

FINANCIAL STATEMENTS - STATUTORY BASIS  
AND  
INDEPENDENT AUDITORS' REPORT



UNIVERSAL FIDELITY LIFE INSURANCE COMPANY

December 31, 2018 and 2017

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## Independent Auditors' Report

The Board of Directors  
Universal Fidelity Life Insurance Company

We have audited the accompanying statutory financial statements of Universal Fidelity Life Insurance Company (the Company), which comprise the statements of admitted assets, liabilities and capital and surplus - statutory basis as of December 31, 2018 and 2017, and the related statements of operations - statutory basis, changes in capital and surplus - statutory basis and cash flows - statutory basis for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Statutory Financial Statements**

Management is responsible for the preparation and fair presentation of these statutory financial statements in accordance with the financial reporting provisions prescribed or permitted by the Oklahoma Insurance Department. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of statutory financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these statutory 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 statutory financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risk of material misstatement of the statutory 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 statutory 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 statutory financial statements.

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

**Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America**

As described in Note A2, the statutory financial statements are prepared by Universal Fidelity Life Insurance Company on the basis of the financial reporting provisions prescribed or permitted by the Oklahoma Insurance Department, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of the Oklahoma Insurance Department. The effects on the statutory financial statements of the variances between the regulatory basis of accounting described in Note A2 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

**Adverse Opinion on Accounting Principles Generally Accepted in the United States of America**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America paragraph, the statutory financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Universal Fidelity Life Insurance Company as of December 31, 2018 and 2017, or the results of its operations or its cash flows for the years then ended.

**Opinion on Regulatory Basis of Accounting**

In our opinion, the statutory financial statements referred to in the first paragraph present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus of Universal Fidelity Life Insurance Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended, on the basis of the financial reporting provisions prescribed or permitted by the Oklahoma Insurance Department as described in Note A2.

*Kerby, Eck + Braeckel LLP*

Springfield, Illinois  
May 17, 2019

Universal Fidelity Life Insurance Company

STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND CAPITAL AND SURPLUS - STATUTORY BASIS

December 31

	<u>2018</u>	<u>2017</u>
ADMITTED ASSETS		
Cash and invested assets		
Bonds	\$ 2,809,836	\$ 1,889,172
Preferred stocks - cost	4,347,229	2,014,321
Common stocks - principally at market	64,800	210,105
Real estate - at cost, less allowances for depreciation		
Property occupied by the Company	707,906	728,695
Properties held for the production of income	283,333	300,000
Policy loans	92,231	92,335
Cash, cash equivalents and short-term investments	<u>2,946,695</u>	<u>4,155,323</u>
Total cash and invested assets	11,252,030	9,389,951
Accrued investment income	27,492	19,866
Premiums due and deferred	546,349	482,497
Funds held by reinsurer	2,740,399	2,332,302
Amounts due from third-party administration	869,667	760,572
Deferred tax asset	462,375	399,602
Other assets	<u>230,792</u>	<u>149,364</u>
Total admitted assets	<u>\$ 16,129,104</u>	<u>\$ 13,534,154</u>
LIABILITIES AND CAPITAL AND SURPLUS		
Insurance reserves and claims		
Life reserves	\$ 4,272,662	\$ 3,932,999
Accident and health claim and unearned premium reserves	1,108,195	1,061,475
Liability for deposit-type contracts	4,279	4,665
Life contract claims	186,059	122,246
Accident and health contract claims	2,340,936	1,602,439
Premiums received in advance	<u>28,644</u>	<u>3,279</u>
Total insurance reserves and claims	7,940,775	6,727,103
Pension benefit liability	4,800	12,000
Accrued expenses	1,463,148	1,078,686
Related party payable	434,604	379,857
Amounts payable on reinsurance	106,785	136,011
Federal income taxes payable	167,230	172,348
Interest maintenance reserve	37,711	52,568
Asset valuation reserve	<u>107,841</u>	<u>105,750</u>
Total liabilities	10,262,894	8,664,323
Capital and surplus		
Common stock, \$1 par value, 2,000,000 shares authorized; 1,017,756 shares issued, 763,317 and 805,724 shares outstanding at December 31, 2018 and 2017, respectively	1,017,756	1,017,756
Treasury stock, at cost (254,439 and 212,032 shares at December 31, 2018 and 2017, respectively)	(1,500,000)	(1,250,000)
Unassigned surplus	6,018,315	4,722,575
Special surplus	<u>330,139</u>	<u>379,500</u>
Total capital and surplus	<u>5,866,210</u>	<u>4,869,831</u>
Total liabilities and capital and surplus	<u>\$ 16,129,104</u>	<u>\$ 13,534,154</u>

The accompanying notes are an integral part of these statements.

Universal Fidelity Life Insurance Company

STATEMENTS OF OPERATIONS - STATUTORY BASIS

Years ended December 31

	<u>2018</u>	<u>2017</u>
Premiums and other insurance income		
Life	\$ 1,706,006	\$ 990,728
Accident and health	<u>9,500,425</u>	<u>8,811,378</u>
Total premiums and other insurance income	11,206,431	9,802,106
Investment income, net	238,021	171,444
Allowance on reinsurance ceded	1,646,438	1,092,156
Amortization of interest maintenance reserve	23,074	25,124
Administration fees	8,786,706	8,068,510
Miscellaneous income	<u>2,381</u>	<u>1,754</u>
Total income	21,903,051	19,161,094
Benefits paid or provided		
Life benefits	575,155	569,492
Accident and health benefits	5,605,682	5,876,318
Surrender benefits	112,074	135,158
Refunds to members	2,109	2,055
Increase (decrease) in aggregate reserves for life, accident and health policies and contracts	<u>386,382</u>	<u>(232,046)</u>
Total benefits paid or provided	6,681,402	6,350,977
Selling, general and administrative expenses		
Commissions	5,720,372	3,961,600
General expenses	7,011,249	7,032,474
Taxes, licenses and fees	467,879	507,627
Increase in loading on due and deferred premiums	<u>84,412</u>	<u>93,265</u>
Total selling, general and administrative expenses	<u>13,283,912</u>	<u>11,594,966</u>
Income before federal income taxes and net realized capital losses	1,937,737	1,215,151
Federal income tax expense	<u>366,405</u>	<u>228,973</u>
Income before net realized capital losses	1,571,332	986,178
Net realized capital losses	<u>(7,595)</u>	<u>(7,567)</u>
Net income	<u>\$ 1,563,737</u>	<u>\$ 978,611</u>

The accompanying notes are an integral part of these statements.

Universal Fidelity Life Insurance Company

STATEMENTS OF CHANGES IN CAPITAL AND SURPLUS - STATUTORY BASIS

Years ended December 31

	Common Stock	Treasury Stock	Unassigned Surplus	Special Surplus	Total
Balance as of January 1, 2017	\$ 1,017,756	\$ -	\$ 3,889,428	\$ -	\$ 4,907,184
Net income	-	-	978,611	-	978,611
Change in net unrealized capital losses	-	-	49,999	-	49,999
Change in net deferred income tax	-	-	(33,744)	-	(33,744)
Change in non-admitted assets	-	-	(21,662)	-	(21,662)
Change in asset valuation reserve	-	-	(13,965)	-	(13,965)
Purchase of treasury stock	-	(1,250,000)	-	-	(1,250,000)
Correction of prior year errors	-	-	(126,092)	-	(126,092)
Gain on ceded reinsurance	-	-	-	379,500	379,500
Balance as of December 31, 2017	1,017,756	(1,250,000)	4,722,575	379,500	4,869,831
Net income	-	-	1,563,737	-	1,563,737
Change in net unrealized capital losses	-	-	20,299	-	20,299
Change in net deferred income tax	-	-	56,785	-	56,785
Change in non-admitted assets	-	-	7,010	-	7,010
Change in asset valuation reserve	-	-	(2,091)	-	(2,091)
Purchase of treasury stock	-	(250,000)	-	-	(250,000)
Change in ceded reinsurance	-	-	-	(49,361)	(49,361)
Dividends to stockholders	-	-	(350,000)	-	(350,000)
Balance as of December 31, 2018	<u>\$ 1,017,756</u>	<u>\$ (1,500,000)</u>	<u>\$ 6,018,315</u>	<u>\$ 330,139</u>	<u>\$ 5,866,210</u>

The accompanying notes are an integral part of these statements.

Universal Fidelity Life Insurance Company

STATEMENTS OF CASH FLOWS - STATUTORY BASIS

Years ended December 31

	<u>2018</u>	<u>2017</u>
Cash from operating activities		
Premiums and other insurance income received	\$ 11,095,141	\$ 9,487,906
Investment income received, less investment expenses paid	266,462	201,065
Miscellaneous income received	8,343,467	8,896,681
Life, annuity, and accident and health benefits paid	(5,519,785)	(6,594,800)
Commissions and other expenses and taxes paid	(12,271,037)	(11,691,908)
Federal income taxes paid	(444,038)	(21,627)
Commissions and expense allowances on reinsurance ceded	<u>1,646,851</u>	<u>1,150,398</u>
Net cash provided by operating activities	3,117,061	1,427,715
Cash from investments		
Proceeds from investments matured and sold		
Bonds	63,155	980,376
Common stock	140,696	3,500
Preferred stock	822,760	1,064,598
Other invested assets	<u>-</u>	<u>15,403</u>
	1,026,611	2,063,877
Cost of investments acquired		
Bonds	(982,436)	(103,778)
Common stock	-	(147,675)
Preferred stock	<u>(3,145,267)</u>	<u>(2,165,499)</u>
	(4,127,703)	(2,416,952)
Policy loans - net	<u>104</u>	<u>3,945</u>
Net cash used in investing activities	(3,100,988)	(349,130)
Cash from financing and miscellaneous sources		
Cash provided (applied)		
Dividends to stockholders	(350,000)	-
Purchase of treasury stock	(250,000)	(1,250,000)
Other cash provided	<u>(624,701)</u>	<u>591,861</u>
Net cash used in financing and miscellaneous sources	<u>(1,224,701)</u>	<u>(658,139)</u>
Net increase (decrease) in cash, cash equivalents and short-term investments	(1,208,628)	420,446
Cash, cash equivalents and short-term investments at beginning of year	<u>4,155,323</u>	<u>3,734,877</u>
Cash, cash equivalents and short-term investments at end of year	<u>\$ 2,946,695</u>	<u>\$ 4,155,323</u>

The accompanying notes are an integral part of these statements.