KINGSTONE COMPANIES, INC.
Form 10-Q/A
November 08, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q/A
(Amendment No. 1)

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _________to _________

Commission File Number 0-1665

KINGSTONE COMPANIES, INC.
(Exact name of registrant as specified in its charter)

Delaware	36-2476480
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

15 Joys Lane
Kingston, NY 12401
(Address of principal executive offices)

(845) 802-7900

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

As of November 8, 2018, there were 10,743,373 shares of the registrant's common stock outstanding.

AMENDMENT NO. 1 TO THE QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED SETEMBER 30, 2018

EXPLANATORY NOTE

The purpose of this Amendment No. 1 to our Quarterly Report on Form 10-Q for the period ended September 30, 2018 as filed with the Securities and Exchange Commission on November 8, 2018 is to furnish the addition of the Exhibits 101 to the Form 10-Q.

No changes have been made to the Quarterly Report other than the addition of the Exhibits 101 as described above. This Amendment No. 1 to Form 10-Q does not reflect or modify or update in any way disclosures made in the Form 10-Q, as amended.

In addition, pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, as a result of this Amended Report, the certifications pursuant to Section 302 and Section 906 of the Sarbanes-Oxley Act of 2002, filed and furnished, respectively as exhibits to the Original Report have been re-executed and re-filed as of the date of this Amended Report and are included as exhibits hereto.

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Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The events described in forward-looking statements contained in this Quarterly Report may not occur. Generally, these statements relate to business plans or strategies, projected or anticipated benefits or other consequences of our plans or strategies, projected or anticipated benefits from acquisitions to be made by us, or projections involving anticipated revenues, earnings or other aspects of our operating results. The words "may," "will," "expect," "believe," "anticipate," "project," "plan," "intend," "estimate," and "continue," and their opposites and similar expressions are intended to identify forward-looking statements. We caution you that these statements are not guarantees of future performance or events and are subject to a number of uncertainties, risks and other influences, many of which are beyond our control that may influence the accuracy of the statements and the projections upon which the statements are based. Factors which may cause actual results and outcomes to differ materially from those contained in the forward-looking statements include, but are not limited to, the risks and uncertainties discussed in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2017 under “Factors That May Affect Future Results and Financial Condition.”

Any one or more of these uncertainties, risks and other influences could materially affect our results of operations and whether forward-looking statements made by us ultimately prove to be accurate. Our actual results, performance and achievements could differ materially from those expressed or implied in these forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether from new information, future events or otherwise, except as required by law.

PART I. FINANCIAL INFORMATION

Item 1.
Financial Statements.

KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

	September 30, 2018 (unaudited)	December 31, 2017
Assets		
Fixed-maturity securities, held-to-maturity, at amortized cost (fair value of $4,410,764 at September 30, 2018 and $5,150,076 at December 31, 2017)	$4,222,352	$4,869,808
Fixed-maturity securities, available-for-sale, at fair value (amortized cost of $144,572,834 at September 30, 2018 and $119,122,106 at December 31, 2017)	141,360,535	119,988,256
Equity securities, at fair value (cost of $18,494,309 at September 30, 2018 and $13,761,841 at December 31, 2017)	18,876,690	14,286,198
Other investments	2,241,444	-
Total investments	166,701,021	139,144,262
Cash and cash equivalents	29,893,676	48,381,633
Investment subscription receivable	-	2,000,000
Premiums receivable, net	13,484,547	13,217,698
Reinsurance receivables, net	25,018,461	28,519,130
Deferred policy acquisition costs	17,123,248	14,847,236
Intangible assets, net	755,000	1,010,000
Property and equipment, net	5,798,042	4,772,577
Deferred income taxes	122,003	-
Other assets	4,476,703	2,655,527
Total assets	$263,372,701	$254,548,063
Liabilities		
Loss and loss adjustment expense reserves	$53,942,957	$48,799,622
Unearned premiums	75,574,404	65,647,663
Advance premiums	2,888,720	1,477,693
Reinsurance balances payable	1,723,844	2,563,966
Deferred ceding commission revenue	2,517,468	4,266,412
Accounts payable, accrued expenses and other liabilities	6,108,345	7,487,654

Deferred income taxes	-	600,342
Long-term debt, net	29,251,206	29,126,965
Total liabilities	172,006,944	159,970,317
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock, $.01 par value; authorized 2,500,000 shares	-	-
Common stock, $.01 par value; authorized 20,000,000 shares; issued 11,729,166 shares at September 30, 2018 and 11,618,646 at December 31, 2017; outstanding 10,701,727 shares at September 30, 2018 and 10,631,837 shares at December 31, 2017	117,291	116,186
Capital in excess of par	68,220,714	68,380,390
Accumulated other comprehensive (loss) income	(2,595,040)	1,100,647
Retained earnings	28,335,344	27,152,822
	94,078,309	96,750,045
Treasury stock, at cost, 1,027,439 shares at September 30, 2018 and 986,809 shares at December 31, 2017	(2,712,552)	(2,172,299)
Total stockholders' equity	91,365,757	94,577,746
Total liabilities and stockholders' equity	$263,372,701	$254,548,063

See accompanying notes to condensed consolidated financial statements.

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KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Income and Comprehensive Income (Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Revenues				
Net premiums earned	$27,533,907	$21,514,408	$74,476,138	$54,837,883
Ceding commission revenue	1,044,529	1,717,610	4,430,855	8,208,000
Net investment income	1,602,371	1,033,307	4,543,226	2,917,111
Net gains (losses) on investments	352,025	20,998	(277,835)	96,915
Other income	353,077	328,330	961,581	926,189
Total revenues	30,885,909	24,614,653	84,133,965	66,986,098
Expenses				
Loss and loss adjustment expenses	13,296,708	7,073,323	41,739,123	22,821,241
Commission expense	6,594,323	5,500,483	18,411,460	15,491,027
Other underwriting expenses	5,193,679	4,475,455	15,301,168	12,887,488
Other operating expenses	683,309	1,069,005	1,773,983	2,731,499
Depreciation and amortization	440,383	378,518	1,273,975	1,023,390
Interest expense	456,545	-	1,365,052	-
Total expenses	26,664,947	18,496,784	79,864,761	54,954,645
Income from operations before taxes	4,220,962	6,117,869	4,269,204	12,031,453
Income tax expense	287,232	2,043,948	296,111	3,976,560
Net income	3,933,730	4,073,921	3,973,093	8,054,893
Other comprehensive (loss) income, net of tax				
Gross change in unrealized (losses) gains on available-for-sale-securities	(242,453)	499,077	(4,591,699)	1,974,946
Reclassification adjustment for losses (gains) included in net income	131,978	(20,998)	451,877	(96,915)
Net change in unrealized (losses) gains	(110,475)	478,079	(4,139,822)	1,878,031
Income tax benefit (expense) related to items of other comprehensive (loss) income	12,416	(162,547)	858,377	(638,531)

Other comprehensive (loss) income, net of tax	(98,059)	315,532	(3,281,445)	1,239,500
Comprehensive income	$3,835,671	$4,389,453	$691,648	$9,294,393
Earnings per common share:				
Basic	$0.37	$0.38	$0.37	$0.78
Diluted	$0.36	$0.38	$0.37	$0.77
Weighted average common shares outstanding				
Basic	10,681,329	10,626,242	10,672,084	10,307,689
Diluted	10,791,123	10,832,739	10,780,590	10,500,272
Dividends declared and paid per common share	$0.1000	$0.0800	$0.3000	$0.2225

See accompanying notes to condensed consolidated financial statements.

KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Stockholders' Equity (Unaudited)
Nine months ended September 30, 2018

	Preferred Stock		Common Stock		Capital in Excess	Accumulated Other Comprehensive	Retained	Treasury Stock	
	Shares	Amount	Shares	Amount	of Par	Income (Loss)	Earnings	Shares	Amount
Balance, January 1, 2018, as reported	-	$-	11,618,646	$116,186	$68,380,390	$1,100,647	$27,152,822	986,809	$(2,172,2
Cumulative effect of adoption of updated accounting guidance for equity financial instruments at January 1, 2018	-	-	-	-	-	(414,242)	414,242	-	-
Balance, January 1, 2018, as adjusted	-	-	11,618,646	116,186	68,380,390	686,405	27,567,064	986,809	(2,172,2
Stock-based compensation	-	-	-	-	481,812	-	-	-	-
Shares deducted from exercise of stock	-	-	(33,891)	(337)	(674,314)	-	-	-	-

options for payment of withholding taxes									
Vesting of restricted stock awards	-	-	15,752	155	(155)	-	-	-	-
Shares deducted from restricted stock awards for payment of withholding taxes	-	-	(2,213)	(24)	(39,847)	-	-	-	-
Exercise of stock options	-	-	130,872	1,311	72,828	-	-	-	-
Acquisition of treasury stock	-	-	-	-	-	-	-	40,630	(540,253
Dividends	-	-	-	-	-	-	(3,204,813)	-	-
Net income	-	-	-	-	-	-	3,973,093	-	-
Change in unrealized losses on available-for-sale securities, net of tax	-	-	-	-	-	(3,281,445)	-	-	-
Balance, September 30, 2018	-	$-	11,729,166	$117,291	$68,220,714	$(2,595,040)	$28,335,344	1,027,439	$(2,712,5

See accompanying notes to condensed consolidated financial statements.

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KINGSTONE COMPANIES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

Nine months ended September 30,	2018	2017
Cash flows from operating activities:		
Net income	$3,973,093	$8,054,893
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Net losses (gains) on investments	277,835	(96,915)
Depreciation and amortization	1,273,975	1,023,390
Amortization of bond premium, net	284,204	405,832
Amortization of discount and issuance costs on long-term debt	124,241	-
Stock-based compensation	481,812	198,046
Deferred income tax expense	136,032	322,608
(Increase) decrease in operating assets:		
Premiums receivable, net	(266,849)	(1,745,402)
Reinsurance receivables, net	3,500,669	7,226,493
Deferred policy acquisition costs	(2,276,012)	(2,142,195)
Other assets	(1,824,401)	(219,189)
Increase (decrease) in operating liabilities:		
Loss and loss adjustment expense reserves	5,143,335	554,078
Unearned premiums	9,926,741	8,448,528
Advance premiums	1,411,027	665,029
Reinsurance balances payable	(840,122)	(333,669)
Deferred ceding commission revenue	(1,748,944)	(2,898,092)
Accounts payable, accrued expenses and other liabilities	(1,379,309)	1,426,188
Net cash flows provided by operating activities	18,197,327	20,889,623
Cash flows from investing activities:		
Purchase - fixed-maturity securities available-for-sale	(43,957,529)	(38,612,403)
Purchase - equity securities	(10,357,210)	(5,298,781)
Sale and redemption - fixed-maturity securities held-to-maturity	624,963	200,000
Sale or maturity - fixed-maturity securities available-for-sale	17,740,260	8,385,874
Sale - equity securities	5,694,121	2,571,122
Acquisition of property and equipment	(2,044,440)	(1,944,342)
Net cash flows used in investing activities	(32,299,835)	(34,698,530)
Cash flows from financing activities:		
Net proceeds from issuance of common stock	-	30,136,699
Proceeds from exercise of stock options	74,139	66,517
Withholding taxes paid on net exercise of stock options	(674,651)	-
Withholding taxes paid on vested retricted stock awards	(39,871)	(17,693)

Purchase of treasury stock	(540,253)	(176,837)
Dividends paid	(3,204,813)	(2,363,993)
Net cash flows (used in) provided by financing activities	(4,385,449)	27,644,693
(Decrease) increase in cash and cash equivalents	$(18,487,957)	$13,835,786
Cash and cash equivalents, beginning of period	48,381,633	12,044,520
Cash and cash equivalents, end of period	$29,893,676	$25,880,306
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	$1,250,000	$3,936,000
Cash paid for interest	$875,417	$-

See accompanying notes to condensed consolidated financial statements.

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KINGSTONE COMPANIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 - Nature of Business and Basis of Presentation

Kingstone Companies, Inc. (referred to herein as "Kingstone" or the “Company”), through its wholly owned subsidiary, Kingstone Insurance Company (“KICO”), underwrites property and casualty insurance to small businesses and individuals exclusively through independent agents and brokers. KICO is a licensed insurance company in the States of New York, New Jersey, Rhode Island, Massachusetts, Pennsylvania, Connecticut, Maine, New Hampshire and Texas. KICO is currently offering its property and casualty insurance products in New York, New Jersey, Rhode Island, Massachusetts and Pennsylvania. Although New Jersey, Rhode Island and Massachusetts are now growing expansion markets for the Company, 92.6% and 94.5% of KICO’s direct written premiums for the three months and nine months ended September 30, 2018, respectively, came from the New York policies.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and the instructions to Securities and Exchange Commission (“SEC”) Form 10-Q and Article 10 of SEC Regulation S-X. The principles for condensed interim financial information do not require the inclusion of all the information and footnotes required by generally accepted accounting principles for complete financial statements. Therefore, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements as of and for the year ended December 31, 2017 and notes thereto included in the Company’s Annual Report on Form 10-K filed with the SEC on March 15, 2018. The accompanying condensed consolidated financial statements have not been audited by an independent registered public accounting firm in accordance with standards of the Public Company Accounting Oversight Board (United States) but, in the opinion of management, such financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the Company’s financial position and results of operations. The results of operations for the three months and nine months ended September 30, 2018 may not be indicative of the results that may be expected for the year ending December 31, 2018.

Note 2 – Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and assumptions, which include the reserves for losses and loss adjustment expenses and are subject to estimation errors due to the inherent uncertainty in projecting ultimate claim amounts that will be reported and settled over a period of many years. In addition, estimates and assumptions associated with receivables under reinsurance contracts related to contingent ceding commission revenue require judgments by management. On an on-going basis, management reevaluates its assumptions and the methods for calculating these estimates. Actual results may differ significantly from the estimates and assumptions used in preparing the consolidated financial statements.

Principles of Consolidation

The consolidated financial statements consist of Kingstone and its wholly owned subsidiaries: KICO and its wholly owned subsidiaries, CMIC Properties, Inc. (“Properties”) and 15 Joys Lane, LLC (“15 Joys Lane”), which together own the land and building from which KICO operates. All significant inter-company account balances and transactions have been eliminated in consolidation.

Accounting Changes

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09 – Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”). The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. ASU 2014-09, as amended by ASU 2015-14, ASU 2016-08, ASU 2016-10 and ASU 2016-20, was effective for the Company for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The Company adopted ASU 2014-09 effective January 1, 2018. The standard excludes from its scope the accounting for insurance contracts, financial instruments, and certain other agreements that are governed under other GAAP guidance. Accordingly, the adoption of ASU 2014-09, as amended, did not have a material impact on the Company’s condensed consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01 – Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”). Effective January 1, 2018, the Company adopted the provisions of ASU 2016-01. The updated guidance requires equity investments, including limited partnership interests, except those accounted for under the equity method of accounting, that have a readily determinable fair value to be measured at fair value with any changes in fair value recognized in net income. 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 net income. A qualitative assessment for impairment is required for equity investments without readily determinable fair values. The updated guidance also eliminates the requirement to disclose the method and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost on the balance sheet. The adoption of this guidance resulted in the recognition of approximately $414,000 of net after-tax unrealized gains on equity investments as a cumulative effect adjustment that increased retained earnings as of January 1, 2018 and decreased accumulated other comprehensive income (“AOCI”) by the same amount. The Company elected to report changes in the fair value of equity investments in net gains (losses) on investments in the condensed consolidated statements of income and comprehensive income. At December 31, 2017, equity investments were classified as available-for-sale on the Company's consolidated balance sheet. However, upon adoption, the updated guidance eliminated the available-for-sale balance sheet classification for equity investments. Furthermore, for the three months and nine months ended September 30, 2018, net gain (loss) on investments of approximately $352,000 and ($278,000), respectively, in the condensed consolidated statements of income and comprehensive income included gains of approximately $409,000 and $99,000, respectively, from the fair value change of equity securities.

In August 2016, FASB issued ASU 2016-15 – Statement of Cash Flows (Topic 320): Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”). The revised ASU provides accounting guidance for eight specific cash flow issues. FASB issued the standard to clarify areas where GAAP has been either unclear or lacking in specific guidance. The effective date of ASU 2016-15 was for interim and annual reporting periods beginning after December 15, 2017. The Company adopted this ASU effective January 1, 2018, and it did not have a material impact on the Company’s condensed consolidated financial statements.

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In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting (“ASU 2017-09”). ASU 2017-09 clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. The amendment should be applied on a prospective basis. The effective date of ASU 2017-09 was for interim and annual reporting periods, beginning after December 15, 2017. The Company adopted this ASU effective January 1, 2018 and it did not have a material impact on the Company’s condensed consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02 - Income Statement – Reporting Comprehensive Income (Topic 220) – Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (“ASU 2018-02”). The deferred income tax liability for unrealized gains on available-for-sale securities that were re-measured due to the reduction in corporate income tax rates under the Tax Cuts and Jobs Act of 2017 (the “Tax Act”) resulted in a stranded tax effect within AOCI. This is due to the effect of the tax rate change being recorded through continuing operations as required under Accounting Standards Codification 740 (“ASC 740”). The revised ASU allows for the reclassification of the stranded tax effects as a result of the Act from AOCI to retained earnings and requires certain other disclosures. Effective December 31, 2017, the Company chose to early adopt the provisions of ASU 2018-02 and recorded a one-time reclassification of $182,912 from AOCI to retained earnings for the stranded tax effects resulting from the newly enacted corporate tax rate. The amount of the reclassification was the difference between the historical corporate tax rate and the newly enacted 21% corporate tax rate.

In August 2018, the SEC adopted the final rule under SEC Release No. 33-10532, “Disclosure Update and Simplification,” amending certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. In addition, the amendments expanded the disclosure requirements on the analysis of stockholders' equity for interim financial statements. Under the amendments, an analysis of changes in each caption of stockholders' equity presented in the balance sheet must be provided in a note or separate statement. The analysis should present a reconciliation of the beginning balance to the ending balance of each period for which a statement of comprehensive income is required to be filed. This final rule is effective on November 5, 2018. The Company is evaluating the impact of this guidance on its condensed consolidated financial statements. The Company anticipates its first presentation of changes in stockholders’ equity will be included in its Form 10-Q for the quarter ended March 31, 2019.

Accounting Pronouncements

In February 2016, FASB issued ASU 2016-02 – Leases (Topic 842) (“ASU 2016-02”). Under this ASU, lessees will recognize a right-of-use-asset and corresponding liability on the balance sheet for all leases, except for leases covering a period of fewer than 12 months. The liability is to be measured as the present value of the future minimum lease payments taking into account renewal options if applicable plus initial incremental direct costs such as commissions. The minimum payments are discounted using the rate implicit in the lease or, if not known, the lessee’s incremental borrowing rate. The lessee’s income statement treatment for leases will vary depending on the nature of what is being leased. A financing type lease is present when, among other matters, the asset is being leased for a substantial portion of its economic life or has an end-of-term title transfer or a bargain purchase option as in today’s practice. The payment of the liability set up for such leases will be apportioned between interest and principal; the right-of use asset will be generally amortized on a straight-line basis. If the lease does not qualify as a financing type lease, it will be accounted for on the income statement as rent on a straight-line basis. The guidance will be effective for the Company for interim and annual reporting periods beginning after December 15, 2018. The Company does not expect the adoption of ASU 2016-02 to have a significant impact on its consolidated results of operations, financial position or cash flows.

In June 2016, FASB issued ASU 2016-13 - Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”). The revised accounting guidance requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, ASU 2016-13 amends the accounting for credit losses of available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 will be effective on January 1, 2020. The Company is currently evaluating the effect the updated guidance will have on its consolidated financial statements.

The Company has determined that all other recently issued accounting pronouncements will not have a material impact on its consolidated financial position, results of operations and cash flows, or do not apply to its operations.

Note 3 - Investments

Fixed-Maturity Securities

The amortized cost, fair value, and unrealized gains and losses of investments in fixed-maturity securities classified as available-for-sale as of September 30, 2018 and December 31, 2017 are summarized as follows:

	September 30, 2018					
						Net
	Cost or	Gross	Gross Unrealized Losses			Unrealized
	Amortized	Unrealized	Less than 12	More than 12	Fair	Gains/
Category	Cost	Gains	Months	Months	Value	(Losses)
Fixed-Maturity Securities:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$8,214,959	$-	$(75,222)	$-	$8,139,737	$(75,222)
Political subdivisions of States, Territories and Possessions	6,545,242	26,468	(63,596)	(50,343)	6,457,771	(87,471)
Corporate and other bonds Industrial and miscellaneous	106,538,272	87,788	(2,461,966)	(399,360)	103,764,734	(2,773,538)

Residential mortgage and other asset backed securities (1)	23,274,361	288,079	(99,954)	(464,193)	22,998,293	(276,068)
Total	$144,572,834	$402,335	$(2,700,738)	$(913,896)	$141,360,535	$(3,212,299)

(1)
In 2017, KICO placed certain residential mortgage backed securities as eligible collateral in a designated custodian account related to its membership in the Federal Home Loan Bank of New York ("FHLBNY") (See Note 7). The eligible collateral would be pledged to FHLBNY if KICO draws an advance from the FHBLNY credit line. As of September 30, 2018, the fair value of the eligible investments was approximately $5,790,000. KICO will retain all rights regarding all securities if pledged as collateral. As of September 30, 2018, there was no outstanding balance on the FHLBNY credit line.

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	December 31, 2017					
						Net
	Cost or	Gross	Gross Unrealized Losses			Unrealized
	Amortized	Unrealized	Less than 12	More than 12	Fair	Gains/
Category	Cost	Gains	Months	Months	Value	(Losses)
Fixed-Maturity Securities:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$-	$-	$-	$-	$-	$-
Political subdivisions of States, Territories and Possessions	11,096,122	250,135	(30,814)	-	11,315,443	219,321
Corporate and other bonds Industrial and miscellaneous	87,562,631	1,189,207	(269,857)	(340,516)	88,141,465	578,834
Residential mortgage and other asset backed securities (1)	20,463,353	305,499	(48,482)	(189,022)	20,531,348	67,995
Total	$119,122,106	$1,744,841	$(349,153)	$(529,538)	$119,988,256	$866,150

(1)
In 2017, KICO placed certain residential mortgage backed securities as eligible collateral in a designated custodian account related to its membership in the FHLBNY (see Note 7). The eligible collateral would be pledged to FHLBNY if KICO draws an advance from the FHBLNY credit line. As of December 31, 2017, the fair value of the eligible investments was approximately $6,703,000. KICO will retain all rights regarding all securities if pledged as collateral. As of December 31, 2017, there was no outstanding balance on the FHLBNY credit line.

A summary of the amortized cost and fair value of the Company's investments in available-for-sale fixed-maturity securities by contractual maturity as of September 30, 2018 and December 31, 2017 is shown below:

	September 30, 2018		December 31, 2017	
	Amortized		Amortized	
Remaining Time to Maturity	Cost	Fair Value	Cost	Fair Value
Less than one year	$1,689,356	$1,683,350	$2,585,479	$2,595,938
One to five years	39,607,252	39,173,793	31,716,345	32,065,197
Five to ten years	77,027,918	74,706,819	62,702,945	63,129,543
More than 10 years	2,973,947	2,798,280	1,653,984	1,666,230
Residential mortgage and other asset backed securities	23,274,361	22,998,293	20,463,353	20,531,348
Total	$144,572,834	$141,360,535	$119,122,106	$119,988,256

The actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay obligations with or without penalties.

Equity Securities

Effective January 1, 2018, the Company adopted ASU 2016-01, which resulted in changes in the fair value of equity securities held at September 30, 2018 being reported in net income instead of being reported in comprehensive income. See Note 2, Accounting Policies, for additional discussion. The cost, fair value, and gross gains and losses of investments in equity securities as of September 30, 2018 and December 31, 2017 are as follows:

	September 30, 2018			
		Gross	Gross	Fair
Category	Cost	Gains	Losses	Value
Equity Securities:				
Preferred stocks	$6,865,381	$20,121	$(188,302)	$6,697,200
Common stocks and exchange traded mutual funds	11,628,928	1,131,212	(580,650)	12,179,490
Total	$18,494,309	$1,151,333	$(768,952)	$18,876,690

	December 31, 2017			
		Gross	Gross	Fair
Category	Cost	Gains	Losses	Value
Equity Securities:				
Preferred stocks	$7,081,099	$60,867	$(141,025)	$7,000,941
Common stocks and exchange traded mutual funds	6,680,742	841,250	(236,735)	7,285,257
Total	$13,761,841	$902,117	$(377,760)	$14,286,198

Other Investments

The cost, fair value, and gross gains of the Company's other investments as of September 30, 2018 and December 31, 2017 are as follows:

	September 30, 2018			December 31, 2017		
		Gross	Fair		Gross	Fair
Category	Cost	Gains	Value	Cost	Gains	Value
Other Investments:						
Hedge fund	$2,000,000	$241,444	$2,241,444	$-	$-	$-
Total	$2,000,000	$241,444	$2,241,444	$-	$-	$-

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Held-to-Maturity Securities

The amortized cost, fair value, and unrealized gains and losses of investments in held-to-maturity fixed-maturity securities as of September 30, 2018 and December 31, 2017 are summarized as follows:

September 30, 2018

			Gross Unrealized Losses			
	Cost or Amortized	Gross Unrealized	Less than 12	More than 12	Fair	Net Unrealized
Category	Cost	Gains	Months	Months	Value	Gains/(Losses)
Held-to-Maturity Securities:						
U.S. Treasury securities	$729,496	$147,543	$(7,649)	$-	$869,390	$139,894
Political subdivisions of States, Territories and Possessions	998,852	24,393	-	-	1,023,245	24,393
Corporate and other bonds Industrial and miscellaneous	2,494,004	36,835	(5,100)	(7,610)	2,518,129	24,125
Total	$4,222,352	$208,771	$(12,749)	$(7,610)	$4,410,764	$188,412

December 31, 2017

Gross Unrealized Losses

Category	Cost or Amortized Cost	Gross Unrealized Gains	Less than 12 Months	More than 12 Months	Fair Value	Net Unrealized Gains/(Losses)
Held-to-Maturity Securities:						
U.S. Treasury securities	$729,466	$147,573	$(1,729)	$-	$875,310	$145,844
Political subdivisions of States, Territories and Possessions	998,984	50,366	-	-	1,049,350	50,366
Corporate and other bonds Industrial and miscellaneous	3,141,358	90,358	-	(6,300)	3,225,416	84,058
Total	$4,869,808	$288,297	$(1,729)	$(6,300)	$5,150,076	$280,268

Held-to-maturity U.S. Treasury securities are held in trust pursuant to various states’ minimum funds requirements.

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A summary of the amortized cost and fair value of the Company's investments in held-to-maturity securities by contractual maturity as of September 30, 2018 and December 31, 2017 is shown below:

	September 30, 2018		December 31, 2017	
	Amortized		Amortized	
Remaining Time to Maturity	Cost	Fair Value	Cost	Fair Value
Less than one year	$-	$-	$-	$-
One to five years	2,996,308	3,030,709	2,546,459	2,601,898
Five to ten years	619,548	626,016	1,716,884	1,794,139
More than 10 years	606,496	754,039	606,465	754,039
Total	$4,222,352	$4,410,764	$4,869,808	$5,150,076

The actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay obligations with or without penalties.

Investment Income

Major categories of the Company's net investment income are summarized as follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Income:				
Fixed-maturity securities	$1,386,931	$926,170	$3,898,730	$2,607,166
Equity securities	214,498	143,826	609,086	408,812
Cash and cash equivalents	44,024	5,772	159,865	14,446
Total	1,645,453	1,075,768	4,667,681	3,030,424
Expenses:				
Investment expenses	43,082	42,461	124,455	113,313

Net investment income	$1,602,371	$1,033,307	$4,543,226	$2,917,111

Proceeds from the sale and redemption of fixed-maturity securities held-to-maturity were $624,963 and $200,000 for the nine months ended September 30, 2018 and 2017, respectively.

Proceeds from the sale or maturity of fixed-maturity securities available-for-sale were $17,740,260 and $8,385,874 for the nine months ended September 30, 2018 and 2017, respectively.

Proceeds from the sale of equity securities were $5,694,121 and $2,571,122 for the nine months ended September 30, 2018 and 2017, respectively.

The Company’s net gains (losses) on investments are summarized as follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Realized (Losses) Gains				
Fixed-maturity securities:				
Gross realized gains	$4,750	$5,542	$116,961	$67,260
Gross realized losses (1)	(77,192)	(56,783)	(560,418)	(167,340)
	(72,442)	(51,241)	(443,457)	(100,080)
Equity securities:				
Gross realized gains	121,609	229,792	436,859	386,057
Gross realized losses	(106,321)	(107,553)	(370,705)	(139,062)
	15,288	122,239	66,154	246,995
Net realized (losses) gains	(57,154)	70,998	(377,303)	146,915
Other-than-temporary impairment losses:				
Fixed-maturity securities	-	(50,000)	-	(50,000)
Unrealized Gains (Losses)				
Equity securities:				
Gross gains	288,435	-	-	-
Gross losses	-	-	(141,976)	-
	288,435	-	(141,976)	-
Other investments:				
Gross gains	120,744	-	241,444	-
Gross losses	-	-	-	-
	120,744	-	241,444	-
Net unrealized gains	409,179	-	99,468	-
Net gains (losses) on investments	$352,025	$20,998	$(277,835)	$96,915

(1)
Gross realized losses for the nine months ended September 30, 2018 and 2017 include a $23,912 and a $747 loss, respectively, from the redemption of fixed-maturity securities held-to-maturity.

Impairment Review

Impairment of investment securities results in a charge to operations when a market decline below cost is deemed to be other-than-temporary. The Company regularly reviews its fixed-maturity securities (and reviewed its equity securities portfolios prior to January 1, 2018) to evaluate the necessity of recording impairment losses for other-than-temporary declines in the fair value of investments. In evaluating potential impairment, GAAP specifies (i) if the Company does not have the intent to sell a debt security prior to recovery and (ii) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss. When the Company does not intend to sell the security and it is more likely than not that the Company will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other-than-temporary impairment ("OTTI") of a debt security in earnings and the remaining portion in comprehensive (loss) income. The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected based on cash flow projections. For held-to-maturity debt securities, the amount of OTTI recorded in comprehensive (loss) income for the noncredit portion of a previous OTTI is amortized prospectively over the remaining life of the security on the basis of timing of future estimated cash flows of the security.

OTTI losses are recorded in the condensed consolidated statements of income and comprehensive income as net realized losses on investments and result in a permanent reduction of the cost basis of the underlying investment. The determination of OTTI is a subjective process and different judgments and assumptions could affect the timing of loss realization. At September 30, 2018 and December 31, 2017, there were 166 and 62 fixed-maturity securities, respectively, and 13 equity securities at December 31, 2017 that accounted for the gross unrealized loss, respectively. In December 2017, the Company disposed of one of its held-to-maturity debt securities that was previously recorded in OTTI, a bond issued by the Commonwealth of Puerto Rico. In July 2016, Puerto Rico defaulted on its interest payment to bondholders. Due to the credit deterioration of Puerto Rico, the Company recorded its first credit loss component of OTTI on this investment as of June 30, 2016. As of December 31, 2016, the full amount of the write-down was recognized as a credit component of OTTI in the amount of $69,911. In September 2017, Hurricane Maria significantly affected Puerto Rico. The impact of this event further contributed to the credit deterioration of Puerto Rico and, as a result, the Company recorded an additional credit loss component of OTTI on this investment for the amount of $50,000 during the quarter ended September 30, 2017. The total of the two OTTI write-downs of this investment through December 31, 2017 was $119,911. The Company determined that none of the other unrealized losses were deemed to be OTTI for its portfolio of investments for the nine months ended September 30, 2018 and 2017. Significant factors influencing the Company's determination that unrealized losses were temporary included the magnitude of the unrealized losses in relation to each security's cost, the nature of the investment and management's intent and ability to retain the investment for a period of time sufficient to allow for an anticipated recovery of fair value to the Company's cost basis.

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The Company held available-for-sale securities with unrealized losses representing declines that were considered temporary at September 30, 2018 as follows:

	September 30, 2018							
	Less than 12 months			12 months or more			Total	
			No. of			No. of	Aggregate	
	Fair	Unrealized	Positions	Fair	Unrealized	Positions	Fair	Unrealized
Category	Value	Losses	Held	Value	Losses	Held	Value	Losses
Fixed-Maturity Securities:								
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$8,139,737	$(75,222)	7	$-	$-	-	$8,139,737	$(75,222)
Political subdivisions of States, Territories and Possessions	3,396,474	(63,596)	7	1,122,656	(50,343)	2	4,519,130	(113,939)
Corporate and other bonds industrial and miscellaneous	86,846,478	(2,461,966)	108	6,950,836	(399,360)	14	93,797,314	(2,861,326)
Residential mortgage and								

other asset backed securities	8,593,080	(99,954)	10	11,453,668	(464,193)	18	20,046,748	(564,147)
Total fixed-maturity securities	$106,975,769	$(2,700,738)	132	$19,527,160	$(913,896)	34	$126,502,929	$(3,614,634)

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The Company held available-for-sale securities with unrealized losses representing declines that were considered temporary at December 31, 2017 as follows:

	December 31, 2017							
	Less than 12 months			12 months or more			Total	
			No. of			No. of	Aggregate	
	Fair	Unrealized	Positions	Fair	Unrealized	Positions	Fair	Unrealized
Category	Value	Losses	Held	Value	Losses	Held	Value	Losses
Fixed-Maturity Securities:								
Political subdivisions of								
States, Territories and								
Possessions	$1,549,839	$(30,814)	4	$-	$-	-	$1,549,839	$(30,814)
Corporate and other								