accruals for the remaining New York/New Jersey employees. Effective January 1, 1997, the plan was further amended to provide those participants whose benefits were frozen due to the termination of the union agreement, to have their benefits determined using the method applicable for early retirement if they continue in service until then. In conjunction with the Company's collective bargaining agreement effective August 1, 2007 covering its Massachusetts union employees effective February 1, 2008, the plan was amended to eliminate benefit accruals for the Massachusetts employees, and new employees are no longer eligible to enter the plan.

In accordance with ASC 715, Defined Benefit Plans, the Company recognized the funded status of the plan, measured as the difference between the fair value of the plan assets and the projected benefit obligation of its benefit plan as an asset or liability in the consolidated balance sheet dates, with a corresponding adjustment to accumulated other comprehensive loss.

The Company provides certain health care and life insurance benefits to retired employees who have attained age 62 or 20 years of service at the date of retirement, whichever is later. Eligible retirees under age 65 are covered by the Company's health insurance plan, at a cost to the retiree equal to the Company's cost for an active employee. After attaining age 65, an eligible retiree's health care benefit coverage becomes coordinated with Medicare, with the retiree paying a portion of the cost of the coverage in excess of certain amounts. Effective December 31, 1996, the Company eliminated future benefits for employees who had not already retired or had given notice of retirement at that date. The Company's funding policy is generally to pay covered expenses as they are incurred.

The following is a reconciliation of the benefit obligation, fair value of plan assets and funded status of the Company's defined benefit and other postretirement benefit plans measured at December 31, 2019 and 2018, respectively:

	Pension Benefits		Other Postretirement Benefits	
	2019	2018	**2019**	2018
Change in Benefit Obligation				
Benefit obligation at beginning of year	**$7,981,220**	$8,961,914	**$ 88,048**	$ 105,010
Interest cost	**318,468**	303,523	**3,020**	2,740
Change in assumptions	**851,070**	(676,923)	**3,450**	(4,633)
Actuarial loss (gain)	**36,304**	157,310	**9,357**	(2,756)
Benefits paid	**(525,141)**	(764,604)	**(16,946)**	(12,313)
Benefit obligation at end of year	**8,661,921**	7,981,220	**86,929**	88,048
Change in Plan Assets				
Fair value of plan assets at beginning of year	**5,818,749**	6,563,752	**–**	–
Actual return on plan assets	**643,056**	(280,399)	**–**	–
Employer contribution	**300,000**	300,000	**16,946**	12,313
Benefits paid	**(525,141)**	(764,604)	**(16,946)**	(12,313)
Fair value of plan assets at end of year	**6,236,664**	5,818,749	**–**	–
Benefit obligations in excess of fair value	**$2,425,257**	$2,162,471	**$ 86,929**	$ 88,048

The change in actuarial assumptions for the pension benefits relates to the use of an updated mortality table and the change in discount rate in 2019 and 2018. The discount rate is updated annually for the determination of net periodic pension cost.

Amounts recognized in the consolidated balance sheet consist of:

	Pension Benefits		Other Postretirement Benefits	
	2019	2018	**2019**	2018
Noncurrent pension liability	**$(2,425,257)**	$(2,162,471)	**$ –**	$ –
Current portion of liability for postretirement benefits included in accrued expenses and other current liabilities	**–**	–	**(14,600)**	(14,600)
Noncurrent liability for postretirement benefits	**–**	–	**(72,329)**	(73,448)
Net amount recognized	**$(2,425,257)**	$(2,162,471)	**$(86,929)**	$ (88,048)

Amounts recognized in accumulated other comprehensive loss consist of:

	Pension Benefits		Other Postretirement Benefits	
	2019	2018	**2019**	2018
Actuarial loss	**$3,697,413**	$3,445,504	**$38,174**	$28,399

The amounts shown above have been recognized in accumulated other comprehensive loss totaling $2,614,911 net of deferred income tax assets of $1,120,677 at December 31, 2019, and accumulated other comprehensive loss totaling $2,431,732 net of deferred income tax assets of $1,042,171 at December 31, 2018.

Amounts recorded in other comprehensive loss consist of:

	Pension Benefits			Other Postretirement Benefits		
	2019			**2019**		
	Before Tax Amount	Tax (Expense) or Benefit	Net of Tax Amount	Before Tax Amount	Tax (Expense) or Benefit	Net of Tax Amount
Net actuarial loss arising during the year	**$442,067**	**$132,620**	**$309,447**	**$12,806**	**$3,842**	**$8,964**
Less: Amortization included in net periodic pension cost	**190,158**	**57,047**	**133,111**	**3,031**	**909**	**2,122**
Net change during the year	**$251,909**	**$ 75,573**	**$176,336**	**$ 9,775**	**$2,933**	**$6,842**

	Pension Benefits			Other Postretirement Benefits		
	2018			2018		
	Before Tax Amount	Tax (Expense) or Benefit	Net of Tax Amount	Before Tax Amount	Tax (Expense) or Benefit	Net of Tax Amount
Net actuarial loss (gain) arising during the year	$ 89,417	$ 26,825	$ 62,592	$ (7,388)	$(2,216)	$(5,172)
Less: Amortization included in net periodic pension cost	274,622	82,386	192,236	3,150	945	2,205
Expense from lump sum settlements	156,430	46,929	109,501	–	–	–
Net change during the year	$(341,635)	$(102,490)	$(239,145)	$(10,538)	$(3,161)	$(7,377)

Components of net periodic pension and other postretirement benefits cost:

	Pension Benefits		Other Postretirement Benefits	
	2019	2018	**2019**	2018
Interest cost	**$ 318,468**	$ 303,523	**$3,020**	$2,740
Expected return on plan assets	**(197,750)**	(328,631)	**–**	–
Amortization of net losses	**190,158**	274,622	**3,031**	3,150
	$ 310,876	$ 249,514	**$6,051**	$5,890

Amounts recorded in accumulated other comprehensive loss expected to be recognized as a component of net periodic pension cost in 2020 are as follows:

	Pension Benefits	Other Postretirement Benefits
Actuarial loss	$203,363	$4,560

Weighted average assumptions used to determine the benefit obligation and net periodic pension and other postretirement benefits cost as of and for the years ended December 31:

	Pension Benefits		Other Postretirement Benefits	
	2019	2018	**2019**	2018
Discount rate used for net periodic cost	**4.14%**	3.48%	**3.74%**	3.01%
Discount rate used for benefit obligation	**2.83%**	4.14%	**2.54%**	3.74%
Expected return on plan assets	**3.50%**	5.10%	**—**	—

The expected return on plan assets has been determined based on historical rates of return.

The assumed increase in health care cost trend rate at the end of 2019 was 5%, and is expected to remain at that level thereafter. A one percentage point increase or decrease in these trend rates would not have a significant effect on the accumulated benefit obligation at December 31, 2019 and the net periodic pension and other postretirement benefits cost for 2019.

Plan Assets

Assets are primarily invested in the General Account of Principal Mutual Life Insurance Company, which provides the contract and cashout value of the account. The Company's defined benefit plan investment strategy is to invest the assets in a conservative portfolio that provides an acceptable return with low down-side risk. Preservation of capital is of primary importance. The funds are invested principally in guaranteed investment contracts which are reinvested in new contracts upon expiration and stock in the Principal Financial Group, Inc. Such investments are deemed Level 3 and NAV financial instruments, respectively, as defined in Note 11. Management believes that General Investment Account is a low-risk fixed income investment, consistent with the defined benefit plan's strategy. The breakdown of the cashout value of the assets as of December 31, 2019 and 2018 is as follows:

	2019	2018
General investment account	**90.6%**	92.2%
Stock separate account	**9.4%**	7.8%

Cash Flows

Benefit payments, which reflect expected future service, as appropriate, expected to be paid for the next ten years are as follows:

Years Ending December 31,	Pension Benefits	Other Postretirement Benefits
2020	$2,447,000	$ 14,600
2021	1,532,000	12,800
2022	459,000	11,200
2023	544,000	9,700
2024	391,000	8,300
Thereafter	1,878,000	26,700
	$ 7,251,000	$83,300

The Company offers a 401(k) savings plan covering all eligible employees. Under the plan, employees may contribute up to certain percentages of their pretax earnings, subject to the Internal Revenue Service annual contribution limit. The Company can make nonmatching and matching contributions for all eligible employees. Company contributions to the plan amounted to $589,404 and $553,774 for the years ended December 31, 2019 and 2018, respectively.

11. Fair Value of Financial Instruments

The Company measures fair value as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering assumptions, generally accepted accounting principles establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date:

- *Level 1*—Observable inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets;
- *Level 2*—Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument; and
- *Level 3*—Unobservable inputs to the valuation methodology in which there is little or no market data and which are significant to the fair value measurement.

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and counterparty creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realized value or reflective of future values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different estimates of fair value at the reporting date.

The General investment account is a contract provision that allows a fixed interest account in a group contract with the underlying investment custodian, which primarily consists of intermediate-term, fixed income investment and is reported utilizing Level 3 Inputs. The Stock separate account consists of equities and is reported at fair value, as determined by the Company using the NAV practical expedient. Derivatives are reported at fair value utilizing Level 2 Inputs. The Company obtained dealer quotations to assist in the valuation of its interest rate swaps.

	Inputs				
December 31, 2019	Level 1	Level 2	Level 3	NAV	Total
General investment account	**$ –**	**$ –**	**$ 5,651,249**	**$ –**	**$5,651,249**
Stock separate account	**–**	**–**	**–**	**585,415**	**585,415**
Interest rate swap	**–**	**–**	**–**	**–**	**–**

	Inputs				
December 31, 2018	Level 1	Level 2	Level 3	NAV	Total
General investment account	$ –	$ –	$ 5,363,594	$ –	$5,363,594
Stock separate account	–	–	–	455,154	455,154
Interest rate swap	–	19,720	–	–	19,720

The following table sets forth a summary of changes in fair value of the pension's Level 3 investments for the years ended December 31, 2019 and 2018:

	2019	2018
Balances at January 1,	**$ 5,363,594**	$5,868,148
Deposits	**300,000**	300,000
Investment return	**514,821**	(39,950)
Benefit payments and credits	**(527,166)**	(764,604)
Balances at December 31,	**$ 5,651,249**	$5,363,594

12. Commitments and Contingencies

Leases

The Company is obligated under the terms of noncancelable operating leases for office, storage and operating facilities (real property) through 2024 for approximate aggregate minimum rentals as follows:

Years Ending December 31,	
2020	$ 1,075,602
2021	765,052
2022	342,623
2023	254,359
2024	190,791
	$ 2,628,427

Certain leases are renewable and substantially all leases provide for payment of various cost escalations. Rent expense for all operating leases, including motor vehicles, was approximately $2,252,000 and $2,301,000 for the years ended December 31, 2019 and 2018, respectively.

Other

Various claims incident to the ordinary course of business, some of which have resulted in litigation, are pending against the Company. In the opinion of management, disposition of these matters will not have a material adverse effect on its consolidated financial position, results of operations or cash flows.

13. Subsequent Events

The Company has considered the impacts of a coronavirus disease (COVID-19) on its overall operations. While the full impact of this disease and the worldwide reaction to it are largely unknown at this time, any widespread growth in infections, quarantines or site closures imposed as a result of the disease, could, among other things, impact the ability of the Company's employees to perform certain services at customer locations. In addition, the disease could lead to disruptions in our supply chain, causing shortages or unavailability of equipment necessary to install or repair systems. The Company is not able to estimate the potential impact of these disruptions on its business at this time.

The Company evaluated all events or transactions that occurred after the balance sheet date of December 31, 2019 through April 28, 2020, the date these consolidated financial statements were available to be issued. During this period, the Company did not identify any other subsequent events that required recognition or disclosure in the consolidated financial statements.

AFA Protective Systems, Inc. and Subsidiaries

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of
AFA Protective Systems, Inc.

We have audited the accompanying consolidated financial statements of AFA Protective Systems, Inc. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of income and comprehensive income, of stockholders' equity, and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the 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 the 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 our 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, we consider internal control relevant to the Company's 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 Company'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 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 AFA Protective Systems, Inc. and its subsidiaries as of December 31, 2019 and 2018, 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.

PricewaterhouseCoopers LLP

Melville, New York
April 28, 2020

AFA Protective Systems, Inc. and Subsidiaries

SELECTED FINANCIAL DATA

For Each of the Five Years in the Period Ended December 31, 2019.

	2019	2018	2017	2016	2015
Sales	**$46,396,519**	$43,785,727	$40,642,497	$43,372,292	$45,337,695
Service revenues	**$36,691,397**	$33,956,097	$ 32,577,618	$ 31,657,893	$ 31,016,879
Net income	**$ 2,201,130**	$ 1,101,433	$ 260,050	$ 325,714	$ 537,745
Earnings per share	**$ 13.61**	$ 6.81	$ 1.61	$ 2.01	$ 3.32
Cash dividends per share	**$ 2.00**	$ 2.00	$ 2.00	$ 2.00	$ 2.00
Average number of shares outstanding	**161,758**	161,758	161,768	161,768	161,768
At year end:					
Deferred revenues	**$ 7,411,835**	$ 8,447,346	$ 7,405,690	$ 6,732,969	$ 6,831,881
Property, plant and equipment, net	**$ 5,682,357**	$ 5,707,885	$ 5,811,691	$ 6,133,099	$ 7,026,045
Total assets	**$33,355,325**	$ 34,031,000	$30,485,170	$ 32,817,312	$31,656,080
Stockholders' equity	**$ 11,633,401**	$ 9,205,766	$ 8,183,292	$ 8,113,433	$ 8,386,557
Number of shares outstanding	**161,758**	161,758	161,768	161,768	161,768
Book value per share	**$ 71.92**	$ 56.91	$ 50.59	$ 50.15	$ 51.84

AFA Protective Systems, Inc. and Subsidiaries

MARKET PRICES AND DIVIDEND INFORMATION

The Company's Common Stock is traded in the over-the-counter market. The range of high and low bid quotations as provided by the National Association of Security Dealers qualified interdealer quotation medium and the amount of cash dividends paid per share for each of the quarters of the fiscal years ended December 31, 2019 and 2018 are as follows:

Year Ended December 31, 2019

Quarter		Bid	Dividends
1	High	**$200**	**$ .50**
	Low	**177**	
2	High	**201**	**.50**
	Low	**185**	
3	High	**191**	**.50**
	Low	**145**	
4	High	**180**	**.50**
	Low	**135**	
			$ 2.00

Year Ended December 31, 2018

Quarter		Bid	Dividends
1	High	$283	$ .50
	Low	177	
2	High	177	.50
	Low	177	
3	High	185	.50
	Low	155	
4	High	184	.50
	Low	178	
			$ 2.00

AFA Protective Systems, Inc. and Subsidiaries

Executive and Regional Offices

Executive Office

155 Michael Drive
Syosset, NY 11791
(516) 496-2322

Regional Offices

Florida

11108 Challenger Avenue
Unit 1
Odessa, FL 33556
(727) 556-2905

217 Altamonte Commerce Blvd.
Suite 1234
Altamonte Springs, FL 32714
(407) 812-9200

6535 Nova Drive
Suite 111
Davie, FL 33317
(954) 473-0022

Georgia

805C Franklin Court
Marietta, GA 30067
(770) 794-9000

Metropolitan New York

519 Eighth Avenue
New York, NY 10018
(212) 279-5000

170 Eileen Way
Syosset, NY 11791
(516) 496-2322

570 Taxter Road
Suite 120
Elmsford, NY 10523
(914) 347-5481

Mid-Atlantic

4643 Benson Avenue
Halethorpe, MD 21227
(410) 247-8305

520 Fellowship Road
Suite D-404
Mt. Laurel, NJ 08054
(856) 231-4242

National Accounts

150 Wood Road
Suite 301
Braintree, MA 02184
(781) 848-6200

New England

200 High Street
Boston, MA 02110
(617) 772-5900

48 Capital Drive
Wallingford, CT 06492
(203) 265-0202

240 Chestnut Street
Warwick, RI 02888
(401) 461-2770

New Jersey

961 Joyce Kilmer Avenue
North Brunswick, NJ 08902
(732) 846-4000

North Carolina

894-D Elm Street
Fayetteville, NC 28303
(910) 423-4054

1135 Four Lakes Drive
Suite G
Matthews, NC 28105
(704) 246-7920

Corporate Information

Board of Directors

Asher Bernstein
President, Bernstein Management Corp., a real estate company, New York, NY

Stephen Hess*
President, Hess Associates, Manhasset, NY

Stephen Genatt*
President, Genatt Associates, New Hyde Park, NY

Thomas J. Killeen
Thomas J. Killeen, PC Attorneys at Law

David M. Kleinman
Executive Vice President and Secretary, AFA Protective Systems, Inc.

Richard D. Kleinman
President, AFA Protective Systems, Inc.

Robert D. Kleinman
Chairman of the Executive Committee and Board of Directors, AFA Protective Systems, Inc.

Fredric Mack
Partner, The Mack Company, Fort Lee, NJ

**Members of Audit Committee*

Officers

Robert D. Kleinman
Chairman of the Board of Directors, Chief Executive Officer and General Counsel

Richard D. Kleinman
President and Chief Operating Officer

David M. Kleinman
Executive Vice President and Secretary

Michael J. Slattery
Vice President of Branch Operations

Stephen P. Hyle
Vice President and Director of National Accounts

Joseph H. Goren
Vice President, Chief Financial Officer and Treasurer

Jared D. Kleinman
Vice President

Mark A. LaBua
Vice President and Chief Information Officer

Registrar and Transfer Agent

Computershare Inc.
Meidinger Tower
462 S. 4th Street
Louisville, KY 40202

Independent Auditors

PricewaterhouseCoopers LLP
401 Broad Hollow Road
Melville, NY 11747

Annual Meeting

The Annual Meeting of Stockholders will be held on Tuesday, June 9 at 11:30 a.m. at the Company's Corporate Headquarters, 155 Michael Drive, Syosset, New York. All stockholders are invited to attend. A formal Notice of Meeting accompanies this report.

AFA Protective Systems, Inc.
155 Michael Drive
Syosset, NY 11791
Telephone: 516-496-2322
Fax: 516-496-2848

www.afap.com