ALPS Corporation and Subsidiaries

Consolidated Financial Statements
(With Independent Auditor's Report Thereon)
December 31, 2019 and 2018

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Independent Auditor's Report

RSM US LLP

Board of Directors
ALPS Corporation and Subsidiaries

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of ALPS Corporation and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2019 and 2018; the related consolidated statements of comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ALPS Corporation and Subsidiaries as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Omaha, Nebraska
May 7, 2020

ALPS Corporation and Subsidiaries

Consolidated Balance Sheets
December 31, 2019 and 2018

	2019	2018
Assets		
Investments, at fair value:		
Fixed maturities	**$ 117,263,194**	$ 104,044,287
Equity securities	**11,057,747**	9,604,327
Total investments	**128,320,941**	113,648,614
Cash and cash equivalents	**7,504,849**	10,555,343
Accrued interest receivable	**1,234,952**	1,179,826
Accounts receivable	**502,146**	520,487
Premiums receivable	**2,968,268**	3,156,797
Reinsurance recoverable	**49,881,290**	47,820,201
Deferred tax assets	**515,223**	1,277,452
Right-of-use asset, net	**2,344,069**	2,773,520
Property and equipment, net	**1,171,810**	962,869
Other assets	**1,114,675**	1,083,379
Total assets	**$ 195,558,223**	$ 182,978,488

See notes to consolidated financial statements.

	2019	2018
Liabilities and Stockholders' Equity		
Liabilities:		
Losses and loss adjustment expense reserves	**$ 104,482,056**	$ 98,033,516
Unearned and advanced premiums	**27,963,762**	25,872,373
Reinsurance payable, funds held under reinsurance treaties	**6,340,934**	5,286,849
Accounts payable and accrued expenses	**5,287,692**	6,146,658
Surplus notes	**2,929,414**	4,608,828
Long-term debt	**436,561**	630,899
Lease liability	**2,344,297**	2,774,285
Income tax payable	**123,521**	114,498
Total liabilities	**149,908,237**	143,467,906
Stockholders' equity:		
Class A Common Stock	**3,522**	3,522
Class C Common Stock	**241**	241
Additional paid-in capital	**23,111,019**	23,111,019
Retained earnings	**43,988,114**	38,900,448
Treasury stock	**(26,221,488)**	(24,591,621)
Accumulated other comprehensive income, net of tax	**4,768,578**	2,086,973
Total stockholders' equity	**45,649,986**	39,510,582
Total liabilities and stockholders' equity	**$ 195,558,223**	$ 182,978,488

ALPS Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income
Years Ended December 31, 2019 and 2018

	2019	2018
Revenues:		
Premiums earned	$ 50,028,367	$ 48,195,730
Premiums ceded	(16,260,360)	(15,874,523)
Net premiums earned	33,768,007	32,321,207
Investment income, net	4,355,615	3,731,517
Net realized capital losses	(246,456)	(859,009)
Net change in unrealized gains on equity securities	1,672,494	-
Gain from sale of property and equipment	453,755	5,387,845
Other revenue	996,439	1,546,229
Total revenues	40,999,854	42,127,789
Expenses:		
Losses and loss adjustment expenses	28,233,683	30,972,758
Reinsurance recoveries	(7,698,579)	(11,655,310)
Net losses and loss adjustment expenses	20,535,104	19,317,448
Underwriting expenses	1,207,207	1,286,272
Other operating expenses	12,996,668	12,181,479
Total expenses	34,738,979	32,785,199
Income before provision for income taxes	6,260,875	9,342,590
Provision for income taxes:		
Current	1,256,685	1,358,674
Deferred provision	7,397	858,436
Total provision for income taxes	1,264,082	2,217,110
Net income	4,996,793	7,125,480
Other comprehensive income (loss) net of tax:		
Net unrealized gain (loss) on marketable securities, net of tax	2,644,907	(2,036,266)
Reclassification adjustment for net realized loss included in net income, net of tax	194,700	678,617
Total other comprehensive income (loss)	2,839,607	(1,357,649)
Total comprehensive income	$ 7,836,400	$ 5,767,831

See notes to consolidated financial statements.

ALPS Corporation and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2019 and 2018

	Class A Common Stock		Class C Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock, at Cost		Total Stockholders' Equity
	Shares	Amount	Shares	Amount				Shares	Amount	
Balance, December 31, 2017	3,522	$ 3,522	241	$ 241	$ 23,111,019	$ 32,402,553	$ 2,877,785	1,885	$ (23,159,186)	$ 35,235,934
Stock redemption	-	-	-	-	-	-	-	116	(2,140,892)	(2,140,892)
Surplus refunds	-	-	-	-	-	(60,748)	-	-	-	(60,748)
Reclassification of the income tax effects from the Tax Cut and Jobs Act from AOCI	-	-	-	-	-	(566,837)	566,837	-	-	-
Stock issuance	-	-	-	-	-	-	-	(38)	708,457	708,457
Comprehensive loss, net of tax	-	-	-	-	-	-	(1,357,649)	-	-	(1,357,649)
Net income	-	-	-	-	-	7,125,480	-	-	-	7,125,480
Balance, December 31, 2018	3,522	3,522	241	241	23,111,019	38,900,448	2,086,973	1,963	(24,591,621)	39,510,582
Adjustment to adopt 2016-01	-	-	-	-	-	158,002	(158,002)	-	-	-
Stock redemption	-	-	-	-	-	-	-	88	(1,915,967)	(1,915,967)
Surplus refunds	-	-	-	-	-	(67,129)	-	-	-	(67,129)
Stock issuance	-	-	-	-	-	-	-	(13)	286,100	286,100
Comprehensive income, net of tax	-	-	-	-	-	-	2,839,607	-	-	2,839,607
Net income	-	-	-	-	-	4,996,793	-	-	-	4,996,793
Balance, December 31, 2019	**3,522**	**$ 3,522**	**241**	**$ 241**	**$ 23,111,019**	**$ 43,988,114**	**$ 4,768,578**	**2,037**	**$ (26,221,488)**	**$ 45,649,986**

See notes to consolidated financial statements.

ALPS Corporation and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Net income	$ 4,996,793	$ 7,125,480
Adjustments to reconcile net income to net cash flows provided by (used in) operating activities:		
Depreciation and amortization	438,337	554,391
Bond amortization or accretion	342,177	399,468
Deferred tax provision	7,397	858,436
Net realized capital losses	246,456	859,009
Net change in unrealized gains on equity securities	(1,672,494)	-
Realized gain on disposal of property and equipment	(453,755)	(5,387,845)
Changes in operating assets and liabilities:		
Accrued interest receivable	(55,126)	(6,111)
Accounts receivable	18,341	116,728
Premiums receivable	188,529	37,135
Reinsurance recoverable	(2,061,089)	20,456,032
Current income tax receivable and payable, net	9,023	310,594
Other assets	(31,296)	(93,430)
Loss and loss adjustment expense reserve	6,448,540	(18,568,765)
Unearned premiums	2,091,389	830,598
Reinsurance payable	1,054,085	(10,442,181)
Accounts payable and accrued expenses	665,929	(16,740)
Other	(537)	(1,995)
Net cash flows provided by (used in) operating activities	12,232,699	(2,969,196)
Cash flows from investing activities:		
Purchase of property and equipment	(648,026)	(3,509,726)
Purchase of fixed maturities	(24,702,553)	(26,449,788)
Purchase of equity securities	(3,813,947)	(7,965,458)
Proceeds from sale of property and equipment	454,503	7,660,275
Proceeds from sales, maturities and repayments of bonds	13,187,253	26,385,386
Proceeds from sale of equity securities	3,810,325	7,951,029
Net cash flows provided by (used in) investing activities	(11,712,445)	4,071,718
Cash flows from financing activities:		
Proceeds from long-term debt	-	2,591,967
Payment of long-term debt	(194,338)	(500,650)
Payment of surplus notes	(1,679,414)	(5,557,959)
Surplus payments	(67,129)	(60,748)
Stock redeemed	(1,915,967)	(2,140,892)
Issuance of treasury stock	286,100	708,457
Net cash flows used in financing activities	(3,570,748)	(4,959,825)
Net change in cash and cash equivalents	(3,050,494)	(3,857,303)
Cash and cash equivalents:		
Beginning of year	10,555,343	14,412,646
End of year	$ 7,504,849	$ 10,555,343

(Continued)

ALPS Corporation and Subsidiaries

Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2019 and 2018

		2019		2018
Supplemental disclosures of cash flow information:				
Cash paid for interest	**$**	**273,202**	$	787,749
Cash paid for taxes	**$**	**1,175,227**	$	1,048,080
Supplemental disclosures of noncash transactions:				
Payables for securities	**$**	**-**	$	1,524,895
Leased assets obtained in exchange for new operating lease liabilities	**$**	**-**	$	2,848,275
Long-term debt paid by closing agent	**$**	**-**	$	7,118,552

See notes to consolidated financial statements.

Note 1. Organization

Principles of consolidation: ALPS Corporation is a stock corporation and parent holding company organized under Montana law. ALPS Corporation owns 100% of the outstanding shares of each of the following entities: (i) ALPS Property & Casualty Insurance Company (ALPS P&C), a Montana domestic stock insurer that primarily underwrites lawyers' professional liability insurance on a claims-made and reported basis; and (ii) ALPS Insurance Agency, Inc. (AIA), a Montana corporation that provides insurance underwriting, claims adjusting, insurance producer and other insurance-related services. ALPS Corporation previously owned a 100% membership interest in The Florence Missoula, LLC (The Florence), a Montana limited liability company that formerly owned and operated the Historic Florence Building in Missoula, Montana. The Florence sold the Historic Florence Building on October 17, 2018. Thereafter, ALPS Corporation dissolved The Florence and filed Articles of Termination with the Montana Secretary of State effective October 8, 2019. For purposes of these consolidated financial statements, including the notes attached hereto, the term Company refers to ALPS Corporation and each of the foregoing wholly-owned subsidiaries.

The accompanying consolidated financial statements include the accounts of ALPS Corporation and its wholly owned subsidiaries as of December 31, 2019 and 2018, and the related consolidated statements of comprehensive income, changes in stockholders' equity, and cash flows for the years then ended. All significant intercompany accounts and transactions have been eliminated.

ALPS P&C is a Montana corporation, admitted in and regulated by the state of Montana as a casualty insurance company. ALPS P&C issues policies of professional liability insurance, employment practices liability insurance, and cyber risk and security breach liability insurance to attorneys and law firms.

As of December 31, 2019, ALPS P&C operates exclusively as a fully licensed and admitted insurance company in 46 states, the District of Columbia, and the U.S. Virgin Islands.

Note 2. Summary of Significant Accounting Policies

Basis of presentation: The Company's consolidated financial statements have been presented in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), as codified by the Financial Accounting Standards Board (FASB).

Cash and cash equivalents: For purposes of the Company's consolidated statements of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Investments: The Company's investments in fixed-income securities have been designated as available-for-sale and are reported at fair value, with the net unrealized appreciation (depreciation) and other-than-temporary impairments determined to be noncredit-related included in other comprehensive income, net of deferred income taxes, and accumulated other comprehensive income included in stockholders' equity. Prior to 2019, equity securities were reported at fair value, with the net unrealized appreciation (depreciation) net of deferred income taxes, and accumulated other comprehensive income included in stockholders' equity. Effective January 2019, equity securities are reported at fair value, with unrealized appreciation (depreciation) included in net income in the consolidated statements of comprehensive income.

Note 2. Summary of Significant Accounting Policies (Continued)

Fair value is based on an exit price, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company employs a hierarchal disclosure framework, which prioritizes and ranks the level of market price observability used in measuring financial instruments at fair value. Market price observability is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Investment in a limited partnership is carried at the fair value of the underlying equity investments, measured as the Company's percentage of ownership of the underlying net assets, and is included in the equity securities category in the consolidated balance sheets.

Investment in a limited liability company is carried at fair value of the underlying fund, measured using the net asset value per share (or its equivalent) practical expedient, and is included in the equity securities category in the consolidated balance sheets.

Declines in fair value debt securities below cost are evaluated on a quarterly basis to assess whether any other-than-temporary impairment loss should be recorded. In determining whether these losses are expected to be other than temporary, the Company considers severity of impairment, duration of impairment, forecasted recovery period, industry outlook, financial condition of the issuer, projected cash flows, issuer credit ratings, and the intent and ability of the Company to hold the investment until the recovery of its cost.

If the Company intends to sell a debt security or it is more likely than not that the Company would be required to sell a security before the recovery of its amortized cost, the Company records an other-than-temporary impairment and divides the loss between credit and noncredit. The Company recognizes the credit loss portion in net income and the noncredit loss portion in other comprehensive income and accumulated other comprehensive income. The credit loss portion is determined by comparing the net present value of projected future cash flows with the amortized cost basis of the debt security. The net present value is calculated using the Company's best estimate of the projected future cash flows at the effective interest rate implicit in the debt security at the date of acquisition.

The cost of investments sold is based on the specific-identification method. Investment income is recognized as earned. Bond premiums and discounts are amortized or accreted by the scientific-yield method and are charged or credited to net investment income.

Recognition of insurance premiums, revenues and costs: All insurance-related revenues, benefits and expenses are reported net of reinsurance. Ceded reinsurance amounts with reinsurers relating to reinsurance recoverables for paid and unpaid loss and loss adjustment expenses and ceded unearned premiums are reported on the consolidated balance sheets on a gross basis.

Premiums are recognized as revenue ratably over the terms of the respective policies. Unearned premiums are calculated on the daily pro rata method. Premiums receivable from policyholders are recorded at cost with no allowance provided, as policies are monitored and canceled before their unearned premium is greater than the corresponding finance balance. The cost of reinsurance ceded is recognized ratably over the term of the underlying direct policies.

Note 2. Summary of Significant Accounting Policies (Continued)

The Company offers an extended reporting period (ERP) endorsement that extends the reporting period during which a claim may be first reported to the Company after expiration or cancellation of the policy period. Where applicable, liabilities associated with ERP endorsements are included in the liability for loss and loss adjustment reserves.

Insurance liabilities: The liability for incurred but unpaid losses and loss adjustment expense represents estimates of the ultimate cost of losses and the cost to process those losses. The estimated ultimate cost of the losses is intended to provide for outstanding case-basis reserves on known claims, future development of those case-basis reserves, and incurred but not reported (IBNR) claims. Such estimates are made without regard to the time value of money. The Company estimates IBNR reserves by applying actuarial standards and loss development factors to historical claims experience. Liabilities for unpaid losses and loss adjustment expenses are based on assumptions and estimates. While management believes the reported reserve amount is adequate, the ultimate liability may be in excess of or less than the reserve amount reported. The methods for making such estimates and recognizing the liability for unpaid losses and loss adjustment expenses are continually reviewed, and any adjustments are reflected in the period determined.

Reinsurance: In the normal course of business, the Company seeks to reduce its exposure to the risk of loss that may arise from unfavorable underwriting results by transferring a portion of this risk to other insurance enterprises or insurers. The Company records amounts recoverable from its reinsurers on paid claims plus an estimate of amounts recoverable on unpaid claims. The estimate of amounts recoverable on unpaid claims is a function of the Company's liability for loss and loss adjustment expenses associated with the reinsured policies; therefore, the amount changes in conjunction with any changes to the Company's estimate of unpaid claims. Since the estimate of amounts recoverable from reinsurers on unpaid claims may change at any point in the future because of its relation to the Company's reserves for unpaid claims, a reasonable possibility exists that this estimate may change significantly in the near term from the amounts included in the consolidated financial statements.

Deferred policy acquisition costs: Certain costs related to the acquisition of insurance contracts to the extent recoverable have been deferred. Such costs are being amortized as the associated premium revenue is earned. The Company capitalizes only incremental costs directly related to the successful acquisition of new or renewal insurance contracts. Accordingly, acquisition costs consist of commissions and premium taxes of insurance policies that are successfully issued. Deferred acquisition costs are included in other assets.

Property and equipment: Property and equipment are recorded at cost less accumulated depreciation. Depreciation is provided using straight-line and accelerated methods based upon the assets' useful lives. Costs incurred for normal repairs and maintenance are expensed as incurred.

Income taxes: Deferred income tax assets or liabilities are computed based on the difference between the financial statement and income tax bases of assets and liabilities using the enacted marginal tax rate. Deferred income tax expenses or credits are based on the changes in the asset or liability from period to period. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company has not established any liabilities for uncertain tax positions taken or positions expected to be taken on income tax returns. The Company would establish such liabilities when such positions are judged to not meet the more-likely-than-not threshold based on the technical merits of the positions. Estimated interest and penalties related to uncertain tax positions would be included as a component of income tax expense.

Note 2. Summary of Significant Accounting Policies (Continued)

With few exceptions, the Company is no longer subject to examinations by federal tax authorities before 2014, and by Montana, Virginia and Ohio state tax authorities before 2011.

Receivables: The Company grants credit to customers and agents as part of the normal course of business. Management determines the allowance for doubtful customer accounts based on specific customer balances and industry and economic conditions. Premiums that are financed are charged an interest rate of up to 8.99% annually.

Advertising costs: Advertising costs are expensed when incurred, and for 2019 and 2018 were $591,984 and $517,237, respectively.

Risks and uncertainties: Certain risks and uncertainties are inherent to the Company's day-to-day operations and to the process of preparing its consolidated financial statements. The more significant of those risks and uncertainties, as well as the Company's methods for mitigating the risks, are presented below and throughout the notes to the consolidated financial statements.

Estimates: The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. For example, significant estimates and assumptions are utilized in the valuation of investments, valuation of allowances for deferred income tax assets and doubtful accounts, and calculation of loss and loss adjustment expenses. It is reasonably possible that actual experience could differ from the estimates and assumptions utilized, which could have a material impact on the consolidated financial statements.

Reinsurance: Reinsurance contracts do not relieve the Company from its obligations to insureds. Failure of reinsurers to honor their obligations could result in losses to the Company; consequently, allowances are established for amounts deemed uncollectible. The Company evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. Management believes that any liability arising from this contingency would not be material to the Company's financial position.

Investment risk: The Company is exposed to risks that issuers of securities owned by the Company will default or that interest rates will change and cause a decrease in the value of its investments. With mortgage-backed securities, the Company is also exposed to prepayment risk, default risks on the underlying mortgages and devaluation of the underlying collateral. If interest rates decline, the velocity at which these securities pay down the principal will increase. Management mitigates these risks by conservatively investing in high-grade securities and by matching maturities of its investments with the anticipated payouts of its liabilities.

Loss and loss adjustment expense reserves: The Company estimates loss and loss adjustment expenses based on the accumulation of case estimates for direct claims and incidents reported, net of applicable policy deductibles and deduction of amounts for reinsurance ceded on reported claims and incidents. The liability for loss adjustment expenses (LAE) is provided by estimating future expenses to be incurred in settlement of the claims provided for in the reserve for losses, net of reinsurance ceded. Actual results could differ from these estimates.

Note 2. Summary of Significant Accounting Policies (Continued)

External factors: ALPS P&C is regulated by the state of Montana, as well as states in which it does business. Such regulations, among other things, limit the amount of dividends and impose restrictions on the amount and types of investments. The Company is required to seek state approval for rates for policies written in each respective state. Certain states may impose requirements on the coverage provided and restrictions on the amount of rate increases the Company seeks on policies written in that state.

Risk-based capital: The National Association of Insurance Commissioners (NAIC) has developed risk-based capital (RBC) standards for property and casualty insurers that relate an insurer's reported statutory capital and surplus to the risks inherent in its overall operations. The RBC formula uses the statutory annual statement to calculate the minimum indicated capital level to protect the Company from the various risks that it faces. The NAIC model law calls for various levels of regulatory action based on the magnitude of an indicated RBC deficiency, if any. The Company continues to monitor internal capital levels at ALPS P&C to ensure that they are in excess of the minimum capital requirements for all RBC action levels. Management believes that the capital levels at ALPS P&C are sufficient to support the level of risk inherent in its operations.

Concentrations of geographic and credit risk: The Company's total gross written premium of $51,087,880 for the year ended December 31, 2019, included $9,658,965 for insureds in Virginia; $4,585,708 for insureds in West Virginia; $3,218,172 for insureds in Washington; $2,854,169 for insureds in Montana; $2,783,346 for insureds in Idaho; $2,409,861 for insureds in Nevada; $2,380,181 for insureds in Alaska; $2,371,349 for insureds in South Carolina; and $2,100,830 for insureds in Georgia.

The Company maintains its cash and short-term investments with high-quality financial institutions. Interest-bearing and non-interest-bearing accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. From time to time, the Company maintains cash in accounts in excess of FDIC-insured limits. The Company has not experienced any losses in such accounts.

At December 31, 2019, the Company's investment portfolio was composed of securities of the United States government and agencies, state and municipal governments, corporate securities and mortgage-backed securities, the vast majority of which are investment grade. This portfolio is widely diversified among various issuers and industries and is not dependent on the economic stability of one issuer or industry.

Pending accounting pronouncements: In June 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loans, trade receivables, reinsurance recoverables, and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The ASU requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct write-down. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of income as the amounts expected to be collected change. The ASU is effective for fiscal years beginning after December 15, 2022. Early adoption is permitted; however, the Company does not intend to early adopt. The Company is currently evaluating the impact of adopting this new guidance on its consolidated financial statements and does not expect the impact to be significant.

Note 2. Summary of Significant Accounting Policies (Continued)

In March 2017, the FASB issued ASU No. 2017-08, *Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities,* which shortens the amortization period for certain callable debt securities held at a premium to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendments in ASU 2017-08 are effective for the Company beginning on January 1, 2020, and must be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements and does not expect the impact to be significant.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements for fair value measurements by removing, modifying or adding certain disclosures. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. ASU 2018-13 is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. An entity is permitted to early adopt any removed or modified disclosures and delay adoption of the additional disclosures until their effective date. The Company is currently evaluating the impact of this new standard on its consolidated financial statements.

Recently adopted accounting pronouncements: In February 2018, the FASB issued ASU No. 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income,* which allows entities to reclassify, from accumulated other comprehensive income to retained earnings, the stranded tax effects resulting from the Tax Cuts and Jobs Act (Tax Reform). The amendments in this update are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The amendments should be applied in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Reform is recognized. The Company early adopted the accounting standard in 2018, which resulted in the reclassification from accumulated other comprehensive income to retained earnings totaling $566,837, reflected in the consolidated statements of changes in stockholders' equity.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. During the year ended December 31, 2016, the Company elected to early adopt the amendment that no longer requires disclosure of the fair value of financial instruments that are not measured at fair value, and as such, these disclosures are not included herein. The remainder of the accounting standard was adopted as of January 1, 2019, which resulted in the reclassification from accumulated other comprehensive income to retained earnings totaling $158,002.

Note 2. Summary of Significant Accounting Policies (Continued)

The Company adopted ASU No. 2016-02, *Leases (Topic 842)*, as of January 1, 2018. The Company elected the optional transition method under ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, which allows entities to continue to apply the guidance in *FASB Accounting Standards Codification* (ASC) Topic 840, including disclosure requirements, in the comparative periods presented in the year of adoption. The cumulative-effect adjustment to the opening balance of retained of earnings was not material. The Company elected to employ the package of practical expedients permitted under the transition guidance within the new standard, which allowed the Company to not reassess whether any expired or existing contracts contain leases, not assess the lease classification for any expired or existing leases, and not reassess initial direct costs for any existing leases. As an accounting policy election by class of underlying asset, the Company chose not to separate nonlease components from lease components and instead account for each separate lease component and the nonlease components associated with each lease component as a single lease component. Adoption of the standard requires the Company to recognize a lease liability and corresponding right-of-use asset for all leases that have lease terms in excess of 12 months.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. Effective January 2019, the Company adopted the new accounting guidance on a prospective basis. The standard excludes from its scope the accounting for insurance contracts, leases, financial instruments, and certain other agreements that are governed under other GAAP guidance, but does affect the revenue recognition for agency brokerage revenue. The adoption of this guidance did not have a material impact on consolidated financial statements given that the majority of the Company's business is outside the scope of this guidance.

Note 3. Property, Plant and Equipment

Property, plant and equipment at cost on December 31, 2019 and 2018, are as follows:

	2019	2018
Office furniture and equipment	$ 265,174	$ 249,129
IT equipment and software	3,841,495	3,303,237
	4,106,669	3,552,366
Less accumulated depreciation	(2,934,859)	(2,589,497)
Property, plant and equipment, net	$ 1,171,810	$ 962,869

Depreciation expense was $438,337 and $554,391 in 2019 and 2018, respectively.

Note 4. Investments

The amortized cost, adjusted cost and estimated fair values of available-for-sale securities at December 31, 2019 and 2018, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2019:				
Bonds:				
U.S. government agencies	$ 1,258,479	$ 2,898	$ -	$ 1,261,377
State, municipal and other governments	75,489,174	4,621,702	52,822	80,058,054
Corporate securities	15,753,754	673,856	32,233	16,395,377
Commercial mortgage-backed securities	8,693,516	550,219	1,222	9,242,513
Residential mortgage-backed securities	6,465,237	278,732	4,003	6,739,966
Other asset-backed securities	3,566,859	16,554	17,506	3,565,907
Total fixed maturities	$ 111,227,019	$ 6,143,961	$ 107,786	$ 117,263,194

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2018:				
Bonds:				
U.S. government agencies	$ 623,339	$ -	$ 3,476	$ 619,863
State, municipal and other governments	73,087,610	2,481,025	142,266	75,426,369
Corporate securities	10,096,886	38,853	112,109	10,023,630
Commercial mortgage-backed securities	6,809,916	60,934	20,444	6,850,406
Residential mortgage-backed securities	5,365,045	205,262	12,650	5,557,657
Other asset-backed securities	5,619,663	2,824	56,125	5,566,362
Total fixed maturities	101,602,459	2,788,898	347,070	104,044,287
Equity securities	9,404,323	542,510	342,506	9,604,327
Total	$ 111,006,782	$ 3,331,408	$ 689,576	$ 113,648,614

Note 4. Investments (Continued)

The following tables present the estimated fair value and gross unrealized losses on the Company's investment securities, aggregated by investment category and length of time that individual investment securities have been in a continuous unrealized loss position, at December 31, 2019 and 2018:

	December 31, 2019					
	Less Than 12 Months		Greater Than or Equal to 12 Months		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Bonds:						
State, municipal and other governments	$ 4,301,277	$ 52,822	$ -	$ -	$ 4,301,277	$ 52,822
Corporate securities	1,904,367	32,233	-	-	1,904,367	32,233
Commercial mortgage-backed securities	506,217	1,222	-	-	506,217	1,222
Residential mortgage-backed securities	782,176	2,245	81,745	1,758	863,921	4,003
Other asset-backed securities	248,642	1,314	2,283,808	16,192	2,532,450	17,506
Total	$ 7,742,679	$ 89,836	$ 2,365,553	$ 17,950	$ 10,108,232	$ 107,786

	December 31, 2018					
	Less Than 12 Months		Greater Than or Equal to 12 Months		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Bonds:						
U.S. government agencies	$ 398,872	$ 477	$ 220,992	$ 2,999	$ 619,864	$ 3,476
State, municipal and other governments	5,877,308	79,172	5,312,287	63,094	11,189,595	142,266
Corporate securities	3,882,879	45,576	2,614,439	66,533	6,497,318	112,109
Commercial mortgage-backed securities	1,628,652	20,436	3,170	8	1,631,822	20,444
Residential mortgage-backed securities	232,930	5,000	258,546	7,650	491,476	12,650
Other asset-backed securities	3,194,443	36,011	1,654,745	20,114	4,849,188	56,125
	15,215,084	186,672	10,064,179	160,398	25,279,263	347,070
Equity securities	8,397,979	342,506	-	-	8,397,979	342,506
Total	$ 23,613,063	$ 529,178	$ 10,064,179	$ 160,398	$ 33,677,242	$ 689,576

At December 31, 2019 and 2018, the unrealized losses on the Company's fixed-income investments were not the result of any credit-related problems; rather, they were caused by interest rate increases and widening and narrowing of bond pricing spreads. Substantially all of the issuers have investment-grade ratings; therefore, the Company believes each issuer will be able to meet the contractual terms of the obligation. At December 31, 2019 and 2018, the Company did not have the intent to sell and it was unlikely that the Company would be required to sell the investments before the recovery of its amortized cost basis.

Note 4. Investments (Continued)

In 2019, certain fixed-income securities became other-than-temporarily impaired and were written down to their fair value, which resulted in realized losses of $23,070 and are included in the table below. In 2018, certain fixed-income securities became other-than-temporarily impaired and were written down to their fair value, which resulted in realized losses of $47,000 and are included in the table below.

The Company continues to review its investment portfolios under its impairment review policy. Given the unpredictability of market conditions and the significant judgments involved, there is a continuing risk that declines in fair value may occur and other-than-temporary impairments may be recorded in future periods.

The Company received proceeds from the sales of investments totaling $16,997,578 and $34,336,415 in 2019 and 2018, respectively. Gross realized gains and losses on investments, including other-than-temporary impairments, reflected in the results of operations for the years ended December 31, 2019 and 2018, are as follows:

	Years Ended December 31	
	2019	2018
Realized:		
Gross realized gains on sales:		
Fixed-income securities	$ 65,819	$ 52,495
Equity securities	-	14,555
Total	65,819	67,050
Gross realized losses on sales:		
Fixed-income securities	(66,509)	(735,048)
Equity securities	(222,696)	(144,011)
Total	(289,205)	(879,059)
Other-than-temporary losses recognized in operations:		
Fixed-income securities	(23,070)	(47,000)
Net realized losses on sales and impairments	(246,456)	(859,009)
Net gains recognized on equity securities still held	1,672,494	-
Net gains (losses) recognized on investments	$ 1,426,038	$ (859,009)

Note 4. Investments (Continued)

The amortized cost and estimated fair value of bonds at December 31, 2019, are shown below. The bond maturities are calculated based on the scheduled repayment date, with the final installment adjusted for any discount or premium. Mortgage-backed, loan-backed and structured securities are distributed based on the anticipated future prepayment cash flows used to value the security.

	Amortized Cost	Fair Value
Due in one year or less	$ 16,493,926	$ 16,685,404
Due after one year through five years	38,479,764	40,124,044
Due after five years through 10 years	46,691,783	50,002,352
Due after 10 years through 20 years	6,255,648	6,899,016
Due after 20 years	3,305,898	3,552,378
Total	$ 111,227,019	$ 117,263,194

ALPS P&C has placed in trust with the State of Montana Insurance Commissioner investments with a fair value of $3,189,876 and $3,072,081 at December 31, 2019 and 2018, respectively, as required by state law. Fair values of deposits with other states as of December 31, 2019 and 2018, totaled $2,305,970 and $2,079,387, respectively.

Net investment income consists of the following:

	Years Ended December 31	
	2019	2018
Fixed maturities	$ 4,579,954	$ 4,309,101
Equity securities	184,083	171,821
Short-term investments	91,056	76,240
Other	7,052	438
	4,862,145	4,557,600
Investment expenses	(506,530)	(826,083)
Net investment income	$ 4,355,615	$ 3,731,517

Note 5. Losses and Loss Adjustment Expense Reserves

The following is information about incurred claims development and paid claims development as of December 31, 2019, net of reinsurance, as well as cumulative claim frequency and the total of IBNR liability plus expected development on reported claims included within the net incurred claims amounts.

Professional liability insurance (dollars in thousands, except number of reported claims):

	Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance										As of December 31, 2019	
Accident	Unaudited										Total of Incurred-but-Not-Reported Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019		
2010	$ 21,052	$ 22,777	$ 21,960	$ 20,967	$ 20,917	$ 20,917	$ 20,906	$ 20,306	$ 20,306	$ 20,274	$ 500	485
2011		21,361	20,935	19,166	18,786	16,979	16,970	16,970	16,450	16,361	745	479
2012			17,467	18,381	18,706	18,692	18,674	18,574	17,674	17,197	435	526
2013				18,511	17,948	18,195	18,153	18,153	17,284	16,522	865	541
2014					19,361	21,276	21,202	21,202	21,202	19,348	1,830	557
2015						19,774	20,235	20,235	20,235	19,856	3,106	516
2016							18,924	18,924	18,924	19,239	5,293	663
2017								19,849	19,865	19,998	4,274	609
2018									21,383	21,511	5,121	656
2019										23,949	8,437	630
									Total	$ 194,253		

Professional liability insurance (dollars in thousands, except number of reported claims):

	Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance									
Accident	Unaudited									
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
2010	$ 3,025	$ 8,874	$ 13,579	$ 16,498	$ 18,243	$ 17,947	$ 18,104	$ 18,504	$ 19,038	$ 19,059
2011		2,788	9,099	12,191	13,870	14,468	14,629	15,027	15,084	15,077
2012			2,990	9,544	12,149	14,507	15,855	16,627	16,713	16,715
2013				3,147	7,799	11,545	13,347	14,573	14,982	14,974
2014					2,375	8,485	12,312	14,703	16,100	17,099
2015						3,530	9,895	13,098	15,056	15,840
2016							1,990	6,439	8,808	10,664
2017								2,890	8,153	10,921
2018									3,572	8,546
2019										3,998
									Total	132,893
									All outstanding liabilities before 2010, net of reinsurance	1,042
									Liabilities for claims and claim adjustment expenses, net of reinsurance	$ 62,401

Note 5. Losses and Loss Adjustment Expense Reserves (Continued)

The following is supplementary information about average historical claims duration as of December 31, 2019:

Average annual percentage payout of incurred claims by age, net of reinsurance:

	Years, Unaudited									
	1	2	3	4	5	6	7	8	9	10
Professional liability insurance	15.7%	30.0%	17.7%	11.6%	6.4%	2.3%	0.9%	0.8%	1.3%	0.1%

The reconciliation of the net incurred and paid claims development tables to the liability for claims and claim adjustment expenses in the consolidated balance sheet is as follows (in thousands):

	December 31, 2019
Net outstanding liabilities:	
Professional liability insurance	$ 62,401
Other insurance lines	-
Liabilities for unpaid claims and claim adjustment expenses, net of reinsurance	62,401
Reinsurance recoverable on unpaid claims:	
Professional liability insurance	40,602
Other insurance lines	-
Total reinsurance recoverable on unpaid claims	40,602
Unallocated claims adjustment expenses	1,479
Other	-
	1,479
Total gross liability for unpaid claims and claim adjustment expense	$ 104,482

Note 5. Losses and Loss Adjustment Expense Reserves (Continued)

The following table provides a reconciliation of the beginning and ending reserve balances for losses and LAE for 2019 and 2018:

	Years Ended December 31	
	2019	2018
Reserve for losses and LAE, beginning of year	$ 98,033,516	$ 116,602,281
Less reinsurance recoverables on paid and unpaid losses	(39,177,948)	(60,036,139)
Net balance, beginning of year	58,855,568	56,566,142
Incurred, net of reinsurance, reported in:		
Current year	24,567,017	21,876,501
Prior years	(4,031,913)	(2,559,053)
	20,535,104	19,317,448
Paid, net of reinsurance, reported in:		
Current year	(4,119,547)	(3,603,573)
Prior years	(11,390,418)	(13,424,449)
	(15,509,965)	(17,028,022)
Net balance, end of year	63,880,707	58,855,568
Add reinsurance recoverables on paid and unpaid losses	40,601,349	39,177,948
Reserve for losses and LAE, end of year	$ 104,482,056	$ 98,033,516

Reserves for incurred losses and LAE attributable to claims reported to ALPS P&C in prior years on a gross basis decreased by $3,988,044 during 2019 and decreased by $333,355 during 2018. These changes are generally the result of ongoing analysis of claim files. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

Note 6. Reinsurance

The Company utilizes reinsurance contracts to reduce its exposure to losses in all aspects of its insurance business. Such reinsurance permits recovery of a portion of losses from reinsurers, although it does not relieve the Company from its primary liability to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company evaluates the financial strength of potential reinsurers and continually monitors the financial condition of reinsurers.

Amounts recoverable from reinsurers are estimated based upon assumptions consistent with those used in establishing the liabilities related to the underlying reinsured contracts. Management believes the recoverables are appropriately established. The Company strives to diversify its credit risks related to reinsurance ceded. There were no disputes with reinsurers at December 31, 2019 or 2018. The Company has no uncollectible reinsurance recoverables that were written off during the year.

The Company holds letters of credit in the amount of approximately $5,602,000 and $7,771,000 at December 31, 2019 and 2018, respectively, to secure recoverable balances from reinsurers not authorized by the Montana Commissioner of Securities and Insurance.

Note 6. Reinsurance (Continued)

The Company has unsecured aggregate recoverable for losses, paid and unpaid, LAE and unearned premium with the following individual reinsurers, authorized or unauthorized, exceeding 3% of stockholders' equity at December 31, 2019 and 2018:

	AM Best Rating	2019	2018
Aspen Insurance	A	$ 1,594,000	$ 1,616,000
AXIS Reinsurance Co.	A+	9,616,000	8,055,000
China Re	A	1,407,000	837,000
Endurance Reinsurance	A+	2,181,000	2,067,000
Everest Reinsurance Co.	A+	1,205,000	1,701,000
JRG Reinsurance Co.	A	2,466,000	3,780,000
Lawyer's Reinsurance Co.	NR	1,601,000	1,781,000
Lloyd's Syndicate Number 2623	A	1,633,000	1,678,000
Lloyd's Syndicate Number 4472	A	2,332,000	2,006,000
Munich Reinsurance America, Inc.	A+	1,586,000	1,057,000
Navigators Ins. Co.	A+	1,837,000	2,021,000
Peak Re	A-	1,360,000	807,000
Safety National Casualty Corporation	A+	1,451,000	799,000
SCOR Reinsurance Co.	A+	1,937,000	874,000
Transatlantic Reinsurance Co.	A+	6,607,000	8,970,000
		$ 38,813,000	$ 38,049,000

A summary of the impact of ceded reinsurance on written, earned and unearned premiums, and losses and LAE incurred for the years ended December 31, 2019 and 2018, is as follows:

	2019	2018
Premiums written:		
Direct	$ 51,087,880	$ 48,852,801
Ceded	(16,411,603)	(16,076,081)
Net premiums written	$ 34,676,277	$ 32,776,720
Premiums earned:		
Direct	$ 50,028,367	$ 48,195,730
Ceded	(16,260,360)	(15,874,523)
Net premiums earned	$ 33,768,007	$ 32,321,207
Unearned premiums:		
Direct	$ 23,742,215	$ 22,682,701
Advanced	4,221,547	3,189,672
Ceded	(8,497,501)	(8,037,515)
Net unearned premiums	$ 19,466,261	$ 17,834,858
Losses and LAE incurred:		
Direct	$ 28,233,683	$ 30,972,758
Ceded	(7,698,579)	(11,655,310)
Net losses and LAE incurred	$ 20,535,104	$ 19,317,448

Note 7. Income Taxes

The Company prepares a consolidated federal income tax return that includes all direct and indirect subsidiaries. The Company's affiliates included in the consolidated federal income tax return allocate income tax expenses in accordance with a consolidated tax allocation agreement. This allocation results in profitable companies recognizing income tax incurred as if the individual company filed a separate return and loss companies recognizing a benefit to the extent their losses contribute to reduce consolidated taxes.

The effective tax rate on income before income taxes is different from the prevailing federal income tax rate, as follows:

	Years Ended December 31	
	2019	2018
Amount computed using statutory rate	$ 1,314,784	$ 1,961,944
Increase (reduction) in tax resulting from:		
Nonallowable meals, entertainment, dues and other	20,155	4,531
Officer's life insurance premiums	675	3,844
Tax-exempt interest	(215,205)	(187,759)
Dividends received deduction	(16,124)	(16,096)
State and foreign income taxes	72,435	335,048
Change in prior-year estimates	87,362	115,598
Total provision	$ 1,264,082	$ 2,217,110

Comprehensive income tax expense included in the consolidated financial statements for the years ended December 31, 2019 and 2018, is as follows:

	2019	2018
Current:		
U.S. federal provision	$ 1,184,250	$ 1,023,626
States and foreign	72,435	335,048
	1,256,685	1,358,674
Deferred:		
U.S. federal provision	7,397	858,436
Total tax provision	$ 1,264,082	$ 2,217,110

Note 7. Income Taxes (Continued)

Deferred income taxes have been established based upon the temporary differences between the financial statement and income tax bases of assets and liabilities. The tax effect of temporary differences that give rise to significant portions of the Company's net deferred income tax asset is as follows:

	December 31	
	2019	2018
Ordinary:		
Unearned/advanced premium adjustment	$ 817,583	$ 749,064
Unpaid losses and LAE	1,096,620	1,053,689
Long-term incentive plan payable	622,964	393,716
Deferred acquisition costs	(92,285)	(88,866)
Book to tax depreciation	(135,422)	(80,430)
Tax reform—reserves transition effect	(250,883)	(339,369)
Allowance for doubtful accounts	-	31,500
Accrued dividend	(2,143)	(2,014)
Other	-	161
	2,056,434	1,717,451
Capital:		
Unrealized gains	(1,660,821)	(554,764)
Other-than-temporary impairments	119,610	114,765
	(1,541,211)	(439,999)
Total deferred tax asset	$ 515,223	$ 1,277,452

Based upon anticipated future taxable income, the Company's net realized gains, and consideration of all other available evidence, management believes that it is more likely than not that the Company's net deferred income tax asset will be realized.

Note 8. Fair Value Measurements

Fair values of fixed-income and equity securities are based on quoted market prices, where available. The Company obtains one price for each security, primarily from a third-party pricing service, which generally uses quoted or other observable inputs for the determination of fair value. The pricing service derives the security prices through recently reported trades for identical or similar securities, making adjustments through the reporting date based upon available observable market information. For securities not actively traded, the pricing service uses quoted market prices of comparable instruments or incorporates inputs that are currently observable in the markets for similar securities. Inputs that are often used in the valuation methodologies include, but are not limited to, benchmark curves, benchmarking of like securities, sector groupings and matrix pricing. In addition, the pricing service uses model processes, such as the option-adjusted spread model, to assess interest rate impact and develop prepayment scenarios.

Note 8. Fair Value Measurements (Continued)

As the Company is responsible for the determination of fair value, it performs monthly analysis on the prices received from third parties for its externally managed portfolios to determine whether the prices are reasonable estimates of fair value. The analysis includes a comparison of prices received from third parties to prices obtained from other sources. There were no adjustments to quoted market prices obtained from third-party pricing services during 2019 and 2018 that were material to the consolidated financial statements.

The Company's financial assets and liabilities carried at fair value have been classified, for disclosure purposes, based on a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The hierarchy gives the highest priority to fair values determined using unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to fair values determined using unobservable inputs (Level 3). An asset's or liability's classification is determined based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3). The levels of the fair value hierarchy are as follows:

Level 1: Valuations are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2: Valuations are derived from inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in markets that are not active
- Inputs other than quoted prices that are observable for the asset or liability
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

Level 3: Valuations are derived from techniques that require significant unobservable inputs. The unobservable inputs reflect the Company's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

For the years ended December 31, 2019 and 2018, there were no transfers of financial assets between the hierarchy levels.

Note 8. Fair Value Measurements (Continued)

The following is a description of the valuation methodologies used by the Company to value assets measured at fair value:

Major Category	Valued At
State and/or U.S. government obligations and common and/or preferred stock	Closing price reported in the active market in which the individual security is traded; if in an inactive market, based on quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency; securities that trade infrequently and therefore have little or no price transparency are valued using the investment manager's best estimates
Mutual funds	Net asset value (NAV) of shares, which are provided by the administrator of the fund
Partnership	Based on the most recent audited financial results
Fixed-income securities including corporate, commercial and residential mortgage-backed securities	Closing price reported in the active market in which the bond is traded or based on yields currently available on comparable securities of issuers with similar credit ratings or discounted cash flows approach that maximized observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks

The distribution of the Company's investments, which are measured at fair value on a recurring basis, in the valuation hierarchy is as follows:

	December 31, 2019			
Assets	Level 1	Level 2	Level 3	Total
Fixed maturities—available for sale:				
U.S. government agencies	$ 1,261,377	$ -	$ -	$ 1,261,377
State, municipal and other governments	-	80,058,054	-	80,058,054
Corporate securities	-	16,395,377	-	16,395,377
Commercial mortgage-backed securities	-	9,242,513	-	9,242,513
Residential mortgage-backed securities	-	6,739,966	-	6,739,966
Other asset-backed securities	-	3,565,907	-	3,565,907
	1,261,377	116,001,817	-	117,263,194
Equity securities	6,587,587	-	813,833	7,401,420
Total investments in the fair value hierarchy	$ 7,848,964	$ 116,001,817	$ 813,833	124,664,614
Investments measured at net asset value*				3,503,827
Total investments, at fair value				$ 128,168,441

Note 8. Fair Value Measurements (Continued)

	December 31, 2018			
Assets	Level 1	Level 2	Level 3	Total
Fixed maturities—available for sale:				
U.S. government agencies	$ 619,863	$ -	$ -	$ 619,863
State, municipal and other governments	-	75,426,369	-	75,426,369
Corporate securities	-	10,023,630	-	10,023,630
Commercial mortgage-backed securities	-	6,850,406	-	6,850,406
Residential mortgage-backed securities	-	5,557,657	-	5,557,657
Other asset-backed securities	-	5,566,362	-	5,566,362
	619,863	103,424,424	-	104,044,287
Equity securities—available for sale	5,419,313	-	1,048,648	6,467,961
Total investments in the fair value hierarchy	$ 6,039,176	$ 103,424,424	$ 1,048,648	110,512,248
Investments measured at net asset value*				2,978,666
Total investments, at fair value				$ 113,490,914

*In accordance with ASC 820-10, certain investments that are measured at net asset value per share have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the consolidated balance sheet.

The Company holds an investment in the SIT Opportunity Bond Fund, LLC, which is a private investment fund that invests in closed-end registered investment companies that have underlying investments in fixed-income securities. The fund is carried at NAV and has a carrying value of $3,503,827 and $2,978,666 at December 31, 2019 and 2018, respectively. The Company is required to provide 30 days of advanced notice to the fund manager for all redemption requests.

The Company holds an investment in Federal Home Loan Bank stock. It is not practicable to determine the fair value of the investment as there is no marketplace to sell and buy the stock. It is bought and sold at par and has a carrying value of $152,500 and $157,700 at December 31, 2019 and 2018, respectively.

A reconciliation of assets and liabilities measured and carried at fair value on a recurring basis with the use of significant unobservable inputs (Level 3) for the years ended December 31, 2019 and 2018, is as follows:

	Investments in Equity Securities
Balance at December 31, 2017	$ 1,266,013
Gains included in:	
Earnings	(217,365)
Transfers into (out of) Level 3	-
Balance at December 31, 2018	1,048,648
Gains included in:	
Earnings	(234,815)
Transfers into (out of) Level 3	-
Balance at December 31, 2019	$ 813,833

Note 9. Employee Benefit Plans

The Company sponsors a defined contribution plan known as the ALPS Corporation 401(k) Profit Sharing Plan (the 401(k) Plan). The 401(k) Plan is designed as a type of qualified retirement plan commonly referred to as a 401(k) safe harbor plan. The 401(k) Plan allows participants to make salary deferral contributions to the 401(k) Plan on a pretax basis. The Company also sponsors a Section 125 cafeteria plan (the Cafeteria Plan).

Under the 401(k) Plan, the Company makes a matching contribution to each eligible participant in an amount equal to 100% of a participant's salary reduction contribution up to 6% of a participant's eligible compensation. The Company makes a fixed-dollar contribution in the amount of $7,800 per full-time employee under the Cafeteria Plan.

For the plan year 2019, the Company contributed $275,688 to the 401(k) Plan and $499,442 to the Cafeteria Plan. For the plan year 2018, the Company contributed $268,373 to the 401(k) Plan and $453,961 to the Cafeteria Plan.

Note 10. Commitments and Contingencies

The Company previously entered into a written employment agreement with the Executive Board Chair (EBC) that expired on December 31, 2015. The position of the EBC was eliminated effective December 31, 2015. Pursuant to the terms of the expired employment agreement, the Company and the former EBC entered into a long-term consulting agreement during which the former EBC will render consulting services to the Company for a seven and a half–year term ending on June 30, 2023.

As of December 31, 2019 and 2018, the Company has entered into redemption agreements with certain officers and directors that grant to those individuals the right to tender to the Company for redemption all shares of Class A Common Stock that are held by such individual. Upon such tender, the Company is obligated to redeem the Class A Common Stock at a redemption price equal to the then-existing book value per share as most recently declared by the Company's Board of Directors. The Company is obligated to pay the total redemption price no later than December 31 of the fourth calendar year following the calendar year in which the individual tenders the Class A Common Stock for redemption. As of December 31, 2019 and 2018, these individuals owned, in the aggregate, 367 shares and 354 shares of Class A Common shares having a book value of $9,703,785 and $7,739,158, respectively. During the year ended December 31, 2019, these individuals have tendered no shares of Class A Common Stock for redemption by the Company. Under the terms of one redemption agreement, the Company has agreed to pay accrued interest on the unpaid redemption price at an adjustable rate equal to the New York Prime rate, as published in *The Wall Street Journal* at the beginning of each calendar quarter. The interest rate shall be adjusted effective as of the first day of each calendar quarter and the accrued interest shall be paid quarterly within 15 days following the end of each calendar quarter. As of December 31, 2019 and 2018, the number of shares of Class A Common Stock held by the individual entitled to payment of accrued interest is 112 shares and 102 shares, respectively, having a book value of $2,960,373 and $2,227,244, respectively.

The Company is not aware of any pending or threatened litigation or any unasserted claims or assessments that management considers to be probable of assertion and that, if asserted, would have at least a reasonable possibility of an unfavorable outcome, the risk of which has not been adequately insured or reinsured against or provision for which has not been adequately reserved.

Note 11. Outstanding Shares

ALPS Corporation is authorized to issue 9,000,000 shares of Class A Common Stock having a $1.00 par value;1,000,000 shares of Class B Non-voting Stock having a $1.00 par value; and 1,000,000 shares of Class C Common Stock having a $1.00 par value. The Company's restated articles of incorporation provide that no stockholder may own a fractional share of Class A Common Stock if said stockholder does not own at least one whole share of Class A Common Stock.

ALPS Corporation had approximately 3,522 Class A Common shares issued as of December 31, 2019 and 2018. Of these shares, approximately 2,037 and 1,963 were held in treasury at December 31, 2019 and 2018, respectively. ALPS Corporation had no Class B nonvoting shares issued and outstanding as of December 31, 2019 and 2018. ALPS Corporation had approximately 241 shares of Class C Common shares issued and outstanding as of December 31, 2019 and 2018.

The Company has entered into a written agreement with a third party that owns approximately 58 shares of Class A Common Stock and 241 shares of Class C Common Stock. The third party has the right to put to the Company for cash up to 50% of the aggregate number of common shares held by the third party at a per share exercise price equal to the U.S. GAAP adjusted book value per share as of the most recent calendar quarter. The Company will not be required to make any such repurchases of said shares of common stock if: (i) after giving effecting to said repurchase, the repurchase would cause the Company to violate MCA § 35-1-712; or (ii) the Board reasonably and in good faith determines that such repurchases will have a materially adverse impact on the Company.

Note 12. Lease Commitments

On October 17, 2018, the Company sold the Historic Florence Building to an unrelated buyer, which resulted in a gain before tax of $5,382,914. Prior to the sale of the building, the Company signed an intercompany lease with The Florence Missoula, LLC, which was assigned to the new owner as part of the sale. The lease commenced on October 18, 2018, and has an initial term through December 31, 2025. The Company has the option to extend the lease for an additional five years on January 1, 2026, with an annual rent of $436,300, and extend again for an additional five years on January 1, 2031, with an annual rent of $449,338 through December 31, 2035.

The Company has valued the Historic Florence Building lease as an operating lease in accordance with ASU No. 2016-02. The Company's valuation of the right-of-use-asset and corresponding lease liability was based on the initial lease term, since it is not reasonably certain that the two renewal options will be exercised. The Company valued the liability and right-of-use asset using a discount rate of 3.13%, and the lease has a remaining useful life of six years at December 31, 2019.

The Company entered a five-year equipment lease in 2018 that is considered a financing lease under ASC Topic 842. The lease liability and right-of-use-asset was valued using a discount rate of 3.13%, and the lease has a remaining useful life of four years at December 31, 2019.

The Company has the following right-of-use-assets and lease liabilities at December 31:

	2019	2018
Operating lease assets	$ 2,314,424	$ 2,738,234
Financing lease assets	29,645	35,286
Total leased assets	$ 2,344,069	$ 2,773,520

Note 12. Lease Commitments (Continued)

	2019	2018
Current:		
Operating	$ 356,228	$ 390,922
Financing	7,451	7,485
Long-term:		
Operating	1,958,196	2,345,531
Financing	22,422	30,347
Total lease liabilities	$ 2,344,297	$ 2,774,285

Maturities of the lease liabilities at December 31, 2019, are as follows:

	Operating	Financing	Total
Years ending December 31:			
2020	$ 423,588	$ 8,280	$ 431,868
2021	423,588	8,280	431,868
2022	423,588	8,280	431,868
2023	423,588	6,900	430,488
2024	423,588	-	423,588
Thereafter	423,588	-	423,588
Total future lease payments	2,541,528	31,740	2,573,268
Less interest	(227,104)	(1,867)	(228,971)
Present value of lease liabilities	$ 2,314,424	$ 29,873	$ 2,344,297

The Company incurred the following lease costs for the years ended December 31:

	2019	2018
Operating lease cost	$ 423,588	$ 94,928
Financing lease cost:		
Amortization of leased assets	7,959	3,778
Interest on lease liabilities	853	149
Total lease liabilities	$ 432,400	$ 98,855

The Company incurred the following capital lease cash flows for the years ended December 31:

	2019	2018
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ (423,588)	$ (86,845)
Operating cash flows from financing leases	(853)	3,629
Financing cash flows from financing leases	(7,959)	(1,231)
Lease asset obtained in exchange for operating lease liability	-	2,809,212
Lease asset obtained in exchange for financing lease liability	-	39,063

Note 13. Long-Term Debt

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

	2019	2018
Promissory notes to Florence Associates Partners in annual installments of various amounts as specified in the individual notes, at 8% interest, with various maturities through March 2021; secured by investments	$ 436,561	$ 630,899
Total long-term debt	$ 436,561	$ 630,899

Maturities of long-term debt at December 31, 2019, are as follows:

Years ending December 31:	
2020	$ 209,885
2021	226,676
	$ 436,561

Note 14. Surplus Notes

The Company has issued the following surplus debentures or similar obligations as of December 31, 2019:

Date Issued	Interest Rate	Par Value	Carrying Value	Principal and/or Interest Paid Current Year	Total Principal and/or Interest Paid	Unapproved Principal and/or Interest	Date of Maturity
10/14/2005	LIBOR + 3.55%	$ 2,900,000	$ 2,900,000	$ 1,871,083	$ 14,226,166	$ 7,016	10/15/2035
12/23/2005	Fed fund rate	29,414	29,414	29,414	10,994,438	-	None
			$ 2,929,414				

The Company has issued the following surplus debentures or similar obligations as of December 31, 2018:

Date Issued	Interest Rate	Par Value	Carrying Value	Principal and/or Interest Paid Current Year	Total Principal and/or Interest Paid	Unapproved Principal and/or Interest	Date of Maturity
10/14/2005	LIBOR + 3.55%	$ 4,550,000	$ 4,550,000	$ 5,906,261	$ 12,355,083	$ 12,817	10/15/2035
12/23/2005	Fed fund rate	58,828	58,828	207,959	10,965,024	-	None
			$ 4,608,828				

ALPS P&C received cash in exchange for a surplus note in the amount of $10,000,000 issued to Merrill Lynch International on October 14, 2005. This note is administered by U.S. Bank, National Association, as trustee, and has the following repayment conditions and restrictions: payment of interest to be made quarterly in arrears on the 15th of March, June, September and December, and only with the prior approval of the Montana Commissioner of Securities and Insurance. Principal payments in the amount of $1,650,000 and $5,350,000 were paid by the Company during the years ended December 31, 2019 and 2018, respectively.

Note 14. Surplus Notes (Continued)

The Company transferred a liability on its books resulting from the redemption of common stock to ALPS P&C in the amount of $1,940,892 on December 23, 2005. This liability was then simultaneously converted to a surplus note under the approval of the Montana Commissioner of Securities and Insurance. Payment to shareholders of redeemed shares of ALPS Corporation common stock (transferred liability) is based upon the amount of the total value of the shares on the redemption date and is subject to a repayment schedule between one and seven years. Payments to shareholders are issued on a quarterly basis in January, April, July and October, and are issued only upon prior approval of the Montana Commissioner of Securities and Insurance. Obligation under this note is subordinated in payment to other indebtedness due to creditors and policyholders of ALPS P&C.

Note 15. Long-Term Incentive Plan

In 2013, the Board of Directors created the Long-Term Surrogate Equity Incentive Plan (LTIP), which replaced all of the Company’s then-existing equity-related incentive plans, including stock options and stock appreciation. The LTIP consists of annual grants that provide participants, on a five-year cliff vesting schedule, the right to share in a predefined percentage of incremental growth in the Company’s declared book value over the five years following the grant.

The Board amended the LTIP such that the grants provide participants the right to share in a predefined percentage of the Company’s declared book value per share. In 2019 and 2018, the Company recorded $1,847,404 and $603,996, respectively, in expense based on book value per share growth. In 2019 and 2018, the Company paid vested grants of $755,751 and $511,961, respectively.

Note 16. Dividend Restrictions

Dividends from ALPS P&C are declared by its Board of Directors. Under insurance regulations of the state of Montana, dividends are classified into two types: ordinary and extraordinary. Ordinary dividends require 15-day advance notice to the Montana Commissioner of Securities and Insurance prior to payment. Extraordinary dividends, those which in total exceed 10% of the current year-end policyholder’s statutory surplus, require approval from the Montana Commissioner of Securities and Insurance 30 days prior to payment. For the years ended December 31, 2019 and 2018, dividends in excess of $4,309,909 and $4,164,163, respectively, would be considered extraordinary.

Ordinary dividends in the amount of $1,600,000 and $1,000,000 were declared and paid by ALPS P&C to ALPS Corporation in 2019 and 2018, respectively.

Note 17. Statutory Information

The financial statements of ALPS P&C differ from related statutory-basis financial statements principally as follows: (a) the bond portfolio is classified as available-for-sale (carried at fair value) rather than generally being carried at amortized cost; (b) acquisition costs of acquiring new business are deferred and amortized over the life of the policies rather than charged to operations as incurred; (c) certain deferred income tax assets, agents' balances, receivables from affiliates over 90 days old, and certain other assets designated as nonadmitted assets for statutory purposes are reported as assets rather than being charged to surplus; (d) reinsurance reserve credits are reported as assets rather than being offset against the related reserve amounts, and an allowance is established for uncollectible amounts through a charge through earnings rather than through statutory formula-driven methods; and (e) investments in subsidiary companies are consolidated with the accounts and operations of the Company rather than carried at the subsidiary's underlying net assets, with changes credited or charged directly to unassigned surplus.

	Net Income (Loss)		Capital and Surplus	
	2019	2018	2019	2018
Amounts stated in conformity with U.S. GAAP	$ 4,939,327	$ 3,227,395	$ 46,855,090	$ 40,774,340
Other investment adjustments	(1,672,494)	-	(6,035,152)	(2,455,832)
Deferred policy acquisition costs	(189,770)	(15,424)	(1,883,292)	(1,693,521)
Nonadmitted assets	-	-	(158,748)	(227,337)
Deferred income taxes	149,991	864,261	1,384,758	652,332
Surplus note interest	(5,801)	(9,792)	7,016	12,817
Surplus notes	-	-	2,929,414	4,608,828
Amounts stated in conformity with statutory accounting practices	$ 3,221,253	$ 4,066,440	$ 43,099,086	$ 41,671,627

Note 18. Stock Redemption and Purchase Program

Since 2014, the Company has maintained a Stock Redemption and Purchase Program (the Program) because there is no public market or exchange for the Company's outstanding Class A Common Stock. The Program does not involve the Company's issuance of additional or new classes of securities. Instead, the Company maintains the Program to facilitate the sale and purchase of Class A Common Stock. The Program provides a corporate redemption option in order to accommodate those stockholders who desire to sell some or all of their Class A Common Stock. The Program also facilitates the independent purchasing of Class A Common Stock by those interested stockholders who desire to own additional Class A Common Stock. For the years ended December 31, 2019 and 2018, the Company redeemed 88 shares and 116 shares of Class A Common Stock, respectively, at the aggregate redemption price of $1,915,967 and $2,140,892, respectively. For the years ended December 31, 2019 and 2018, existing stockholders purchased 13 shares and 38 shares of Class A Common Stock, respectively, at the aggregate purchase price of $286,100 and $708,455, respectively. The Program allows for the Company's officers, directors and employees (Affiliates) to purchase and sell shares of Class A Common Stock. For the years ended December 31, 2019 and 2018, Affiliates purchased 13 shares and 33 shares of Class A Common Stock, respectively, at the aggregate purchase price of $286,100 and $623,388, respectively. Affiliates did not sell any shares of Class A Common Stock in 2019 or 2018.

Note 19. Subsequent Event

All of the effects of subsequent events that provide additional evidence about conditions that existed at the consolidated balance sheet date, including the estimates inherent in the process of preparing the consolidated financial statements, are recognized in the consolidated financial statements. The Company does not recognize subsequent events that provide evidence about conditions that did not exist at the consolidated balance sheet date but arose after, but before the consolidated financial statements are available to be issued. In some cases, nonrecognized subsequent events are disclosed to keep the consolidated financial statements from being misleading.

On January 8, 2020, ALPS P&C became licensed as an authorized insurer in the state of Florida.

On January 13, 2020, the Company made a request to the October 14, 2015, surplus note administrator to make a principal payment totaling $400,000. The payment was also approved by the Montana Commissioner of Securities and Insurance and occurred in March 2019.

The spread of COVID-19, a novel strain of coronavirus, is altering the behavior of businesses and people throughout the United States. Further, financial markets have recently experienced a significant decline attributed to coronavirus concerns. The continued spread of COVID-19 may adversely impact the local, regional and national economies. The extent to which COVID-19 impacts the Company’s results will depend on future developments, which are highly uncertain and cannot be predicted. The impact is highly dependent on the breadth and duration of the outbreak and could be affected by other factors that cannot currently be predicted. Accordingly, management cannot presently estimate the overall operational and financial impact to the Company, but such an impact could have a material adverse effect on the financial condition of the Company.

On April 14, 2020, the Company received a $1,136,804 Paycheck Protection Program (PPP) loan. A portion of the loan proceeds will be forgiven if used within a stipulated time frame to fund qualified payroll and benefit-related expenditures, rent and utilities payments. Any portion of the PPP loan not forgiven will be repaid over a period not to exceed two years and bears interest at 1%.

Subsequent events have been evaluated through May 7, 2020, which is the date the consolidated financial statements were available to be issued.