



ACMAT CORPORATION

ACMAT CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements

September 30, 2017

(Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
September 30, 2017

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ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
As of September 30, 2017 and December 31, 2016

Assets	September 30, 2017 (Unaudited)	December 31, 2016
Investments:		
Fixed maturities (Amortized cost of \$45,797,398 in 2017 and \$49,500,581 in 2016)	\$ 46,245,568	48,854,835
Equity securities (Historical cost of \$6,881,350 in 2017 and \$7,070,091 in 2016)	7,082,221	7,477,156
Short-term investments	1,477,235	551,855
Total investments	54,805,024	56,883,846
Cash and cash equivalents	2,166,263	3,432,485
Accrued interest receivable	507,255	438,008
Premiums receivable, net of allowance for doubtful accounts of \$12,000 as of September 30, 2017 and December 31, 2016	31,867	22,768
Other receivables	82,111	124,588
Reinsurance recoverable	2,102,069	2,090,562
Prepaid expenses	243,848	131,420
Income taxes receivable	-	94,978
Deferred income taxes, net	722,226	947,967
Property and equipment, net	4,753,231	4,894,572
Deferred policy acquisition costs	106,638	80,255
Ceded unearned premiums	76,456	86,286
Other assets	1,294,310	1,108,648
Intangibles	1,920,360	1,920,360
Total assets	\$ 68,811,658	72,256,743
Liabilities and Stockholders' Equity		
Reserves for losses and loss adjustment expenses	\$ 13,901,690	14,349,448
Unearned premiums	525,110	592,625
Collateral held	15,822,331	17,794,400
Reinsurance premiums payable	21,570	29,926
Accounts payable and accrued liabilities	1,012,618	1,421,864
Long-term debt	7,259,720	8,245,534
Total liabilities	38,543,039	42,433,797
Common Stock (No par value; 3,500,000 shares authorized; 356,946 shares issued and outstanding)	356,746	356,746
Class A Stock (No par value; 10,000,000 shares authorized; 480,874 shares issued and outstanding)	480,874	508,349
Retained earnings	29,002,632	29,196,532
Accumulated other comprehensive income (loss)	428,367	(238,681)
Total stockholders' equity	30,268,619	29,822,946
Total liabilities and stockholders' equity	\$ 68,811,658	72,256,743

See Notes to Consolidated Financial Statements (Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Earnings (Unaudited)
For the Three Months and Nine Months Ended September 30, 2017 and 2016

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues				
Premiums	\$ 173,948	298,224	675,225	825,410
Net investment income	442,575	527,622	1,636,967	1,754,703
Net realized capital gains	177,407	300,588	701,186	881,918
Fee and other income	14,942	32,083	71,401	119,513
Total revenues	808,872	1,158,517	3,084,779	3,581,544
Expenses				
Incurring losses and loss adjustment expenses	(284,926)	(358,837)	(205,463)	(275,257)
Amortization of deferred acquisition costs	42,840	45,048	134,900	136,156
General and administrative expenses	582,870	662,711	2,216,591	2,258,518
Interest expense	70,710	78,199	207,178	237,877
Total expenses	411,494	427,121	2,353,206	2,357,294
Earnings before income taxes	397,378	731,396	731,573	1,224,250
Provision for income taxes	96,089	22,125	146,104	63,704
Net earnings	\$ 301,289	709,271	585,469	1,160,546
Earnings per-share	\$ 0.36	\$ 0.77	\$ 0.69	\$ 1.25

See Notes to Consolidated Financial Statements (Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income (Unaudited)
For the Three Months and Nine Months Ended September 30, 2017 and 2016

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Net earnings	\$ 301,289	709,271	585,469	1,160,546
Change in unrealized gains and losses on investment securities	341,609	(20,677)	886,888	1,631,181
Income tax expense	115,597	(7,030)	219,840	398,373
Other comprehensive income, net of taxes	226,012	(13,647)	667,048	1,232,808
Comprehensive income	\$ 527,301	695,624	1,252,517	2,393,354

See Notes to Consolidated Financial Statements (Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity (Unaudited)
For the Nine Months Ended September 30, 2017 and 2016

	<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, 2015	\$ 357,966	582,782	30,475,962	(459,493)	30,957,217
Comprehensive income					
Net change in unrealized capital gains and losses on investment securities, net of reclassification	-	-	-	1,232,808	1,232,808
Net earnings	-	-	1,160,546	-	1,160,546
Comprehensive income	-	-	1,160,546	1,232,808	2,393,354
Acquisition of 1,220 shares of Common stock	(1,220)	-	(24,025)	-	(25,245)
Acquisition and retirement of 69,433 shares of Class A Stock	-	(69,433)	(1,880,032)	-	(1,949,465)
Balance as of September 30, 2016	<u>\$ 356,746</u>	<u>513,349</u>	<u>29,732,451</u>	<u>773,315</u>	<u>31,375,861</u>
Balance as of December 31, 2016	\$ 356,746	508,349	29,196,532	(238,681)	29,822,946
Comprehensive income					
Net change in unrealized capital gains and losses on investment securities, net of reclassification	-	-	-	667,048	667,048
Net earnings	-	-	585,469	-	585,469
Comprehensive income	-	-	585,469	667,048	1,252,517
Acquisition and retirement of 27,475 shares of Class A Stock	-	(27,475)	(779,369)	-	(806,844)
Balance as of September 30, 2017	<u>\$ 356,746</u>	<u>480,874</u>	<u>29,002,632</u>	<u>428,367</u>	<u>30,268,619</u>

See Notes to Consolidated Financial Statements (Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)
For the Nine Months Ended September 30, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Net earnings	\$ 585,469	1,160,546
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	351,578	320,558
Net realized capital gains	(701,186)	(881,918)
Deferred income tax expense	5,902	(180,466)
Changes in:		
Accrued interest receivable	(69,247)	(140,362)
Receivables	33,378	27,310
Reinsurance recoverable	(11,507)	(8,861)
Income taxes receivable	95,026	310,074
Deferred policy acquisition costs	(26,383)	(5,947)
Prepaid expenses and other assets	(259,936)	(72,643)
Reserves for losses and loss adjustment expenses	(447,758)	(341,466)
Unearned premiums, net	(57,685)	22,653
Collateral held	(1,972,069)	1,779,223
Reinsurance premiums payable	(8,356)	(7,048)
Accounts payable and accrued liabilities	(409,293)	(236,860)
Net cash (used for) provided by operating activities	(2,892,067)	1,744,793
Cash flows from investing activities		
Proceeds from investments sold, matured or redeemed:		
Fixed maturities sold	4,928,599	5,125,102
Maturities and redemptions	3,995,056	4,219,211
Equity securities	5,761,956	16,873,931
Purchases of:		
Fixed maturities	(5,267,320)	(11,768,127)
Equity securities	(5,066,020)	(12,272,481)
Short-term investments, net	(925,380)	(2,844,505)
Capital expenditures	(5,810)	(32,511)
Net cash provided by (used for) investing activities	3,421,081	(699,380)
Cash flows from financing activities		
Repayments of long-term debt	(988,392)	(988,393)
Acquisition and retirement of common shares	-	(25,245)
Acquisition and retirement of Class A shares	(806,844)	(1,949,465)
Net cash used for financing activities	(1,795,236)	(2,963,103)
Net change in cash and cash equivalents	(1,266,222)	(1,917,690)
Cash and cash equivalents, beginning of period	3,432,485	3,740,700
Cash and cash equivalents, end of period	\$ 2,166,263	1,823,010
<u>Supplemental disclosure of cash flows information:</u>		
Cash paid for (received from) income taxes	45,176	(65,904)
Cash paid for interest	204,599	207,065

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, 2016.

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 annual reporting periods beginning after December 15, 2016. 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.

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.

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

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.

(2) Investments

The amortized cost and fair value of investments in fixed maturities and equity securities classified as available-for-sale as of September 30, 2017 and December 31, 2016 were as follows:

	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
<u>As of September 30, 2017</u>				
U.S. government and government agencies	\$ 3,719,139	-	16,279	3,702,860
States, municipalities and political subdivisions	28,516,429	538,010	424,222	28,630,217
Industrial and miscellaneous	6,119,898	202,899	38,788	6,284,009
Mortgage-backed securities	4,786,288	153,513	31,492	4,908,309
Redeemable preferred stock	2,655,644	66,725	2,196	2,720,173
Total fixed maturities	45,797,398	961,147	512,977	46,245,568
Perpetual preferred stock	1,675,861	50,558	-	1,726,419
Common stock	5,205,489	537,010	386,697	5,355,802
Total equity securities	6,881,350	587,568	386,697	7,082,221
Total	\$ 52,678,748	1,548,715	899,674	53,327,789
	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
<u>As of December 31, 2016</u>				
U.S. government and government agencies	\$ 4,035,138	222	14,319	4,021,041
States, municipalities and political subdivisions	28,350,630	416,242	865,722	27,901,150
Industrial and miscellaneous	7,619,503	112,686	139,039	7,593,150
Mortgage-backed securities	6,369,683	113,161	114,005	6,368,839
Redeemable preferred stock	3,125,627	5,362	160,334	2,970,655
Total fixed maturities	49,500,581	647,673	1,293,419	48,854,835
Perpetual preferred stock	2,175,000	25,960	55,330	2,145,630
Common stock	4,895,091	737,229	300,794	5,331,526
Total equity securities	7,070,091	763,189	356,124	7,477,156
Total	\$ 56,570,672	1,410,862	1,649,543	56,331,991

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

The following tables summarize, for all investments in an unrealized loss position at September 30, 2017 and December 31, 2016, 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 September 30, 2017</u>						
U.S. government and government agencies	\$ 3,702,859	16,279	-	-	3,702,859	16,279
States, municipalities and political subdivisions	7,136,071	131,813	5,647,300	292,409	12,783,371	424,222
Industrial and miscellaneous	1,430,683	27,328	321,987	11,460	1,752,670	38,788
Mortgage-backed securities	119,721	6,944	609,132	24,548	728,853	31,492
Redeemable preferred stock	237,325	175	167,097	2,021	404,422	2,196
Total fixed maturities	12,626,659	182,539	6,745,516	330,438	19,372,175	512,977
Common stock	1,768,595	218,509	957,639	168,188	2,726,234	386,697
Total equity securities	1,768,595	218,509	957,639	168,188	2,726,234	386,697
Total	\$ 14,395,254	401,048	7,703,155	498,626	22,098,409	899,674

	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, 2016</u>						
U.S. government and government agencies	\$ 3,616,026	14,319	-	-	3,616,026	14,319
States, municipalities and political subdivisions	14,983,676	830,014	1,731,882	35,708	16,715,558	865,722
Industrial and miscellaneous	3,307,610	135,070	148,959	3,969	3,456,569	139,039
Mortgage-backed securities	2,475,206	50,030	706,343	63,975	3,181,549	114,005
Redeemable preferred stock	2,232,117	155,129	38,170	5,205	2,270,287	160,334
Total fixed maturities	26,614,635	1,184,562	2,625,354	108,857	29,239,989	1,293,419
Perpetual preferred stock	932,170	55,330	-	-	932,170	55,330
Common stock	1,014,445	131,722	1,305,276	169,072	2,319,721	300,794
Total equity securities	1,946,615	187,052	1,305,276	169,072	3,251,891	356,124
Total	\$ 28,561,250	1,371,614	3,930,630	277,929	32,491,880	1,649,543

ACMAT CORPORATION AND SUBSIDIARIES
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, 2017, 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 September 30, 2017</u>					
Common stock	\$ 20,595	---	121,085	---	141,680
Total	\$ 20,595	---	121,085	---	141,680

(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.

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 instrument 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.

The Company utilizes one pricing service as its primary source for obtaining pricing information for substantially all of its financial instruments that are carried at fair value. In the event prices are not available from the primary pricing service, secondary pricing services are used to obtain pricing information based on a price source hierarchy. The Company then uses its third-party investment accounting service provider to analyze prices received from the pricing services to determine that they represent a reasonable estimate of fair value. Management employs additional analysis (including a weekly review of fair value changes and comparison of price changes to external indices and trends) to assess the reasonableness of prices provided by pricing services. The following section describes the valuation methods underlying each type of financial instrument held by the Company that is carried at fair value.

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

Fixed Maturities

The pricing service utilizes market quotations for fixed maturity securities that have quoted prices in active markets. Because 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 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 the 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 perpetual 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 perpetual preferred stocks as it does for fixed maturities. The Company includes the estimate in the amount disclosed in Level 2.

The Company holds certain mutual funds that are priced based on net asset values, which are the basis for current transactions on a public exchange and represent fair value. 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.

Short-Term Investments

The Company's short-term investment instruments are priced based on net asset values, which are the basis for current transactions and represent fair value. 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 September 30, 2017 and December 31, 2016.

	Level 1	Level 2	Level 3	Total
<u>As of September 30, 2017</u>				
U.S. government and government agencies	\$ 3,702,860	-	-	3,702,860
States, municipalities and political subdivisions	-	28,630,217	-	28,630,217
Industrial and miscellaneous	-	6,284,009	-	6,284,009
Mortgage-backed securities	-	4,908,309	-	4,908,309
Redeemable preferred stock	-	2,720,173	-	2,720,173
Total fixed maturities	3,702,860	42,542,708	-	46,245,568
Perpetual preferred stock	25,050	1,701,369	-	1,726,419
Common stock	5,082,318	273,484	-	5,355,802
Total equity securities	5,107,368	1,974,853	-	7,082,221
Short-term investments	-	1,477,235	-	1,477,235
Total	\$ 8,810,228	45,994,796	-	54,805,024

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

	Level 1	Level 2	Level 3	Total
<u>As of December 31, 2016</u>				
U.S. government and government agencies	\$ 4,021,041	-	-	4,021,041
States, municipalities and political subdivisions	-	27,901,150	-	27,901,150
Industrial and miscellaneous	-	7,593,150	-	7,593,150
Mortgage-backed securities	-	6,368,839	-	6,368,839
Redeemable preferred stock	-	2,970,655	-	2,970,655
Total fixed maturities	4,021,041	44,833,794	-	48,854,835
Perpetual preferred stock	-	2,145,630	-	2,145,630
Common stock	5,072,821	258,705	-	5,331,526
Total equity securities	5,072,821	2,404,335	-	7,477,156
Short-term investments	-	551,855	-	551,855
Total	\$ 9,093,862	47,789,984	-	56,883,846

There were no significant transfers between Level 1 and 2 or from level 3 in 2017 or 2016.

(4) Long-Term Debt

Long-term debt as of September 30, 2017 and December 31, 2016 is as follows:

	September 30, 2017	December 31, 2016
Term loan	\$ 6,110,714	7,042,857
Mortgage note	1,168,750	1,225,000
Principal outstanding	7,279,464	8,267,857
Unamortized loan costs	19,744	22,323
Long-term debt:	\$ 7,259,720	8,245,534

(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 nine months ended September 30, 2017 and 2016:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Net earnings	\$ 301,289	709,271	585,469	1,160,546
Weighted average shares outstanding	836,036	915,588	854,511	930,454
Earnings per-share	\$ 0.36	0.77	0.69	1.25

There were no dilutive instruments at September 30, 2017 and 2016.

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

(6) Comprehensive Income

The following tables present the changes in the Company's accumulated other comprehensive income for the three months and nine months ended September 30, 2017 and 2016:

	2017		2016	
	Net Unrealized Gains and Losses	Total Accumulated Other Comprehensive Income(Loss)	Net Unrealized Gains and Losses	Total Accumulated Other Comprehensive Income(Loss)
<u>Three months ended September 30,</u>				
Balance, as of July 1	\$ 202,355	202,355	786,962	786,962
Other comprehensive income before reclassifications to earnings, net	272,421	272,421	26,123	26,123
Reclassifications, net	(46,409)	(46,409)	(39,770)	(39,770)
Other comprehensive income (loss), net of taxes	226,012	226,012	(13,647)	(13,647)
Balance, as of September 30	<u>\$ 428,367</u>	<u>428,367</u>	<u>773,315</u>	<u>773,315</u>

	2017		2016	
	Net Unrealized Gains and Losses	Total Accumulated Other Comprehensive Income(Loss)	Net Unrealized Gains and Losses	Total Accumulated Other Comprehensive Income(Loss)
<u>Nine months ended September 30,</u>				
Balance, as of January 1	\$ (238,681)	(238,681)	(459,493)	(459,493)
Other comprehensive income before reclassifications to earnings, net	1,059,284	1,059,284	1,550,218	1,550,218
Reclassifications, net	(392,236)	(392,236)	(317,410)	(317,410)
Other comprehensive income, net of taxes	667,048	667,048	1,232,808	1,232,808
Balance, as of September 30	<u>\$ 428,367</u>	<u>428,367</u>	<u>773,315</u>	<u>773,315</u>

The following table presents the pretax and related income tax expense component of the amounts reclassified from the Company's accumulated other comprehensive income to the Company's consolidated statement of earnings for the three months and nine months ended September 30, 2017 and 2016.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Realized gains and losses reclassified to net earnings during the period	\$ 70,317	60,258	594,297	480,925
Income taxes	23,908	20,488	202,061	163,515
Reclassifications, net	<u>\$ 46,409</u>	<u>39,770</u>	<u>392,236</u>	<u>317,410</u>

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 nine months ended September 30, 2017 and 2016.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Unrealized holdings increase arising during the period, net of income taxes	\$ 412,760	39,583	1,481,185	2,112,106
Tax expense on unrealized holding gains and losses arising during period	(140,339)	(13,460)	(503,603)	(718,116)
Change in valuation allowance	---	---	81,702	156,228
Less: Reclassification adjustment for gains included in earnings, net of income taxes	(46,409)	(39,770)	(392,236)	(317,410)
Other comprehensive income (loss), net	\$ 226,012	(13,647)	667,048	1,232,808

(7) Subsequent Events

In October 2017, ACMAT executed an amended term loan agreement and revolving credit arrangement with a financial institution. The terms of the amended term loan agreement call for reamortization of the term loan principal balance over an 84 month period following a \$2,000,000 future voluntary prepayment of principal by ACMAT. Reamortization of the term loan principal balance is contingent on the prepayment. The agreement also effectively reduces the revolving credit arrangement from \$4,500,000 to \$3,000,000.

There were no other subsequent events requiring adjustment to the consolidated financial statements (unaudited) or disclosure therein through October 26, 2017, the date the Company's consolidated financial statements (unaudited) were issued.