



ACMAT CORPORATION

ACMAT CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements

June 30, 2016

(Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
June 30, 2016

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ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
As of June 30, 2016 and December 31, 2015

Assets	June 30, 2016 (Unaudited)	December 31, 2015
Investments:		
Fixed maturities (Amortized cost of \$45,199,493 in 2016 and \$44,948,955 in 2015)	\$ 46,764,296	45,272,103
Equity securities (Historical cost of \$9,986,683 in 2016 and \$11,952,126 in 2015)	9,614,247	11,169,485
Short-term investments	6,426,594	1,476,613
Total investments	62,805,137	57,918,201
Cash and cash equivalents	2,285,822	3,740,700
Accrued interest receivable	395,007	348,057
Premiums receivable, net of allowance for doubtful accounts of \$16,353 as of June 30, 2016 and December 31, 2015	119,297	32,903
Other receivables	145,248	168,955
Reinsurance recoverable	2,085,695	2,076,711
Prepaid expenses	289,216	126,996
Income taxes receivable	76,131	258,173
Deferred income taxes, net	211,703	546,124
Property and equipment, net	4,990,636	5,050,382
Deferred policy acquisition costs	96,404	82,279
Ceded unearned premiums	97,190	86,101
Other assets	993,628	1,137,169
Intangibles	1,920,360	1,920,360
Total assets	\$ 76,511,474	73,493,111
Liabilities and Stockholders' Equity		
Reserves for losses and loss adjustment expenses	\$ 14,748,678	14,718,196
Unearned premiums	667,512	591,355
Collateral held	18,241,429	16,705,694
Reinsurance premiums payable	23,760	39,730
Accounts payable and accrued liabilities	1,791,973	1,397,222
Long-term debt	8,902,744	9,559,953
Total liabilities	44,376,096	43,012,150
Common Stock (No par value; 3,500,000 shares authorized; 357,966 shares issued and outstanding)	357,766	357,966
Class A Stock (No par value; 10,000,000 shares authorized; 580,682 shares issued and outstanding)	580,682	582,782
Retained earnings	30,409,968	29,999,706
Accumulated other comprehensive income (loss)	786,962	(459,493)
Total stockholders' equity	32,135,378	30,480,961
Total liabilities and stockholders' equity	\$ 76,511,474	73,493,111

See Notes to Consolidated Financial Statements (Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Earnings (Unaudited)
For the Three Months and Six Months Ended June 30, 2016 and 2015

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Revenues				
Premiums	\$ 253,109	436,310	527,186	762,879
Net investment income	603,391	619,095	1,227,081	1,186,432
Net realized capital gains	414,269	333,525	581,330	668,891
Fee and other income	41,553	48,896	87,430	89,381
Total revenues	<u>1,312,322</u>	<u>1,437,826</u>	<u>2,423,027</u>	<u>2,707,583</u>
Expenses				
Incurred losses and loss adjustment expenses	40,133	(81,369)	83,580	(173,712)
Amortization of deferred acquisition costs	46,134	69,645	91,108	122,346
General and administrative expenses	840,433	816,467	1,595,807	1,641,346
Interest expense	79,695	67,210	159,678	134,563
Total expenses	<u>1,006,395</u>	<u>871,953</u>	<u>1,930,173</u>	<u>1,724,543</u>
Earnings before income taxes	305,927	565,873	492,854	983,040
Provision for income taxes	92,324	174,632	125,388	302,254
Net earnings	<u>\$ 213,603</u>	<u>391,241</u>	<u>367,466</u>	<u>680,786</u>
Earnings per-share	\$ 0.23	\$ 0.39	\$ 0.39	\$ 0.68

See Notes to Consolidated Financial Statements (Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income (Loss) (Unaudited)
For the Three Months and Six Months Ended June 30, 2016 and 2015

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Net earnings	\$ 213,603	391,241	367,466	680,786
Change in unrealized gains and losses on investment securities	947,116	(1,348,509)	1,651,858	(1,221,984)
Income tax expense (benefit)	322,020	(157,928)	405,403	(91,125)
Other comprehensive income (loss), net of taxes	625,096	(1,190,581)	1,246,455	(1,130,859)
Comprehensive income (loss)	\$ 838,699	(799,340)	1,613,921	(450,073)

See Notes to Consolidated Financial Statements (Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity (Unaudited)
For the Six Months Ended June 30, 2016 and 2015

	<u>Common Stock Par value</u>	<u>Class A Stock Par Value</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Stockholders' Equity</u>
Balance as of December 31, 2014	\$ 357,966	647,682	31,256,626	285,102	32,547,376
Comprehensive loss					
Change in net unrealized gains and losses on investment securities, net of reclassification	-	-	-	(1,130,859)	(1,130,859)
Net earnings	-	-	680,786	-	680,786
Total comprehensive loss	-	-	680,786	(1,130,859)	(450,073)
Excess benefit from stock options exercised	-	-	242,819	-	242,819
Issuance of 47,000 shares of Class A Stock pursuant to stock options	-	47,000	575,750	-	622,750
Acquisition and retirement of 47,600 shares of Class A Stock	-	(47,600)	(858,750)	-	(906,350)
Balance as of June 30, 2015	<u>\$ 357,966</u>	<u>647,082</u>	<u>31,897,231</u>	<u>(845,757)</u>	<u>32,056,522</u>
Balance as of December 31, 2015	\$ 357,966	582,782	29,999,706	(459,493)	30,480,961
Comprehensive income					
Change in net unrealized gains and losses on investment securities, net of reclassification	-	-	-	1,246,455	1,246,455
Net earnings	-	-	367,466	-	367,466
Total comprehensive income	-	-	367,466	1,246,455	1,613,921
Excess benefit from stock options exercised	-	-	83,809	-	83,809
Acquisition of 200 shares of common stock	(200)	-	(4,002)	-	(4,202)
Acquisition and retirement of 2,100 shares of Class A Stock	-	(2,100)	(37,011)	-	(39,111)
Balance as of June 30, 2016	<u>\$ 357,766</u>	<u>580,682</u>	<u>30,409,968</u>	<u>786,962</u>	<u>32,135,378</u>

See Notes to Consolidated Financial Statements (Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)
For the Six Months Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Net earnings	\$ 367,466	680,786
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	205,313	112,716
Net realized capital gains	(581,330)	(668,891)
Deferred income tax expense	(70,981)	(65,840)
Changes in:		
Accrued interest receivable	(46,950)	(14,581)
Receivables	(62,687)	(36,645)
Reinsurance recoverable	(8,984)	(13,002)
Income taxes receivable	182,042	(166,615)
Deferred policy acquisition costs	(14,125)	(14,864)
Prepaid expenses and other assets	(37,501)	(125,234)
Reserves for losses and loss adjustment expenses	30,482	(135,787)
Unearned premiums, net	65,068	104,773
Collateral held	1,535,735	953,490
Reinsurance premiums payable	(15,970)	10,446
Accounts payable and accrued liabilities	(485,516)	(219,374)
Net cash provided by operating activities	1,062,062	401,378
Cash flows from investing activities		
Proceeds from investments sold, matured or redeemed:		
Fixed maturities sold	2,292,921	1,379,109
Maturities and redemptions	2,947,312	2,685,778
Equity securities	10,868,530	35,653,333
Purchases of:		
Fixed maturities	(5,398,583)	(5,989,106)
Equity securities	(7,626,319)	(41,363,785)
Short-term investments, net	(4,949,981)	3,837,820
Unsettled securities transactions	-	1,464,142
Capital expenditures	(32,388)	(30,704)
Net cash used for investing activities	(1,898,508)	(2,363,413)
Cash flows from financing activities		
Repayments of long-term debt	(658,928)	(37,500)
Excess tax benefit realized pursuant to stock options exercised	83,809	242,819
Acquisition and retirement of common shares	(4,202)	-
Issuance of Class A shares pursuant to stock options	-	622,750
Acquisition and retirement of Class A shares	(39,111)	(906,350)
Net cash used for financing activities	(618,432)	(78,281)
Net change in cash and cash equivalents	(1,454,878)	(2,040,316)
Cash and cash equivalents, beginning of period	3,740,700	5,793,124
Cash and cash equivalents, end of period	\$ 2,285,822	3,752,808

Supplemental disclosure of cash flows information:

Cash paid for income taxes	69,482	291,890
Cash paid for interest	139,137	114,022

See Notes to Consolidated Financial Statements (Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)

(1) Basis of Presentation and Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of ACMAT Corporation ("ACMAT" or "the Company") and its subsidiaries. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and are unaudited.

The interim financial information contained in this report has been prepared from the books and records of the Company and its subsidiaries and reflects, in the opinion of the management of the Company, all adjustments (consisting of normal and recurring accruals) necessary to fairly present results of operations for the periods indicated. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain prior period balances have been reclassified to conform to the current period presentation.

These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report for the year ended December 31, 2015.

Recently Adopted Accounting Standards

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 was effective for reporting periods beginning after December 15, 2015. The effect of the adoption of this accounting standard is reflected in Footnote 4, *Long-Term Debt*. The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

Accounting Standards Not Yet Adopted

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.

Improvements to Employee Share-Based Payment Accounting

In March 2016, the FASB issued updated guidance to simplify several aspects of accounting for share-based payment transactions and the related effects on income taxes. Under current accounting guidance, if the deduction for a share-based payment award for tax purposes exceeds, or is less than, the compensation cost recognized for financial reporting purposes, the resulting excess tax

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benefit, or tax deficiency, is reported as part of additional paid-in capital. Under the updated guidance, these excess tax benefits, or tax deficiencies, are reported as part of income tax expense or benefit in the income statement. The updated guidance also removes the requirement to delay recognition of any excess tax benefit when there are no current taxes payable to which the benefit would be applied. The tax-related cash flows resulting from share-based payments are to be included with other income tax cash flows as an operating activity rather than being reported separately as a financing activity.

The updated guidance is effective for reporting periods beginning after December 15, 2016. Early adoption is permitted in any interim period; if early adoption is elected, the entity must adopt all of the amendments in the same reporting period and reflect any adjustments as of the beginning of the fiscal year. Management is currently evaluating the effect the updated guidance will have on the Company's results of operations, financial position and liquidity.

Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued updated guidance for the accounting for credit losses for financial instruments. The updated guidance applies a new credit loss model (current expected credit losses or CECL) for determining credit-related impairments for financial instruments measured at amortized cost (i.e. reinsurance recoverables) and requires an entity to estimate the credit losses expected over the life of an exposure or pool of exposures. The estimate of expected credit losses should consider historical information, current information, as well as reasonable and supportable forecasts, including estimates of prepayments. The expected credit losses, and subsequent adjustments to such losses, will be recorded through an allowance account that is deducted from the amortized cost basis of the financial asset, with the net carrying value of the financial asset presented on the consolidated balance sheet at the amount expected to be collected.

The updated guidance also amends the current other-than-temporary impairment model for available-for-sale debt securities by requiring the recognition of impairments relating to credit losses through an allowance account and limits the amount of credit loss to the difference between a security's amortized cost basis and its fair value. In addition, the length of time a security has been in an unrealized loss position will no longer impact the determination of whether a credit loss exists.

The updated guidance is effective for reporting periods beginning after December 15, 2019. Early adoption is permitted for reporting periods beginning after December 15, 2018. The Company will not be able to determine the impact that the updated guidance will have on its results of operations, financial position or liquidity until the updated guidance is adopted.

Nature of Operations

ACMAT, through its wholly-owned subsidiary, ACSTAR Insurance Company ("ACSTAR"), provides surety bonds for prime contractors, specialty trade, environmental remediation and asbestos abatement contractors, and miscellaneous surety. ACSTAR is licensed to write business nationwide and is an approved surety by the United States Department of the Treasury.

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Notes to Consolidated Financial Statements (Unaudited)

(2) Investments

The amortized cost and fair value of investments in fixed maturities and equity securities classified as available-for-sale as of June 30, 2016 and December 31, 2015 were as follows:

	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
<u>As of June 30, 2016</u>				
U.S. government and government agencies	\$ 4,022,836	1,896	216	4,024,516
States, municipalities and political subdivisions	23,658,173	1,305,380	48,219	24,915,334
Industrial and miscellaneous	7,188,085	188,325	72,818	7,303,592
Mortgage-backed securities	7,447,899	193,871	102,050	7,539,720
Redeemable preferred stock	2,882,500	109,664	11,030	2,981,134
Total fixed maturities	45,199,493	1,799,136	234,333	46,764,296
Perpetual preferred stock	1,675,000	111,410	-	1,786,410
Common stock	8,311,683	384,118	867,964	7,827,837
Total equity securities	9,986,683	495,528	867,964	9,614,247
Total	\$ 55,186,176	2,294,664	1,102,297	56,378,543

	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
<u>As of December 31, 2015</u>				
U.S. government and government agencies	\$ 4,033,176	-	15,217	4,017,959
States, municipalities and political subdivisions	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
Perpetual preferred stock	2,040,755	98,461	480	2,138,736
Common stock	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
Total	\$ 56,901,081	1,860,585	2,320,078	56,441,588

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Notes to Consolidated Financial Statements (Unaudited)

The following tables summarize, for all investments in an unrealized loss position at June 30, 2016 and December 31, 2015, 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		Greater than 12 months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<u>As of June 30, 2016</u>						
U.S. government and government agencies	\$ -	-	2,505,775	216	2,505,775	216
States, municipalities and political subdivisions	361,944	10,508	2,379,098	37,711	2,741,042	48,219
Industrial and miscellaneous	162,038	4,433	885,613	68,385	1,047,651	72,818
Mortgage-backed securities	558,443	19,910	1,203,079	82,140	1,761,522	102,050
Redeemable preferred stock	463,970	11,030	-	-	463,970	11,030
Total fixed maturities	1,546,395	45,881	6,973,565	188,452	8,519,960	234,333
Common stock	2,969,832	328,309	2,456,703	539,655	5,426,535	867,964
Total equity securities	2,969,832	328,309	2,456,703	539,655	5,426,535	867,964
Total	\$ 4,516,227	374,190	9,430,268	728,107	13,946,495	1,102,297

	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<u>As of December 31, 2015</u>						
U.S. government and government agencies	\$ 4,017,959	15,217	-	-	4,017,959	15,217
States, municipalities and political subdivisions	5,110,974	75,707	2,839,218	112,597	7,950,192	188,304
Industrial and miscellaneous	2,635,688	123,989	516,156	109,666	3,151,844	233,655
Mortgage-backed securities	2,176,135	101,005	596,879	59,133	2,773,014	160,138
Redeemable preferred stock	746,950	128,050	448,340	14,160	1,195,290	142,210
Total fixed maturities	14,687,706	443,968	4,400,593	295,556	19,088,299	739,524
Perpetual preferred stock	199,520	480	-	-	199,520	480
Common stock	4,966,260	936,515	1,291,204	643,559	6,257,464	1,580,074
Total equity securities	5,165,780	936,995	1,291,204	643,559	6,456,984	1,580,554
Total	\$ 19,853,486	1,380,963	5,691,797	939,115	25,545,283	2,320,078

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Notes to Consolidated Financial Statements (Unaudited)

The following table summarizes, for all fixed maturities and equity securities reported at fair value for which fair value is less than 80% of amortized cost at June 30, 2016, the gross unrealized loss by length of time those securities have continuously been in an unrealized loss position in excess of 20% of amortized cost:

	Period For Which Fair Value is Less than 80% of Amortized Cost				Total
	3 Months or Less	Greater than 3 Months, Less than 6 Months	Greater than 6 Months, Less than 12 Months	Greater than 12 Months	
<u>As of June 30, 2016</u>					
Common stock	\$ 408,702	-	18,700	140,100	567,502
Total:	\$ 408,702	-	18,700	140,100	567,502

(3) Fair Value Measurement

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.

Valuation of Investments Reported at Fair Value in the Financial Statements

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, e.g., 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. 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.

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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.

Fair Value Hierarchy

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 June 30, 2016 and December 31, 2015.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>As of June 30, 2016</u>				
U.S. government and government agencies	\$ 4,024,516	-	-	4,024,516
States, municipalities and political subdivisions	-	24,915,334	-	24,915,334
Industrial and miscellaneous	-	7,303,592	-	7,303,592
Mortgage-backed securities	-	7,539,720	-	7,539,720
Redeemable preferred stock	-	2,981,134	-	2,981,134
Total fixed maturities	<u>4,024,516</u>	<u>42,739,780</u>	<u>-</u>	<u>46,764,296</u>
Perpetual preferred stock	-	1,786,410	-	1,786,410
Common stock	<u>7,827,837</u>	<u>-</u>	<u>-</u>	<u>7,827,837</u>
Total equity securities	<u>7,827,837</u>	<u>1,786,410</u>	<u>-</u>	<u>9,614,247</u>
Short-term investments	<u>-</u>	<u>6,426,594</u>	<u>-</u>	<u>6,426,594</u>
Total	<u>\$ 11,852,353</u>	<u>50,952,784</u>	<u>-</u>	<u>62,805,137</u>

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Notes to Consolidated Financial Statements (Unaudited)

	Level 1	Level 2	Level 3	Total
<u>As of December 31, 2015</u>				
U.S. government and government agencies	\$ 4,017,959	-	-	4,017,959
States, municipalities and political subdivisions	-	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
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

There were no significant transfers between Level 1 and 2 or from level 3 in 2016 or 2015.

(4) Long-Term Debt

Long-term debt as of June 30, 2016 and December 31, 2015 is as follows:

	June 30 2016	December 31, 2015
Term loan	\$ 7,664,286	8,285,714
Mortgage note	1,262,500	1,300,000
Principal outstanding	8,926,786	9,585,714
Unamortized loan costs	24,042	25,761
Long-term debt:	\$ 8,902,744	9,559,953

(5) Earnings Per-Share

The following is a reconciliation of the numerators and denominators of the earnings per-share computations for the three months and six months ended June 30, 2016 and 2015:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Net earnings	\$ 213,603	391,241	367,466	680,786
Weighted average shares outstanding	939,278	1,005,088	938,448	1,005,088
Earnings per-share	\$ 0.23	0.39	0.39	0.68

There were no dilutive instruments at June 30, 2016 and 2015.

ACMAT CORPORATION AND SUBSIDIARIES
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(6) Comprehensive Income

The following tables present the changes in the Company's accumulated other comprehensive income (loss) for the three months and six months ended June 30, 2016 and 2015:

	2016		2015	
	Net Unrealized Gains and Losses	Total Accumulated Other Comprehensive Income	Net Unrealized Gains and Losses	Total Accumulated Other Comprehensive Income (Loss)
<u>Three months ended June 30,</u>				
Balance as of April 1	\$ 161,866	161,866	344,824	344,824
Other comprehensive income (loss) before reclassifications to earnings, net	404,888	404,888	(1,168,678)	(1,168,678)
Reclassifications, net	220,208	220,208	(21,903)	(21,903)
Other comprehensive income (loss), net of taxes	625,096	625,096	(1,190,581)	(1,190,581)
Balance as of June 30	\$ 786,962	786,962	(845,757)	(845,757)

	2016		2015	
	Net Unrealized Gains and Losses	Total Accumulated Other Comprehensive Income (Loss)	Net Unrealized Gains and Losses	Total Accumulated Other Comprehensive Income (Loss)
<u>Six months ended June 30,</u>				
Balance as of January 1	\$ (459,493)	(459,493)	285,102	285,102
Other comprehensive income (loss) before reclassifications to earnings, net	968,815	968,815	(1,167,357)	(1,167,357)
Reclassifications, net	277,640	277,640	36,498	36,498
Other comprehensive income (loss), net of taxes	1,246,455	1,246,455	(1,130,859)	(1,130,859)
Balance as of June 30	\$ 786,962	786,962	(845,757)	(845,757)

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 three months and six months ended June 30, 2016 and 2015.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Realized capital gains and losses reclassified to net earnings during the period	\$ 333,649	33,188	420,667	(55,300)
Income taxes	113,441	11,285	143,027	(18,802)
Reclassifications, net	\$ 220,208	21,903	277,640	(36,498)

ACMAT CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)

The following table presents the pretax components of other comprehensive income and loss and related income tax expense for the three months and six months ended June 30, 2016 and 2015.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Unrealized holding increase (decrease) arising during the period, net of taxes	\$ 1,280,762	(1,315,322)	2,072,524	(1,277,283)
Tax (expense) benefit on unrealized holding gains and losses arising during the period	(435,458)	447,209	(704,657)	434,276
Valuation allowance	-	(300,565)	156,228	(324,350)
Less: Reclassification adjustment for gains and losses included in earnings, net of taxes	(220,208)	(21,903)	(277,640)	36,498
Other comprehensive income (loss), net	\$ 625,096	(1,190,581)	1,246,455	(1,130,859)

(7) Subsequent Events

There were no subsequent events requiring adjustment to the consolidated financial statements (unaudited) or disclosure therein through August 4, 2016, the date the Company's consolidated financial statements (unaudited) were issued.