



ACMAT CORPORATION

ACMAT CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements

March 31, 2019

(Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
March 31, 2019

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ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
As of March 31, 2019 and December 31, 2018

Assets	March 31, 2019 (Unaudited)	December 31, 2018
Investments:		
Fixed maturities (Amortized cost of \$42,920,844 in 2019 and \$43,034,690 in 2018)	\$ 43,316,251	42,302,779
Equity securities (Historical cost of \$4,603,974 in 2019 and \$5,510,212 in 2018)	4,550,518	5,086,379
Short-term investments	1,649,306	943,770
Total investments	49,516,075	48,332,928
Cash and cash equivalents	1,361,509	2,809,324
Accrued interest receivable	474,970	413,727
Premiums receivable, net of allowance for doubtful accounts of \$15,000 as of March 31, 2019 and \$12,000 as of December 31, 2018	63,537	35,830
Reinsurance recoverable	234,170	231,269
Prepaid expenses	118,279	113,693
Income taxes receivable	565,974	579,974
Deferred income taxes, net	1,270	301,731
Property and equipment, net	4,489,101	4,534,021
Deferred policy acquisition costs	112,189	89,753
Ceded unearned premiums	75,998	60,603
Net cash surrender value on officers' life insurance	1,454,557	1,402,569
Other assets	472,710	49,614
Intangibles	1,920,360	1,920,360
Total assets	\$ 60,860,699	60,875,396
Liabilities and Stockholders' Equity		
Reserves for losses and loss adjustment expenses	\$ 13,758,791	13,741,858
Unearned premiums	521,963	416,231
Collateral held	12,327,382	12,942,691
Reinsurance premiums payable	37,793	12,264
Accounts payable and accrued liabilities	877,007	1,189,505
Long-term debt	4,117,775	4,267,734
Total liabilities	31,640,711	32,570,283
Common Stock (No par value; 3,500,000 shares authorized; 356,346 shares issued and outstanding)	356,146	356,446
Class A Stock (No par value; 10,000,000 shares authorized; 437,754 shares issued and outstanding)	437,754	449,204
Retained earnings	28,155,947	28,412,501
Accumulated other comprehensive income (loss)	270,141	(913,038)
Total stockholders' equity	29,219,988	28,305,113
Total liabilities and stockholders' equity	\$ 60,860,699	60,875,396

See Notes to Consolidated Financial Statements (Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Earnings (Unaudited)
For the Three Months Ended March 31, 2019 and 2018

	2019	2018
Revenues		
Premiums	\$ 170,233	229,218
Net investment income	498,954	476,989
Net realized capital gains	162,862	217,035
Fee and other income	53,026	52,886
Total revenues	885,075	976,128
Expenses		
Incurred losses and loss adjustment expenses	26,985	36,336
Amortization of deferred acquisition costs	43,837	59,087
General and administrative expenses	665,728	693,129
Interest expense	55,269	53,693
Total expenses	791,819	842,245
Earnings before income taxes	93,256	133,883
Provision for income taxes	(55)	35,027
Net earnings	\$ 93,311	98,856
Earnings per-share	\$ 0.12	\$ 0.12

See Notes to Consolidated Financial Statements (Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income and Loss (Unaudited)
For the Three Months Ended March 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Net earnings	\$ 93,311	98,856
Change in net unrealized gains and losses on investment securities	1,497,695	(1,147,165)
Income tax expense (benefit)	<u>314,516</u>	<u>(240,905)</u>
Other comprehensive income (loss), net of taxes	<u>1,183,179</u>	<u>(906,260)</u>
Comprehensive income (loss)	<u>\$ 1,276,490</u>	<u>(807,404)</u>

See Notes to Consolidated Financial Statements (Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity (Unaudited)
For the Three Months Ended March 31, 2019 and 2018

	<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, 2017	\$ 356,746	474,854	28,440,562	695,211	29,967,373
Comprehensive loss					
Net change in unrealized capital gains and losses on investment securities, net of reclassification	-	-	-	(906,260)	(906,260)
Net earnings	-	-	98,856	-	98,856
Comprehensive loss	-	-	98,856	(906,260)	(807,404)
Acquisition and retirement of 3,000 shares of Class A Stock	-	(3,000)	(60,000)	-	(63,000)
Balance as of March 31, 2018	<u>\$ 356,746</u>	<u>471,854</u>	<u>28,479,418</u>	<u>(211,049)</u>	<u>29,096,969</u>
Balance as of December 31, 2018	\$ 356,446	449,204	28,412,501	(913,038)	28,305,113
Comprehensive income					
Net change in unrealized capital gains and losses on investment securities, net of reclassification	-	-	-	1,183,179	1,183,179
Net earnings	-	-	93,311	-	93,311
Comprehensive income	-	-	93,311	1,183,179	1,276,490
Acquisition and retirement of 3,00 shares of common stock	(300)	-	(8,100)	-	(8,400)
Acquisition and retirement of 11,450 shares of Class A Stock	-	(11,450)	(341,765)	-	(353,215)
Balance as of March 31, 2019	<u>\$ 356,146</u>	<u>437,754</u>	<u>28,155,947</u>	<u>270,141</u>	<u>29,219,988</u>

See Notes to Consolidated Financial Statements (Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)
For the Three Months Ended March 31, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Net earnings	\$ 93,311	98,856
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	83,971	98,802
Net realized capital gains	(162,862)	(217,035)
Deferred income tax expense	(14,055)	19,678
Changes in:		
Accrued interest receivable	(61,243)	(79,706)
Receivables	(27,707)	42,212
Reinsurance recoverable	(2,901)	(3,906)
Income taxes receivable	14,000	15,000
Deferred policy acquisition costs	(22,436)	(6,569)
Prepaid expenses and other assets	(56,868)	(76,429)
Reserves for losses and loss adjustment expenses	16,933	26,734
Unearned premiums, net	90,337	23,116
Collateral held	(615,309)	(858,391)
Reinsurance premiums payable	25,529	17
Accounts payable and accrued liabilities	(312,498)	(329,581)
Net cash used for operating activities	(951,798)	(1,247,202)
Cash flows from investing activities		
Proceeds from investments sold, matured or redeemed:		
Fixed maturities sold	131,503	285,104
Maturities and redemptions	731,017	562,400
Equity securities	2,389,213	2,235,048
Purchases of:		
Fixed maturities	(1,201,820)	(2,102,883)
Equity securities	(1,328,012)	(2,485,237)
Short-term investments, net	(705,537)	1,233,818
Net cash provided by (used for) investing activities	16,364	(271,750)
Cash flows from financing activities		
Repayments of long-term debt	(150,766)	(210,332)
Acquisition and retirement of common shares	(8,400)	-
Acquisition and retirement of Class A shares	(353,215)	(63,000)
Net cash used for financing activities	(512,381)	(273,332)
Net change in cash and cash equivalents	(1,447,815)	(1,792,284)
Cash and cash equivalents, beginning of period	2,809,324	3,383,091
Cash and cash equivalents, end of period	\$ 1,361,509	1,590,807
<u>Supplemental disclosure of cash flows information:</u>		
Cash paid for income taxes	-	350
Cash paid for interest	53,212	52,834

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, 2018.

Accounting Standards Not Yet Adopted

Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the Financial Accounting Standards Board (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 annual periods beginning after December 15, 2018 and will require recognition of a cumulative effect adjustment at adoption. Management estimates that the prospective effect of adoption as of January 1, 2019 will result in a net unfavorable unrealized holding loss of \$423,833, before the effect of income taxes and a reduction to retained earnings of \$334,828 (and an offsetting increase to accumulated other comprehensive income). Adoption of the guidance at March 31, 2019 would have resulted in a favorable change in unrealized holding gains and losses recognized in net earnings of \$370,455, before the effect of income taxes, for the three months ended March 31, 2019. Net earnings would have been \$385,970 for the three months ended March 31, 2019. Management 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.

The updated guidance is effective for reporting periods beginning after December 15, 2021. 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.

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

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 March 31, 2019 and December 31, 2018 were as follows:

	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
<u>As of March 31, 2019</u>				
U.S. government and government agencies	\$ 3,656,313	21,018	1,467	3,675,864
States, municipalities and political subdivisions	25,454,082	451,696	164,434	25,741,344
Industrial and miscellaneous	8,286,402	123,211	123,113	8,286,500
Mortgage-backed securities	3,488,710	113,411	29,115	3,573,006
Redeemable preferred stock	2,035,337	27,780	23,580	2,039,537
Total fixed maturities	42,920,844	737,116	341,709	43,316,251
Perpetual preferred stock	1,784,867	46,559	34,231	1,797,195
Common stock	2,819,107	326,252	392,036	2,753,323
Total equity securities	4,603,974	372,811	426,267	4,550,518
Total	\$ 47,524,818	1,109,927	767,976	47,866,769

	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
<u>As of December 31, 2018</u>				
U.S. government and government agencies	\$ 3,648,035	14,716	2,719	3,660,032
States, municipalities and political subdivisions	25,584,209	233,068	492,305	25,324,972
Industrial and miscellaneous	7,743,012	15,640	411,421	7,347,231
Mortgage-backed securities	3,849,104	125,915	36,963	3,938,056
Redeemable preferred stock	2,210,330	1,050	178,892	2,032,488
Total fixed maturities	43,034,690	390,389	1,122,300	42,302,779
Perpetual preferred stock	1,636,310	5,451	132,441	1,509,320
Common stock	3,873,902	329,482	626,325	3,577,059
Total equity securities	5,510,212	334,933	758,766	5,086,379
Total	\$ 48,544,902	725,322	1,881,066	47,389,158

The tables above present information compiled at the individual lot level. Certain unrealized gains and losses presented may be offset or affected by unrealized gains and losses on additional holdings of the same security.

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

The following tables summarize, for all investments in an unrealized loss position at March 31, 2019 and December 31, 2018, 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 March 31, 2019</u>						
U.S. government and government agencies	\$ 214,572	76	274,010	1,391	488,582	1,467
States, municipalities and political subdivisions	582,066	3,861	7,737,653	160,572	8,319,719	164,433
Industrial and miscellaneous	1,022,437	26,824	1,533,430	96,289	2,555,867	123,113
Mortgage-backed securities	61,057	104	589,331	29,012	650,388	29,116
Redeemable preferred stock	320,225	17,275	87,070	6,305	407,295	23,580
Total fixed maturities	2,200,357	48,140	10,221,494	293,569	12,421,851	341,709
Perpetual preferred stock	426,755	10,745	214,875	23,486	641,630	34,231
Common stock	1,120,008	172,446	541,706	219,590	1,661,714	392,036
Total equity securities	1,546,763	183,191	756,581	243,076	2,303,344	426,267
Total	\$ 3,747,120	231,331	10,978,075	536,645	14,725,195	767,976

	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, 2018</u>						
U.S. government and government agencies	\$ 583,482	281	273,202	2,438	856,684	2,719
States, municipalities and political subdivisions	6,875,547	120,432	7,863,576	371,873	14,739,123	492,305
Industrial and miscellaneous	5,288,898	325,052	793,728	86,369	6,082,626	411,421
Mortgage-backed securities	238,797	1,365	595,658	35,598	834,455	36,963
Redeemable preferred stock	1,830,510	161,444	75,928	17,448	1,906,438	178,892
Total fixed maturities	14,817,234	608,574	9,602,092	513,726	24,419,326	1,122,300
Perpetual preferred stock	1,201,350	111,150	54,570	21,291	1,255,920	132,441
Common stock	2,024,979	468,774	283,712	157,551	2,308,691	626,325
Total equity securities	3,226,329	579,924	338,282	178,842	3,564,611	758,766
Total	\$ 18,043,563	1,188,498	9,940,374	692,568	27,983,937	1,881,066

The tables above present information compiled at the individual lot level. Certain unrealized losses presented may be offset or affected by unrealized gains and losses on additional holdings of the same security. Management assesses other than temporary impairment at the aggregate level when it is believed that unit size will not trigger significant pricing variations or affect market efficiency.

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 March 31, 2019, 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 March 31, 2019</u>					
Common stock	70,599	78,546	----	3,293	152,438
Total	\$ 70,599	78,546	----	3,293	152,438

The table above presents information compiled at the aggregate level. Management performs reviews for other-than-temporary impairment at the aggregate level when it is believed that doing so will not disrupt assumptions of market effectiveness or cause pricing variations based on unit size and represents a more comprehensive analysis of the Company's investment objective.

(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.

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

Fair Value Hierarchy

The following tables present the level within the fair value hierarchy at which the Company's financial assets and liabilities are measured on a recurring basis at March 31, 2019 and December 31, 2018.

	Level 1	Level 2	Level 3	NAV	Total
<u>As of March 31, 2019</u>					
U.S. government and U.S. government agencies	\$ 3,675,864	-	-	-	3,675,864
States, municipalities and political subdivisions	-	25,741,344	-	-	25,741,344
Industrial and miscellaneous	-	8,286,500	-	-	8,286,500
Mortgage-backed securities	-	3,573,006	-	-	3,573,006
Redeemable preferred stock	-	2,039,537	-	-	2,039,537
Total fixed maturities	3,675,864	39,640,387	-	-	43,316,251
Perpetual preferred stock	-	1,797,195	-	-	1,797,195
Common stock	2,723,698	-	-	29,625	2,753,323
Total equity securities	2,723,698	1,797,195	-	29,625	4,550,518
Short-term investments	-	-	-	1,649,306	1,649,306
Receivable for securities	-	426,600	-	-	426,600
Total	\$ 6,399,562	41,864,182	-	1,678,931	49,942,675
<u>As of December 31, 2018</u>					
U.S. government and U.S. government agencies	\$ 3,660,032	-	-	-	3,660,032
States, municipalities and political subdivisions	-	25,324,972	-	-	25,324,972
Industrial and miscellaneous	-	7,347,231	-	-	7,347,231
Mortgage-backed securities	-	3,938,056	-	-	3,938,056
Redeemable preferred stock	-	2,032,488	-	-	2,032,488
Total fixed maturities	3,660,032	38,642,747	-	-	42,302,779
Perpetual preferred stock	-	1,509,320	-	-	1,509,320
Common stock	3,553,056	-	-	24,003	3,577,059
Total equity securities	3,553,056	1,509,320	-	24,003	5,086,379
Short-term investments	-	-	-	943,770	943,770
Receivable for securities	-	2,548	-	-	2,548
Total	\$ 7,213,088	40,154,615	-	967,773	48,335,476

There were no significant transfers between Level 1 and 2 or from level 3 in 2019 or 2018. The Company had no material assets or liabilities that were measured at fair value on a non-recurring basis during the periods ended March 31, 2019 and 2018. The Company held investments in common stock mutual funds priced using net asset value totaling \$29,625 at March 31, 2019 and \$24,003 at December 31, 2018. Assets using net asset value as a practical expedient present the risk that the price obtained when disposing the asset may differ from that used to determine fair value.

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

(4) Long-Term Debt

Long-term debt as of March 31, 2019 and December 31, 2018 is as follows:

	March 31, 2019	December 31, 2018
Term loan	\$ 3,080,357	3,212,373
Mortgage note	1,056,250	1,075,000
Principal outstanding	4,136,607	4,287,373
Unamortized loan costs	18,832	19,639
Long-term debt:	<u>\$ 4,117,775</u>	<u>4,267,734</u>

(5) Earnings Per-Share

The following is a reconciliation of the numerators and denominators of the earnings per-share computations for the three months ended March 31, 2019 and 2018:

	Three months ended March 31,	
	2019	2018
Net earnings	\$ 93,311	98,856
Weighted average shares outstanding	795,697	828,667
Earnings per-share	<u>\$ 0.12</u>	<u>0.12</u>

There were no dilutive instruments at March 31, 2019 and 2018.

(6) Comprehensive Income and Loss

The following table presents the changes in the Company's accumulated other comprehensive income (loss) for the three months ended March 31, 2019 and 2018:

	2019		2018	
	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 March 31,</u>				
Balance, as of January 1	\$ (913,038)	(913,038)	695,211	695,211
Other comprehensive income (loss) before reclassifications to earnings, net	1,294,555	1,294,555	(748,593)	(748,593)
Reclassifications, net	(111,376)	(111,376)	(157,667)	(157,667)
Other comprehensive income (loss), net of taxes	1,183,179	1,183,179	(906,260)	(906,260)
Balance, as of March 31	<u>\$ 270,141</u>	<u>270,141</u>	<u>(211,049)</u>	<u>(211,049)</u>

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

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 ended March 31, 2019 and 2018.

	Three Months Ended March 31,	
	2019	2018
Realized losses and gains reclassified to net earnings during the period	\$ 140,982	199,579
Income tax expense	29,606	41,912
Reclassifications, net	\$ 111,376	157,667

The following table presents the pretax components of other comprehensive income (loss) and related income tax expense for the three months ended March 31, 2019 and 2018.

	Three Months Ended March 31,	
	2019	2018
Unrealized holdings increase (decrease) arising during the period, net of income taxes	\$ 1,638,677	(947,586)
Tax effect on unrealized holding gains and losses arising during period	(344,122)	198,993
Less: Reclassification adjustment for gains and losses included in earnings, net of income taxes	(111,376)	(157,667)
Other comprehensive income (loss), net	\$ 1,183,179	(906,260)

(7) Subsequent Events

In April 2019, the Company executed a voluntary paydown of its term loan debt totaling \$3,036,352, which completely extinguished the loan balance. Capital for the paydown was obtained from the operating subsidiary, ACSTAR Insurance Company, through a series of intercompany transactions, following approval from the operating subsidiary's regulatory body, the Illinois Department of Insurance. The Company maintains the credit facility from which the term loan originated and continues to maintain its revolving line of credit, under which there is currently no outstanding balance.

There were no other subsequent events requiring adjustment to the consolidated financial statements (unaudited) or disclosure therein through May 7, 2019, the date the Company's consolidated financial statements (unaudited) were issued.