



ACMAT CORPORATION

ACMAT CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements

June 30, 2020

(Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
June 30, 2020

TABLE OF CONTENTS

	<u>Page</u>
Consolidated Balance Sheets	1
Consolidated Statements of Earnings and Losses (Unaudited)	2
Consolidated Statements of Comprehensive Income and Loss (Unaudited)	3
Consolidated Statements of Stockholders' Equity (Unaudited)	4
Consolidated Statements of Cash Flows (Unaudited)	5
Notes to Consolidated Financial Statements (Unaudited)	6

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
As of June 30, 2020 and December 31, 2019

Assets	June 30, 2020 (Unaudited)	December 31, 2019
Investments:		
Fixed maturities (Amortized cost of \$36,234,397 in 2020 and \$37,658,910 in 2019)	\$ 37,160,393	39,118,446
Equity securities (Historical cost of \$6,914,445 in 2020 and \$4,886,622 in 2019)	5,933,758	5,409,385
Short-term investments	922,340	3,279,139
Total investments	44,016,491	47,806,970
Cash and cash equivalents	2,460,574	1,529,071
Accrued interest receivable	350,255	359,408
Premiums receivable, net of allowance for doubtful accounts of \$20,000 as of June 30, 2020 and \$15,000 as of December 31, 2019	134,010	41,779
Reinsurance recoverable	254,061	246,505
Prepaid expenses	312,364	136,507
Income taxes receivable	206,090	263,697
Property and equipment, net	4,362,063	4,399,551
Deferred policy acquisition costs	102,874	115,819
Ceded unearned premiums	70,430	71,549
Net cash surrender value on officers' life insurance	1,694,682	1,599,913
Other assets	21,861	24,361
Intangibles	1,920,360	1,920,360
Total assets	\$ 55,906,115	58,515,490
Liabilities and Stockholders' Equity		
Reserves for losses and loss adjustment expenses	\$ 12,586,503	12,815,728
Unearned premiums	441,989	491,409
Collateral held	11,677,380	11,708,960
Reinsurance premiums payable	27,951	19,475
Accounts payable and accrued liabilities	904,828	850,531
Deferred income taxes, net	11,838	432,876
Debt outstanding	1,116,770	1,000,000
Total liabilities	26,767,259	27,318,979
Common Stock (No par value; 3,500,000 shares authorized; 336,346 shares issued and outstanding)	336,146	356,146
Class A Stock (No par value; 10,000,000 shares authorized; 435,688 shares issued and outstanding)	435,688	437,733
Retained earnings	27,635,485	29,249,599
Accumulated other comprehensive income	731,537	1,153,033
Total stockholders' equity	29,138,856	31,196,511
Total liabilities and stockholders' equity	\$ 55,906,115	58,515,490

See Notes to Consolidated Financial Statements (Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Earnings and Losses (Unaudited)
For the Three Months and Six Months Ended June 30, 2020 and 2019

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Revenues				
Premiums	\$ 192,250	276,112	377,264	446,345
Net investment income	445,846	479,240	910,328	978,194
Net realized capital gains and losses	246,374	41,181	430,956	204,043
Net unrealized capital gains and losses on equity securities	560,118	42,630	(1,503,450)	413,007
Fee and other income	11,169	12,263	43,279	65,289
Total revenues	1,455,757	851,426	258,377	2,106,878
Expenses				
Incurring losses and loss adjustment expenses	(218,961)	(206,230)	(189,632)	(179,245)
Amortization of deferred acquisition costs	52,707	69,860	108,974	113,697
General and administrative expenses	742,864	770,632	1,468,170	1,436,360
Interest expense	16,677	42,901	38,754	98,170
Total expenses	593,287	677,163	1,426,266	1,468,982
Earnings and losses before income taxes	862,470	174,263	(1,167,889)	637,896
Income tax expense (benefit)	139,119	41,575	(252,382)	119,300
Net earnings and losses	\$ 723,351	132,688	(915,507)	518,596
Earnings and losses per-share				
Common stock	\$ 0.91	\$ 0.16	\$ (1.16)	\$ 0.65
Class A stock	\$ 0.91	\$ 0.16	\$ (1.16)	\$ 0.65

See Notes to Consolidated Financial Statements (Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income and Loss (Unaudited)
For the Three Months and Six Months Ended June 30, 2020 and 2019

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2020	2019	2020	2019
Net earnings and losses	\$ 723,351	132,688	(915,507)	518,596
Change in unrealized capital gains and losses on fixed maturity securities available-for-sale	1,279,332	756,546	(532,906)	1,883,787
Income tax expense (benefit)	269,160	158,874	(111,410)	395,595
Other comprehensive income and loss, net of taxes	1,010,172	597,672	(421,496)	1,488,192
Comprehensive income (loss)	\$ 1,733,523	730,360	(1,337,003)	2,006,788

See Notes to Consolidated Financial Statements (Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity (Unaudited)
For the Six Months Ended June 30, 2020 and 2019

	<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, 2018	\$ 356,446	449,204	28,077,672	(578,209)	28,305,113
Comprehensive income					
Net change in unrealized capital gains and losses on fixed maturities available-for-sale, net of reclassification	-	-	-	1,488,192	1,488,192
Net earnings	-	-	518,596	-	518,596
Comprehensive income	<u>-</u>	<u>-</u>	<u>518,596</u>	<u>1,488,192</u>	<u>2,006,788</u>
Acquisition and retirement of 300 shares of common stock	(300)	-	(8,100)	-	(8,400)
Acquisition and retirement of 11,450 shares of Class A Stock	<u>-</u>	<u>(11,450)</u>	<u>(341,765)</u>	<u>-</u>	<u>(353,215)</u>
Balance as of June 30, 2019	<u>\$ 356,146</u>	<u>437,754</u>	<u>28,246,403</u>	<u>909,983</u>	<u>29,950,286</u>
Balance as of December 31, 2019	\$ 356,146	437,733	29,249,599	1,153,033	31,196,511
Comprehensive loss					
Net change in unrealized capital gains and losses on fixed maturities available-for-sale, net of reclassification	-	-	-	(421,496)	(421,496)
Net loss	-	-	(915,507)	-	(915,507)
Comprehensive loss	<u>-</u>	<u>-</u>	<u>(915,507)</u>	<u>(421,496)</u>	<u>(1,337,003)</u>
Acquisition and retirement of 20,000 shares of common stock	(20,000)	-	(633,800)	-	(653,800)
Acquisition and retirement of 2,045 shares of Class A Stock	<u>-</u>	<u>(2,045)</u>	<u>(64,807)</u>	<u>-</u>	<u>(66,852)</u>
Balance as of June 30, 2020	<u>\$ 336,146</u>	<u>435,688</u>	<u>27,635,485</u>	<u>731,537</u>	<u>29,138,856</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, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Net (losses) earnings	\$ (915,507)	518,596
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	135,068	182,289
Net realized capital gains	(430,956)	(204,043)
Net unrealized capital losses on equity securities	1,503,450	(413,007)
Deferred income tax expense	(309,128)	92,349
Changes in:		
Accrued interest receivable	9,153	23,076
Receivables	(92,231)	(5,978)
Reinsurance recoverable	(7,556)	(7,606)
Income taxes receivable	57,607	3,725
Deferred policy acquisition costs	12,945	(9,773)
Prepaid expenses and other assets	(270,626)	(226,896)
Reserves for losses and loss adjustment expenses	(229,225)	(192,936)
Unearned premiums, net	(48,301)	41,715
Collateral held	(31,580)	(618,616)
Reinsurance premiums payable	8,476	6,710
Accounts payable and accrued liabilities	54,297	(303,945)
Net cash used for operating activities	(554,114)	(1,114,340)
Cash flows from investing activities		
Proceeds from investments sold, matured or redeemed:		
Fixed maturities sold	1,786,836	4,227,438
Maturities and redemptions	1,957,234	1,182,203
Equity securities	2,405,135	3,396,771
Purchases of:		
Fixed maturities	(2,268,296)	(2,632,280)
Equity securities	(4,093,458)	(2,885,429)
Short-term investments, net	2,356,799	(345,318)
Capital expenditures	(54,751)	(33,920)
Net cash provided by investing activities	2,089,499	2,909,465
Cash flows from financing activities		
SBA Payroll Protection Program loan funding	154,270	-
Repayments of long-term debt	(37,500)	(3,249,873)
Acquisition and retirement of common shares	(653,800)	(8,400)
Acquisition and retirement of Class A shares	(66,852)	(353,215)
Net cash used for financing activities	(603,882)	(3,611,488)
Net change in cash and cash equivalents	931,503	(1,816,363)
Cash and cash equivalents, beginning of period	1,529,071	2,809,324
Cash and cash equivalents, end of period	\$ 2,460,574	992,961
<u>Supplemental disclosure of cash flows information:</u>		
Cash (received) paid for income taxes	(862)	23,226
Cash paid for interest	36,999	89,094

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, 2019.

Accounting Standards Recently 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 that have readily determinable fair value to be measured at fair value with any changes in fair value recognized in earnings. Equity securities that do not have readily determinable fair values may be measured at estimated fair value or cost less impairment, if any, adjusted for subsequent observable price changes, with changes in the carrying value recognized in earnings. The adoption of this guidance resulted in the recognition of a \$334,829 net after-tax cumulative effect adjustment that decreased retained earnings as of January 1, 2019 and increased accumulated other comprehensive income (AOCI) by the same amount. Adoption of the guidance was effective with the Company's annual report as of December 31, 2019. Management has reclassified prior period balances in the June 30, 2019 statements of earnings, comprehensive income, stockholders' equity and cash flows to conform to the current period presentation. The following table details the effect of the adoption on the Company's results for the period ended June 30, 2019.

For the period ended June 30, 2019:	<u>Before Adoption</u>	<u>Effect of Adoption</u>	<u>After Adoption</u>
Consolidated Statement of Earnings			
<i>Revenues</i>			
Net unrealized capital gains	\$ ----	413,007	413,007
Total revenues	1,693,871	413,007	2,106,878
Earnings before income taxes	224,889	413,007	637,896
Provision for income taxes	32,568	86,732	119,300
Net earnings	<u>\$ 192,321</u>	<u>326,275</u>	<u>518,596</u>
<i>Earnings per share</i>			
Common stock	\$ 0.24	0.41	0.65
Class A stock	\$ 0.24	0.41	0.65
Consolidated Statement of Comprehensive Income			
Net earnings	\$ 192,321	326,275	518,596
Change in unrealized gains and losses on investment securities available-for-sale	2,296,794	(413,007)	1,883,787
Income tax expense	482,327	(86,732)	395,595
Other comprehensive income	1,814,467	(326,275)	1,488,192
Comprehensive income	<u>\$ 2,006,788</u>	<u>----</u>	<u>2,006,788</u>

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

	Before Adoption	Effect of Adoption	After Adoption
For the period ended June 30, 2019:			
Consolidated Statement of Stockholders' Equity			
<i>Retained earnings</i>			
Balance, December 31, 2018	\$ 28,412,501	(334,829)	28,077,672
Net earnings	192,321	326,275	518,596
Acquisition and retirement of common and class A stock	(349,865)	----	----
Balance, June 30, 2019	\$ 28,254,957	(8,554)	28,246,403
<i>Accumulated Other Comprehensive Income (Loss)</i>			
Balance, December 31, 2018	\$ (913,038)	334,829	(578,209)
Other comprehensive income	1,814,467	(326,275)	1,488,192
Balance, June 30, 2019	\$ 901,429	8,554	909,983
<i>Total Stockholders' Equity</i>			
Balance, December 31, 2018	\$ 28,305,113	----	28,305,113
Net earnings	192,321	326,275	518,596
Other comprehensive income	1,814,467	(326,275)	1,488,192
Acquisition and retirement of common and class A stock	(361,615)	----	(361,615)
Balance, June 30, 2019	\$ 29,950,286	----	29,950,286
Consolidated Statement of Cash Flows			
<i>Cash flows from operations</i>			
Net earnings	\$ 192,321	326,275	518,596
<i>Adjustments to reconcile net earnings to net cash provided by operating activities:</i>			
Net unrealized capital (gains)	----	(413,007)	(413,007)
Deferred income tax expense	5,617	86,732	92,349
Net cash used for operating activities	(1,114,340)	----	(1,114,340)
Net change in cash and cash equivalents	\$ (1,816,363)	----	(1,816,363)

At December 31, 2018, equity investments were classified as available-for-sale on the Company's balance sheet. However, upon adoption, the updated guidance eliminated the applicability of the "available-for-sale" balance sheet classification for equity investments.

Accounting Standards Not Yet Adopted

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, 2022. 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.

Simplifying the Accounting for Income Taxes

In December 2019, the FASB issued updated guidance for the accounting for income taxes. The updated guidance is intended to simplify the accounting for income taxes by removing several exceptions contained in existing guidance and amending other existing guidance to simplify several other income tax accounting matters. The updated guidance is effective for the year ending December 31, 2022 and interim periods thereafter. Early adoption is permitted. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

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 as of June 30, 2020 and December 31, 2019 were as follows:

As of June 30, 2020	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
U.S. government and government agencies	\$ 2,832,141	24,637	----	2,856,778
States, municipalities and political subdivisions	18,788,900	1,076,496	240,490	19,624,906
Industrial and miscellaneous	10,162,692	343,260	325,941	10,180,011
Mortgage-backed securities	2,613,999	88,909	25,183	2,677,725
Redeemable preferred stock	1,836,665	12,480	28,172	1,820,973
Total fixed maturities	36,234,397	1,545,782	619,786	37,160,393
Perpetual preferred stock	2,364,061	30,138	58,416	2,335,783
Common stock	4,550,384	258,400	1,210,809	3,597,975
Total equity securities	6,914,445	288,538	1,269,225	5,933,758
Total	\$ 43,148,842	1,834,320	1,889,011	43,094,151

As of December 31, 2019	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
U.S. government and government agencies	\$ 3,190,770	28,529	----	3,219,299
States, municipalities and political subdivisions	20,064,945	863,483	51,476	20,876,952
Industrial and miscellaneous	9,699,183	489,137	34,476	10,153,844
Mortgage-backed securities	2,768,253	109,672	18,664	2,859,261
Redeemable preferred stock	1,935,759	75,386	2,055	2,009,090
Total fixed maturities	37,658,910	1,566,207	106,671	39,118,446
Perpetual preferred stock	1,801,561	87,794	4,061	1,885,294
Common stock	3,085,061	605,484	166,454	3,524,091
Total equity securities	4,886,622	693,278	170,515	5,409,385
Total	\$ 42,545,532	2,259,485	277,186	44,527,831

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 June 30, 2020 and December 31, 2019, 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, 2020</u>						
States, municipalities and political subdivisions	\$ 1,877,742	218,686	224,351	21,804	2,102,093	240,490
Industrial and miscellaneous	3,314,222	275,179	229,752	50,762	3,543,974	325,941
Mortgage-backed securities	414,126	4,274	236,478	20,909	650,604	25,183
Redeemable preferred stock	663,545	24,355	39,558	3,817	703,103	28,172
Total fixed maturities	\$ <u>6,269,635</u>	<u>522,494</u>	<u>730,139</u>	<u>97,292</u>	<u>6,999,774</u>	<u>619,786</u>

	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, 2019</u>						
States, municipalities and political subdivisions	\$ 1,047,491	32,752	271,187	18,724	1,318,678	51,476
Industrial and miscellaneous	770,754	11,741	258,646	22,735	1,029,400	34,476
Mortgage-backed securities	95,673	925	300,078	17,739	395,751	18,664
Redeemable preferred stock	25,080	320	41,640	1,735	66,720	2,055
Total fixed maturities	\$ <u>1,938,998</u>	<u>45,738</u>	<u>871,551</u>	<u>60,933</u>	<u>2,810,549</u>	<u>106,671</u>

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.

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, 2020, 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, 2020</u>					
Fixed maturities:					
States, municipalities and political subdivisions	58,242	50,594	----	----	108,836
Industrial and miscellaneous	----	156,200	----	----	156,200
Redeemable preferred stock	----	8,830	----	----	8,830
Total fixed maturities	58,242	215,624	----	----	273,865

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

	Period For Which Fair Value is Less than 80% of Amortized Cost (continued)				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, 2020</u>					
Equity securities:					
Common stock	34,167	1,086,645	----	----	1,120,812
Total equity securities	34,167	1,086,645	----	----	1,120,812
Total	\$ 92,409	1,302,268	----	----	1,394,677

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.

Debt and equities markets experienced severe declines during the first six months of 2020 as the COVID-19 pandemic spread across the globe and entered the United States. The Company observed a \$2,036,990 decrease in the fair value of its marketable securities from December 31, 2019 to June 30, 2020, of which \$1,503,450 was attributable to equity securities and recognized in revenues. Efforts to slow the impact of the virus on healthcare systems caused global supply-chain disruption while shelter-in-place and other social distancing measures halted local commerce and triggered unprecedented unemployment. Uncertainty surrounding the economic effects and extent to which they will be present, prompted rapid fiscal response from the Federal Reserve and other policymakers as interest rates reached record lows and emergency assurance programs were deployed to prevent financial contagion. Equities markets and corporate debt instruments contracted by as much as 30% in response to the pandemic and aforementioned effects while demand for safe assets caused risk free, agency-backed, and municipal instrument yields to approach zero. Management is monitoring the creditworthiness of the Company's portfolio and effects changes in circumstances may present through the duration of the pandemic and subsequent recovery.

(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

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

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.

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 June 30, 2020 and December 31, 2019.

<u>As of June 30, 2020</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	<u>Total</u>
U.S. government and government agencies	\$ 2,856,778	----	----	----	2,856,778
States, municipalities and political subdivisions	----	19,624,906	----	----	19,624,906
Industrial and miscellaneous	----	10,180,011	----	----	10,180,011
Mortgage-backed securities	----	2,677,725	----	----	2,677,725
Redeemable preferred stock	----	1,820,973	----	----	1,820,973
Total fixed maturities	<u>2,856,778</u>	<u>34,303,615</u>	<u>----</u>	<u>----</u>	<u>37,160,393</u>
Perpetual preferred stock	----	2,335,783	----	----	2,335,783
Common stock	<u>3,582,359</u>	<u>----</u>	<u>----</u>	<u>15,616</u>	<u>3,597,975</u>
Total equity securities	<u>3,582,359</u>	<u>2,335,783</u>	<u>----</u>	<u>15,616</u>	<u>5,933,758</u>
Short-term investments	----	----	----	922,340	922,340
Receivables for securities ⁽¹⁾	----	<u>3,464</u>	----	----	<u>3,464</u>
Total	<u>\$ 6,439,137</u>	<u>36,642,862</u>	<u>----</u>	<u>937,956</u>	<u>44,019,955</u>

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

<u>As of December 31, 2019</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	<u>Total</u>
U.S. government and government agencies	\$ 3,219,299	----	----	----	3,219,299
States, municipalities and political subdivisions	----	20,876,952	----	----	20,876,952
Industrial and miscellaneous	----	10,153,844	----	----	10,153,844
Mortgage-backed securities	----	2,859,261	----	----	2,859,261
Redeemable preferred stock	----	2,009,090	----	----	2,009,090
Total fixed maturities	<u>3,219,299</u>	<u>35,899,147</u>	<u>----</u>	<u>----</u>	<u>39,118,446</u>
Perpetual preferred stock	----	1,885,294	----	----	1,885,294
Common stock	<u>3,496,433</u>	<u>----</u>	<u>----</u>	<u>27,658</u>	<u>3,524,091</u>
Total equity securities	<u>3,496,433</u>	<u>1,885,294</u>	<u>----</u>	<u>27,658</u>	<u>5,409,385</u>
Short-term investments	----	----	----	3,279,139	3,279,139
Receivables for securities ⁽¹⁾	----	3,464	----	----	3,464
Total	<u>\$ 6,715,732</u>	<u>37,787,905</u>	<u>----</u>	<u>3,306,797</u>	<u>47,810,434</u>

(1) Receivables for securities is included in Other Assets on the Consolidated Balance Sheets

There were no significant transfers between Level 1 and 2 or from level 3 in 2020 or 2019.

(4) Debt

Outstanding debt as of June 30, 2020 and December 31, 2019 is as follows:

	<u>June 30, 2020</u>	<u>December 31, 2019</u>
Mortgage note	\$ 962,500	1,000,000
SBA Payroll Protection Program loan	154,270	----
Total outstanding debt	<u>\$ 1,116,770</u>	<u>1,000,000</u>

In April 2020, the Company applied for, and received, \$154,270 from the U.S. Small Business Administration (SBA) under the Payroll Protection Program, which was introduced as part of the CARES Act, in response to the COVID 19 pandemic and its economic impact. The loan is eligible for forgiveness by the SBA, provided that proceeds are applied in a specific manner. Management believes that the proceeds have been used to offset qualifying expenses and expect to apply for forgiveness during the third quarter of 2020. Based on the current provisions of the program, in the event forgiveness is not granted, principal is due within 24 months and carries a 1% interest rate.

The Company borrowed \$750,000 under its revolving credit facility in February 2020 and subsequently repaid the principal in May 2020. Interest expense related to the working line was \$5,269.

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

(5) Earnings and Losses Per-Share

Earnings and losses per share is calculated using the two-class method. Basic earnings and losses per share is calculated using the weighted average number of shares outstanding during the period. There are no dilutive or anti-dilutive instruments or events as of, or for the periods ended, June 30, 2020 and 2019. The following table details earnings and losses per share computations, by class of stock, for the three months and six months ended June 30, 2020 and 2019.

	Three Months Ended June 30,			
	2020		2019	
	Common Stock	Class A Stock	Common Stock	Class A Stock
Undistributed net earnings	\$ 323,960	399,391	59,524	73,164
Weighted average shares outstanding	354,168	436,632	356,146	437,754
Earnings per share	<u>\$ 0.91</u>	<u>0.91</u>	<u>0.16</u>	<u>0.16</u>

	Six Months Ended June 30,			
	2020		2019	
	Common Stock	Class A Stock	Common Stock	Class A Stock
Undistributed net (losses) earnings	\$ (410,366)	(505,141)	232,452	286,144
Weighted average shares outstanding	355,157	437,182	356,254	438,540
(Losses) earnings per share	<u>\$ (1.16)</u>	<u>(1.16)</u>	<u>0.65</u>	<u>0.65</u>

The rights of holders of Common Stock and Class A Stock are identical, except with respect to voting rights. Per share amounts are equal for shares of Common Stock and Class A Stock for the periods ended June 30, 2020 and 2019 because holders of the stock are entitled to equal shares of earnings and losses.

(6) Comprehensive Income and Loss

The following tables present the changes in the Company's accumulated other comprehensive income and loss for the three months and six months ended June 30, 2020 and 2019:

	2020		2019	
	Net Unrealized Gains and Losses	Total Accumulated Other Comprehensive Income(Loss)	Net Unrealized Gains and Losses	Total Accumulated Other Comprehensive Income
<u>Three months ended June 30,</u>				
Balance, as of April 1	\$ (278,635)	(278,635)	312,372	312,372
Other comprehensive income before reclassifications to earnings, net	1,050,236	1,050,236	594,245	594,245
Reclassifications, net	(40,064)	(40,064)	3,427	3,427
Other comprehensive income, net of taxes	<u>1,010,172</u>	<u>1,010,172</u>	<u>597,672</u>	<u>597,672</u>
Balance, as of June 30	<u>\$ 731,537</u>	<u>731,537</u>	<u>909,983</u>	<u>909,983</u>

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

	2020		2019	
	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	\$ 1,153,033	1,153,033	(913,038)	(913,038)
Cumulative effect adjustment for adoption of accounting standard	----	----	334,829	334,829
Other comprehensive income before reclassifications to earnings, net	(349,641)	(349,641)	1,490,154	1,490,154
Reclassifications, net	<u>(71,855)</u>	<u>(71,855)</u>	<u>(1,962)</u>	<u>(1,962)</u>
Other comprehensive income (loss), net of taxes	<u>(421,496)</u>	<u>(421,496)</u>	<u>1,488,192</u>	<u>1,488,192</u>
Balance, as of June 30	\$ <u>731,537</u>	<u>731,537</u>	<u>909,983</u>	<u>909,983</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 and loss to the Company's consolidated statement of earnings and losses for the three months and six months ended June 30, 2020 and 2019.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Realized gains and (losses) reclassified to net earnings and losses during the period	\$ 50,714	(4,338)	90,956	2,484
Income tax expense (benefit)	<u>10,650</u>	<u>(911)</u>	<u>19,101</u>	<u>522</u>
Reclassifications, net	\$ <u>40,064</u>	<u>(3,427)</u>	<u>71,855</u>	<u>1,962</u>

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, 2020 and 2019.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Unrealized holdings increase arising during the period, net of income taxes	\$ 1,329,412	752,146	(442,584)	1,886,269
Tax (expense) benefit on unrealized holding gains and losses arising during period	(279,176)	(157,901)	92,943	(396,115)
Less: Reclassification adjustment for gains and losses included in earnings, net of income taxes	<u>(40,064)</u>	<u>3,427</u>	<u>(71,855)</u>	<u>(1,962)</u>
Other comprehensive income (loss), net	\$ <u>1,010,172</u>	<u>597,672</u>	<u>(421,496)</u>	<u>1,488,192</u>

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

(7) Risks and Uncertainties

COVid-19 Pandemic

A novel strain of coronavirus (COVid-19) emerged in the United States during the first six months of 2020 and has spread throughout the Country, impacting commerce and depressing capital markets. Presently, restrictions have had limited impact on construction projects, however management recognizes that precautions enacted by Federal, state or local governments may delay or halt construction projects and lead to increased claim exposure. Economic contraction may result in increased contractor defaults on bonded contracts and sub-contracts. A disruption in financial systems and capital markets may compromise the ability of the Company's counterparties to honor letters of credit that collateralize exposures on surety risks while simultaneously reducing income from investment operations. Other financial impacts could occur, though such potential impact and duration cannot be reasonably estimated at this time.

(8) Subsequent Events

There were no subsequent events requiring adjustment to the consolidated financial statements (unaudited) or disclosure therein through July 31, 2020, the date the Company's consolidated financial statements (unaudited) were issued.