acmat 2014

Navigating Wisely

Maintaining a Steady Hand in Challenging Times.

Despite the modest recovery of the U.S. economy over the past year, public construction continued to move forward at a very slow pace. Some surety underwriters responded to these conditions by lowering their prices. Instead, we continued to follow the course that has worked so well for us. By adhering to the principles that have always set us apart – flexibility, fairness, responsiveness and a dedication to customer service – we have built stronger client relationships. And, by avoiding the hazards inherent in a slow market and keeping costs in line, we've maintained exceptional levels of performance and profitability. Even under difficult conditions, we have continued to advance. We remain confident that our approach will continue to serve us well.

TO OUR SHAREHOLDERS AND CUSTOMERS

Thank you for your interest in our company. We generated solid earnings in 2014, which extends our record of generating income for 61 years out of our 64 year history. We write surety bonds for construction contractors. We are licensed and provide bonds for construction contractors in all 50 states.

Surety bonds are a means of providing an additional level of comfort to buyers of construction services, supporting, to an extent, the successful performance of a construction project and the payment of project obligations. The federal government, and all 50 states, and most of the municipalities across the nation almost always require surety bonds as a matter of law, for almost all construction projects. Some private owners require surety bonds as a matter of policy. For example, Walmart usually requires surety bonds in connection with the construction and renovation of their stores. Some general contractors, working on private or public projects require bonds from their subcontractors as policy. But the majority of our business comes from writing construction bonds mandated by the federal government, and by the states and municipalities. Those projects are commonly referred to as "public work" or the public sector of the construction industry.

In addition to our surety operations, we manage and invest approximately $60 million of marketable securities owned and held by the company. These investments, in part, support $28 million of statutory surplus maintained in our insurance subsidiary, the security deposits we provide to various state insurance departments, the maintenance of our strong A.M. Best Company rating, which was affirmed at A VI on December 18, 2014, and the approval of the United States Treasury Department to qualify ACSTAR to write bonds to the United States. That approval was renewed on June 20, 2014. These credentials qualify ACSTAR as an acceptable surety under almost all circumstances anywhere in the United States.

Following the great financial meltdown in 2008, the public sector of the construction industry fell into a deep slump and although some sectors of the economy have shown modest recovery, the public sector of the construction industry has not. Accordingly, we are having difficulty growing our surety business. To a lesser extent, our growth is also being hampered by our competition offering lower prices and fewer conditions. However, throughout this challenging period we have remained consistently profitable. During 2014, net income was $888,000 vs. $999,000 in 2013 and revenue was $5,102,000 in 2014 vs $5,547,000 in 2013. Basic earnings per share were $0.85 in 2014 vs. $0.89 in 2013. Net investment income was $2,212,000 in 2014 vs. $2,235,000 in 2013. Even though earned premium of $1,964,000 in 2014 was less than the $2,112,000 earned in 2013, we were able to accomplish the strong results by further reductions in overhead and running the business with very low losses, resulting in a reduction of our loss reserve. A very strong performance in our investment operations was an important contributor to the strong results.

We believe our progress stems from our operating plan. We compete for business and win customers by offering non-traditional solutions for gaining surety credit, and by providing faster and better service, and by providing valuable assistance to our customers in negotiating bond and contract terms. We believe our commitment to support customers during difficult times is head and shoulders above the competition. In fact, we often come to the aid of new customers while they are being rejected by another surety. We believe there is always a need for these services.

Here is how we view our market: For each of the last 7 years, recognized industry economists have mistakenly overestimated a recovery in the public sector of the construction industry. They have continually erred in projecting 5% to 7% annual growth which has not happened. We think that finally, by late 2016, the public sector of the construction industry will reach, at least, the nascent stages of a recovery. I am hoping another round of lofty estimates by the experts is not just the presage of another whiff. If the recovery happens, we believe we will be able to substantially grow our surety business. If it does not, we believe we can continue to navigate through the difficulties and prosper.

Like most enterprises we face risks. Although we apply conservative and disciplined underwriting standards, a defaulting contractor that we've bonded, could cause us to incur a significant loss. During the downturn, many contractors have been weakened, which could increase the risk of defaults. We often rely on bank letters of credit to partially securitize the high risk associated with writing surety bonds. A financial industry meltdown could lead to possible bank defaults on letters of credit, which could result in greater exposure to contractor defaults in connection with the bonds we write. Defaults in payment of interest and/or principal by municipalities or states on debt securities we have purchased and hold, could adversely affect our investment portfolio and our investment income. With the open-ended court system that prevails in the nation, there is possible exposure to inflated and unreasonable plaintiff judgments pertaining to our surety business and to the run-off of our casualty business. Since 1995, we have been named, along with many others, in third party bodily injury claims relating to materials containing asbestos. A large number of claims have been dismissed or settled for nominal payments by us or our insurers.

In keeping with and continuing our more than 25 year stock repurchase program, during 2014 the company purchased 66,525 shares of the company's Class A stock and 100 shares of the company's Common stock. The total consideration for all purchases was $1,834,240. The shares were cancelled and retired and the purchase price has been reflected as an offset to retained earnings. We expect to continue such purchases in the future.

During 2014, we again met our company plan and goal of increasing per share equity, which increased to $32.36 at December 31, 2014 from $31.05 at December 31, 2013.

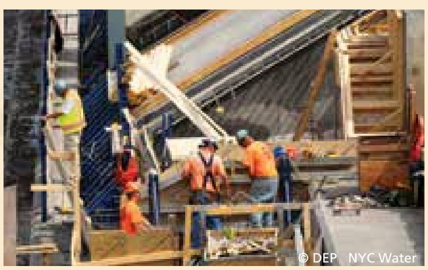
We would not be able to accomplish what we do without our customers and our employees and our shareholders…… Thank you.

Hank

Henry W. Nozko, Jr.
Chairman, President and
Chief Executive Officer
April 17, 2015

Securing the Water Supply of America's Largest City.

In service since 1927, the Gilboa Dam is the northernmost part of the Catskill Water Supply System, a system of dams and reservoirs that provides approximately 15% of New York City's annual water supply. The Gilboa Dam impounds more than 17 billion gallons of water in the Schoharie Reservoir. Age-related deterioration of the almost 90-year-old facility made it clear that extensive upgrades were necessary. As part of the reconstruction project, ACSTAR issued a bond for approximately $1 million to cover the installation of new geotechnical instrumentation controls and safety monitoring equipment. When finished, the project – begun in 2005 and scheduled for completion in early 2019 – will bring the Gilboa Dam into compliance with the safety guidelines of the New York State Department of Conservation. Thanks in part to ACSTAR's support, communities downstream from the Schoharie Reservoir will enjoy a greater degree of safety. And, the more than 8 million residents of New York City will continue to have a reliable source of drinking water.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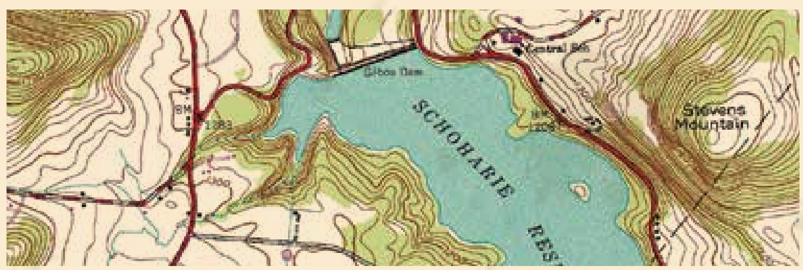


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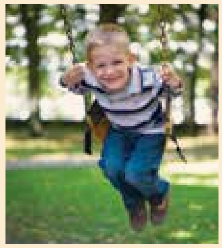
Removing a Dangerous Pollutant from a Missouri Community.

There's a section of southeastern Missouri that's known as the "Old Lead Belt." Dating back to 1900, the area had been a center for lead mining. The mines employed thousands of workers, and during most of the 20th Century, the area provided much of the lead used for bullets, batteries and other products throughout the United States. Mining stopped in the early 1970s, but the industry's impact lingers with the extensive presence of lead-contaminated mine wastes. Testing revealed elevated levels of lead in soil, ground water and surface water in several area communities. High lead levels are a well-documented hazard to children. Contaminants in the nearby Big River also posed a hazard to several local species of shellfish. Although Jefferson County was not a mining area, testing revealed high lead levels in many yards in the County's residential communities, because topsoil had been brought in from the Big River basin. To help minimize the impact of a dangerous pollutant on future generations, ACSTAR bonded a $5 million contract to the U.S. Environmental Protection Agency for selected excavation and relocation of contaminated materials and the restoration of affected areas.



Assets	**2014**	**2013**
Investments:		
Fixed maturities (Amortized cost of $43,761,413 in 2014 and $46,228,204 in 2013)	$ 44,914,586	46,004,644
Equity securities (Historical cost of $8,209,342 in 2014 and $10,628,670 in 2013)	8,085,342	10,758,399
Short-term investments, at cost which approximates fair value	6,024,142	3,283,481
Total investments	59,024,070	60,046,524
Cash and cash equivalents	5,793,124	5,480,724
Accrued interest receivable	328,839	383,463
Premiums receivable, net of allowance for doubtful accounts of $19,802 in 2014 and $28,305 in 2013	41,746	93,907
Other receivables	209,560	251,993
Reinsurance recoverable	1,813,184	1,879,684
Prepaid expenses	130,341	126,626
Income taxes receivable	-	317,912
Deferred income taxes, net	-	578,883
Property and equipment, net	5,158,921	5,262,125
Deferred policy acquisition costs	90,809	108,318
Ceded unearned premiums	93,657	119,053
Other assets	1,093,502	1,083,928
Intangibles	1,920,360	1,920,360
Total assets	$ 75,698,113	77,653,500
Liabilities and Stockholders' Equity		
Reserves for losses and loss adjustment expenses	$ 14,927,292	15,399,806
Unearned premiums	643,159	817,140
Income taxes payable	1,184	-
Deferred income taxes, net	218,401	-
Collateral held	18,036,537	19,341,931
Reinsurance premiums payable	39,594	51,353
Accounts payable and accrued liabilities	1,229,687	1,511,325
Long-term debt	8,054,883	7,235,714
Total liabilities	43,150,737	44,357,269
Common Stock (No par value; 3,500,000 shares authorized; 357,966 shares issued and outstanding)	357,966	358,066
Class A Stock (No par value; 10,000,000 shares authorized; 647,682 shares issued and outstanding)	647,682	714,207
Retained earnings	31,256,626	32,285,886
Accumulated other comprehensive income (loss)	285,102	(61,928)
Total stockholders' equity	32,547,376	33,296,231
Total liabilities and stockholders' equity	$ 75,698,113	77,653,500

See Notes to Consolidated Financial Statements

ACMAT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Earnings — For the Years Ended December 31, 2014 and 2013

Revenues	**2014**	**2013**
Premiums	$ 1,963,855	2,112,467
Net investment income	2,211,885	2,235,311
Net realized capital gains	773,094	962,807
Fee and other income	153,254	236,116
Total revenues	5,102,088	5,546,701
Expenses		
Incurred losses and loss adjustment expenses	(53,614)	211,247
Amortization of deferred acquisition costs	315,989	333,840
General and administrative expenses	3,351,507	3,397,991
Interest expense	250,519	251,768
Total expenses	3,864,401	4,194,846
Earnings before income taxes	1,237,687	1,351,855
Provision for income taxes	349,929	352,599
Net earnings	$ 887,758	999,256
Basic earnings per share	$ 0.85	$ 0.89
Diluted earnings per share	$ 0.84	$ 0.87

See Notes to Consolidated Financial Statements

ACMAT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income — For the Years Ended December 31, 2014 and 2013

	2014	**2013**
Net earnings	$ 887,758	999,256
Change in net unrealized gains and losses on investment securities	1,123,005	(969,203)
Income tax expense (benefit)	775,975	(329,529)
Other comprehensive income (loss), net of taxes	347,030	(639,674)
Comprehensive income	$ 1,234,788	359,582

See Notes to Consolidated Financial Statements

	Common Stock Par value	Class A Stock Par value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance as of December 31, 2012	$ 367,306	789,647	33,326,733	577,746	35,670,432
Comprehensive income					
Net change in unrealized capital gains and losses on investment securities, net of reclassification	-	-	-	(639,674)	(639,674)
Net earnings	-	-	999,256	-	999,256
Total comprehensive income	-	-	999,256	(639,674)	359,582
Acquisition and retirement of 9,240 shares of common Stock	(9,240)	-	(240,240)	-	(249,480)
Issuance of 30,000 shares of Class A Stock pursuant to stock options	-	30,000	362,200	-	392,200
Acquisition and retirement of 114,440 shares of Class A Stock	-	(114,440)	(2,762,063)	-	(2,876,503)
Balance as of December 31, 2013	$ 358,066	714,207	32,285,886	(61,928)	33,296,231
Comprehensive income					
Net change in unrealized capital gains and losses on investment securities, net of reclassification	-	-	-	347,030	347,030
Net earnings	-	-	887,758	-	887,758
Total comprehensive income	-	-	887,758	347,030	1,243,788
Excess benefit from stock options exercised	-	-	139,107	-	139,107
Acquisition and retirement of 100 shares of common Stock	(100)	-	(2,400)	-	(2,500)
Issuance of 29,500 shares of Class A Stock pursuant to stock options	-	29,500	330,990	-	360,490
Acquisition and retirement of 96,025 shares of Class A Stock	-	(96,025)	(2,384,715)	-	(2,480,740)
Balance as of December 31, 2014	$ 357,966	647,682	31,256,626	285,102	32,547,376

See Notes to Consolidated Financial Statements

	2014	2013
Cash flows from operating activities		
Net earnings	$ 887,758	999,256
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	234,637	332,792
Net realized capital gains	(773,094)	(962,807)
Deferred income tax expense	23,107	275,199
Changes in:		
Accrued interest receivable	54,624	28,484
Receivables	94,594	39,970
Reinsurance recoverable	66,500	(20,713)
Income taxes	319,096	(326,057)
Deferred policy acquisition costs	17,509	18,304
Prepaid expenses and other assets	12,415	341,456
Reserves for losses and loss adjustment expenses	(472,514)	(17,393)
Unearned premiums, net	(148,586)	(64,710)
Collateral held	(1,305,394)	(5,565,376)
Reinsurance premiums payable	(11,759)	(8,880)
Accounts payable and accrued liabilities	(281,637)	(84,918)
Net cash used for operating activities	(1,282,744)	(5,015,393)
Cash flows from investing activities		
Proceeds from investments sold, matured or redeemed:		
Fixed maturities sold	6,637,397	7,303,231
Maturities and redemptions	7,185,682	10,797,823
Equity securities	67,887,924	76,268,113
Purchases of:		
Fixed maturities	(11,319,896)	(16,011,353)
Equity securities	(64,779,580)	(70,969,474)
Short-term investments, net	(2,740,661)	(848,397)
Capital expenditures	(83,746)	(116,262)
Net cash provided by investing activities	2,787,120	6,423,681
Cash flows from financing activities		
Additional borrowing under term loan facility	1,700,000	-
Borrowing under mortgage note	-	1,500,000
Repayments of long-term debt	(908,333)	(1,478,571)
Excess benefit realized on share based compensation	139,107	-
Acquisition and retirement of common shares	(2,500)	(249,480)
Issuance of Class A shares pursuant to stock options	360,490	392,200
Acquisition and retirement of Class A shares	(2,480,740)	(2,876,503)
Net cash used for financing activities	(1,191,976)	(2,712,354)
Net change in cash and cash equivalents	312,400	(1,304,066)
Cash and cash equivalents, beginning of period	5,480,724	6,784,790
Cash and cash equivalents, end of period	$ 5,793,124	5,480,724

<u>Supplemental disclosure of cash flows information:</u>

Cash received from (paid for) income taxes	131,381	(403,457)
Cash paid for interest	209,120	212,551

See Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

(a) *Basis of Presentation*

The consolidated financial statements include ACMAT Corporation (ACMAT), and its wholly-owned subsidiaries; AMINS, Inc., ACMAT Realty, ACSTAR Holdings, Inc. (ACSTAR Holdings) and ACSTAR Holdings' wholly-owned subsidiary, ACSTAR Insurance Company (ACSTAR); collectively referred to as "the Company".

These consolidated financial statements are prepared under U.S. generally accepted accounting principles (GAAP). GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues, claims, and expenses during the reporting period. Actual results could differ from those estimates. All material intercompany transactions and balances have been eliminated.

(b) *Business*

The Company, through ACSTAR, offers surety bonds for prime, sub-prime, specialty trade, environmental, asbestos and lead abatement contractors and miscellaneous obligations nationwide. ACSTAR also provides other miscellaneous surety such as workers' compensation bonds, supply bonds, subdivision bonds, and license and permit bonds. Prior to 2010, ACMAT provided construction contracting services to commercial and governmental customers.

(c) *Investments*

Management believes the Company has the ability to hold all fixed income securities to maturity. However, the Company may dispose of securities prior to their scheduled maturity due to changes in interest rates, prepayments, tax and credit considerations, liquidity or regulatory capital requirements or other similar factors. As a result, the Company considers all of its fixed income and equity securities as available-for-sale, and as such, they are carried at fair value, with unrealized gains or losses, net of tax, charged or credited directly to stockholders' equity. Fixed maturities include marketable debt instruments and redeemable preferred stocks. Equity securities reflect investments in common stock and non-redeemable preferred stock. Short-term investments, consisting of U.S. Government money market funds, are carried at cost, which, along with accrued interest, approximates fair value. Cash and cash equivalents include cash on hand and short-term highly liquid investments of maturities of three months or less when purchased. These investments are carried at cost plus accrued interest which approximates fair value.

The fair values of investment securities are based on quoted market prices and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument or a portion thereof. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates. Premiums and discounts on debt securities are amortized into interest income over the term of the securities using the effective interest method. Realized gains and losses on sales of securities are computed using the specific identification method. Any security which management believes has experienced a decline in value which is other than temporary is written down to its fair value and a charge is recorded in realized capital losses. The risks inherent in assessing the impairment of an investment security include the risk that market factors may differ from expectations and may change over time. Unexpected changes to these factors and circumstances in the future may result in a decision to sell or recognize an impairment loss on securities that were not written-down in prior reporting periods.

An investment in a debt or equity security is other-than-temporarily impaired if its cost basis is in excess of fair value and the decline is considered to be other-than-temporary. Factors considered in determining whether a decline is other-than-temporary include the length of time and the extent to which the security's cost basis has been in excess of fair value, the financial condition and the near-term prospects of the issuer, and the Company's intent to sell the investment before its anticipated recovery in value.

If management determines that the fair value of its securitized financial asset is less than its carrying amount and there has been a decrease in the present value of the estimated cash flows since the last revised estimate, considering both timing and amount, an other-than-temporary impairment charge is recognized. A debt security is impaired if it is probable that the Company will not be able to collect all amounts due under the security's contractual terms. Equity investments are impaired when it becomes apparent that the Company will not recover its cost over the expected holding period. Further, for securities expected to be sold, an other-than-temporary impairment charge is recognized if the Company does not expect the fair value of a security to recover the cost prior to the expected date of sale.

The Company's process for reviewing invested assets for impairments includes the following:

- identification and evaluation of investments which have possible indications of impairment;

- analysis of investments with amortized cost in excess of fair value during successive periods over a substantial timeframe, as determined by management;

- management review of other-than-temporary impairments based on the investee's current financial condition, liquidity, near term recovery prospects and other factors, as well as consideration of other investments that were not recommended for other-than-temporary impairments;

- consideration of evidential matter, including an evaluation of factors or triggers that would or could cause individual investments to qualify as having other-than-temporary impairment and those that would not support other-than-temporary impairments; and

- determination of the status of each analyzed investment impairment as other-than-temporary or not, with documentation of the rationale for the decision.

(d) ***Deferred Policy Acquisition Costs***

Deferred policy acquisition costs, representing commissions and premium taxes, are deferred and amortized pro rata over the contract periods in which the related premiums are earned. Deferred acquisition costs are reviewed to determine if they are recoverable from future income, and if not, are charged to expense. Future investment income attributable to related premiums is taken into account in measuring the recoverability of the carrying value of this asset.

(e) ***Property and Equipment***

Property and equipment are stated at cost net of depreciation. Depreciation is computed using the straight-line method based upon the respective estimated useful lives of the assets. Certain costs related to construction-in-progress are capitalized in property and equipment and commence depreciation upon being placed in-service. Maintenance and repairs are expensed as incurred.

(f) ***Intangibles***

Intangible assets relate to insurance operating licenses that are deemed to have an indefinite useful life. The Company performs an impairment test at least annually or more frequently if events or conditions suggest that the asset might be impaired. The Company has not impaired any intangible assets.

(g) ***Reserves for Losses and Loss Adjustment Expenses***

Reserves for losses and loss adjustment expenses are established with respect to both reported and incurred but not reported claims for insured risks. The amount of loss reserves for reported claims is primarily based upon a case-by-case evaluation of the type of risk involved, knowledge of the circumstances surrounding the claim and the policy provisions relating to the type of claim. As part of the reserving process, historical data is reviewed and consideration is given to the anticipated impact of various factors such as underwriting information, legal developments and economic conditions. Reserves are monitored and recomputed periodically using new information on reported claims.

Reserves for losses and loss adjustment expenses are estimates at any given point in time of what the Company may have to pay ultimately on incurred losses, including related settlement costs, based on facts and circumstances then known. The Company also reviews its claims reporting patterns, past loss experience, risk factors and current trends and considers their effect in the determination of estimates of incurred but not reported losses. Ultimate losses and loss adjustment expenses are affected by many factors which are difficult to predict, such as claim severity and frequency, past experience and unexpected and unfavorable judicial rulings. Reserves for surety claims also consider the amount of collateral held as well as the financial strength of the underlying contractor and its indemnitors.

Management believes that the reserves for losses and loss adjustment expenses are adequate to cover the unpaid portion of the ultimate net cost of losses and loss adjustment expenses incurred, including incurred but not reported claims.

(h) ***Collateral Held***

The liability for collateral held represents cash retained for surety bonds issued by the Company to cover costs of claims or unpaid premiums. The carrying amount of collateral held approximates its fair value.

(i) ***Reinsurance***

In the normal course of business, the Company may assume and cede reinsurance with other companies. Reinsurance ceded primarily represents excess of loss reinsurance with companies maintaining "A" ratings from creditable insurance rating organizations. Reinsurance is ceded to limit losses from large exposures and to permit recovery of a portion of direct losses; however, such a transfer does not relieve the originating insurer of its liability.

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured business. The Company evaluates and monitors the financial condition of reinsurers under reinsurance arrangements to determine its exposure to significant losses from reinsurer insolvencies.

The Company cedes 80% of its bond exposure in excess of $1,000,000 up to $7,000,000 on a per principal basis.

Reinsurance recoverables include ceded reserves for losses and loss adjustment expenses. The Company had no reinsurance recoverables on paid losses and loss adjustment expenses as of December 31, 2014 or 2013. All reinsurance contracts maintained by the Company qualify as short-duration prospective contracts. A summary of reinsurance premiums written and earned is provided below:

	Premiums Written		Premiums Earned	
	2014	**2013**	**2014**	**2013**
Direct	$2,124,614	2,396,718	2,298,595	2,472,951
Assumed	-	-	-	-
Ceded	309,344	348,962	334,740	360,484
Net	$ 1,815,270	2,047,756	1,963,855	2,112,467

Ceded incurred losses and loss adjustment expenses totaled $33,474 and $36,048 for the years ended December 31, 2014 and 2013, respectively.

(j) ***Statutory Accounting Practices***

The Company's insurance subsidiary, domiciled in the state of Illinois, prepares statutory financial statements in accordance with the accounting practices prescribed or permitted by the insurance department of the state of Illinois. Prescribed statutory accounting practices are those practices that are incorporated directly or by reference in state laws, regulations, and general administrative rules applicable to all insurance enterprises domiciled in a particular state. Permitted statutory accounting practices include practices not prescribed by the domiciliary state, but allowed by the domiciliary state regulatory authority. The Company does not have any permitted statutory accounting practices.

(k) ***Revenue Recognition***

Insurance premiums are recognized over the coverage period. Unearned premiums represent the portion of premiums written that is applicable to the unexpired terms of policies in force, calculated on a pro-rata basis.

(l) ***Income Taxes***

The provision for taxes comprises two components, current income taxes and deferred income taxes. Deferred income taxes arise from changes during the year in cumulative temporary differences between the tax basis and book basis of assets and liabilities.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that all or some portion of the deferred tax assets will not be realized.

(m) ***Share Based Compensation***

The Company periodically grants non-qualified stock options to officers and directors giving such individuals the right to purchase shares of the Company's Common Stock and Class A Stock. Compensation cost is measured based on the grant-date fair value of the award, utilizing the assumptions discussed in Note 11. Compensation cost is recognized for financial reporting purposes over the period in which the employee is required to provide service in exchange for the award (the vesting period).

(2) Investments

a) Fixed Maturities

Fixed maturities at December 31, 2014 and 2013 are as follows:

2014		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
United States government and other government obligations	$	3,832,651	2,291	27	3,834,915
States and municipalities		22,245,149	949,337	101,480	23,093,006
Industrial and miscellaneous		6,148,718	165,655	60,935	6,253,438
Mortgage-backed securities		7,985,995	227,347	78,756	8,134,586
Redeemable preferred stock		3,548,900	83,376	33,635	3,598,641
Total fixed maturities	$	43,761,413	1,428,006	274,833	44,914,586

2013		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
United States government and other government obligations	$	4,075,931	192	1,032	4,075,091
States and municipalities		25,418,740	470,833	635,598	25,253,975
Industrial and miscellaneous		6,199,390	207,493	25,194	6,381,689
Mortgage-backed securities		7,122,744	221,818	139,435	7,205,127
Redeemable preferred stock		3,411,399	52,864	375,501	3,088,762
Total fixed maturities	$	46,228,204	953,200	1,176,760	46,004,644

The amortized cost and fair value of fixed maturities by contractual maturity follow. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

2014		Amortized Cost	Fair Value
Due in one year or less	$	5,840,022	5,882,523
Due after one year through five years		5,722,946	5,953,852
Due after five years through ten years		6,104,663	6,273,056
Due after ten years		18,107,787	18,670,569
Mortgage-backed securities		7,985,995	8,134,586
	$	43,761,413	44,914,586

At December 31, 2014 and 2013, the Company held mortgage-backed securities with a fair value of $8,134,585 and $7,205,127, respectively. Approximately 33% and 57% of the Company's investments in mortgage-backed securities are backed by Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), Small Business Administration (SBA) or Federal Home Loan Mortgage Corporation (FHLMC) securities at December 31, 2014 and 2013, respectively.

Included in the Company's investments in mortgage-backed securities are residential collateralized mortgage obligations (CMOs) classified as available for sale with a fair value of $5,499,368 and $4,964,221 as of December 31, 2014 and 2013, respectively. The Company makes investments in CMOs that typically have high credit quality, offer good liquidity and are expected to provide an advantage in yield compared to U.S. Treasury securities. The Company's investment strategy is to purchase CMO tranches which offer the most favorable return given the risks involved. One significant risk evaluated is prepayment sensitivity. While prepayment risk and its effect on total return cannot be fully controlled, particularly when interest rates move dramatically, the investment process generally favors securities that control this risk within expected interest rate ranges. The Company does invest in other types of CMO tranches if a careful assessment indicates a favorable risk/return tradeoff. The Company does not purchase residual interests in CMOs. Approximately 20% and 44% of the Company's CMO holdings are fully collateralized by GNMA, FNMA, SBA, or FHLMC securities at December 31, 2014 and 2013, respectively.

Proceeds from sales of fixed maturities classified as available for sale were $6,637,397 and $7,303,231 in 2014 and 2013, respectively. Gross gains of $246,128 and $120,515 and gross losses of $162,051 and $129,462 were realized on fixed maturity sales for the years ended December 31, 2014 and 2013, respectively.

At December 31, 2014 and 2013, the Company's insurance subsidiary had securities with fair values of $3,834,915 and $4,075,931, respectively, on deposit with government authorities, as required by various states. At December 31, 2014, proceeds from the maturity of a U.S. Government bond of $212,000 were on deposit with a state insurance department.

b) Equity Securities

Equity securities at December 31, 2014 and 2013 are as follows:

2014	Historical Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Perpetual preferred stocks	$ 2,195,755	72,535	11,360	2,256,930
Common stocks	6,013,587	687,906	873,081	5,828,412
Total equity securities	$ 8,209,342	760,441	884,441	8,085,342

2013	Historical Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Perpetual preferred stocks	$ 1,547,877	17,463	78,520	1,486,820
Common stocks	9,080,793	934,655	743,869	9,271,579
Total equity securities	$ 10,628,670	952,118	822,389	10,758,399

Proceeds from sales of equity securities were $67,887,924 and $76,268,113 in 2014 and 2013, respectively. Gross gains of $1,447,290 and $1,574,645 were realized on the sale of equity securities for the years ended December 31, 2014 and 2013, respectively, and gross losses of $758,273 and $602,891 were realized on the sale of equity securities for the years ended December 31, 2014 and 2013, respectively.

c) Other-than-Temporary Impairment

The following tables summarize, for all investments in an unrealized loss position at December 31, 2014 and 2013, the aggregate fair value and gross unrealized loss by length of time those securities have been continuously in an unrealized loss position:

	Less than 12 Months			
	2014		2013	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturities:				
United States government and other government obligations	$ 277,310	27	3,587,892	1,032
States and municipalities	1,455,354	15,232	9,464,623	488,304
Industrial and miscellaneous	2,263,253	60,935	1,129,083	25,194
Mortgage-backed securities	967,800	23,445	1,009,798	49,042
Redeemable preferred stock	365,100	9,900	2,028,398	345,501
Total fixed maturities	5,328,817	109,539	17,219,794	909,073
Equity securities:				
Perpetual preferred stock	-	-	721,480	78,520
Common stock	3,128,950	548,322	4,794,952	556,852
Total equity securities	3,128,950	548,322	5,516,432	635,372
Total	$ 8,457,767	657,861	22,736,226	1,544,445

	Greater than 12 Months			
	2014		2013	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturities:				
States and municipalities	$ 2,831,592	86,248	1,326,868	147,294
Mortgage-backed securities	372,502	55,311	465,630	90,393
Redeemable preferred stock	888,765	23,735	95,000	30,000
Total fixed maturities	4,092,859	165,294	1,887,498	267,687
Equity securities:				
Perpetual preferred stock	188,640	11,360	-	-
Common stock	1,036,037	324,759	1,225,153	187,017
Total equity securities	1,224,677	336,119	1,225,153	187,017
Total	$ 5,317,536	501,413	3,112,651	454,704

	Total			
	2014		2013	
Fixed maturities:	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
United States government and other government obligations	$ 277,310	27	3,587,892	1,032
States and municipalities	4,286,946	101,480	10,791,491	635,598
Industrial and miscellaneous	2,263,253	60,935	1,129,083	25,194
Mortgage-backed securities	1,340,302	78,756	1,475,428	139,435
Redeemable preferred stock	1,253,865	33,635	2,123,398	375,501
Total fixed maturities	9,421,676	274,833	19,107,292	1,176,760
Equity securities:				
Perpetual preferred stock	188,640	11,360	721,480	78,520
Common stock	4,164,987	873,081	6,020,105	743,869
Total equity securities	4,353,627	884,441	6,741,585	822,389
Total	$ 13,775,303	1,159,274	25,848,877	1,999,149

The following table summarizes for all fixed maturity and equity securities available for sale for which fair value is less than 80% of amortized cost at December 31, 2014, the gross unrealized investment loss by length of time those securities have continuously been in an unrealized loss position of greater than 20% of amortized cost:

	Period for Which Fair Value is Less than 80% of Amortized Cost				
	Less Than 3 Months	Greater Than 3 Months, Less Than 6 Months	Greater Than 6 Months, Less Than 12 Months	Greater Than 12 Months	Total
States and municipalities	$ -	-	-	20,413	20,413
Mortgage backed securities	-	-	-	45,587	45,587
Total fixed maturities	-	-	-	66,000	66,000
Common stock	347,916	195,785	76,500	33,144	653,345
Total	$ 347,916	195,785	76,500	99,144	719,345

The unrealized losses related to mortgage-backed securities reflect discount pricing on these securities due to faster than expected repayment of principal. At the current repayment rates, principal will have been returned to the Company well in advance of the contractual maturity date associated with each instrument. Much of the declines noted under common stocks relate to common stocks of energy production and supply corporations, which have been subject to economic and political obstacles in the latter half of 2014. Management considers the declines to be temporary in nature and have the ability and intent to hold the positions through recovery.

d) Net Investment Income

A summary of net investment income for the years ended December 31, 2014 and 2013 is as follows:

	2014	2013
Taxable interest	$ 1,016,431	994,956
Tax-exempt interest	628,359	661,227
Dividend income	677,306	682,897
Investment expenses	(110,211)	(103,769)
Net investment income	$ 2,211,885	2,235,311

(3) Fair Value Measurements

The Company's estimates of fair value for financial assets and financial liabilities are based on a fair value hierarchy. The hierarchy is based on the inputs used in valuation and gives the highest priority to quoted prices in active markets, requiring that observable inputs be used in the valuations when available. The fair value hierarchy is based on whether the significant inputs into the valuation are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Company's significant market assumptions. The three levels of the hierarchy are as follows:

- Level 1 – Unadjusted quoted market prices for identical assets or liabilities in active markets that the Company has the ability to access.

- Level 2 – Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; or valuations based on models where the significant inputs are observable (e.g., interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.

- Level 3 – Valuations based on models where significant inputs are not observable. The unobservable inputs reflect the Company's own assumptions about the assumptions that market participants would use.

The fair value of a financial instrument is the estimated amount at which the instrument could be exchanged in an orderly transaction between knowledgeable, unrelated willing parties, i.e., not in a forced transaction. The estimated fair value of a financial instrument may differ from the amount that could be realized if the security was sold in an immediate sale (i.e., a forced transaction). Additionally, the valuation of fixed maturity investments is more subjective when markets are less liquid due to the lack of market based inputs, which may increase the potential that the estimated fair value (i.e., the carrying amount) of an investment is not reflective of the price at which an actual transaction would occur.

For investments that have quoted market prices in active markets, the Company uses the quoted market prices as fair value and includes these prices in the amounts disclosed in Level 1 of the hierarchy. The Company receives the quoted market prices from a third party nationally recognized pricing service (pricing service). When quoted market prices are unavailable, the Company utilizes a pricing service to determine an estimate of fair value, which is mainly for its fixed maturity investments. The fair value estimates provided from this pricing service are included in the amount disclosed in Level 2 of the hierarchy. If quoted market prices and an estimate from a pricing service are unavailable, the Company produces an estimate of fair value based on internally developed valuation techniques, which, depending on the level of observable market inputs, will render the fair value estimate as Level 2 or Level 3. The Company bases all of its estimates of fair value for assets on the bid price as it represents what a third party market participant would be willing to pay in an arm's length transaction. The following section describes the valuation methods used by the Company for each type of financial instrument it holds that is carried at fair value.

Fixed Maturities

The Company utilizes a pricing service to estimate fair value measurements for all of its fixed maturities. The pricing service utilizes market quotations for fixed maturity securities that have quoted prices in active markets. Since fixed maturities other than U.S. Treasury securities generally do not trade on a daily basis, the pricing service prepares estimates of fair value measurements for these securities using its proprietary pricing applications which include available relevant market information, benchmark curves, benchmarking of like securities, sector groupings and matrix pricing.

The fair value estimates of most fixed maturity investments are based on observable market information rather than market quotes. Accordingly, the estimates of fair value for such fixed maturities, other than U.S. Treasury securities, provided by the pricing service are included in the amount disclosed in Level 2 of the hierarchy. The estimated fair value of U.S. Treasury securities are included in the amount disclosed in Level 1 as the estimates are based on unadjusted market prices.

Equity Securities

For publicly-traded common stocks, the Company receives prices from a pricing service that are based on observable market transactions and includes these estimates in the amount disclosed in Level 1. Under certain circumstances, current market quotes in active markets are unavailable for certain non-redeemable preferred stocks held by the Company. In these instances, the Company receives an estimate of fair value from the pricing service that provides fair value estimates for the Company's fixed maturities. The service utilizes some of the same methodologies to price the non-redeemable preferred stocks as it does for fixed maturities. The Company includes the estimate in the amount disclosed in Level 2.

The following tables present the level within the fair value hierarchy at which the Company's financial assets are measured on a recurring basis at December 31, 2014 and 2013:

2014	Level 1	Level 2	Level 3	Total
Fixed maturities:				
United States government				
and other government obligations	$ 3,834,915	-	-	3,834,915
States and municipalities	-	23,093,006	-	23,093,006
Industrial and miscellaneous	-	6,253,438	-	6,253,438
Mortgage-backed securities	-	8,134,586	-	8,134,586
Redeemable preferred stock	-	3,598,641	-	3,598,641
Total fixed maturities	3,834,915	41,079,671	-	44,914,586
Equity securities:				
Perpetual preferred stock	-	2,256,930	-	2,256,930
Common stock	5,828,412	-	-	5,828,412
Total equity securities	5,828,412	2,256,930	-	8,085,342
Short-term investments	-	6,024,142	-	6,024,142
Total	$ 9,663,327	49,360,743	-	59,024,070

2013	Level 1	Level 2	Level 3	Total
Fixed maturities:				
United States government and				
other government obligations	$ 4,075,091	-	-	4,075,091
States and municipalities	-	25,253,975	-	25,253,975
Industrial and miscellaneous	-	6,381,689	-	6,381,689
Mortgage-backed securities	-	7,205,127	-	7,205,127
Redeemable preferred stock	-	3,088,762	-	3,088,762
Total fixed maturities	4,075,091	41,929,553	-	46,004,644
Equity securities:				
Perpetual preferred stock	-	1,486,820	-	1,486,820
Common stock	9,271,579	-	-	9,271,579
Total equity securities	9,271,579	1,486,820	-	10,758,399
Short-term investments	-	3,283,481	-	3,283,481
Total	$ 13,346,670	46,699,854	-	60,046,524

There were no significant transfers between Level 1 and 2 or from level 3 in 2014 or 2013. The Company had no material assets or liabilities that were measured at fair value on a non-recurring basis during the years ended December 31, 2014 and 2013.

(4) Property and Equipment

A summary of property and equipment at December 31, 2014 and 2013 is as follows:

	2014	2013
Building	$ 4,275,535	4,275,535
Land	562,397	562,397
Equipment and automobiles	945,831	1,117,256
Furniture and office fixtures	675,227	1,069,576
	6,458,990	7,024,764
Accumulated depreciation	1,300,069	1,762,639
Property and equipment, net	$ 5,158,921	5,262,125

Useful lives are three to five years for equipment and vehicles, seven years for furniture and fixtures and forty years for the occupied office building. Depreciation expense in 2014 and 2013 was $186,950 and $184,740, respectively.

(5) Reserves for Losses and Loss Adjustment Expenses

The following table sets forth a reconciliation of beginning and ending reserves for unpaid losses and loss adjustment expenses for the periods indicated:

	2014	2013
Balance, January 1	$ 15,399,806	15,417,199
Less: Reinsurance recoverable	1,879,684	1,858,218
Net balance, January 1	13,520,122	13,558,981
Incurred related to:		
Current year	1,030,894	860,472
Prior years	(1,084,508)	(649,225)
Total incurred	(53,614)	211,247
Payments related to:		
Current year	5,909	960
Prior years	346,491	249,146
Total payments	352,400	250,106
Net balance, December 31	13,114,108	13,520,122
Plus: Reinsurance recoverable	1,813,184	1,879,684
Balance, December 31	$ 14,927,292	15,399,806

The decrease in the reserves for losses and loss adjustment expenses from December 31, 2013 to December 31, 2014 represents the payment and settlement of claims and expenses in the normal course of the Company's operations as well as the recognition of favorable experience in prior accident years. Incurred losses and loss adjustment expenses declined from 2013 to 2014 following favorable claim development, emergence and frequency patterns, particularly in the surety portfolio, which prompted management to reduce incurred but not reported loss and loss adjustment expense reserves. Current accident year incurred losses and loss adjustment expenses increased relative to earned premium in response to observed accelerated claim emergence. While management continually evaluates the potential for changes in loss estimates, due to the uncertainty inherent in the casualty and surety business, the emergence of net favorable development may or may not continue to occur. Management believes that the reserves for losses and loss adjustment expenses are adequate to cover the unpaid portion of the ultimate net cost of losses and loss adjustment expenses, including losses incurred but not reported.

Among other lines of insurance, the Company provided asbestos and environmental liability insurance primarily to contractors and consultants involved in remediation, removal or treatment of environmental and asbestos conditions. The Company has no exposure to any asbestos or environmental claims associated with general and product liability policies written with the pre-1986 pollution exclusion which are typically associated with the mass tort environmental and asbestos claims. The Company specifically insured asbestos and environmental exposures, which related to third party losses arising out of a contractor's or consultant's operations. Employees of the contractor, consultant, subcontractor, and premises owner are generally excluded from coverage. Most environmental policies were written on a claims-made basis while asbestos liability was written on both claims-made and occurrence basis.

(6) Long-Term Debt

A summary of long-term debt at December 31, 2014 and 2013 is as follows:

	2014	2013
Term loan	$ 6,679,883	5,785,714
Mortgage note	1,375,000	1,450,000
	$ 8,054,883	7,235,714

In August 2014, the Company refinanced its existing term loan, establishing an $8,700,000 credit facility from which funds could be borrowed. As of December 31, 2014, $6,679,883 has been borrowed under the credit facility on which ACMAT currently pays only interest. Repayment of principal begins with the earlier of (1) the borrowing of the remaining funds available under the credit facility, or (2) August 1, 2015; at which time all amounts drawn under the credit facility convert into a term loan. Under the term loan agreement, principal is payable through 84 equal monthly installments. Interest currently accrues at the one-month London Inter-Bank Offering Rate (LIBOR) plus 225 basis points (the LIBOR Option) and is payable monthly. ACMAT may select a fixed rate on or before the conversion to the term loan. The fixed rate will be equal to the 84 month Federal Home Loan Bank Boston Classic Advance rate at the time of election plus 225 basis points. If the fixed rate option is not selected ACMAT may elect to accrue interest at either the LIBOR Option or the financial institution's prime rate for the continuation of the term loan.

In connection with the term loan, the Company maintains an interest rate cap that establishes an interest rate ceiling at 6% on the entire loan balance. The loan agreement contains certain limitations on borrowings, minimum statutory capital levels and requires maintenance of certain ratios. The Company was in compliance with these covenants at December 31, 2014.

In April 2013, the Company obtained a $1,500,000 mortgage note in connection with its property in Farmington, CT. The mortgage note features a twenty year term and principal is payable in monthly installments of $6,250. Interest is fixed at 3.47% through April 2018 and resets thereafter. The mortgage note is subject to limitations on borrowings, minimum statutory capital levels and maintenance of certain ratios identical to those of the term loan. The Company was in compliance with these covenants at December 31, 2014.

At December 31, 2014, the Company has a $4,500,000 line of credit with a financial institution. The line of credit does not require the Company to maintain a compensating balance. There were no outstanding borrowings under this line of credit at December 31, 2014 and 2013. Under the terms of the line of credit, interest on the outstanding balance is calculated based upon LIBOR plus 200 basis points in effect during the borrowing period or the financial institution's prime rate. The Company pays a quarterly commitment fee of 0.375% on the unused portion of the bank line.

Interest expense in 2014 and 2013 amounted to $250,519 and $251,768, respectively. The carrying value of long-term debt at December 31, 2014 and 2013 approximates fair value.

(7) Income Taxes

The components of income tax expense for the years ended December 31, 2014 and 2013 were as follows:

	2014	2013
Current income tax expense:		
Federal	$ 274,221	31,400
State	52,601	46,000
	326,822	77,400
Deferred Federal income tax expense	23,107	275,199
Income tax expense	$ 349,929	352,599

The effective income tax rate, as a percentage of earnings before income taxes for the years ended December 31, 2014 and 2013 are as follows:

	2014	2013
Federal income tax rate	34.0%	34.0%
Effect of state income taxes	2.8%	2.2%
Tax-exempt interest and dividends	(15.2%)	(15.1%)
Officers' life insurance	3.2%	4.2%
Effect of prior year's tax return and other	3.5%	0.8%
Effective income tax rate	28.3%	26.1%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2014 and 2013 are as follows:

	2014	2013
Deferred tax assets:		
Reserves for losses and loss adjustment expenses	$ 272,469	309,026
Unearned premiums	37,366	47,470
Allowance for doubtful accounts	6,733	9,624
Unrealized investment losses	394,153	31,902
Federal net operating loss carryforward	-	82,270
Federal alternative minimum tax credit	275,872	142,951
State net operating loss carryforward	1,547,538	1,585,851
Share based compensation	33,148	45,521
Other	10,503	9,655
Total gross deferred tax assets	2,577,782	2,264,270
Valuation allowance	1,941,691	1,585,851
Adjusted deferred tax assets	636,091	678,419
Deferred tax liabilities:		
Accumulated depreciation	24,719	22,200
Deferred policy acquisition costs	30,875	36,828
Discount on investments	54,826	40,508
Unrealized investment gains	744,072	-
Total gross deferred tax liabilities	854,492	99,536
Net deferred tax (liability) asset	$ (218,401)	578,883

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, tax planning strategies and anticipated future taxable income in making this assessment and believes it is more likely than not the Company will realize the benefits of its deductible temporary differences, net of the valuation allowance, at December 31, 2014 and 2013.

As of December 31, 2014 the Company had Federal net operating loss carryforwards of $1,164,588 available to offset future taxable income, all of which relates to stock option deductions and is not reflected in our deferred tax assets. A net benefit of $395,960 will be recognized in shareholders' equity when the effects of the carryforwards are fully realized. The benefit is offset by a charge to current income tax expense in the same period. We use the "With-and-without" method of utilization for tax attributes; under this approach the excess benefits related to stock based compensation are the last to be realized. During 2014, the Company realized $139,107 of excess benefit associated with stock option deductions for financial reporting purposes.

As of December 31, 2014 the Company had state net operating loss carryforwards of $30,950,768 available to offset future taxable income. These net operating loss carryforwards relate entirely to income recognized in the State of Connecticut and expire between 2020 and 2032. In 2014 and 2013, a valuation allowance is provided to offset the deferred tax asset as management believes that these deferred tax assets are currently unrealizable. The reduction of $38,313 in the carryforward and corresponding valuation allowance is due to utilization of the carryforward to offset current Connecticut state income tax liability by ACMAT and its Connecticut domiciled subsidiaries.

As of December 31, 2014 the Company had gross unrealized capital losses on debt and equity securities available for sale of $1,159,274, which resulted in a gross deferred tax asset of $394,153. The decline in fair value below cost basis is considered to be temporary and the Company has the ability and intent to hold these positions through recovery. Accordingly, the deferred tax asset associated with unrealized capital losses is not realizable and a valuation allowance of $394,153 has been recognized, the offset of which is recorded in comprehensive income.

The IRS has conducted an examination of the Company's U.S. income tax returns for the 2008, 2012 and 2013 tax years. An examination conducted in 2014 resulted in a $94,107 reduction of the pre-tax net operating loss carryforward. The Company does not have any material uncertain tax positions as of December 31, 2014 and 2013.

(8) Employee Benefit Plan

The Company maintains the ACMAT 401(k) Plan (the Plan) for the benefit of its employees. The Company made profit-sharing contributions of $75,000 to the Plan in both 2014 and 2013. Costs associated with operating the Plan are borne by the Company and were insignificant for each of the years ended December 31, 2014 and 2013.

(9) Stockholders' Equity

The Company has two classes of common stock; Common Stock and Class A Stock, each without par value. The rights of the Common Stock and the Class A Stock are identical, except with respect to voting rights. Holders of the Class A Stock are entitled to one-tenth vote per share in relation to the Common Stock, holders of which are entitled to one vote per share.

ACMAT's insurance subsidiary, ACSTAR, is domiciled in Illinois. The statutory financial statements of ACSTAR are prepared in accordance with accounting practices prescribed by the Illinois Department of Insurance. Prescribed statutory accounting practices include a variety of publications of the National Association of Insurance Commissioners (NAIC), as well as the state laws, regulations, and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed of which the Company has none.

Under applicable insurance regulations, ACSTAR is restricted as to the amount of dividends it may pay to its shareholder, without the prior approval of any insurance department and is limited to $2,805,148 in 2015.

In accordance with statutory accounting practices, ACSTAR's statutory capital and surplus was $28,051,478 and $28,901,171 at December 31, 2014 and 2013, respectively, and its statutory net income for the years ended December 31, 2014 and 2013 was $2,346,657 and $2,252,044, respectively. The primary differences between amounts reported in accordance with GAAP and amounts reported in accordance with statutory accounting practices are the carrying value of fixed maturity investments; deferred taxes; the inadmissibility of certain assets for statutory reporting purposes; and the deferred recognition of policy acquisition costs in earnings.

The NAIC has a risk-based capital (RBC) requirement for most property and casualty insurance companies. The RBC computation determines minimum capital requirements and is intended to raise the level of protection for policyholder obligations. Under laws adopted by individual states, insurers having total adjusted capital less than that required by the RBC computation will be subject to varying degrees of regulatory action, depending on the level of capital inadequacy. At December 31, 2014, ACSTAR had total adjusted capital in excess of the RBC requirement.

(10) Earnings Per Share

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for the years ended December 31, 2014 and 2013:

2014		Net Earnings	Weighted Average Shares Outstanding	Per Share Amount
Basic earnings per share	$	887,758	1,049,178	0.85
Effect of dilutive securities:				
Stock options			13,487	(0.01)
Diluted earnings per share	$	887,758	1,062,665	0.84

2013		Net Earnings	Weighted Average Shares Outstanding	Per Share Amount
Basic earnings per share	$	999,256	1,119,521	0.89
Effect of dilutive securities:				
Stock options			29,652	(0.02)
Diluted earnings per share	$	999,256	1,149,173	0.87

(11) Share Based Compensation

The Company periodically grants non-qualified stock options to officers and directors giving such individuals the right to purchase restricted shares of the Company's Common Stock and Class A Stock. The majority of the options outstanding to officers generally vest evenly over a five to ten year period and typically feature a term of 10 years. The exercise price is equal to the fair value at the date of grant. The Company uses a variation of the Black-Scholes option pricing model to value stock options.

The weighted average exercise price of the outstanding options was $13.25 for the year ended December 31, 2014. The Company incurred no expense related to share based compensation in net earnings during 2014 or 2013. In 2014, the Company incurred current income tax expense of $139,107 related to the realization of tax credits arising from the excess benefit on stock options exercised in previous years.

Cash received from stock options exercised in 2014 and 2013 was $360,490 and $392,200, respectively. Cash paid to settle shares issued pursuant to options in 2014 and 2013 was $649,000 and $656,250, respectively. The excess tax benefit from the options exercised in 2014 and 2013 is currently unrealized.

As of December 31, 2014 there were 52,000 stock options outstanding, all of which were vested.

The following table shows the stock option activity for the Company during 2014 and 2013.

	Option Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Average Intrinsic Value
Outstanding at December 31, 2012	126,500	$ 12.64	1.8	$ 620,736
2013				
Granted	-	-		-
Exercised	30,000	$ (0.09)		$ 147,210
Cancelled	-	-		-
Outstanding at December 31, 2013	96,500	$ 12.55	1.8	$ 473,526
2014				
Granted	-	-		-
Exercised	29,500	$ 0.46		$ 144,757
Cancelled	15,000	0.24		73,605
Outstanding at December 31, 2014	52,000	$ 13.25	0.5	$ 255,164

Of the 52,000 outstanding options at December 31, 2014, all were exercisable.

The following table summarizes information about stock options outstanding at December 31, 2014:

Range of Exercise Price	Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Grant Year	Options Exercisable
$13.25	52,000	0.5	$13.25	2005	52,000

(12) Commitments and Contingencies

The Company is a party to legal actions arising in the ordinary course of its business. In management's opinion, the Company has adequate legal defenses respecting those actions where the Company is a defendant, has appropriate insurance reserves recorded, and does not believe that their settlement will materially affect the Company's operations or financial position.

Many construction projects in which the Company had been engaged included asbestos exposures which the Company believes to involve a particularly high degree of risk because of the hazardous nature of asbestos. The Company believes it reduced the risks associated with asbestos through proper training of its employees and by maintaining general liability and workers' compensation insurance. From 1986 to 1996, the Company obtained its general liability insurance from its insurance subsidiaries. Since 1996, the Company obtained its general liability insurance from unaffiliated insurance companies.

Since 1995, the Company has, together with many other defendants, been named as a defendant in actions by injured or deceased individuals or their representatives based on product liability or negligence claims relating to materials containing asbestos. No specific claims for monetary damages are asserted in these actions. Many of these actions have been dismissed or settled for nominal payments by the Company or its insurers. At this time, the Company does not believe that its exposure in connection with these cases is significant.

(13) Comprehensive Income

The following table presents the changes in the Company's accumulated other comprehensive income (loss) for the years ended December 31, 2014 and 2013:

		Net Unrealized Gains and Losses	Total Accumulated Other Comprehensive Income (Loss)
Balance as of December 31, 2012	$	577,746	577,746
Other comprehensive loss before reclassifications to earnings, net		(4,221)	(4,221)
Reclassifications, net		635,453	635,453
Other comprehensive loss, net of taxes		(639,674)	(639,674)
Balance as of December 31, 2013		(61,928)	(61,928)
Other comprehensive income before reclassifications to earnings, net		857,272	857,272
Reclassifications, net		510,242	510,242
Other comprehensive income, net of taxes		347,030	347,030
Balance as of December 31, 2014	$	285,102	285,102

The following table presents the pretax and related income tax expense component of the amounts reclassified from the Company's accumulated other comprehensive income (loss) to the Company's consolidated statement of earnings for the years ended December 31, 2014 and 2013:

		2014	**2013**
Net realized capital gains recognized in earnings	$	773,094	962,807
Income tax expense		262,852	327,354
Reclassifications, net	$	510,242	635,453

The following table presents the pretax components of other comprehensive income and related income tax expense for the years ended December 31, 2014 and 2013:

		2014	**2013**
Unrealized holding gain (loss) arising during the period, net of income taxes		857,272	(4,221)
Less: Reclassification adjustment for gains included in earnings, net of income taxes		510,242	635,453
Changes included in comprehensive income	$	347,030	(639,674)

(14) Subsequent Events

There were no subsequent events requiring adjustment to the consolidated financial statements or disclosure through April 17, 2015, the date the Company's consolidated financial statements were issued.

Our Services

Stock Market Information
The Company's Common Stock and Class A Stock trade over the counter in the "Pink Sheets" quotation service. The following table sets forth the quarterly high and low closing prices of the Company's Common Stock and Class A Stock.

	2014		2013	
	High	Low	High	Low
Common Stock				
First quarter	$ 30.00	$ 25.00	$ 23.25	$ 20.75
Second quarter	$ 25.00	$ 25.00	$ 23.25	$ 23.25
Third quarter	$ 25.00	$ 22.50	$ 25.00	$ 23.25
Fourth quarter	$ 22.50	$ 22.50	$ 30.00	$ 25.00
Class A Stock				
First quarter	$ 24.00	$ 21.50	$ 26.00	$ 22.00
Second quarter	$ 23.00	$ 21.80	$ 24.50	$ 22.50
Third quarter	$ 23.00	$ 21.30	$ 25.00	$ 24.50
Fourth quarter	$ 22.00	$ 21.00	$ 24.50	$ 21.25

Annual Meeting

The annual meeting of stockholders will be held on June 25, 2015 at 12:00 P.M at the Company's corporate headquarters. All holders of ACMAT Common Stock and Class A Stock at the close of business on the record date of April 10, 2015 are entitled to vote.

Dividends

No cash dividends have been paid in the past five years and there is no intention of paying dividends in the near future.

Transfer Agent

American Stock Transfer & Trust Company, 59 Maiden Lane, New York, NY 10007 (718) 921 8200

INDEPENDENT AUDITORS' REPORT

The Board of Directors ACMAT Corporation:

We have audited the accompanying consolidated financial statements of ACMAT Corporation and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of earnings, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform 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 the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 ACMAT Corporation and its subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.
/s/ KPMG LLP

Hartford, Connecticut
April 17, 2015

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& Chief Executive Officer

Henry W. Nozko, III
Executive Vice President
& Secretary

Andrew M. Sullivan Jr., CPA
Retired Partner of KPMG LLP

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