ACMAT CORPORATION

2015 ANNUAL REPORT

DIGGING DEEPER

OUR UNIQUE EXPERIENCE HELPS US UNCOVER THE POTENTIAL OTHER SURETIES MISS

It's common knowledge that, with the exception of a few isolated variances, the public construction markets have remained flat following the recent financial crisis. The future appears to offer more of the same, as slow growth seems to be "the new normal." For some sureties, these conditions have been an obstacle. ACSTAR, however, has continued to prosper. The reasons are many, but one thing is clear. We have an advantage other sureties don't enjoy: An extensive background as a contractor. This experience has given ACSTAR a different perspective. From our view into the details of a potential client's contract, we often identify possible pitfalls, and promote enhancements before we write the bond. The result has been a loss ratio far below the industry average and a level of success that has remained remarkably consistent despite challenging market conditions. We are confident that our experience will continue to serve us well, as we dig deeper to find opportunities where other sureties cannot.

TO OUR SHAREHOLDERS AND CUSTOMERS

Thank you for your interest in our company. Through our subsidiary, ACSTAR Insurance Company, we write surety bonds for all types of construction contractors throughout the United States. We are licensed to write bonds in all 50 states and we are rated A VI (Excellent) by A.M. Best Company, and we are approved by the United States Treasury Department to write bonds to all departments of the federal government. By statute, bonds are required for almost all federal, state and municipal construction projects. Some private owners require bonds as a matter of policy and some lenders for private construction require bonds as a condition for project financing. Most of the bonds we write are for the public works sector of the construction industry. Surety bonds assure, to an extent, the payment and performance of a construction project.

Despite absorbing a $571 thousand net loss on the sale of securities in 2015, we maintained our long standing record of consistently generating solid income. Net income in 2015 was $727 thousand compared to $888 thousand in 2014. Revenue decreased to $3.86 million in 2015 from $5.1 million during 2014 because of the $571 thousand net loss relating to the sale of securities. This compares to a net gain of $773 thousand on the sale of securities in 2014. The loss emanated from the significant stock market adjustment of more than 2,000 points that occurred in August 2015. We believe the values of the securities sold were permanently impaired. There is always a risk to losses while there is exposure to the enigmatic stock market. Overall, we have done exceptionally well. Including the capital loss absorbed in 2015, we have averaged approximately $900 thousand of annual capital gains over the last 7 years. We usually limit our exposure to common stocks to about 10% of our invested assets. We don't believe the ding in 2015 warrants deserting the equity securities component of our portfolio since that would reduce opportunities for future capital appreciation. Our strategy will change if our future experience does not resemble our prior performance. Interest and dividend income experienced a 12% increase over 2014.

Basic earnings per share were $0.74 in 2015 vs. $0.85 in 2014. Earned premium of $1.77 million in 2015 was less than the $1.96 million generated in 2014. However, our underwriting results were excellent. During 2015 we recorded a decrease of $531 thousand in loss and loss adjustment expenses as a result of exceptional loss experience. Our underwriting process goes well beyond credit analysis and extends into complex evaluations of contract and bond terms and conditions, and assessing if the relationships between a proposed project, lender, owner and contractor are conducive for a successful outcome. Generally, we write bonds for contractors the standard markets decline, for all sorts of reasons. Therefore, the business we undertake is higher risk and to get it right almost requires alchemy. We usually charge more than the standard markets and we usually securitize a portion of our risk to hedge our bets. We believe our unique underwriting methods and 60 plus years of experience in the construction industry have been the cornerstones of consistently outperforming our peers in terms of underwriting results. However, we are having difficulty growing premium. The construction industry is closely linked to the U.S. economy and during 2015 the U.S. GDP grew only 1.8%. The $285 billion of nonresidential public construction in 2015 reprised the lackluster performance of $275 billion in 2014. The federal government, the states, and the municipalities all have constrained budgets for the construction of schools, libraries, town halls, courts, roads and most other public construction. Competition is fierce because there are more surety companies than the market currently requires. We do not anticipate any developments in the foreseeable future that will alter the current challenging conditions. Nonetheless, we have been prosperous and we believe we can continue to succeed.

Like most enterprises we face risks. Although we apply conservative and disciplined underwriting standards, a defaulting contractor that we have bonded, could cause us to incur a significant loss. During the downturn, many contractors have been weakened, which could increase the risk of default. 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 runoff 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 those claims have been dismissed or settled for nominal payments by us or our insurers.

In keeping with our more than 25 year stock repurchase program, during 2015 the Company purchased 64,900 shares of the Company's Class A stock. The total for all purchases was $1.85 million. The shares were cancelled and retired and the cost has been recorded as an offset to retained earnings. We expect to continue such purchases in the future.

During 2015, we again met our company plan and goal of increasing per share equity, which increased to $32.40 at December 31, 2015 from $32.36 at December 31, 2014.

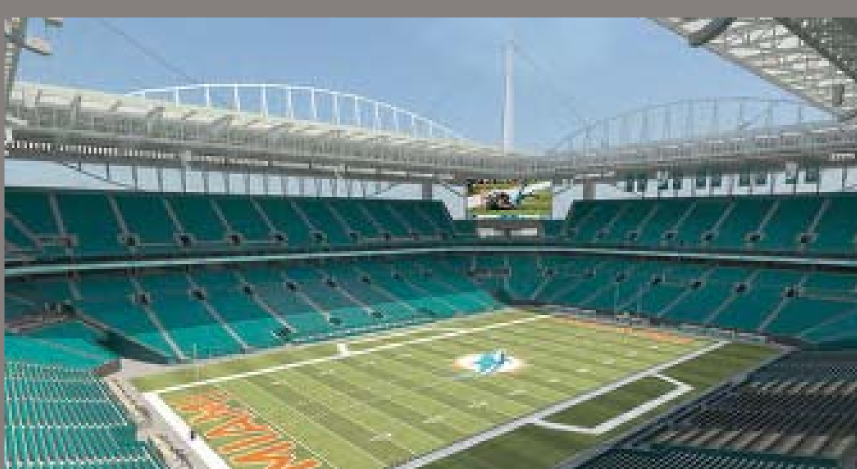
We thank our customers and our employees and our shareholders for their invaluable contributions to the successes we have achieved.

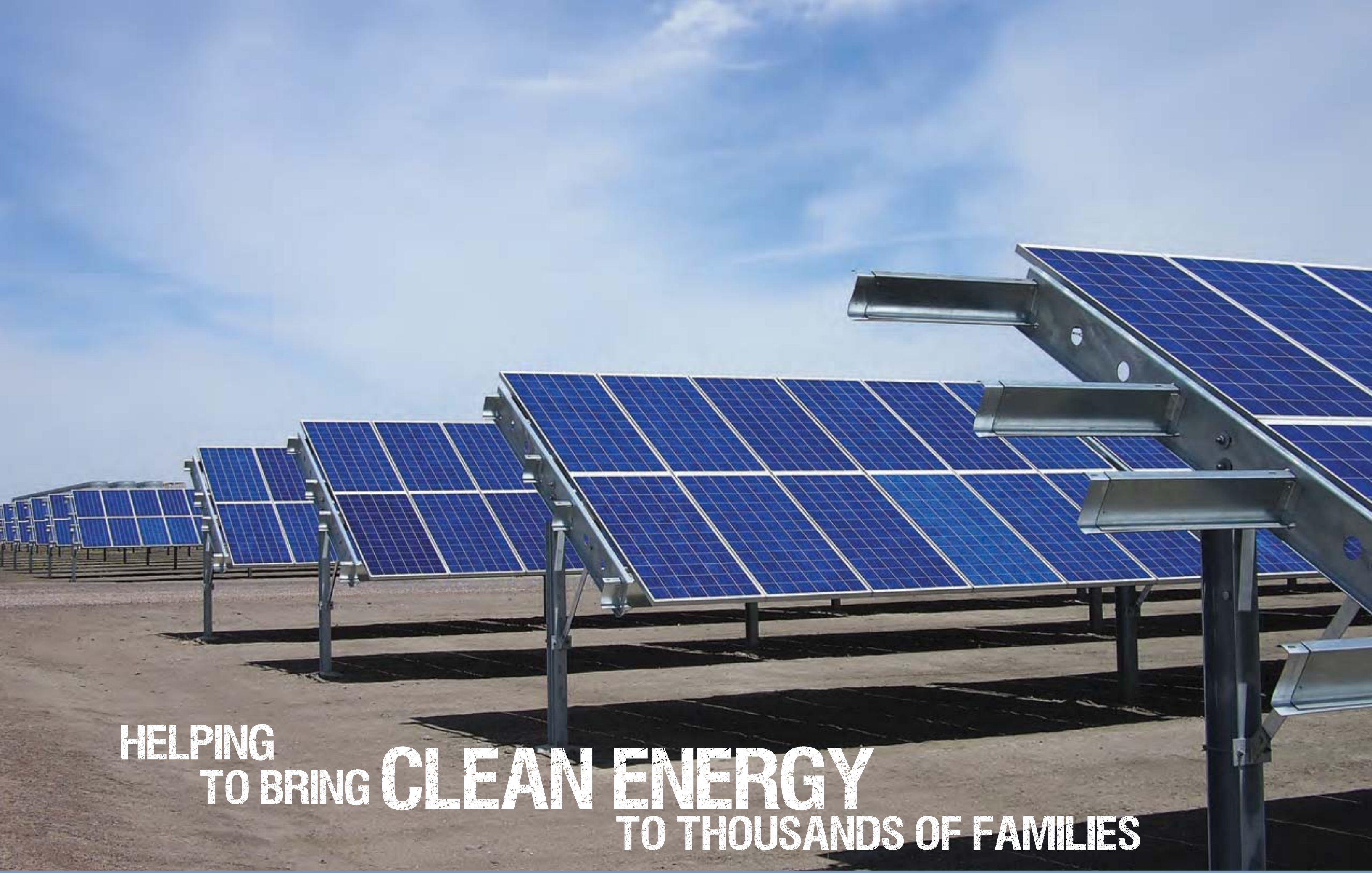
Hank

Henry W. Nozko, Jr.
Chairman, President and
Chief Executive Officer
April 22, 2016

BUILDING A WORLD-CLASS FACILITY FOR AMERICA'S #1 SPORT

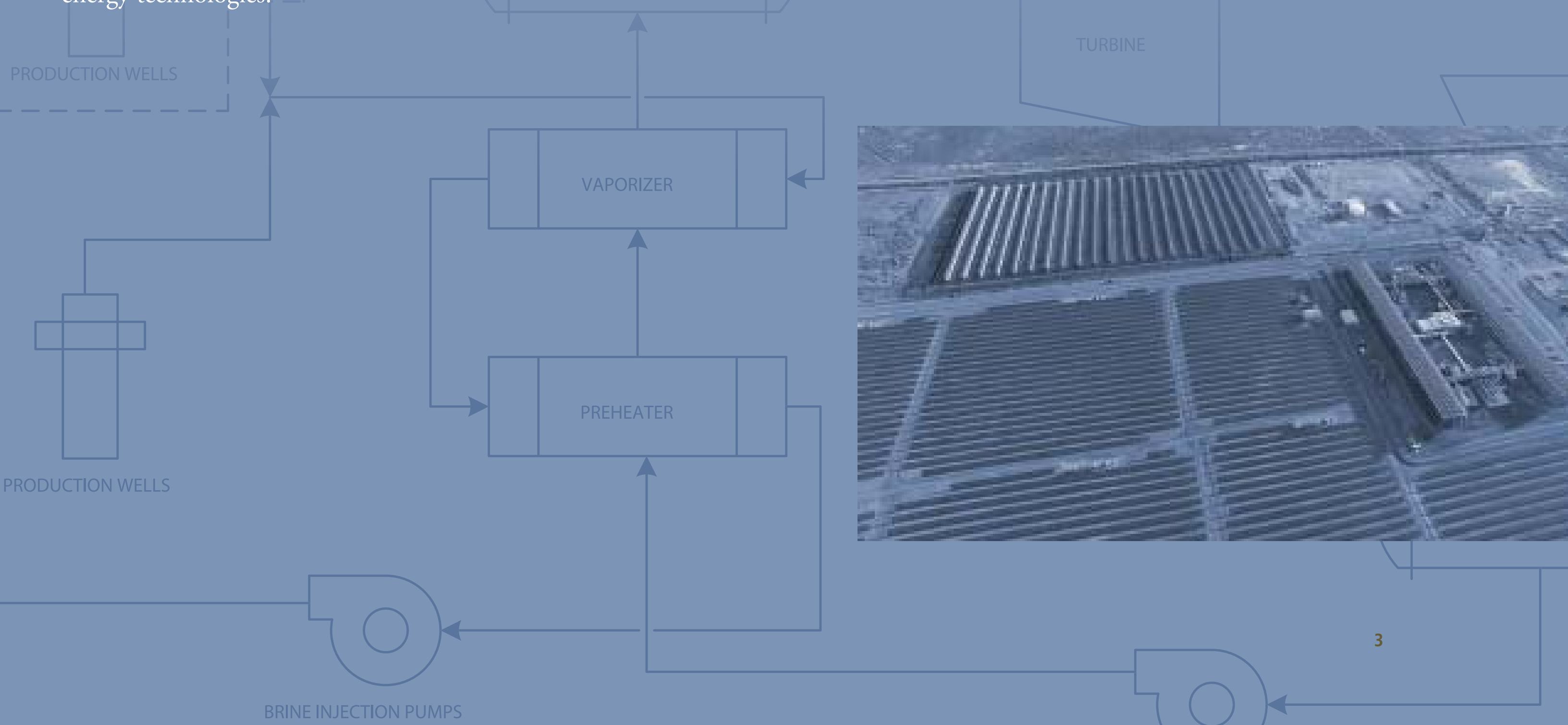
Football continues to top polls as the nation's most popular sport. ACSTAR Insurance Company issued a bond in excess of $4 million for masonry work in connection with the $400 million renovation and modernization of Sun Life Stadium, home of the Miami Dolphins. When completed in 2016, the stadium will be a first-class facility and a global entertainment destination. In addition to the Dolphins' regular game schedule, the upgraded Sun Life Stadium is expected to bring Super Bowls, NCAA Championships, concerts and other significant entertainment events to the Miami community.





HELPING TO BRING CLEAN ENERGY TO THOUSANDS OF FAMILIES

Building a renewable energy infrastructure continues to be a priority in the United States. ACSTAR Insurance Company issued a bond of approximately $1 million for the addition of solar collectors at the Stillwater Solar-Geothermal Plant in Churchill County, Nevada. Now, Stillwater is the world's only hybrid power plant, combining geothermal and solar power to generate 59 MW of clean, renewable energy. The plant now has the capacity to power 50,000 homes in the area. As U.S. Energy Secretary Steven Chu put it: "… The Fallon facility is expanding domestic renewable energy sources and helping to build the infrastructure we need to stay competitive in the global race for clean energy technologies."



Assets	**2015**	**2014**
Investments:		
Fixed maturities (Amortized cost of $44,948,955 in 2015 and $43,761,413 in 2014)	$ 45,272,103	44,914,586
Equity securities (Historical cost of $11,952,126 in 2015 and $8,209,342 in 2014)	11,169,485	8,085,342
Short-term investments, at cost which approximates fair value	1,476,613	6,024,142
Total investments	57,918,201	59,024,070
Cash and cash equivalents	3,740,700	5,793,124
Accrued interest receivable	348,057	328,839
Premiums receivable, net of allowance for doubtful accounts of $16,353 in 2015 and $19,802 in 2014	32,903	41,746
Other receivables	168,955	209,560
Reinsurance recoverable	2,076,711	1,813,184
Prepaid expenses	126,996	130,341
Income taxes receivable	258,173	-
Deferred income taxes, net	546,124	-
Property and equipment, net	5,050,382	5,158,921
Deferred policy acquisition costs	82,279	90,809
Ceded unearned premiums	86,101	93,657
Other assets	1,162,930	1,093,502
Intangibles	1,920,360	1,920,360
Total assets	$ 73,518,872	75,698,113

Liabilities and Stockholders' Equity		
Reserves for losses and loss adjustment expenses	$ 14,718,196	14,927,292
Unearned premiums	591,355	643,159
Income taxes payable	-	1,184
Deferred income taxes, net	-	218,401
Collateral held	16,705,694	18,036,537
Reinsurance premiums payable	39,730	39,594
Accounts payable and accrued liabilities	1,397,222	1,229,687
Long-term debt	9,585,714	8,054,883
Total liabilities	43,037,911	43,150,737
Common Stock (No par value; 3,500,000 shares authorized; 357,966 shares issued and outstanding)	357,966	357,966
Class A Stock (No par value; 10,000,000 shares authorized; 582,782 shares issued and outstanding)	582,782	647,682
Retained earnings	29,999,706	31,256,626
Accumulated other comprehensive (loss) income	(459,493)	285,102
Total stockholders' equity	30,480,961	32,547,376
Total liabilities and stockholders' equity	$ 73,518,872	75,698,113

See Notes to Consolidated Financial Statements

Revenues	**2015**	**2014**
Premiums	$ 1,770,616	1,963,855
Net investment income	2,479,461	2,211,885
Net realized capital (losses) gains	(570,563)	773,094
Fee and other income	177,528	153,254
Total revenues	3,857,042	5,102,088
Expenses		
Incurred losses and loss adjustment expenses	(531,246)	(53,614)
Amortization of deferred acquisition costs	286,881	315,989
General and administrative expenses	2,887,055	3,351,507
Interest expense	298,946	250,519
Total expenses	2,941,636	3,864,401
Earnings before income taxes	915,406	1,237,687
Provision for income taxes	188,319	349,929
Net earnings	$ 727,087	887,758
Basic earnings per share	$ 0.74	$ 0.85
Diluted earnings per share	$ 0.74	$ 0.84

See Notes to Consolidated Financial Statements

ACMAT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Loss and Income — For the Years Ended December 31, 2015 and 2014

	2015	**2014**
Net earnings	$ 727,087	887,758
Change in net unrealized gains and losses on investment securities	(1,488,668)	1,123,005
Income tax (benefit) expense	(744,073)	775,975
Other comprehensive (loss) income, net of taxes	(744,595)	347,030
Comprehensive (loss) income	$ (17,508)	1,234,788

See Notes to Consolidated Financial Statements

	Common Stock Par value	Class A Stock Par value	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Stockholders' Equity
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	1,234,788
Excess benefit from stock options excercised	-	-	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
Comprehensive loss					
Net change in unrealized capital gains and losses on investment securities, net of reclassification	-	-	-	(744,595)	(744,595)
Net earnings	-	-	727,087	-	727,087
Total comprehensive loss	-	-	727,087	(744,595)	(17,508)
Excess benefit from stock options exercised	-	-	76,245	-	76,245
Issuance of 47,000 shares of Class A Stock pursuant to stock options	-	47,000	575,750	-	622,750
Acquisition and retirement of 111,900 shares of Class A Stock	-	(111,900)	(2,636,002)	-	(2,747,902)
Balance as of December 31, 2015	$ 357,966	582,782	29,999,706	(459,493)	30,480,961

See Notes to Consolidated Financial Statements

	2015	2014
Cash flows from operating activities		
Net earnings	$ 727,087	887,758
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	230,666	234,637
Net investment income	(10,353)	-
Net realized capital losses and gains	570,563	(773,094)
Deferred income tax expense	(20,452)	23,107
Changes in:		
Accrued interest receivable	(19,218)	54,624
Receivables	49,448	94,594
Reinsurance recoverable	(263,527)	66,500
Income taxes	(259,357)	319,096
Deferred policy acquisition costs	8,530	17,509
Prepaid expenses and other assets	(233,958)	12,415
Reserves for losses and loss adjustment expenses	(209,096)	(472,514)
Unearned premiums, net	(44,248)	(148,586)
Collateral held	(1,330,843)	(1,305,394)
Reinsurance premiums payable	136	(11,759)
Accounts payable and accrued liabilities	167,535	(281,637)
Net cash used for operating activities	(637,087)	(1,282,744)
Cash flows from investing activities		
Proceeds from investments sold, matured or redeemed:		
Fixed maturities sold	4,085,090	6,637,397
Maturities and redemptions	9,741,559	7,185,682
Equity securities	46,814,849	67,887,924
Purchases of:		
Fixed maturities	(14,920,070)	(11,319,896)
Equity securities	(51,106,885)	(64,779,580)
Short-term investments, net	4,547,529	(2,740,661)
Capital expenditures	(59,333)	(83,746)
Net cash (used for) provided by investing activities	(897,261)	2,787,120
Cash flows from financing activities		
Additional borrowing under term loan facility	2,020,117	1,700,000
Repayments of long-term debt	(489,286)	(908,333)
Excess benefit realized on share based compensation	76,245	139,107
Acquisition and retirement of common shares	-	(2,500)
Issuance of Class A shares pursuant to stock options	622,750	360,490
Acquisition and retirement of Class A shares	(2,747,902)	(2,480,740)
Net cash used for financing activities	(518,076)	(1,191,976)
Net change in cash and cash equivalents	(2,052,424)	312,400
Cash and cash equivalents, beginning of period	5,793,124	5,480,724
Cash and cash equivalents, end of period	$ 3,740,700	5,793,124
Supplemental disclosure of cash flows information:		
Cash (paid for) received from income taxes	(391,883)	131,381
Cash paid for interest	248,218	209,120

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. Certain prior period balances have been reclassified to conform to the current period presentation.

(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 or obligation 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 issuer'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 straightline 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 surety exposure in excess of $1,000,000 up to $7,000,000 on a per principal, per year 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, 2015 or 2014. 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	
	2015	**2014**	**2015**	**2014**
Direct	$ 2,020,561	2,124,614	2,072,365	2,298,595
Assumed	-	-	-	-
Ceded	294,193	309,344	301,749	334,740
Net	$ 1,726,368	1,815,270	1,770,616	1,963,855

Ceded incurred losses and loss adjustment expenses totaled $30,175 and $33,474 for the years ended December 31, 2015 and 2014, 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 earnings 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).

(n) ***Accounting Standards Updates***

Simplifying the Presentation of Debt Issuance Costs
In April 2015, the FASB issued updated guidance to clarify the required presentation of debt issuance costs. The amended guidance requires that debt issuance costs be presented in the balance sheet as a direct reduction from the carrying amount of the recognized liability for long-term debt, consistent with the treatment of debt discounts. Amortization of debt issuance costs is to be reported as interest expense. The recognition and measurement guidance for debt issuance costs are not affected by the updated guidance. The updated guidance is effective for reporting periods beginning after December 15, 2015. Early adoption is permitted. The adoption of this guidance will not have any effect on the Company's results of operations, financial position or liquidity.

Disclosures about Short-Duration Contracts
In May 2015, the FASB issued updated disclosure requirements to increase transparency of significant estimates made in measuring liabilities associated with short-duration insurance contracts. The requirements will provide financial statement users with information to facilitate analysis of the amount, timing, and uncertainty of cash flows arising from contracts issued by insurance entities and the development of loss reserve estimates. The updated guidance is effective for reporting periods beginning after December 15, 2015. Early adoption is permitted. The adoption of this guidance will not have any effect on the Company's results of operations, financial position or liquidity.

Recognition and Measurement of Financial Assets and Financial Liabilities
In January 2016, the FASB issued updated guidance to address the recognition, measurement, presentation, and disclosure of certain financial instruments. The updated guidance requires equity investments, except those accounted for under the equity method of accounting, that have readily determinable fair value to be measured at fair value with changes in fair value recognized in net earnings. Equity investments that do not have readily determinable fair values may be remeasured at fair value either upon the occurrence of an observable price change or upon identification of an impairment. A qualitative assessment for impairment is required for equity investments without readily determinable fair values. The updated guidance is effective for the quarter ending March 31, 2018 and will require recognition of a cumulative effect adjustment at adoption. The Company will not be able to determine the impact that the updated guidance will have on its results of operations until the updated guidance is adopted, but does not currently expect the adoption of this guidance to impact its financial position or liquidity.

(2) Investments

a) Fixed Maturities

Fixed maturities at December 31, 2015 and 2014 are as follows:

2015		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
United States government and other government obligations	$	4,033,176	-	15,217	4,017,959
States and municipalities		21,861,945	702,346	188,304	22,375,987
Industrial and miscellaneous		6,520,163	101,901	233,655	6,388,409
Mortgage-backed securities		8,534,771	166,775	160,138	8,541,408
Redeemable preferred stock		3,998,900	91,650	142,210	3,948,340
Total fixed maturities	$	44,948,955	1,062,672	739,524	45,272,103

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

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.

2015		Amortized Cost	Fair Value
Due in one year or less	$	4,306,979	4,309,362
Due after one year through five years		4,546,812	4,555,225
Due after five years through ten years		6,339,528	6,382,088
Due after ten years		21,220,865	21,484,020
Mortgage-backed securities		8,534,771	8,541,408
	$	44,948,955	45,272,103

At December 31, 2015 and 2014, the Company held mortgage-backed securities with a fair value of $8,541,408 and $8,134,585, respectively. Approximately 16% and 33% 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, 2015 and 2014, 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 $6,491,951 and $5,499,368 as of December 31, 2015 and 2014, respectively. The Company makes investments in CMOs that typically have high credit quality, offer 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 7% and 20% of the Company's CMO holdings are fully collateralized by GNMA, FNMA, SBA, or FHLMC securities at December 31, 2015 and 2014, respectively.

Proceeds from sales of fixed maturities classified as available for sale were $4,085,090 and $6,637,397 in 2015 and 2014, respectively. Gross gains of $192,284 and $246,128 and gross losses of $247,367 and $162,051 were realized on fixed maturity sales for the years ended December 31, 2015 and 2014, respectively.

At December 31, 2015 and 2014, the Company's insurance subsidiary had securities with fair values of $4,017,959 and $3,834,915, 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, 2015 and 2014 are as follows:

2015	Historical Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Perpetual preferred stocks	$ 2,040,755	98,461	480	2,138,736
Common stocks	9,911,371	699,452	1,580,074	9,030,749
Total equity securities	$ 11,952,126	797,913	1,580,554	11,169,485

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

Proceeds from sales of equity securities were $46,814,849 and $67,887,924 in 2015 and 2014, respectively. Gross gains of $1,236,405 and $1,447,290 were realized on the sale of equity securities for the years ended December 31, 2015 and 2014, respectively, and gross losses of $1,751,885 and $758,273 were realized on the sale of equity securities for the years ended December 31, 2015 and 2014, respectively.

c) Other-than-Temporary Impairment

The following tables summarize, for all investments in an unrealized loss position at December 31, 2015 and 2014, 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			
	2015		2014	
Fixed maturities:	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
United States government and other government obligations	$ 4,017,959	15,217	277,310	27
States and municipalities	5,110,974	75,707	1,455,354	15,232
Industrial and miscellaneous	2,635,688	123,989	2,263,253	60,935
Mortgage-backed securities	2,176,135	101,005	967,800	23,445
Redeemable preferred stock	746,950	128,050	365,100	9,900
Total fixed maturities	14,687,706	443,968	5,328,817	109,539
Equity securities:				
Perpetual preferred stock	199,520	480	-	-
Common stock	4,966,260	936,515	3,128,950	548,322
Total equity securities	5,165,780	936,995	3,128,950	548,322
Total	$ 19,853,486	1,380,963	8,457,767	657,861

	Greater than 12 Months			
	2015		2014	
Fixed maturities:	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
States and municipalities	$ 2,839,218	112,597	2,831,592	86,248
Mortgage-backed securities	516,156	109,666	372,502	55,311
Industrial and miscellaneous	596,879	59,133	-	-
Redeemable preferred stock	448,340	14,160	888,765	23,735
Total fixed maturities	4,400,593	295,556	4,092,859	165,294
Equity securities:				
Perpetual preferred stock	-	-	188,640	11,360
Common stock	1,291,204	643,559	1,036,037	324,759
Total equity securities	1,291,204	643,559	1,224,677	336,119
Total	$ 5,691,797	939,115	5,317,536	501,413

	Total			
	2015		2014	
Fixed maturities:	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
United States government and other government obligations	$ 4,017,959	15,217	277,310	27
States and municipalities	7,950,192	188,304	4,286,946	101,480
Industrial and miscellaneous	3,151,844	233,655	2,263,253	60,935
Mortgage-backed securities	2,773,014	160,138	1,340,302	78,756
Redeemable preferred stock	1,195,290	142,210	1,253,865	33,635
Total fixed maturities	19,088,299	739,524	9,421,676	274,833
Equity securities:				
Perpetual preferred stock	199,520	480	188,640	11,360
Common stock	6,257,464	1,580,074	4,164,987	873,081
Total equity securities	6,456,984	1,580,554	4,353,627	884,441
Total	$ 25,545,283	2,320,078	13,775,303	1,159,274

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, 2015, 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
Industrial and miscellaneous	$ 136,095	-	-	-	136,095
Mortgage-backed securities	-	-	-	23,889	23,889
Redeemable preferred stock	58,300	-	-	-	58,300
Total fixed maturities	194,395	-	-	23,889	218,284
Common stock	860,106	240,739	-	38,922	1,139,767
Total	$ 1,054,501	240,739	-	62,811	1,358,051

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 the instrument disclosed above. Much of the declines noted under common and preferred stocks relate to energy production and supply corporations, which have been subject to depressed crude oil prices, particularly in the fourth quarter of 2015. 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, 2015 and 2014 is as follows:

	2015	2014
Taxable interest	$ 1,258,904	1,016,431
Tax-exempt interest	465,400	628,359
Dividend income	836,046	677,306
Investment expenses	(80,889)	(110,211)
Net investment income	$ 2,479,461	2,211,885

(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.

Short-Term Investments

The Company's short-term investment instruments are priced based on net asset values. The assets' classifications within the fair value hierarchy are determined based on the lowest level input of the underlying investments that is significant to each instrument's individual measurement. Based on this methodology, the Company has disclosed these assets 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, 2015 and 2014:

2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Fixed maturities:				
United States government				
and other government obligations	$ 4,017,959	-	-	4,017,959
States and municipalities	-	22,375,987	-	22,375,987
Industrial and miscellaneous	-	6,388,409	-	6,388,409
Mortgage-backed securities	-	8,541,408	-	8,541,408
Redeemable preferred stock	-	3,948,340	-	3,948,340
Total fixed maturities	4,017,959	41,254,144	-	45,272,103
Equity securities:				
Perpetual preferred stock	-	2,138,736	-	2,138,736
Common stock	9,030,749	-	-	9,030,749
Total equity securities	9,030,749	2,138,736	-	11,169,485
Short-term investments	-	1,476,613	-	1,476,613
Total	$ 13,048,708	44,869,493	-	57,918,201

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

There were no significant transfers between Level 1 and 2 or from level 3 in 2015 or 2014. 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, 2015 and 2014.

(4) Property and Equipment

A summary of property and equipment at December 31, 2015 and 2014 is as follows:

	2015	**2014**
Building	$ 4,275,535	4,275,535
Land	562,397	562,397
Equipment and automobiles	973,459	945,831
Furniture and office fixtures	642,943	675,227
	6,454,334	6,458,990
Accumulated depreciation	1,403,952	1,300,069
Property and equipment, net	$ 5,050,382	5,158,921

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 2015 and 2014 was $167,872 and $186,950, 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:

	2015	2014
Balance, January 1	$ 14,927,292	15,399,806
Less: Reinsurance recoverable	1,813,184	1,879,684
Net balance, January 1	13,114,108	13,520,122
Incurred related to:		
Current year	1,012,071	1,030,894
Prior years	(1,543,317)	(1,084,508)
Total incurred	(531,246)	(53,614)
Payments (recoveries) related to:		
Current year	12,832	5,909
Prior years	(71,455)	346,491
Total (recovered) paid	(58,623)	352,400
Net balance, December 31	12,641,485	13,114,108
Plus: Reinsurance recoverable	2,076,711	1,813,184
Balance, December 31	$ 14,718,196	14,927,292

The decrease in the reserves for losses and loss adjustment expenses 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 2014 to 2015 following favorable claim development, emergence and frequency patterns, particularly in the surety and other liability – occurrence lines, which prompted management to reduce loss and loss adjustment expense reserves. Current accident year incurred losses and loss adjustment expenses increased relative to earned premium in response to reduced volume. 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 hazardous 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, 2015 and 2014 is as follows:

	2015	2014
Term loan	$ 8,285,714	6,679,883
Mortgage note	1,300,000	1,375,000
	$ 9,585,714	8,054,883

In August 2014, the Company refinanced its existing term loan, establishing an $8,700,000 credit facility from which funds could be borrowed. The Company has drawn $2,020,117 and $1,700,000 under the facility in 2015 and 2014, respectively. As of December 31, 2015, $8,700,000 has been borrowed and $414,286 repaid under the credit facility, which converted to a term loan August 1, 2015. Under the term loan agreement, principal is payable through 84 equal monthly installments, which commenced following the conversion of the facility in August 2015. At the election of ACMAT, interest accrues at either the one-month London Inter-Bank Offering Rate (LIBOR) plus 225 basis points or the financial institution's prime rate. Interest is payable monthly.

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 through December 1, 2016. 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, 2015.

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, 2015.

At December 31, 2015, 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, 2015 and 2014. 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 2015 and 2014 amounted to $298,946 and $250,519, respectively. The carrying value of long-term debt at December 31, 2015 and 2014 approximates fair value.

(7) Income Taxes

The components of income tax expense for the years ended December 31, 2015 and 2014 were as follows:

	2015	2014
Current income tax expense:		
Federal	$ 140,767	274,221
State	68,004	52,601
	208,771	326,822
Deferred Federal income tax expense	(20,452)	23,107
Income tax expense	$ 188,319	349,929

The effective income tax rate, as a percentage of earnings before income taxes for the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
Federal income tax rate	34.0%	34.0%
Effect of state income taxes	5.0%	2.8%
Tax-exempt interest and dividends	(18.4%)	(15.2%)
Officers' life insurance	(0.2%)	3.2%
Effect of prior year's tax return and other	0.2%	3.5%
Effective income tax rate	20.6%	28.3%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2015 and 2014 are as follows:

	2015	2014
Deferred tax assets:		
Reserves for losses and loss adjustment expenses	$ 233,302	272,469
Unearned premiums	35,887	37,366
Allowance for doubtful accounts	5,560	6,733
Unrealized investment losses	156,228	394,153
Federal alternative minimum tax credit	338,381	275,872
State net operating loss carryforward	1,541,819	1,547,538
Share based compensation	-	33,148
Other	18,497	10,503
Total gross deferred tax assets	2,329,674	2,577,782
Valuation allowance	1,698,047	1,941,691
Adjusted deferred tax assets	631,627	636,091
Deferred tax liabilities:		
Accumulated depreciation	24,588	24,719
Deferred policy acquisition costs	27,975	30,875
Discount on investments	32,940	54,826
Unrealized investment gains	-	744,072
Total gross deferred tax liabilities	85,503	854,492
Net deferred tax asset (liability)	$ 546,124	(218,401)

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, 2015 and 2014.

ACMAT realized a net capital loss in 2015, all of which is utilized through a capital loss carryback to offset net short term capital gains realized in 2014 and 2013. Receivables from capital loss carryback credits of $90,414 are included in the Company's income tax receivable balance as of December 31, 2015.

As of December 31, 2015 the Company had Federal net operating loss carryforwards of $1,182,109 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 $401,917 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. Through December 31, 2015, the Company has realized $215,352 of excess benefit associated with stock option deductions for financial reporting purposes.

As of December 31, 2015 the Company had state net operating loss carryforwards of $30,836,379 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 2015 and 2014, 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 $5,719 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, 2015 the Company had net unrealized capital losses on debt and equity securities available for sale of $459,493, which resulted in a gross deferred tax asset of $156,228. 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 net deferred tax asset associated with unrealized capital losses is not realizable and a valuation allowance of $156,228 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, 2015 and 2014.

(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 2015 and 2014. Costs associated with operating the Plan are borne by the Company and were insignificant for each of the years ended December 31, 2015 and 2014.

(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 $2,634,438 in 2016.

In accordance with statutory accounting practices, ACSTAR's statutory capital and surplus was $26,344,387 and $28,051,478 at December 31, 2015 and 2014, respectively, and its statutory net income for the years ended December 31, 2015 and 2014 was $1,844,637 and $2,346,657, 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, 2015, 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, 2015 and 2014:

2015		Net Earnings	Weighted Average Shares Outstanding	Per Share Amount
Basic earnings per share	$	727,087	983,312	0.74
Effect of dilutive securities:				
Stock options			-	-
Diluted earnings per share	$	727,087	983,312	0.74

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

(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 options vest evenly over a finite 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 Company incurred no expense related to share based compensation in net earnings during 2015 or 2014. In 2015 and 2014, the Company incurred current income tax expense of $76,245 and $139,107, respectively, 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 2015 and 2014 was $622,750 and $360,490, respectively. Cash paid to settle shares issued pursuant to options in 2015 and 2014 was $893,000 and $649,000, respectively. The excess tax benefit from the options exercised in 2015 and 2014 is currently unrealized.

As of December 31, 2015 there were no remaining stock options outstanding.

The following table shows the stock option activity for the Company during 2015 and 2014.

	Option Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In Years)	Average Intrinsic Value
Outstanding at December 31, 2013	96,500	12.55	1.80	473,526
2014				
Exercised	29,500	12.22		144,757
Cancelled	15,000	11.61		73,605
Outstanding at December 31, 2014	52,000	13.25	0.5	255,164
2015				
Exercised	47,000	13.25		230,629
Cancelled	5,000	13.25		24,535
Outstanding at December 31, 2015	-	-	-	-

(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 Loss and Income

The following table presents the changes in the Company's accumulated other comprehensive (loss) income for the years ended December 31, 2015 and 2014:

		Net Unrealized Gains and Losses	Total Accumulated Other Comprehensive (Loss) Income
Balance as of December 31, 2013	$	(61,928)	(61,928)
Other comprehensive income before reclassifications to earnings, net		366,404	366,404
Reclassifications, net		(19,374)	(19,374)
Other comprehensive income, net of taxes		347,030	347,030
Balance as of December 31, 2014		285,102	285,102
Other comprehensive (loss) before reclassifications to earnings, net		(1,477,853)	(1,477,853)
Reclassifications, net		733,258	733,258
Other comprehensive (loss), net of taxes		(744,595)	(744,595)
Balance as of December 31, 2015	$	(459,493)	(459,493)

The following table presents the pretax and related income tax expense component of the amounts reclassified from the Company's accumulated other comprehensive (loss) income to the Company's consolidated statement of earnings for the years ended December 31, 2015 and 2014:

		2015	2014
Net realized capital (losses) gains reclassified to net earnings during the period	$	(1,110,997)	29,354
Income tax (benefit) expense		(377,739)	9,980
Reclassifications, net	$	(733,258)	19,374

The following table presents the pretax components of other comprehensive (loss) income and related income tax expense for the years ended December 31, 2015 and 2014:

		2015	2014
Unrealized holding (loss) gain arising during the period	$	(2,599,664)	1,152,359
Tax benefit (expense) on unrealized holding gains and losses arising during the period		883,886	(391,802)
Valuation allowance		237,925	(394,153)
Less: Reclassification adjustment for gains included in earnings, net of income taxes		733,258	(19,374)
Changes included in comprehensive income	$	(744,595)	347,030

(14) Subsequent Events

There were no subsequent events requiring adjustment to the consolidated financial statements or disclosure through April 22, 2016, 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.

	2015		2014	
	High	Low	High	Low
Common Stock				
First quarter	$ 22.25	$ 21.90	$ 30.00	$ 25.00
Second quarter	$ 22.50	$ 21.00	$ 25.00	$ 25.00
Third quarter	$ 22.00	$ 20.25	$ 25.00	$ 22.50
Fourth quarter	$ 20.25	$ 20.25	$ 22.50	$ 22.50
Class A Stock				
First quarter	$ 21.00	$ 17.50	$ 24.00	$ 21.50
Second quarter	$ 18.25	$ 17.40	$ 23.00	$ 21.80
Third quarter	$ 18.10	$ 17.75	$ 23.00	$ 21.30
Fourth quarter	$ 18.83	$ 16.50	$ 22.00	$ 21.00

Annual Meeting

The annual meeting of stockholders will be held on June 30, 2016 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 8, 2016 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, 2015 and 2014, and the related consolidated statements of earnings, comprehensive loss and 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, 2015 and 2014, 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 22, 2016

DIRECTORS

Henry W. Nozko, Jr.
Chairman, President &
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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Brian P. Marshall, CPA
Vice President of Finance

Carmen Carlton
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