YOUR FIRE AND SECURITY SOLUTION

AFA PROTECTIVE SYSTEMS, INC.
2020 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 90 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

As anticipated, the COVID-19 (“COVID”) cloud cast its shadow over almost everything the Company did and achieved during the final three quarters of 2020. So much has happened not just with AFA, but with the entire world since March 2020. A year ago, we were concerned about how this crisis could negatively affect our new sales, customer attrition, service to customers in the field, ability to handle administrative and sales work remotely, and still be able to operate effectively. At this juncture, I am pleased to report that so far, we have weathered the storm rather well. In late March/early April 2020, our management team got together and planned how to operate the Company with most of our office employees working remotely for the time being. We also took precautions for our field personnel who continued to give full service to our customers during these trying times. We even made contingency plans for layoffs/furloughs of part of our workforce in the event it would be necessary to remain profitable. Fortunately, that never became necessary because on May 1, 2020, the Company received a loan under the Paycheck Protection Program (“PPP”). Not only did this provide us with enough cash for us to continue normal operations, but we have used all of the funds in such a manner that the loan should qualify to be fully forgiven.

Moving on to my review of our 2020 operations, given the circumstances, it was by all accounts as good a year as could be expected. After a banner first quarter we entered the unknown. For months, almost all office work was conducted remotely with only a small percentage of our administrative employees physically coming into our offices. In-person sales efforts grounded to a virtual halt and remained that way for most of the year, relying entirely on telephone calls, emails, zoom meetings and other remote means. Our technicians and central station employees continued on as before on a full-time basis, following full COVID protocol, so that we could continue to provide top of the line service. While some of our competitors wrote to their accounts asking patience for delays under the circumstances, we were able to write to our customers assuring them we did not miss a beat.

The Company‘s ability to perform well financially during trying times was demonstrated once again in 2020. Although overall revenues fell slightly from the prior year: $82,679,000 in 2020 as compared to $83,088,000 in 2019, net income increased to $2,603,000 or $16.09 per share, as compared to $2,201,000 or $13.61 per share in 2019.

Even in the face of COVID, we were able to grow our recurring revenue base in 2020. By the end of the year our annual recurring revenue base reached $36,564,000, representing a growth in this metric of $980,000, or 2.8%. A prime factor behind this growth was our exemplary gross attrition rate, which came in at 6.6%. This result would be considered excellent in any year, but to do so in 2020, when we were concerned about many of our customers staying in business themselves, can only be classified as remarkable. It is worth noting however, that through the first three quarters this metric was doing even better, meaning we clearly began to see some increased losses due to COVID during the final quarter.

Our success in maintaining profitability levels during this trying year was made possible by a number of factors. First, our solid recurring revenue base and additions of new business gave us a strong foundation. On the expense side, some temporary salary rollbacks, reductions in various expenses which were severely curtailed due to COVID such as travel and entertainment, and another good year in controlling health benefit costs, all contributed to our healthy bottom line.

Total sales bookings increased slightly during 2020, to $38,910,000. Unlike the prior year, that had the benefit of the huge addition of the airport at JFK, new sales of the recurring revenue component fell over 40% and were well below quota. On the other hand, our Company-wide backlog increased by 22%, ending 2020 at $18,017,000. This increase was attributable to our ability to maintain our overall sales level combined with the fact that we were unable to access many job locations during 2020 due to COVID restrictions. As these restrictions continue to ease, we should be able to handle more of our backlog in 2021, which in turn would further bolster our operating results.

Our National Accounts Division continued to perform well. Although new sales were slightly below the previous year's totals, the Division was able to exceed its quotas for both outright and recurring revenue sales. Once again it was able to add some new accounts and secure expansions and/or extensions with existing accounts. Overall, the Division continues to solidify itself as a serious player in this important industry segment.

Our flagship New York branch, being at the original epicenter of the pandemic in the country, was particularly affected by COVID. Overall sales were down about 10%, due entirely to lower sales of recurring revenues. Still, the branch's excellent performance in controlling attrition led to a slight increase in its recurring revenue base. The branch's earnings were slightly off, due in large part to the aforementioned inability to access many job locations. However, this also contributed to the branch ending the year with a 20% increase in backlog, which we expect will benefit the branch in 2021.

The New England branch had a mixed year. New sales were up over 60%, including a 30% increase in recurring revenue bookings. That, coupled with better-than-expected control of attrition, led to a meaningful growth in its recurring revenue base. Similar to the New York branch, earnings did decline from the prior year due to the impact of COVID restrictions on new installations and service work. Consequently, this should have a positive impact on the branch's 2021 earnings.

Our other Northeastern branches in New Jersey were also affected by COVID, most notably in the form of reduced new bookings and backlogs. On the plus side, they were able to increase margins on completed installations and maintain their recurring revenue bases. Conversely, the neighboring Mid-Atlantic office realized across the board increases in sales, earnings and backlog during the year.

I am pleased to report that our Southern branches all showed improvement during 2020. The Georgia office, under new leadership, successfully restructured and also relocated to new space during the year. At the same time, the branch was able to efficiently operate and show its first profit in many years. Although its sales and backlog fell during the year, we can now report that in January 2021, the branch secured an additional contract with an existing account for $1.9 million in additional installation work, thereby already eclipsing the branch's sales total for the entire year in 2020.

Both Florida branches also showed improvement. With the State being "open," combined with heightened interest in new State mandated fire-related systems, new sales during the year almost doubled. Recurring revenue bases and backlogs also increased while the negative earnings results lessened. In fact, based on their trajectories, we are hopeful that these branches will end up with positive earnings in 2021.

Our short-term prognosis is, to a large extent, tied to how fast the COVID pandemic comes under control. Thus far, it appears that the country is headed in the right direction on this front. That said, for at least 2021, we should expect it will have some effect on business. Attrition may increase and some customers may be hesitant to go ahead with previously planned projects or even order needed service work should more customers experience business difficulties. On the other hand, we should benefit from our stable recurring revenue base, our significantly increased backlog of work that was carried over into 2021, as well as some substantial new contracts that were recently booked. Also, we may still see some of the aforementioned expense categories stay at lower than traditional levels. However, we note some expenses have recently increased, most notably fuel which has risen by 20% in the past few months. Add to the mix the uncertainty surrounding the new Administration's stated quest to increase corporate taxes, including the magnitude and the effective date of any such changes, and prognostication has never been more challenging. Nevertheless, while we are still facing these short-term uncertainties, we are cautiously optimistic that we can continue to operate and provide our full services while maintaining our recent levels of financial success.

Robert D. Kleinman
Chairman and Chief Executive Officer

Consolidated Balance Sheets

December 31,	2020	2019
Assets		
Current assets		
Cash and restricted cash	**$ 6,052,582**	$ 1,865,140
Accounts receivable, net	**17,906,967**	16,119,389
Inventories, net	**3,953,644**	4,151,895
Prepaid expenses and other current assets	**3,184,573**	1,590,248
Total current assets	**31,097,766**	23,726,672
Property, plant and equipment, net	**6,048,695**	5,682,357
Goodwill and intangible assets, net	**2,975,745**	3,484,846
Other assets	**447,722**	461,450
Total assets	**$40,569,928**	$33,355,325
Liabilities and Stockholders' Equity		
Current liabilities		
Current portion of debt	**$ 2,000,000**	$ 1,833,184
Accounts payable	**3,306,498**	4,791,494
Accrued expenses and other current liabilities	**4,596,691**	4,656,221
Deferred revenues	**5,669,634**	5,600,258
Total current liabilities	**15,572,823**	16,881,157
Long-term debt	**6,668,352**	—
Deferred income taxes, net	**361,387**	531,604
Pension obligation, net	**2,877,532**	2,425,257
Accrued postretirement benefits	**98,430**	72,329
Deferred revenues	**1,512,782**	1,811,577
Total liabilities	**27,091,306**	21,721,924
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 2020 and 2019, respectively	**161,758**	161,758
Additional paid-in capital	**3,055,429**	3,055,429
Retained earnings	**13,300,370**	11,021,100
Accumulated other comprehensive loss	**(3,038,935)**	(2,604,886)
Total stockholders' equity	**13,478,622**	11,633,401
Total liabilities and stockholders' equity	**$40,569,928**	$33,355,325

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

Consolidated Statements of Income and Comprehensive Income

Years Ended December 31,	2020	2019
Revenues		
Sales	**$44,870,214**	$46,396,519
Service	**37,808,731**	36,691,397
	82,678,945	83,087,916
Costs and expenses		
Cost of sales	**33,641,150**	34,070,135
Cost of services	**22,032,548**	21,760,363
Depreciation and amortization	**1,923,791**	1,980,755
Selling, general, and administrative	**21,236,015**	22,031,959
	78,833,504	79,843,212
Income from operations	**3,845,441**	3,244,704
Interest income	**65,883**	71,463
Interest expense	**(108,539)**	(117,037)
Income before provision for income taxes	**3,802,785**	3,199,130
Provision for income taxes	**1,200,000**	998,000
Net income	**$ 2,602,785**	$ 2,201,130
Earnings per share	**$ 16.09**	$ 13.61
Weighted average number of shares outstanding	**161,758**	161,758
Dividends per share	**$ 2.00**	$ 2.00
Comprehensive income		
Net income	**$ 2,602,785**	$ 2,201,130
Unrealized loss on minimum pension and postretirement liability, net of taxes	**(434,049)**	(195,098)
Comprehensive income	**$ 2,168,736**	$ 2,006,032

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, 2020 and 2019

	Number of Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
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
Net income	—	—	—	**2,602,785**	—	**2,602,785**
Cash dividends	—	—	—	**(323,515)**	—	**(323,515)**
Unrealized gain on minimum pension and postretirement liability, net	—	—	—	—	**(434,049)**	**(434,049)**
Balances at December 31, 2020	**161,758**	**$161,758**	**$3,055,429**	**$13,300,370**	**$(3,038,935)**	**$13,478,622**

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

AFA Protective Systems, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended December 31,	2020	2019
Cash flows from operating activities		
Net income	**$ 2,602,785**	$ 2,201,130
Adjustments to reconcile net income to net cash provided by operating activities		
Inventory reserves	**—**	50,000
Depreciation and amortization	**1,923,791**	1,980,755
Deferred income taxes	**(170,217)**	(131,606)
Loss on interest rate swap	**—**	7,798
Changes in operating assets and liabilities		
Accounts receivable	**(1,787,578)**	947,215
Inventories	**198,251**	(612,460)
Prepaid expenses and other current assets	**(1,594,325)**	(260,368)
Other assets	**13,728**	(6,612)
Accounts payable	**(1,484,996)**	47,207
Accrued expenses and other current liabilities	**(59,530)**	(559,588)
Deferred revenues	**(229,419)**	225,054
Accrued pension and postretirement benefits	**44,327**	78,489
Net cash (used in) provided by operating activities	**(543,183)**	3,967,014
Cash flows from investing activities		
Capital expenditures	**(1,781,028)**	(1,106,760)
Net cash used in investing activities	**(1,781,028)**	(1,106,760)
Cash flows from financing activities		
Dividends paid	**(323,515)**	(323,515)
Proceeds from PPP Loan	**6,668,352**	—
Proceeds from borrowings under line of credit	**1,600,000**	2,250,000
Repayments of line of credit	**(600,000)**	(3,850,000)
Repayments of promissory note	**(23,660)**	(35,490)
Repayments of term loans	**(809,524)**	(369,325)
Net cash provided by (used in) financing activities	**6,511,653**	(2,328,330)
Net increase in cash and restricted cash	**4,187,442**	531,924
Cash and restricted cash		
Beginning of year	**1,865,140**	1,333,216
Ending of year	**$ 6,052,582**	$ 1,865,140
Supplemental disclosures of cash flow information		
Cash paid for		
Income taxes	**$ 2,729,123**	$ 1,367,416
Interest	**108,539**	117,037
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 periods. 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, 2020 and 2019, restricted cash amounted to $86,942 and $82,973, respectively. The Company believes it mitigates its risks by maintaining its cash deposits with major financial institutions.

Accounts Receivable

Accounts receivable consists of accounts receivable and unbilled receivables that 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, 2020 and 2019.

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, 2020 and 2019, respectively.

Fair Value of Financial Instruments

In assessing the fair value of financial instruments at December 31, 2020 and 2019, 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, billed and unbilled 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 October 29, 2015, the Company entered into an interest rate swap that qualified for hedge accounting. The interest rate swap had a fair value of $0 at December 31, 2019 and matured during 2020.

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, net of income taxes.

Revenue Recognition

The Company adopted ASC 606, effective January 1, 2019 (the date of initial application). The Company elected the modified retrospective adoption method whereby the cumulative effect of the initial application is presented in the opening balance sheet. The adoption of ASC 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, 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 $12,654,524 and $12,811,611 in 2020 and 2019, respectively, relating to unscheduled repair or replacement services, which is classified as a component of Sales 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 $419,740 and $443,200 for the years ended December 31, 2020 and 2019, 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 $2,525,200 and $2,092,900 at December 31, 2020 and 2019, respectively. Billings to this customer amounted to approximately $7,869,900 and $8,248,500 for the years ended December 31, 2020 and 2019, respectively.

Risks and Uncertainties

In March 2020, the World Health Organization declared COVID-19 a global pandemic which has created significant volatility and uncertainty within the United States economy. Continued uncertainty remains as to the future impact of the pandemic on the Company's operations.

The Company continues to monitor and assess the impacts of the COVID-19 pandemic, however, the impact on future periods is unknown and is difficult to predict. Unforeseen consequences could have a material adverse effect on the Company's business, results of operations, financial condition, and/or cash flows.

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, 2021. The Company has not adopted this guidance as of December 31, 2020 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,	2020	2019
Trade receivables, including progress bills and amounts due on completed contracts	**$15,308,568**	$13,822,625
Costs and estimated earnings in excess of billings on uncompleted contracts	**2,878,399**	2,576,764
	18,186,967	16,399,389
Less: Allowance for doubtful accounts	**(280,000)**	(280,000)
	$17,906,967	$16,119,389

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

December 31,	2020	2019
Costs incurred on uncompleted contracts	**$ 8,554,211**	$ 7,394,213
Estimated earnings	**3,303,978**	3,005,122
	11,858,189	10,399,335
Less: Billings to date	**(9,751,398)**	(8,229,001)
	2,106,791	2,170,334
Costs and estimated earnings in excess of billings (included in accounts receivable)	**(2,878,399)**	(2,576,764)
Billings in excess of costs (included in accrued expenses and other current liabilities)	**$ (771,608)**	$ (406,430)

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, 2020, 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 Useful Lives	December 31, 2020	December 31, 2019
Land	—	**$ 296,000**	$ 242,000
Buildings and improvements	30 years	**5,364,921**	4,679,235
Equipment in subscribers' premises	10-25 years	**9,507,375**	9,786,732
Central station and other equipment	3-10 years	**3,436,227**	3,196,444
Installations in progress	*	**40,399**	102,666
		18,644,922	18,007,077
Less: Accumulated depreciation		**(12,596,227)**	(12,324,720)
		$ 6,048,695	$ 5,682,357

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

Depreciation expense was $1,414,690 and $1,349,288 for the years ended December 31, 2020 and 2019, respectively.

5. Goodwill and Intangible Assets, Net

Goodwill and intangible assets, net as of December 31, 2020 and December 31, 2019 consists of the following:

December 31,	**2020**	2019
Goodwill	**$ 441,301**	$ 441,301
Intangible assets	**2,534,444**	3,043,545
	$2,975,745	$3,484,846

The Company determined that there was no goodwill impairment in 2020 and 2019. Therefore, there have not been any adjustments recorded to goodwill.

Intangible assets as of December 31, 2020 and December 31, 2019 are comprised of the following:

	Estimated Useful Lives	Remaining Average Useful Lives	**2020** Gross Amount	**2020** Accumulated Amortization	**2020** Net
Alarm contracts and contract intangibles	5-15 years	7	**$7,276,932**	**$(4,747,904)**	**$2,529,028**
Non compete and other agreements	5 years	1	**32,500**	**(27,084)**	**5,416**
			$7,309,432	**$(4,774,988)**	**$2,534,444**

	Estimated Useful Lives	Remaining Average Useful Lives	2019 Gross Amount	2019 Accumulated Amortization	2019 Net
Alarm contracts and contract intangibles	5-15 years	7	$7,276,932	$(4,245,303)	$3,031,629
Non compete and other agreements	5 years	2	32,500	(20,584)	11,916
			$7,309,432	$(4,265,887)	$3,043,545

The Company determined that there was no impairment of intangible assets in 2020 and 2019. The changes in the carrying amount of intangible assets for the years ended December 31, 2020 and 2019 are as follows:

Balance at December 31, 2018	$3,675,012
Amortization	(631,467)
Balance at December 31, 2019	3,043,545
Amortization	(509,101)
Balance at December 31, 2020	**$2,534,444**

Future estimated amortization expense of intangible assets is as follows as of December 31, 2020:

Years Ending December 31,	
2021	$ 410,279
2022	356,112
2023	354,721
2024	353,333
2025	353,333
Thereafter	706,666
	$2,534,444

6. Long-Term Debt

Long-term debt consists of the following:

December 31,	2020	2019
Term loan (a)	$ —	$ 809,524
Line of credit (b)	**2,000,000**	1,000,000
Promissory note (c)	—	23,660
PPP loan (d)	**6,668,352**	—
	8,668,352	1,833,184
Less: Current portion	**(2,000,000)**	(1,833,184)
	$ 6,668,352	$ —

(a) On October 26, 2015, the Company entered into a term loan from its primary bank collateralized by a blanket U.C.C. filing against its assets, by combining outstanding advances of $1,400,000 on its working capital line of credit and $600,000 of additional borrowings. The $2,000,000 five-year term loan maintained the same terms and conditions as previous term loans, with repayment to be made in monthly principal installments of $23,809 and a lump-sum payment of $595,239 at maturity, with an interest rate of LIBOR plus 1.75%. In connection with the 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 term loan was repaid in 2020.

The term loan agreement contained various restrictive covenants which included, but were 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 2020 and 2019.

(b) 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 May 31, 2021. Interest is payable at the Prime Rate, plus 1.25%, which equaled 4.5% as of December 31, 2020. On April 21, 2021, the Company amended its borrowing agreement, with a new expiration date of May 31, 2023 and a corresponding change in the interest rate to the Prime Rate, plus 0.25%. The weighted average borrowing rate during 2020 was approximately 4.4%.

(c) 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 note payable was repaid in 2020.

(d) On May 1, 2020, the Company received loan proceeds in the amount of $6,668,352 under the Paycheck Protection Program ("PPP"). The PPP loan agreement bears interest at a rate of 1% per annum and is unsecured and guaranteed by the U.S. Small Business Administration. The Company applied ASC 470, Debt, to account for the PPP loan. Under the terms of the PPP, certain amounts of the loan may be forgiven if they are used for qualifying expenses. The qualifying expenses as described in the CARES Act, include payroll costs, group health care benefits, rent and debt obligations, and utilities. The Company intends to use the entire loan amount for qualifying expenses and apply for forgiveness of the PPP loan with respect to these qualifying expenses. The Company anticipates that the entire PPP loan will be forgiven in 2021.

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, 2020 and 2019. An analysis of deferred revenues is as follows:

	Annual Service and Other Charges	Advance Service Charges	Total
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
Billings	**36,895,208**	**684,104**	**37,579,312**
Amortizations to income	**(36,745,831)**	**(1,062,900)**	**(37,808,731)**
Balances at December 31, 2020	**$ 4,766,634**	**$ 2,415,782**	**$ 7,182,416**

	Annual Service and Other Charges	Advance Service Charges	Total
Current	**$ 4,766,634**	**$ 903,000**	**$ 5,669,634**
Long-term	—	**1,512,782**	**1,512,782**
Balances at December 31, 2020	**$ 4,766,634**	**$ 2,415,782**	**$ 7,182,416**

	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

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, 2020 there are 12,050 SARs issued and outstanding. At December 31, 2019, there were 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,	**2020**	2019
Current		
Federal	**$ 724,469**	$ 657,504
State and local	**459,727**	386,997
	1,184,196	1,044,501
Deferred		
Federal	**(4,353)**	(21,553)
State and local	**20,157**	(24,948)
	15,804	(46,501)
Total provision for income taxes	**$1,200,000**	$ 998,000

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

	2020	2019
Federal statutory rate	**21.0%**	21.0%
State and local income taxes, net of federal income tax benefit	**9.4**	8.9
Other items	**1.1**	1.3
Effective rate	**31.5%**	31.2%

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,	2020	2019
Deferred Tax Assets		
Advance service revenue	**$ 707,177**	$ 776,677
Benefit plans	**940,032**	795,011
Other	**118,067**	152,667
Deferred tax assets	**1,765,276**	1,724,355
Deferred Tax Liabilities		
Intangibles	**(460,770)**	(568,166)
Depreciation	**(1,279,740)**	(1,284,640)
Other	**(386,153)**	(403,153)
Net deferred tax liabilities	**$ (361,387)**	$ (531,604)

The Company has not recorded any liabilities for uncertain tax positions as of December 31, 2020. With limited exceptions, the Company is no longer subjected to tax audits by taxing authorities for years through 2016 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, 2020 and 2019, 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, 2020 and 2019, respectively:

	Pension Benefits		Other Postretirement Benefits	
	2020	2019	**2020**	2019
Change in Benefit Obligation				
Benefit obligation at beginning of year	**$8,661,921**	$7,981,220	**$ 86,929**	$ 88,048
Interest cost	**234,548**	318,468	**2,023**	3,020
Change in assumptions	**495,357**	851,070	**78,543**	3,450
Actuarial loss (gain)	**439,244**	36,304	**(22,209)**	9,357
Benefits paid	**(676,461)**	(525,141)	**(32,756)**	(16,946)
Benefit obligation at end of year	**9,154,609**	8,661,921	**112,530**	86,929
Change in Plan Assets				
Fair value of plan assets at beginning of year	**6,236,664**	5,818,749	**—**	—
Actual return on plan assets	**316,874**	643,056	**—**	—
Employer contribution	**400,000**	300,000	**32,756**	16,946
Benefits paid	**(676,461)**	(525,141)	**(32,756)**	(16,946)
Fair value of plan assets at end of year	**6,277,077**	6,236,664	**—**	—
Benefit obligations in excess of fair value	**$2,877,532**	$2,425,257	**$ 112,530**	$ 86,929

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 2020 and 2019. 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	
	2020	2019	**2020**	2019
Noncurrent pension liability	**$(2,877,532)**	$(2,425,257)	**$ —**	$ —
Current portion of liability for postretirement benefits included in accrued expenses and other current liabilities	**—**	—	**(14,100)**	(14,600)
Noncurrent liability for postretirement benefits	**—**	—	**(98,430)**	(72,329)
Net amount recognized	**$(2,877,532)**	$(2,425,257)	**$(112,530)**	$(86,929)

Amounts recognized in accumulated other comprehensive loss consist of:

	Pension Benefits		Other Postretirement Benefits	
	2020	2019	**2020**	2019
Actuarial loss	**$4,266,125**	$3,697,413	**$89,531**	$38,174

The amounts shown above have been recognized in accumulated other comprehensive loss totaling $3,048,959 net of deferred income tax assets of $1,306,697 at December 31, 2020, and accumulated other comprehensive loss totaling $2,614,911 net of deferred income tax assets of $1,120,677 at December 31, 2019.

Amounts recorded in other comprehensive loss consist of:

	Pension Benefits			Other Postretirement Benefits		
	2020			**2020**		
	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	**$798,407**	**$239,522**	**$558,885**	**$56,334**	**$16,900**	**$39,434**
Less: Amortization included in net periodic pension cost	**229,695**	**68,909**	**160,786**	**4,977**	**1,493**	**3,484**
Net change during the year	**$568,712**	**$170,613**	**$398,099**	**$51,357**	**$15,407**	**$35,950**

	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

Components of net periodic pension and other postretirement benefits cost:

	Pension Benefits		Other Postretirement Benefits	
	2020	2019	**2020**	2019
Interest cost	**$ 234,548**	$ 318,468	**$2,023**	$3,020
Expected return on plan assets	**(180,680)**	(197,750)	**—**	—
Amortization of net losses	**229,695**	190,158	**4,977**	3,031
	$ 283,563	$ 310,876	**$7,000**	$6,051

Amounts recorded in accumulated other comprehensive loss expected to be recognized as a component of net periodic pension cost in 2021 are as follows:

	Pension Benefits	Other Postretirement Benefits
Actuarial loss	$271,837	$13,214

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	
	2020	2019	**2020**	2019
Discount rate used for net periodic cost	**2.83%**	4.14%	**2.54%**	3.74%
Discount rate used for benefit obligation	**2.28%**	2.83%	**1.48%**	2.54%
Expected return on plan assets	**3.00%**	3.50%	**—**	—

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 2020 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, 2020 and the net periodic pension and other postretirement benefits cost for 2020.

Plan Assets

Assets are primarily invested in the General Account of Principal Mutual Life Insurance Company, which provides the contract and cash out 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 cash out value of the assets as of December 31, 2020 and 2019 is as follows:

	2020	2019
General investment account	**91.1%**	90.6%
Stock separate account	**8.9%**	9.4%

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
2021	$2,597,000	$ 14,100
2022	1,554,000	13,100
2023	568,000	12,100
2024	347,000	11,200
2025	441,000	10,200
Thereafter	1,812,000	36,500
	$ 7,319,000	$97,200

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 $591,370 and $589,404 for the years ended December 31, 2020 and 2019, 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.

December 31, 2020	Inputs Level 1	Level 2	Level 3	NAV	Total
General investment account	**$ —**	**$ —**	**$5,720,306**	**$ —**	**$5,720,306**
Stock separate account	**—**	**—**	**—**	**556,771**	**556,771**

December 31, 2019	Inputs Level 1	Level 2	Level 3	NAV	Total
General investment account	$ —	$ —	$5,651,249	$ —	$5,651,249
Stock separate account	—	—	—	585,415	585,415

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, 2020 and 2019:

	2020	2019
Balances at January 1,	**$5,651,249**	$ 5,363,594
Deposits	**400,000**	300,000
Investment return	**358,389**	514,821
Benefit payments and credits	**(689,332)**	(527,166)
Balances at December 31,	**$5,720,306**	$ 5,651,249

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,	
2021	$ 997,471
2022	644,478
2023	373,507
2024	198,263
	$2,213,719

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 $2,495,000 and $2,252,000 for the years ended December 31, 2020 and 2019, 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 evaluated all events or transactions that occurred after the balance sheet date of December 31, 2020 through April 22, 2021, 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, 2020 and 2019, 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, 2020 and 2019, 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 22, 2021

AFA Protective Systems, Inc. and Subsidiaries

Selected Financial Data

For Each of the Five Years in the Period Ended December 31, 2020.

	2020	2019	2018	2017	2016
Sales	**$44,870,214**	$46,396,519	$43,785,727	$40,642,497	$43,372,292
Service revenues	**$37,808,731**	$36,691,397	$33,956,097	$32,577,618	$31,657,893
Net income	**$ 2,602,785**	$ 2,201,130	$ 1,101,433	$ 260,050	$ 325,714
Earnings per share	**$ 16.09**	$ 13.61	$ 6.81	$ 1.61	$ 2.01
Cash dividends per share	**$ 2.00**	$ 2.00	$ 2.00	$ 2.00	$ 2.00
Average number of shares outstanding	**161,758**	161,758	161,758	161,768	161,768
At year end:					
Deferred revenues	**$ 7,182,416**	$ 7,411,835	$ 8,447,346	$ 7,405,690	$ 6,732,969
Property, plant and equipment, net	**$ 6,048,695**	$ 5,682,357	$ 5,707,885	$ 5,811,691	$ 6,133,099
Total assets	**$40,569,928**	$33,355,325	$34,031,000	$30,485,170	$32,817,312
Stockholders' equity	**$13,478,622**	$11,633,401	$ 9,205,766	$ 8,183,292	$ 8,113,433
Number of shares outstanding	**161,758**	161,758	161,758	161,768	161,768
Book value per share	**$ 83.33**	$ 71.92	$ 56.91	$ 50.59	$ 50.15

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, 2020 and 2019 are as follows:

Year Ended December 31, 2020

Quarter		Bid	Dividends
1	High	**$175**	**$ .50**
	Low	**136**	
2	High	**139**	**.50**
	Low	**25**	
3	High	**160**	**.50**
	Low	**103**	
4	High	**115**	**.50**
	Low	**105**	
			$ 2.00

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

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

975 Cobb Place Boulevard NW
Suite 308
Kennesaw, GA 30144
(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 Wednesday, 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.

YOUR FIRE AND SECURITY SOLUTION

AFA PROTECTIVE SYSTEMS, INC.
155 MICHAEL DRIVE
SYOSSET, NY 11791

TELEPHONE: 516.496.2322
FAX: 516.496.2848

WWW.AFAP.COM