



ACMAT CORPORATION

ACMAT CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements

September 30, 2020

(Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
September 30, 2020

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

Assets	September 30, 2020 (Unaudited)	December 31, 2019
Investments:		
Fixed maturities (Amortized cost of \$35,582,271 in 2020 and \$37,658,910 in 2019)	\$ 36,864,132	39,118,446
Equity securities (Historical cost of \$7,354,532 in 2020 and \$4,886,622 in 2019)	6,537,869	5,409,385
Short-term investments	1,834,093	3,279,139
Total investments	45,236,094	47,806,970
Cash and cash equivalents	1,922,589	1,529,071
Accrued interest receivable	382,200	359,408
Premiums receivable, net of allowance for doubtful accounts of \$10,000 as of September 30, 2020 and \$15,000 as of December 31, 2019	18,562	41,779
Reinsurance recoverable	256,987	246,505
Prepaid expenses	243,739	136,507
Income taxes receivable	209,108	263,697
Property and equipment, net	4,345,711	4,399,551
Deferred policy acquisition costs	95,773	115,819
Ceded unearned premiums	72,517	71,549
Net cash surrender value on officers' life insurance	1,749,860	1,599,913
Other assets	37,135	24,361
Intangibles	1,920,360	1,920,360
Total assets	\$ 56,490,635	58,515,490
Liabilities and Stockholders' Equity		
Reserves for losses and loss adjustment expenses	\$ 12,315,458	12,815,728
Unearned premiums	455,772	491,409
Collateral held	11,727,326	11,708,960
Reinsurance premiums payable	34,369	19,475
Accounts payable and accrued liabilities	1,092,957	850,531
Deferred income taxes, net	96,031	432,876
Debt outstanding	1,098,020	1,000,000
Total liabilities	26,819,933	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	27,886,198	29,249,599
Accumulated other comprehensive income	1,012,670	1,153,033
Total stockholders' equity	29,670,702	31,196,511
Total liabilities and stockholders' equity	\$ 56,490,635	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 Nine Months Ended September 30, 2020 and 2019

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Revenues				
Premiums	\$ 224,275	218,857	601,539	665,202
Net investment income	495,680	476,123	1,406,008	1,454,317
Net realized capital gains and losses	(113,818)	117,801	317,138	321,844
Net unrealized holding gains and losses on equity securities	166,075	182,355	(1,337,375)	595,362
Fee and other income	88,310	27,700	131,589	92,989
Total revenues	<u>860,522</u>	<u>1,022,836</u>	<u>1,118,899</u>	<u>3,129,714</u>
Expenses				
Incurring losses and loss adjustment expenses	(212,857)	(215,307)	(402,489)	(394,552)
Amortization of deferred acquisition costs	56,483	53,996	165,457	167,693
General and administrative expenses	691,539	714,482	2,159,709	2,150,842
Interest expense	17,567	18,044	56,321	116,214
Total expenses	<u>552,732</u>	<u>571,215</u>	<u>1,978,998</u>	<u>2,040,197</u>
Earnings (losses) before income taxes	307,790	451,621	(860,099)	1,089,517
Income tax expense (benefit)	57,077	48,313	(195,305)	167,613
Net earnings (losses)	<u>\$ 250,713</u>	<u>403,308</u>	<u>(664,794)</u>	<u>921,904</u>
Earnings and losses per-share				
Common stock	\$ 0.32	\$ 0.51	\$ (0.85)	\$ 1.16
Class A stock	\$ 0.32	\$ 0.51	\$ (0.85)	\$ 1.16

See Notes to Consolidated Financial Statements (Unaudited)

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Net earnings (losses)	\$ 250,713	403,308	(664,794)	921,904
Change in unrealized capital gains and losses on fixed maturity securities available-for-sale	355,231	565,359	(177,675)	2,449,146
Income tax expense (benefit)	74,098	118,725	(37,312)	514,320
Other comprehensive income (loss), net of taxes	281,133	446,634	(140,363)	1,934,826
Comprehensive income (loss)	\$ <u>531,846</u>	<u>849,942</u>	<u>(805,157)</u>	<u>2,856,730</u>

See Notes to Consolidated Financial Statements (Unaudited)

ACMAT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity (Unaudited)
For the Nine Months Ended September 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	-	-	-	1,934,826	1,934,826
Net earnings	-	-	921,904	-	921,904
Comprehensive income	-	-	921,904	1,934,826	2,856,730
Acquisition and retirement of 300 shares of Common Stock	(300)	-	(8,100)	-	(8,400)
Acquisition and retirement of 11,470 shares of Class A Stock	-	(11,470)	(342,416)	-	(353,886)
Balance as of September 30, 2019	<u>\$ 356,146</u>	<u>437,734</u>	<u>28,649,060</u>	<u>1,356,617</u>	<u>30,799,557</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	-	-	-	(140,363)	(140,363)
Net losses	-	-	(664,794)	-	(664,794)
Comprehensive loss	-	-	(664,794)	(140,363)	(805,157)
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	-	(2,045)	(64,807)	-	(66,852)
Balance as of September 30, 2020	<u>\$ 336,146</u>	<u>435,688</u>	<u>27,886,198</u>	<u>1,012,670</u>	<u>29,670,702</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, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Net (losses) earnings	\$ (664,794)	921,904
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	195,465	265,003
Net realized capital gains	(317,138)	(321,844)
Net unrealized capital losses (gains) on equity securities	1,337,375	(595,362)
Deferred income taxes	(299,533)	165,096
Changes in:		
Accrued interest receivable	(22,792)	(24,011)
Receivables	23,217	23,991
Reinsurance recoverable	(10,482)	(11,336)
Income taxes receivable	54,589	(20,708)
Deferred policy acquisition costs	20,046	(7,745)
Prepaid expenses and other assets	(274,298)	(216,839)
Reserves for losses and loss adjustment expenses	(500,270)	(376,564)
Unearned premiums, net	(36,605)	27,370
Collateral held	18,366	(1,243,544)
Reinsurance premiums payable	14,894	15,322
Accounts payable and accrued liabilities	238,962	(275,541)
Net cash used for operating activities	(222,998)	(1,674,808)
Cash flows from investing activities		
Proceeds from investments sold, matured or redeemed:		
Fixed maturities sold	2,991,568	5,510,763
Maturities and redemptions	2,510,390	1,925,252
Equity securities	3,408,263	4,160,565
Purchases of:		
Fixed maturities	(3,294,580)	(3,741,283)
Equity securities	(5,736,045)	(3,854,909)
Short-term investments, net	1,445,046	(521,143)
Capital expenditures	(85,494)	(47,729)
Net cash provided by investing activities	1,239,148	3,431,516
Cash flows from financing activities		
SBA Payroll Protection Program loan funding	154,270	-
Repayments of long-term debt	(56,250)	(3,268,873)
Acquisition and retirement of common shares	(653,800)	(8,400)
Acquisition and retirement of Class A shares	(66,852)	(353,884)
Net cash used for financing activities	(622,632)	(3,631,157)
Net change in cash and cash equivalents	393,518	(1,874,449)
Cash and cash equivalents, beginning of period	1,529,071	2,809,324
Cash and cash equivalents, end of period	\$ 1,922,589	934,875
<u>Supplemental disclosure of cash flows information:</u>		
Cash paid for income taxes	49,639	23,225
Cash paid for interest	52,412	97,473

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 September 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 September 30, 2019.

For the period ended September 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	\$ ----	595,362	595,362
Total revenues	2,534,352	595,362	3,129,714
Earnings before income taxes	494,155	595,362	1,089,517
Provision for income taxes	42,587	125,026	167,613
Net earnings	<u>\$ 451,568</u>	<u>470,336</u>	<u>921,904</u>
<i>Earnings per share</i>			
Common stock	\$ 0.57	0.59	1.16
Class A stock	\$ 0.57	0.59	1.16
Consolidated Statement of Comprehensive Income			
Net earnings	\$ 451,568	470,336	921,904
Change in unrealized capital gains and losses on fixed maturity securities available-for-sale	3,044,508	(595,362)	2,449,146
Income tax expense	639,346	(125,026)	514,320
Other comprehensive income	2,405,162	(470,336)	1,934,826
Comprehensive income	<u>\$ 2,856,730</u>	<u>----</u>	<u>2,856,730</u>

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

For the period ended September 30, 2019:	Before Adoption	Effect of Adoption	After Adoption
Consolidated Statement of Stockholders' Equity			
<i>Retained earnings</i>			
Balance, December 31, 2018	\$ 28,412,501	(334,829)	28,077,672
Net earnings	451,568	470,336	921,904
Acquisition and retirement of common and class A stock	(350,516)	----	(350,516)
Balance, September 30, 2019	\$ 28,513,553	135,507	28,649,060
<i>Accumulated Other Comprehensive Income (Loss)</i>			
Balance, December 31, 2018	\$ (913,038)	334,829	(578,209)
Other comprehensive income	2,405,162	(470,336)	1,934,826
Balance, September 30, 2019	\$ 1,492,124	(135,507)	1,356,617
<i>Total Stockholders' Equity</i>			
Balance, December 31, 2018	\$ 28,305,113	----	28,305,113
Net earnings	451,568	470,336	921,904
Other comprehensive income	2,405,162	(470,336)	1,934,826
Acquisition and retirement of common and class A stock	(362,286)	----	(362,286)
Balance, September 30, 2019	\$ 30,799,557	----	30,799,557
Consolidated Statement of Cash Flows			
<i>Cash flows from operations</i>			
Net earnings	\$ 451,568	470,336	921,904
<i>Adjustments to reconcile net earnings to net cash provided by operating activities:</i>			
Net unrealized capital gains	----	(595,362)	(595,362)
Deferred income taxes	40,070	125,026	165,096
Net cash used for operating activities	(1,674,808)	----	(1,674,808)
Net change in cash and cash equivalents	\$ (1,874,449)	----	(1,874,449)

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 "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.

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.

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Notes to Consolidated Financial Statements (Unaudited)

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 September 30, 2020 and December 31, 2019 were as follows:

<u>As of September 30, 2020</u>	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
U.S. government and government agencies	\$ 3,179,350	6,432	----	3,185,782
States, municipalities and political subdivisions	17,878,655	1,106,305	275,606	18,709,354
Industrial and miscellaneous	9,974,187	555,596	223,040	10,306,743
Mortgage-backed securities	2,913,414	112,546	25,526	3,000,434
Redeemable preferred stock	1,636,665	32,040	6,886	1,661,819
Total fixed maturities	35,582,271	1,812,919	531,058	36,864,132
Perpetual preferred stock	2,686,417	121,452	17,322	2,790,547
Common stock	4,668,115	214,519	1,135,312	3,747,322
Total equity securities	7,354,532	335,971	1,152,634	6,537,869
Total	\$ 42,936,803	2,148,890	1,683,692	43,402,001

<u>As of December 31, 2019</u>	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.

The following tables summarize, for all fixed maturities available-for-sale in an unrealized loss position at September 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:

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Notes to Consolidated Financial Statements (Unaudited)

	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, 2020</u>						
States, municipalities and political subdivisions	\$ 1,464,201	145,814	464,448	129,792	1,928,649	275,606
Industrial and miscellaneous	1,453,674	188,994	246,025	34,046	1,699,699	223,040
Mortgage-backed securities	224,137	7,191	218,546	18,335	442,683	25,526
Redeemable preferred stock	246,030	4,370	40,859	2,516	286,889	6,886
Total fixed maturities	\$ <u>3,388,042</u>	<u>346,369</u>	<u>969,878</u>	<u>184,689</u>	<u>4,357,920</u>	<u>531,058</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 September 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 September 30, 2020</u>					
Fixed maturities:					
States, municipalities and political subdivisions	5,349	----	131,301	----	136,650
Industrial and miscellaneous	39,357	----	89,957	----	129,314
Redeemable preferred stock	----	----	6,800	----	6,800
Total fixed maturities	44,706	----	228,058	----	272,764

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	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 September 30, 2020</u>					
Equity securities:					
Common stock	8,919	----	953,512	----	962,431
Total equity securities	8,919	----	953,512	----	962,431
Total	\$ 53,625	----	1,181,570	----	1,235,195

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 volatility during the first nine months of 2020 as the Covid-19 pandemic spread across the globe and entered the United States. The Company observed a \$1,517,101 decrease in the fair value of its marketable securities from December 31, 2019 to September 30, 2020, of which \$1,337,375 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 impeded 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 experienced price declines 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 of fair value.

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Notes to Consolidated Financial Statements (Unaudited)

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 September 30, 2020 and December 31, 2019.

<u>As of September 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	\$ 3,185,782	----	----	----	3,185,782
States, municipalities and political subdivisions	----	18,709,354	----	----	18,709,354
Industrial and miscellaneous	----	10,306,743	----	----	10,306,743
Mortgage-backed securities	----	3,000,434	----	----	3,000,434
Redeemable preferred stock	----	1,661,819	----	----	1,661,819
Total fixed maturities	<u>3,185,782</u>	<u>33,678,350</u>	<u>----</u>	<u>----</u>	<u>36,864,132</u>
Perpetual preferred stock	----	2,790,547	----	----	2,790,547
Common stock	<u>3,733,638</u>	<u>----</u>	<u>----</u>	<u>13,684</u>	<u>3,747,322</u>
Total equity securities	<u>3,733,638</u>	<u>2,790,547</u>	<u>----</u>	<u>13,684</u>	<u>6,537,869</u>
Short-term investments	<u>----</u>	<u>----</u>	<u>----</u>	<u>1,834,093</u>	<u>1,834,093</u>
Total	<u>\$ 6,919,420</u>	<u>36,468,897</u>	<u>----</u>	<u>1,847,777</u>	<u>45,236,094</u>

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<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 September 30, 2020 and December 31, 2019 is as follows:

	<u>September 30,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
Mortgage note	\$ 943,750	1,000,000
SBA Payroll Protection Program loan	154,270	----
Total outstanding debt	<u>\$ 1,098,020</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 when such avenues become available. 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.

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(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, September 30, 2020 and 2019. The following table details earnings and losses per share computations, by class of stock, for the three months and nine months ended September 30, 2020 and 2019.

	Three Months Ended September 30,			
	2020		2019	
	Common Stock	Class A Stock	Common Stock	Class A Stock
Undistributed net earnings	\$ 109,190	141,523	180,925	222,383
Weighted average shares outstanding	336,146	435,688	356,146	437,754
Earnings per share	<u>\$ 0.32</u>	<u>0.32</u>	<u>0.51</u>	<u>0.51</u>
	Nine Months Ended September 30,			
	2020		2019	
	Common Stock	Class A Stock	Common Stock	Class A Stock
Undistributed net (losses) earnings	\$ (295,196)	(369,599)	413,343	508,561
Weighted average shares outstanding	348,774	436,681	356,217	438,275
(Losses) earnings per share	<u>\$ (0.85)</u>	<u>(0.85)</u>	<u>1.16</u>	<u>1.16</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 September 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 nine months ended September 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 September 30,</u>				
Balance, as of July 1	\$ 731,537	731,537	909,983	909,983
Other comprehensive income before reclassifications to earnings, net	338,718	338,718	509,937	509,937
Reclassifications, net	(57,585)	(57,585)	(63,303)	(63,303)
Other comprehensive income, net of taxes	<u>281,133</u>	<u>281,133</u>	<u>446,634</u>	<u>446,634</u>
Balance, as of September 30	<u>\$ 1,012,670</u>	<u>1,012,670</u>	<u>1,356,617</u>	<u>1,356,617</u>

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	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>Nine months ended September 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	(10,923)	(10,923)	2,000,091	2,000,091
Reclassifications, net	<u>(129,440)</u>	<u>(129,440)</u>	<u>(65,265)</u>	<u>(65,265)</u>
Other comprehensive income (loss), net of taxes	<u>(140,363)</u>	<u>(140,363)</u>	<u>1,934,826</u>	<u>1,934,826</u>
Balance, as of September 30	\$ <u>1,012,670</u>	<u>1,012,670</u>	<u>1,356,617</u>	<u>1,356,617</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 nine months ended September 30, 2020 and 2019.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Realized capital gains reclassified to net earnings and losses during the period	\$ 72,892	80,130	163,848	82,614
Income tax expense	<u>15,307</u>	<u>16,827</u>	<u>34,408</u>	<u>17,349</u>
Reclassifications, net	\$ <u>57,585</u>	<u>63,303</u>	<u>129,440</u>	<u>65,265</u>

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, 2020 and 2019.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Unrealized holdings increase (decrease) arising during the period	\$ 428,757	645,491	(13,827)	2,531,760
Tax (expense) benefit on unrealized holding gains and losses arising during the period	(90,039)	(135,554)	2,904	(531,670)
Less: Reclassification adjustment for gains and losses included in earnings, net of income taxes	<u>(57,585)</u>	<u>(63,303)</u>	<u>(129,440)</u>	<u>(65,265)</u>
Other comprehensive income (loss), net	\$ <u>281,133</u>	<u>446,634</u>	<u>(140,363)</u>	<u>1,934,825</u>

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(7) Risks and Uncertainties

Covid-19 Pandemic

A novel strain of coronavirus (Covid-19) emerged in the United States during 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 October 29, 2020, the date the Company's consolidated financial statements (unaudited) were issued.