NOTE A - ORGANIZATION AND ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying statutory financial statements follows:

1. *Organization*

Universal Fidelity Life Insurance Company (the Company) is domiciled in Oklahoma. The Company is authorized to conduct business in Arizona, Arkansas, Mississippi, Nebraska, New Mexico, Oklahoma, and Texas. Its business consists of selling life, annuity, and accident and health insurance, along with providing administrative services to various insurers.

2. *Basis of Presentation*

The Company presents its statutory financial statements in accordance with Statutory Accounting Principles (SAP) prescribed or permitted by the Oklahoma Insurance Department (the Department). The Department has adopted as a component of prescribed or permitted practices the National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures* manual, without modification. These principles and practices differ from accounting principles generally accepted in the United States of America (GAAP).

The more significant differences between statutory accounting practices and GAAP are as follows:

For statutory purposes, investments in bonds are reported at amortized cost or, in certain instances, market value based on their NAIC rating. For GAAP, such fixed maturity investments are designated at purchase as held-to-maturity, trading, or available-for-sale. Fixed maturity investments designated as held-to-maturity are reported at amortized cost, and the remaining fixed maturity investments are reported at fair value with unrealized holding gains and losses reported in operations for those designated as trading and as a separate component of capital and surplus for those designated as available-for-sale.

For statutory purposes, all single class and multi-class mortgage-backed/asset-backed securities (e.g., CMOs) are adjusted for the effects of changes in prepayment assumptions on the related accretion of discount or amortization of premium of such securities using either the retrospective or prospective methods. For GAAP purposes, all securities, purchased or retained, that represent beneficial interests in securitized assets (e.g., CMO, CBO, CDO, CLO, MBS, and ABS securities), other than high credit quality securities, are adjusted using the prospective method when there is a change in estimated future cash flows. If high credit quality securities are adjusted, the retrospective method is used.

NOTE A - ORGANIZATION AND ACCOUNTING POLICIES - Continued

2. *Basis of Presentation - Continued*

Investments in wholly owned noninsurance subsidiaries are reported using the equity method, adjusted to a statutory reporting basis. Further, subsidiaries that are not audited are non-admitted under SAP. Under GAAP, such subsidiaries would be consolidated.

Preferred stock is reported at cost or amortized cost, and in certain instances, market value based on its NAIC rating. For GAAP purposes, preferred stock would be stated at fair value.

Deferred tax assets are limited to an amount determined utilizing a two-component admissibility calculation. The remaining deferred tax assets are non-admitted. In addition, the changes in deferred taxes are reported as a direct charge or credit to capital and surplus. In accordance with GAAP, a deferred tax asset is recorded for the amount of gross deferred tax assets expected to be realized in future years, and a valuation allowance is established for deferred tax assets not realizable. Further, changes in deferred taxes are reported as income tax expense or benefit, or as a component of other comprehensive income, depending on the nature of the tax characteristics of temporary differences.

Under a formula prescribed by the NAIC, the Company defers in the Interest Maintenance Reserve (IMR) the portion of realized capital gains and losses on sales of fixed income investments, principally bonds, attributable to changes in the general level of interest rates and amortizes those deferrals over the remaining period to maturity. For statutory purposes, realized capital gains and losses are reported in income net of transfers to the IMR. Under GAAP, realized capital gains and losses would be reported in the statement of operations in the period that the asset giving rise to the gain or loss is sold.

For statutory purposes, declines in the estimated realizable value of investments are provided for through the establishment of a NAIC prescribed, formula-determined statutory Asset Valuation Reserve (AVR), with changes charged directly to surplus. For GAAP, declines in value are recognized in the statement of operations solely when such declines are judged to be other than temporary.

Certain assets designated as "non-admitted" have been charged directly to surplus for statutory purposes rather than being reported as assets for GAAP. Included as non-admitted assets are investments in affiliated common stock, prepaid expenses, certain receivables, certain deferred tax assets and other items that do not meet statutory criteria for admitted assets.

NOTE A - ORGANIZATION AND ACCOUNTING POLICIES - Continued

2. *Basis of Presentation - Continued*

Reserves on traditional life and accident and health insurance products for statutory purposes are based on statutory mortality and morbidity rates and interest which may differ from GAAP reserves based on reasonable assumptions of expected mortality, morbidity, interest and withdrawals which include a provision for possible adverse deviation from such assumptions.

Reinsurance amounts are netted against the corresponding receivable or payable balances for statutory purposes rather than shown as gross amounts on the GAAP balance sheets.

The costs of acquiring and renewing business are charged to current operations as incurred for statutory purposes, rather than being deferred and amortized over the premium-paying period or in proportion to the present value of expected gross profit margins for GAAP.

Policyholder dividends are recognized in full when declared for statutory purposes rather than over the term of the related policies under GAAP.

The statements of cash flows do not include a reconciliation of net income to net cash from operations as would be included under GAAP.

The effects of the foregoing variances from GAAP on the accompanying statutory-basis financial statements have not been determined, but are presumed to be material.

3. *Use of Estimates*

The preparation of financial statements in conformity with SAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities at the date of the statutory financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE A - ORGANIZATION AND ACCOUNTING POLICIES - Continued

4. *Cash, Cash Equivalents, and Short-Term Investments*

In connection with the preparation of the statutory statements of cash flows, the Company considers all highly liquid debt instruments purchased with maturities of 90 days or less, savings accounts, certificates of deposit with maturity dates within one year or less from the acquisition date, and certain money market mutual funds to be cash equivalents. All other investments with maturities of one year or less at the time of acquisition are considered short-term investments. Short-term investments are stated at amortized cost. The Company has no short-term investments as of December 31, 2018 and 2017.

5. *Investments*

Securities are valued in accordance with methods prescribed by the NAIC. Investments in bonds and mortgage and other asset-backed securities are reported principally at cost (unpaid principal balance), adjusted for amortization of premiums and accrual of discounts. Bonds are generally carried at amortized cost using the scientific method. Bonds assigned with an NAIC designation of 6 are carried at the lower of amortized cost or fair value. The Company reviews its prepayment assumptions on mortgage and other asset-backed securities periodically and adjusts amortization rates retrospectively when such assumptions are materially changed due to experience and/or expected future patterns. The Company's prepayment assumptions are determined from available market data and the Company's investment manager.

Unaffiliated common stocks are reported at fair value, as determined by the Securities Valuation Office (SVO) of the NAIC. Investments in common stock of affiliated subsidiaries are reported using the equity method. Subsidiaries that are not audited are non-admitted for SAP. The Company has non-admitted its wholly owned subsidiaries with a value of $ 79,156 and $ 64,028 at December 31, 2018 and 2017, respectively.

Preferred stocks are generally carried at cost with the exception of securities assigned with an NAIC designation of 4 - 6, which are carried at the lower of cost or fair value.

Policy loans are recorded at unpaid principal balance. These loans are secured by the death benefits provided under the life insurance contracts.

Investments in real estate, including properties occupied by the Company, are reported at cost less allowances for depreciation.

NOTE A - ORGANIZATION AND ACCOUNTING POLICIES - Continued

5. *Investments - Continued*

The Asset Valuation Reserve (AVR) provides a reserve for losses from investments in bonds, preferred and common stocks, real estate, and other invested assets, with related increases or decreases being recorded directly to surplus. The Interest Maintenance Reserve (IMR) provides a reserve for realized capital gains and losses that result from changes in interest rates for certain fixed income securities and amortizes these capital gains and losses into income over the remaining life of the investments sold.

Realized capital gains and losses on investments are determined on the basis of specific identification of investments. Unrealized capital gains and losses on investments carried at fair value are recorded directly in unassigned surplus, with a comparable adjustment made to the AVR. The carrying amounts of all investments are reviewed on an ongoing basis for credit deterioration. If this review indicates a decline in market value that is other-than-temporary, the carrying amount of the investment is reduced to its estimated fair value, and a specific write down is taken. Such reductions in the carrying amounts are recognized as realized capital losses on investments.

Interest income is recognized on an accrual basis. The Company does not accrue interest on bonds in default. Further, income is not accrued when collection is uncertain. At December 31, 2018 and 2017, no amounts were excluded from investment income due or accrued with respect to this policy.

6. *Depreciation and Amortization*

Owned real estate is depreciated on a straight-line basis over the estimated useful lives of the property. Data processing equipment owned by the Company is carried at cost, less accumulated depreciation computed on a straight-line basis, over the estimated useful life of the equipment. The cost of furniture and fixtures, less accumulated depreciation is computed on a straight-line method (three to seven years).

7. *Non-Admitted Assets*

Non-admitted assets (principally affiliated common stock, agent balances, deferred taxes, prepaid expenses and certain affiliate receivables) are excluded from the statements of admitted assets, liabilities and surplus. Changes in non-admitted assets are reported as charges or credits directly to surplus.

NOTE A - ORGANIZATION AND ACCOUNTING POLICIES - Continued

8. Reserves

The reserves for life contracts, all developed by actuarial methods, are established and maintained on the basis of published mortality and morbidity tables using assumed interest rates and valuation methods that will provide, in the aggregate, reserves that are greater than the minimum valuation required by law or guaranteed policy cash values. Tabular interest, tabular less actual reserves released, and tabular cost have been determined by NAIC formula. Tabular interest on funds not involving life contingencies is the weighted average interest rate using the reserves at the beginning and ending of the year.

The Company waives deduction of deferred fractional premiums upon death of the insured and the Company returns the unearned portion of the final premium for periods beyond the date of death. Surrender values are not promised in excess of the legally computed reserves.

Additional premiums are charged for policies issued on substandard lives according to underwriting classification. If the extra premium is a permanent addition to the standard premium, the corresponding reserves held on such policies are calculated using the same interest rate as standard policies but employing mortality rates, which are multiples of standard mortality. If the extra premium is only a temporary addition to the standard premium, an additional reserve equal to one-half the extra premium charge for the year is added to the reserve calculated using standard mortality and interest assumptions. At December 31, 2018 and 2017, the Company had no insurance in force for which the gross premiums are less than the net premiums according to the standards of valuation set by the State of Oklahoma.

Policy reserves for accident and health insurance include claim reserves and unearned premium reserves. Claim reserves, including incurred but not reported claims, represent management's estimate of the ultimate liability associated with unpaid policy claims, based upon analysis of past experience. To the extent that the ultimate liability differs from the amounts recorded, such differences are reflected in operations when additional information becomes known.

NOTE A - ORGANIZATION AND ACCOUNTING POLICIES - Continued

8. Reserves - Continued

Unearned premium reserves of Medicare supplement policies are determined using the daily pro rata method. Student accident policies consist of risks associated with football activities and non-football activities. Unearned premium reserves associated with football activities are determined on a monthly basis from August through December. Unearned premium reserves on non-football activities are determined on a monthly basis from August to July.

9. Revenue Recognition and Acquisition Costs

Premium income for contracts with mortality and morbidity risks is recorded when received, adjusted for advance premiums and premiums deferred and uncollected. Accident and health premiums are earned when received. Acquisition costs, such as commissions and other costs related to acquiring new business are charged to current operations as incurred.

10. Policyholder Dividends

The amount of dividends paid to policyholders is determined annually by the Company's Board of Directors. The aggregate amount of policyholders' dividends is related to actual interest, mortality, morbidity, and expense experience for the year and judgment as to the appropriate level of statutory surplus to be retained by the Company.

11. Income Taxes

Deferred income taxes are recorded based on temporary differences using a balance sheet approach whereby statutory and tax basis balance sheets are compared.

Deferred tax assets are limited based on a two-component admissibility calculation. Under the first part of the admissibility calculation, deferred tax admissibility is based on the pattern and timing of reversals of temporary differences subject to a ratio of current period adjusted capital and surplus and Authorized Control Level risk-based capital. Under the second part of the admissibility calculation, deferred tax admissibility is based on any remaining deferred tax assets set equal to any deferred tax liabilities. The remaining deferred tax assets are non-admitted.

NOTE A - ORGANIZATION AND ACCOUNTING POLICIES - Continued

12. Subsequent Events

Management has evaluated subsequent events for recognition and disclosure in the financial statements through May 17, 2019, which is the date the financial statements were available to be issued. Through May 17, 2019, the Company paid dividends of $ 650,000 to its sole shareholder and purchased 42,407 shares of the Company's stock at a cost of $ 288,000 from its sole shareholder.

NOTE B - INVESTMENTS

At December 31, the carrying value and estimated market values of the Company's portfolio of bonds are as follows:

2018	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Bonds				
U.S. government	$ 1,741,283	$ 1,880	$ (8,667)	$ 1,734,496
Mortgage-backed securities	64,208	13,276	-	77,484
Industrial and miscellaneous	1,004,345	6,624	(51,074)	959,895
Total bonds	$ 2,809,836	$ 21,780	$ (59,741)	$ 2,771,875
Preferred stocks	$ 4,347,229	$ -	$ (331,286)	$ 4,015,943
Common stocks	$ 64,800	$ -	$ -	$ 64,800

NOTE B - INVESTMENTS - Continued

2017	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Bonds				
U.S. government	$ 757,640	$ -	$ (8,380)	$ 749,260
Mortgage-backed securities	75,203	15,335	-	90,538
Industrial and miscellaneous	1,056,329	69,359	(1,000)	1,124,688
Total bonds	$ 1,889,172	$ 84,694	$ (9,380)	$ 1,964,486
Preferred stocks	$ 2,014,321	$ 11,813	$ (31,806)	$ 1,994,328
Common stocks	$ 211,875	$ 2,650	$ (4,420)	$ 210,105

The following investments have been in a continuous loss position for less than twelve months at December 31:

	2018 Fair Value	2018 Unrealized Loss	2017 Fair Value	2017 Unrealized Loss
Bonds				
U.S. government	$ 731,384	$ (3,161)	$ 206,063	$ (2,828)
Industrial and miscellaneous	561,014	(44,574)	-	-
Total bonds	$ 1,292,398	$ (47,735)	$ 206,063	$ (2,828)
Preferred stocks	$ 2,494,210	$ (195,075)	$ 806,054	$ (26,437)
Common stocks	-	-	92,400	(4,420)

NOTE B - INVESTMENTS - Continued

The following investments have been in a continuous loss position for more than twelve months at December 31:

	2018		2017	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Bonds				
U.S. government	$ 237,561	$ (5,506)	$ 543,197	$ (5,552)
Industrial and miscellaneous	93,500	(6,500)	99,000	(1,000)
Total bonds	$ 331,061	$ (12,006)	$ 642,197	$ (6,552)
Preferred stocks	$ 1,521,735	$ (136,211)	$ 372,567	$ (5,369)

The Company did not experience any other-than-temporary declines in the value on any investments during 2018 or 2017. The Company's decision to record an impairment loss is primarily based on whether the Company will recover the entire amortized cost basis of the security. Factors that are considered include the length of time the security's fair value has been below carrying value, the credit worthiness of the issuer, and the coupon and/or dividend payment history of the issuer. The Company also assesses whether it intends to sell, or it is more likely than not that it will be required to sell a security before recovery of its amortized cost basis less any current-period credit losses. For securities that are other-than-temporarily impaired, the security is adjusted to fair value and the resulting losses are recognized in realized gains (losses) in the statements of operations.

NOTE B - INVESTMENTS - Continued

The carrying amount and fair value of bonds by contractual maturity at December 31, 2018, are shown below. Expected maturities may differ from contractual maturities because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	Carrying Value	Fair Value
Due in one year or less	$ 305,362	$ 308,252
Due after one year through five years	1,652,209	1,650,945
Due after ten years	788,057	735,194
Mortgage-backed and other asset-backed securities	64,208	77,484
	$ 2,809,836	$ 2,771,875

The Company, as a member of the reconstituted Federal Home Loan Bank System administered by the Federal Housing Finance Board, is required to maintain an investment in capital stock of the Federal Home Loan Bank of Topeka (FHLB). The stock is recorded at a cost of $ 64,800 and $ 64,200 at December 31, 2018 and 2017, which approximates its fair value. The FHLB places restrictions on the transferability of the stock, and as a result, transactions occur with the FHLB at the stock's par value.

The Company's investment in FHLB capital stock is summarized below at December 31:

	2018	2017
Class A (membership stock)	$ 13,900	$ 13,400
Class B (activity)	50,900	50,800
Total FHLB capital stock	$ 64,800	$ 64,200

NOTE B - INVESTMENTS - Continued

Major categories of net investment income for the years ended December 31 are summarized as follows:

	2018	2017
Bonds	$ 36,556	$ 28,025
Other bonds	57,526	70,261
Preferred and common stocks (unaffiliated)	200,179	108,698
Real estate	95,505	95,505
Other	16,629	5,856
	406,395	308,345
Investment expenses	(168,374)	(136,901)
Net investment income	$ 238,021	$ 171,444

NOTE B - INVESTMENTS - Continued

The major components of realized capital gains (losses) on investments reflected in operations and unrealized capital gains on investments reflected directly in surplus are summarized as follows as of December 31:

	Realized		Change in Unrealized	
	2018	2017	2018	2017
Bonds	$ -	$ 8,611	$ -	$ -
Preferred stocks	10,402	(35,446)	-	-
Common stocks	(9,779)	-	20,299	45,647
Other assets	-	88	-	4,352
	623	(26,747)	20,299	49,999
Transferred to interest maintenance reserve	(10,402)	29,061	-	-
Tax on realized gains	2,184	(9,881)	-	-
Net realized and unrealized capital gains (losses)	$ (7,595)	$ (7,567)	$ 20,299	$ 49,999

Proceeds from the sale and maturity of bonds were $ 63,155 and $ 980,376 in 2018 and 2017, respectively. The Company recognized realized gains from the sale of bonds of $ 9,436 in 2017. The Company recognized realized losses from the sale of bonds of $ 825 in 2017. No gains or losses were recognized on bonds sold or matured in 2018.

Bonds having a carrying value of $ 1,518,631 and $ 1,539,986 and a fair value of $ 1,530,685 and $ 1,547,973 were on deposit with regulatory authorities in Oklahoma, New Mexico, and Louisiana in accordance with statutory requirements, as of December 31, 2018 and 2017, respectively.

NOTE C - FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is defined to be 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. A three-level hierarchy has been established for fair value measurements based upon the inputs to the valuation of an asset or liability as follows:

Level 1 - Valuation is based on quoted prices for identical assets and liabilities in active markets.

Level 2 - Valuation is derived from inputs, other than quoted prices included in Level 1, which are observable for the asset or liability either directly or indirectly. Investments classified as Level 2 are generally valued by benchmarking model-derived prices to quoted market prices and trade data for identical or comparable securities. The significant inputs used in this approach include interest rates, prepayment timing, yield spreads, maturities, credit losses and credit ratings of the securities.

Level 3 - Valuation is derived from unobservable inputs that are not corroborated by market data.

SSAP No. 100R, *Fair Value*, requires disclosure of fair value information about financial instruments, whether or not recognized in the statement of admitted assets, liabilities and capital and surplus, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. SSAP No. 100R excludes certain financial instruments and all non-financial instruments from its disclosure requirements. These fair value disclosures are not intended to represent the fair value of the Company.

NOTE C - FAIR VALUES OF FINANCIAL INSTRUMENTS - Continued

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

1. Bonds, Stocks and Partnership Interest

Fair values of bonds, preferred stocks, common stocks and partnership interest as presented herein, are based on values published by the SVO, where available. The Company obtains fair values from pricing service companies where values are not provided by the SVO. In instances in which the Company believes fair values provided by pricing services are indicative of distressed prices, the Company applies a market yield to expected future cash flows to determine fair values.

2. Policy Loans, Cash, Cash Equivalents, Short-Term Investments, and Accrued Investment Income

Due to the short-term nature of these assets, the carrying amounts approximate their fair values.

3. Liability For Deposit-Type Contracts

The fair values for the Company's reserves and liabilities under investment-type insurance contracts (deferred annuity and other contracts that do not involve significant mortality risk) are estimated using surrender values.

The following table presents the Company's fair value hierarchy for those assets measured at fair value on a recurring basis as of December 31:

	Fair Value	Admitted Assets	Level 1	Level 2	Level 3
2018					
Common stocks	$ 64,800	$ 64,800	$ -	$ 64,800	$ -
2017					
Common stocks	$ 210,105	$ 210,105	$ 145,905	$ 64,200	$ -

NOTE C - FAIR VALUES OF FINANCIAL INSTRUMENTS - Continued

The fair values for the Company's insurance contracts (insurance, annuity, and other policy contracts that involve significant mortality risk), other than investment-type contracts, are not required to be disclosed. However, the fair value of liabilities under all insurance contracts are taken into consideration in the Company's overall management of interest rate risk, such that the Company's exposure to changing interest rates is minimized through the matching of investment maturities with amounts due under insurance contracts. The following sets forth a comparison of the estimated fair values and carrying amounts of the Company's financial instruments at December 31:

2018	Fair Value	Admitted Assets	Level 1	Level 2	Level 3
Financial assets					
Investments					
Bonds	$ 2,771,875	$ 2,809,836	$ 1,795,239	$ 976,636	$ -
Preferred stocks	4,015,943	4,347,229	-	4,015,943	-
Policy loans	92,231	92,231	-	92,231	-
Cash, cash equivalents and short-term investments	2,946,695	2,946,695	2,946,695	-	-
Accrued investment income	27,492	27,492	-	27,492	-
Financial liabilities					
Deposit-type contracts	4,279	4,279	-	4,279	-

2017	Fair Value	Admitted Assets	Level 1	Level 2	Level 3
Financial assets					
Investments					
Bonds	$ 1,964,486	$ 1,889,172	$ 819,367	$ 1,145,119	$ -
Preferred stocks	1,994,328	2,014,321	-	1,994,328	-
Policy loans	92,335	92,335	-	92,335	-
Cash, cash equivalents and short-term investments	4,155,323	4,155,323	4,155,323	-	-
Accrued investment income	19,866	19,866	-	19,866	-
Financial liabilities					
Deposit-type contracts	4,665	4,665	-	4,665	-

NOTE D - REAL ESTATE

Real estate occupied by the Company consists of the following at December 31:

	2018	2017
Buildings	$ 900,784	$ 900,784
Less accumulated depreciation	(192,878)	(172,089)
Real estate occupied by Company, net	$ 707,906	$ 728,695

The Company recorded depreciation expense of $ 20,789 and $ 20,790 during 2018 and 2017, respectively.

Real estate held for the production of income consists of the following at December 31:

	2018	2017
Buildings	$ 500,000	$ 500,000
Less accumulated depreciation	(216,667)	(200,000)
Real estate held for the production of income, net	$ 283,333	$ 300,000

The Company recorded depreciation expense of $ 16,667 during 2018 and 2017.

NOTE E - PREMIUMS DUE AND DEFERRED

A reconciliation of gross premiums, loading, and net premium at December 31 is as follows:

2018

	Gross	Loading	Net
Ordinary new business	$ 306,062	$ 214,650	$ 91,412
Ordinary renewal	534,133	79,196	454,937
Totals	$ 840,195	$ 293,846	$ 546,349

NOTE E - PREMIUMS DUE AND DEFERRED - Continued

2017

	Gross	Loading	Net
Ordinary new business	$ 223,756	$ 157,161	$ 66,595
Ordinary renewal	468,178	52,276	415,902
Totals	$ 691,934	$ 209,437	$ 482,497

NOTE F - INCOME TAXES

The Company is taxed for federal income taxes as a life insurance company. The Tax Cuts and Jobs Act was signed on December 22, 2017. The Act decreases the corporate income tax rate from 34% to 21% beginning in 2018. The Company has reevaluated its deferred tax assets as of December 31, 2017 due to the lower future tax rate. The main components of deferred tax amounts at December 31 are as follows:

	Ordinary	Capital	Total
2018			
Total gross deferred tax assets	$ 696,273	$ -	$ 696,273
Total gross deferred tax liabilities	(233,898)	-	(233,898)
Net admitted deferred tax assets	$ 462,375	$ -	$ 462,375
Change in non-admitted deferred tax assets			$ 5,998

NOTE F - INCOME TAXES - Continued

	Ordinary	Capital	Total
2017			
Total gross deferred tax assets	$ 570,594	$ 6,545	$ 577,139
Total gross deferred tax liabilities	(170,992)	(557)	(171,549)
Net gross deferred tax assets	399,602	5,988	405,590
Non-admitted deferred tax assets	-	(5,988)	(5,988)
Net admitted deferred tax assets	$ 399,602	$ -	$ 399,602
Change in non-admitted deferred tax assets			$ (5,988)

The net admitted deferred tax asset was determined using the guidance related to admissibility provided in the following paragraphs in SSAP 101 as of December 31:

	Ordinary	Capital	Total
2018			
Admissible under paragraph			
11b. lesser of adjusted gross deferred tax assets			
i. Expected to be recognized within three years	$ 478,812	$ -	$ 478,812
ii. Allowed per limitation threshold of 15% of surplus less deferred tax asset			785,017
11c. adjusted gross deferred tax assets offset against existing deferred tax liabilities	217,461	-	217,461
Total admitted deferred tax asset	$ 696,273	$ -	$ 696,273

NOTE F - INCOME TAXES - Continued

	Ordinary	Capital	Total
2017			
Admissible under paragraph			
11b. lesser of adjusted gross deferred tax assets			
i. Expected to be recognized within three years	$ 408,837	$ -	$ 408,837
ii. Allowed per limitation threshold of 15% of surplus less deferred tax asset			739,656
11c. adjusted gross deferred tax assets offset against existing deferred tax liabilities	161,757	557	162,314
Total admitted deferred tax asset	$ 570,594	$ 557	$ 571,151

The Company is a risk-based capital reporting entity. As a risk-based capital reporting entity, the Company utilized the realization threshold limitation table for risk-based capital reporting entities to determine its limitation under paragraph 11.b. of SSAP 101.

At December 31, 2018 and 2017, the Company's adjusted capital, less deferred tax assets, was $ 5,511,678 and $ 4,975,581, respectively. The resulting authorized control level risk-based capital ratio, excluding deferred tax assets, was 706% and 754%, respectively.

NOTE F - INCOME TAXES - Continued

The main components of deferred tax amounts as of December 31, are as follows:

	2018	2017	Change
Deferred tax assets (liabilities)			
Deferred acquisition costs	$ 462,728	$ 267,365	$ 195,363
Discount of reserves	129,909	158,565	(28,656)
AMT credit carryforward	88,623	125,673	(37,050)
Deferred and uncollected premium	(159,629)	(111,627)	(48,002)
Other	(59,256)	(34,386)	(24,870)
Total net deferred tax assets	462,375	405,590	56,785
Non-admitted deferred tax assets	-	(5,988)	5,988
Admitted deferred tax assets	$ 462,375	$ 399,602	$ 62,773

The Company has no unused operating loss carryforwards available to offset against future taxable income.

All of the Company's deferred tax assets are expected to be utilized based on the Company's projected net earnings and historical experience as it relates to the utilization of the above timing differences. Tax planning strategies did not further impact adjusted gross deferred tax assets or net admitted deferred tax assets.

Current income taxes incurred consist of the following major components:

	2018	2017
Federal income tax expense on operations	$ 335,230	$ 185,249
Prior years adjustment	31,175	43,724
Current federal income tax expense	$ 366,405	$ 228,973

NOTE F - INCOME TAXES - Continued

The Company's income taxes incurred and the change in its deferred tax assets and deferred tax liabilities is different from the result obtained by applying the federal statutory rate to its pretax net income due to the following significant reconciling items:

- the small life insurance company deduction
- the dividends received deduction
- nondeductible expenses
- adjustments made to prior year's tax calculation
- amendments of prior year returns

Effective January 1, 1984, life insurance companies are taxed under the Deficit Reduction Act of 1984 (the 1984 act). Prior to 1984, life insurance companies were taxed under the 1959 Act on the lesser of taxable investment income or gain from operations plus one-half any excess of gain from operations over taxable income. The one-half of the excess of the gain from operations was accumulated in a special memorandum tax account known as the "policyholders' surplus account" (PSA). Accumulations at December 31, 1983, were approximately $ 1,477,000 for the Company.

Pursuant to the 1984 Act, the PSA was "frozen" at the December 31, 1983 amount, and accordingly, no further additions to the PSA will be made. In addition, pursuant to the Tax Cuts and Jobs Act, the accumulations in the PSA will be taxed over an eight-year period beginning in 2018.

NOTE G - ELECTRONIC DATA PROCESSING EQUIPMENT AND OTHER EQUIPMENT

The balance of EDP equipment and other equipment as of December 31 is summarized as follows:

	2018	2017
EDP equipment	$ 658,696	$ 493,518
Furniture and fixtures	76,431	72,772
Less accumulated depreciation	(556,195)	(485,159)
Admitted EDP equipment and software, net	$ 178,932	$ 81,131

Depreciation expense was $ 71,036 and $ 44,589 during 2018 and 2017, respectively.

NOTE H - LIABILITY FOR UNPAID ACCIDENT AND HEALTH CLAIMS

Changes in the balances of the total liability for unpaid accident and health claims at December 31 were as follows:

	2018	2017
Liability for claims, beginning of year	$ 1,602,439	$ 1,569,685
Incurred claims related to		
Current year claims	6,441,398	6,216,318
Prior years' claims	(835,716)	(340,000)
Total incurred claims	5,605,682	5,876,318
Paid claims related to		
Current year claims	4,100,807	4,622,308
Prior years' claims	766,378	1,221,256
Total paid claims	4,867,185	5,843,564
Liability for claims, end of year	$ 2,340,936	$ 1,602,439

NOTE H - LIABILITY FOR UNPAID ACCIDENT AND HEALTH CLAIMS - Continued

As a result of changes in estimates of insured events in prior years, the provision for policy and accident claims liability decreased by $ 835,716 and $ 340,000 in 2018 and 2017, respectively, due to favorable development on case-basis reserves and less than anticipated incurred but not reported claims.

NOTE I - CAPITAL AND SURPLUS

The Company has 500,000 shares of preferred stock authorized with no preferred shares issued. The preferred stock has a par value of $ 1.00 per share.

The Company is required to maintain minimum surplus levels established by the Department. The Company is also subject to risk-based capital (RBC) requirements promulgated by the NAIC and adopted by the Department. The RBC standards establish uniform minimum capital requirements for insurance companies. The RBC formula applies various weighting factors to financial balances or various levels of activities based on the perceived degree of risk. As of December 31, 2018, the Company's surplus significantly exceeded the minimum levels required by the Department and RBC standards.

Dividends on Company stock are paid as declared by the Board of Directors. The Company may not pay dividends except from available surplus funds derived from realized net profits. In addition, the payment of an extra ordinary dividend whose fair market value, together with that of other dividends or distributions made within the preceding 12 months, exceeds the greater of 10 percent of the Company's surplus as of the preceding December 31 or the net income, excluding capital gains, for the 12-month period ended the preceding December 31, requires approval of the Oklahoma Insurance Commissioner.

The Company paid dividends of $ 350,000 to its sole shareholder in 2018. No dividends were paid in 2017.

NOTE J - POST RETIREMENT BENEFIT PLANS

On December 31, 2001, the Company implemented a trustee profit sharing plan covering substantially all of its full-time employees. Employees become eligible to participate after one year of continuous service and attaining the age of 21. In 2005, the Company revised the plan to make all contributions by the Company discretionary. The Company did not make contributions in 2018 and 2017. The plan contains a 401(k) feature, which provides for voluntary employee contributions of up to 15 percent of qualifying wages.

NOTE K - REINSURANCE

The Company utilizes various reinsurance agreements to reduce its exposure to large losses in all aspects of its insurance business. Such reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Company as direct insurer of the risks reinsured. The Company evaluates the financial strength of potential reinsurers and continually monitors the financial condition of reinsurers.

The effect of reinsurance on premiums written and earned for December 31 are as follows:

	2018		2017	
	Written	Earned	Written	Earned
Direct	$ 7,797,315	$ 7,682,431	$ 8,235,329	$ 8,230,120
Assumed	10,172,374	10,401,067	6,257,563	6,447,269
Ceded	(6,966,506)	(6,877,067)	(4,881,465)	(4,875,283)
Net premium	$ 11,003,183	$ 11,206,431	$ 9,611,427	$ 9,802,106

The effect of reinsurance on benefits to policyholders for December 31 are as follows:

	2018	2017
Direct	$ 7,920,797	$ 8,563,648
Assumed	5,152,450	3,529,708
Ceded	(6,780,336)	(5,512,388)
Net	$ 6,292,911	$ 6,580,968

NOTE L - CONCENTRATIONS

The Company maintains its cash and bank deposit accounts in various financial institutions which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on such accounts.

Revenues are concentrated in the life and accident and health insurance industry, which is highly competitive. Significant changes in the industry, regulatory requirements, customer requirements, or the emergence of competitive products could adversely affect operating results. During the years ended December 31, 2018 and 2017, revenue, receivables and funds held by customers with more than 10 percent of income or accounts receivable balances were as follows:

2018	Revenue	Receivable	Funds Held
LifeShield National Insurance	$ 9,640,734	$ 633,823	$ -
Unified Life Insurance Co.	4,377,798	126,362	2,491,530
Totals	$ 14,018,532	$ 760,185	$ 2,491,530

2017	Revenue	Receivable	Funds Held
LifeShield National Insurance	$ 6,227,063	$ 593,448	$ -
Unified Life Insurance Co.	4,286,408	122,714	2,134,401
Totals	$ 10,513,471	$ 716,162	$ 2,134,401

The Company performs third party administration work for several companies. Revenue from four customers was 30% and 31% of total income as of December 31, 2018 and 2017, respectively.

NOTE M - LEASES

The Company has operating leases for equipment. Lease expense was $ 56,026 and $ 52,369 for the years ended December 31, 2018 and 2017, respectively. As of December 31, 2018, the minimum aggregate rental commitment for 2019 is $ 2,443.

NOTE N - RELATED PARTY TRANSACTIONS

The Company is the parent company of Universal Fidelity Administrators Corp. (UFAC), a wholly owned subsidiary. During the years ended December 31, 2018 and 2017, the Company received $ 199,309 and $ 302,151 for the processing of ERISA benefit plan administration in accordance with an administrative services agreement with UFAC.

As of December 31, 2018, the Company had a receivable of $ 12,863 from affiliated entities and a payable of $ 434,604 to affiliated entities. As of December 31, 2017, the Company had a receivable of $ 12,239 from affiliated entities and a payable of $ 379,857 to affiliated entities.

During the year ended December 31, 2017, an entity owned by the Company's stockholder reimbursed the Company $ 10,485 for the salaries of two employees who perform work for the Company and the entity owned by the stockholder. This entity also reimbursed the Company $ 54,000 during the years ended December 31, 2018 and 2017 for insurance administration, data processing, marketing, accounting and other services performed by the Company.

At December 31, 2018 and 2017, the Company owed $ 263,306 and $ 209,350, respectively, to this same entity for additional commissions. These commissions payable are included within accrued expenses on the statements of admitted assets, liabilities and capital and surplus - statutory basis. Additionally, during the year ended December 31, 2018 and 2017, the Company paid commissions of $ 30,753 and $ 216,186, respectively to this entity. The Company also paid this entity $ 113,928 and $ 90,700 during the years ended December 31, 2018 and 2017 for marketing fees towards its Medicare Supplement line of business.

NOTE O - PARTICIPATING POLICIES

At December 31, 2018 and 2017, the Company had two percent of its policies participating. The Company pays dividends to eligible participating policies under a dividend formula approved by the Company. Dividends vary by age and duration. The total annual policy dividend is the unit dividend for the issue age and duration times the number of units in force. The amount of policyholder dividends were $ 2,109 and $ 2,055 for 2018 and 2017, respectively.