

FINANCIAL STATEMENTS - STATUTORY BASIS  
AND  
INDEPENDENT AUDITORS' REPORT



UNIVERSAL FIDELITY LIFE INSURANCE COMPANY

December 31, 2019 and 2018

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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, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018, 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.



Springfield, Illinois  
May 18, 2020

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

December 31

	<u>2019</u>	<u>2018</u>
ADMITTED ASSETS		
Cash and invested assets		
Bonds	\$ 2,260,927	\$ 2,809,836
Preferred stocks - cost	5,769,963	4,347,229
Common stocks - principally at market	67,700	64,800
Real estate - at cost, less allowances for depreciation		
Property occupied by the Company	687,116	707,906
Properties held for the production of income	266,667	283,333
Policy loans	117,353	92,231
Cash, cash equivalents and short-term investments	<u>2,286,271</u>	<u>2,946,695</u>
Total cash and invested assets	11,455,997	11,252,030
Accrued investment income	44,878	27,492
Premiums due and deferred	754,849	546,349
Funds held by reinsurer	2,814,903	2,740,399
Amounts due from third-party administration	654,836	869,667
Federal income taxes receivable	277,121	-
Deferred tax asset	209,261	462,375
Other assets	<u>96,288</u>	<u>230,792</u>
Total admitted assets	<u>\$ 16,308,133</u>	<u>\$ 16,129,104</u>
LIABILITIES AND CAPITAL AND SURPLUS		
Insurance reserves and claims		
Life reserves	\$ 4,858,525	\$ 4,272,662
Accident and health claim and unearned premium reserves	1,118,261	1,108,195
Liability for deposit-type contracts	5,271	4,279
Life contract claims	309,378	186,059
Accident and health contract claims	3,122,477	2,340,936
Premiums received in advance	<u>31,254</u>	<u>28,644</u>
Total insurance reserves and claims	9,445,166	7,940,775
Pension benefit liability	1,200	4,800
Accrued expenses	1,006,534	1,463,148
Related party payable	316,587	434,604
Amounts payable on reinsurance	94,785	106,785
Federal income taxes payable	-	167,230
Interest maintenance reserve	-	37,711
Asset valuation reserve	<u>123,627</u>	<u>107,841</u>
Total liabilities	10,987,899	10,262,894
Capital and surplus		
Common stock, \$1 par value, 2,000,000 shares authorized; 1,017,756 shares issued, 720,910 and 763,317 shares outstanding at December 31, 2019 and 2018, respectively	1,017,756	1,017,756
Treasury stock, at cost (296,846 and 254,439 shares at December 31, 2019 and 2018, respectively)	(1,788,800)	(1,500,000)
Unassigned surplus	5,761,139	6,018,315
Special surplus	<u>330,139</u>	<u>330,139</u>
Total capital and surplus	<u>5,320,234</u>	<u>5,866,210</u>
Total liabilities and capital and surplus	<u>\$ 16,308,133</u>	<u>\$ 16,129,104</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>2019</u>	<u>2018</u>
Premiums and other insurance income		
Life	\$ 2,105,912	\$ 1,706,006
Accident and health	<u>10,324,792</u>	<u>9,500,425</u>
Total premiums and other insurance income	12,430,704	11,206,431
Investment income, net	438,737	238,021
Allowance on reinsurance ceded	1,360,090	1,646,438
Amortization of interest maintenance reserve	19,885	23,074
Administration fees	7,968,973	8,786,706
Miscellaneous income	<u>2,836</u>	<u>2,381</u>
Total income	22,221,225	21,903,051
Benefits paid or provided		
Life benefits	552,584	575,155
Accident and health benefits	7,163,728	5,605,682
Surrender benefits	54,314	112,074
Refunds to members	2,285	2,109
Increase in aggregate reserves for life, accident and health policies and contracts	<u>595,930</u>	<u>386,382</u>
Total benefits paid or provided	8,368,841	6,681,402
Selling, general and administrative expenses		
Commissions	5,669,060	5,720,372
General expenses	7,030,486	7,011,249
Taxes, licenses and fees	484,186	467,879
Increase in loading on due and deferred premiums	<u>18,934</u>	<u>84,412</u>
Total selling, general and administrative expenses	<u>13,202,666</u>	<u>13,283,912</u>
Income before federal income taxes and net realized capital losses	649,718	1,937,737
Federal income tax expense (benefit)	<u>(146,526)</u>	<u>366,405</u>
Income before net realized capital losses	796,244	1,571,332
Net realized capital losses	<u>(5,483)</u>	<u>(7,595)</u>
Net income	<u>\$ 790,761</u>	<u>\$ 1,563,737</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

	<u>Common Stock</u>	<u>Treasury Stock</u>	<u>Unassigned Surplus</u>	<u>Special Surplus</u>	<u>Total</u>
Balance as of January 1, 2018	\$ 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)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance as of December 31, 2018	1,017,756	(1,500,000)	6,018,315	330,139	5,866,210
Net income	-	-	790,761	-	790,761
Change in net unrealized capital losses	-	-	8,143	-	8,143
Change in net deferred income tax	-	-	(253,114)	-	(253,114)
Change in non-admitted assets	-	-	(137,180)	-	(137,180)
Change in asset valuation reserve	-	-	(15,786)	-	(15,786)
Purchase of treasury stock	-	(288,800)	-	-	(288,800)
Dividends to stockholders	-	-	(650,000)	-	(650,000)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance as of December 31, 2019	<u>\$ 1,017,756</u>	<u>\$ (1,788,800)</u>	<u>\$ 5,761,139</u>	<u>\$ 330,139</u>	<u>\$ 5,320,234</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>2019</u>	<u>2018</u>
Cash from operating activities		
Premiums and other insurance income received	\$ 12,193,519	\$ 11,095,141
Investment income received, less investment expenses paid	453,485	266,462
Miscellaneous income received	7,815,583	8,343,467
Life and accident and health benefits paid	(6,877,707)	(5,519,785)
Commissions and other expenses and taxes paid	(13,593,272)	(12,271,037)
Federal income taxes paid	(297,825)	(444,038)
Commissions and expense allowances on reinsurance ceded	<u>1,419,712</u>	<u>1,646,851</u>
Net cash provided by operating activities	1,113,495	3,117,061
Cash from investments		
Proceeds from investments matured and sold		
Bonds	654,333	63,155
Common stock	900	140,696
Preferred stock	<u>1,907,992</u>	<u>822,760</u>
	2,563,225	1,026,611
Cost of investments acquired		
Bonds	(104,910)	(982,436)
Preferred stock	<u>(3,356,096)</u>	<u>(3,145,267)</u>
	(3,461,006)	(4,127,703)
Policy loans - net	<u>(25,122)</u>	<u>104</u>
Net cash used in investing activities	(922,903)	(3,100,988)
Cash from financing and miscellaneous sources		
Cash provided (applied)		
Dividends to stockholders	(650,000)	(350,000)
Purchase of treasury stock	(288,800)	(250,000)
Other cash provided (applied)	<u>87,784</u>	<u>(624,701)</u>
Net cash used in financing and miscellaneous sources	<u>(851,016)</u>	<u>(1,224,701)</u>
Net decrease in cash, cash equivalents and short-term investments	(660,424)	(1,208,628)
Cash, cash equivalents and short-term investments at beginning of year	<u>2,946,695</u>	<u>4,155,323</u>
Cash, cash equivalents and short-term investments at end of year	<u>\$ 2,286,271</u>	<u>\$ 2,946,695</u>

The accompanying notes are an integral part of these statements.



Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS

December 31, 2019 and 2018

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 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.

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2019 and 2018

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 with changes in fair value recorded to unassigned surplus. For GAAP purposes, perpetual preferred stock would be stated at fair value and changes in fair value would be reported in operations.

Common stock is reported at market value with changes in fair value recorded to unassigned surplus. For GAAP purposes, common stock would be stated at fair value and changes in fair value would be reported in operations.

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.

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2019 and 2018

NOTE A - ORGANIZATION AND ACCOUNTING POLICIES - Continued

2. *Basis of Presentation - Continued*

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, nonoperating system software, certain receivables, certain deferred tax assets and other items that do not meet statutory criteria for admitted assets.

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.

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2019 and 2018

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, 2019 and 2018.

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 \$ 83,499 and \$ 79,156 at December 31, 2019 and 2018, 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.

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2019 and 2018

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, 2019 and 2018, 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, nonoperating system software and certain affiliate receivables) are excluded from the statements of admitted assets, liabilities and capital and surplus. Changes in non-admitted assets are reported as charges or credits directly to surplus.

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2019 and 2018

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, 2019 and 2018, 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.

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2019 and 2018

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.

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2019 and 2018

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 18, 2020, which is the date the financial statements were available to be issued. See Note Q for disclosure of subsequent events.

NOTE B - INVESTMENTS

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

<u>2019</u>	Cost/ Amortized <u>Cost</u>	<u>Gross Unrealized</u>		<u>Fair Value</u>
		<u>Gains</u>	<u>Losses</u>	
Bonds				
U.S. government	\$ 1,459,029	\$ 7,312	\$ (148)	\$ 1,466,193
Mortgage-backed securities	51,436	11,973	-	63,409
Industrial and miscellaneous	<u>750,462</u>	<u>33,591</u>	<u>(5,000)</u>	<u>779,053</u>
Total bonds	<u>\$ 2,260,927</u>	<u>\$ 52,876</u>	<u>\$ (5,148)</u>	<u>\$ 2,308,655</u>
Preferred stocks	<u>\$ 5,769,963</u>	<u>\$ 226,181</u>	<u>\$ (15,662)</u>	<u>\$ 5,980,482</u>
Common stocks	<u>\$ 67,700</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 67,700</u>



Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2019 and 2018

NOTE B - INVESTMENTS - Continued

<u>2018</u>	Cost/ Amortized Cost	Gross Unrealized		<u>Fair Value</u>
		<u>Gains</u>	<u>Losses</u>	
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	<u>1,004,345</u>	<u>6,624</u>	<u>(51,074)</u>	<u>959,895</u>
Total bonds	<u>\$ 2,809,836</u>	<u>\$ 21,780</u>	<u>\$ (59,741)</u>	<u>\$ 2,771,875</u>
Preferred stocks	<u>\$ 4,347,229</u>	<u>\$ -</u>	<u>\$ (331,286)</u>	<u>\$ 4,015,943</u>
Common stocks	<u>\$ 64,800</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 64,800</u>

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

	2019		2018	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
Bonds				
U.S. government	\$ 514,979	\$ (148)	\$ 731,384	\$ (3,161)
Industrial and miscellaneous	<u>-</u>	<u>-</u>	<u>561,014</u>	<u>(44,574)</u>
Total bonds	<u>\$ 514,979</u>	<u>\$ (148)</u>	<u>\$ 1,292,398</u>	<u>\$ (47,735)</u>
Preferred stocks	\$ 763,123	\$ (11,117)	\$ 2,494,210	\$ (195,075)

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2019 and 2018

NOTE B - INVESTMENTS - Continued

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

	2019		2018	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
Bonds				
U.S. government	\$ -	\$ -	\$ 237,561	\$ (5,506)
Industrial and miscellaneous	<u>95,000</u>	<u>(5,000)</u>	<u>93,500</u>	<u>(6,500)</u>
Total bonds	<u>\$ 95,000</u>	<u>\$ (5,000)</u>	<u>\$ 331,061</u>	<u>\$ (12,006)</u>
Preferred stocks	\$ 492,660	\$ (4,545)	\$ 1,521,735	\$ (136,211)

The Company did not experience any other-than-temporary declines in the value on any investments during 2019 and 2018. 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.

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2019 and 2018

NOTE B - INVESTMENTS - Continued

The carrying amount and fair value of bonds by contractual maturity at December 31, 2019, 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.

	<u>Carrying Value</u>	<u>Fair Value</u>
Due in one year or less	\$ 515,127	\$ 514,979
Due after one year through five years	993,882	1,004,024
Due after ten years	700,482	726,243
Mortgage-backed and other asset-backed securities	<u>51,436</u>	<u>63,409</u>
	<u>\$ 2,260,927</u>	<u>\$ 2,308,655</u>

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 \$ 67,700 and \$ 64,800 at December 31, 2019 and 2018, 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:

	<u>2019</u>	<u>2018</u>
Class A (membership stock)	\$ 16,700	\$ 13,900
Class B (activity)	<u>51,000</u>	<u>50,900</u>
Total FHLB capital stock	<u>\$ 67,700</u>	<u>\$ 64,800</u>

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2019 and 2018

NOTE B - INVESTMENTS - Continued

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

	<u>2019</u>	<u>2018</u>
Bonds	\$ 38,486	\$ 36,556
Other bonds	53,090	57,526
Preferred and common stocks (unaffiliated)	349,785	200,179
Real estate	95,505	95,505
Other	<u>38,957</u>	<u>16,629</u>
	575,823	406,395
Investment expenses	<u>(137,086)</u>	<u>(168,374)</u>
Net investment income	<u>\$ 438,737</u>	<u>\$ 238,021</u>

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2019 and 2018

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	
	2019	2018	2019	2018
Bonds	\$ (744)	\$ -	\$ -	\$ -
Preferred stocks	(25,366)	10,402	-	-
Common stocks	-	(9,779)	8,143	20,299
	(26,110)	623	8,143	20,299
Transferred to interest maintenance reserve	20,627	(10,402)	-	-
Tax on realized gains	-	2,184	-	-
Net realized and unrealized capital gains (losses)	\$ (5,483)	\$ (7,595)	\$ 8,143	\$ 20,999

Proceeds from the sale and maturity of bonds were \$ 654,333 and \$ 63,155 in 2019 and 2018, respectively. The Company recognized realized gains from the sale of bonds of \$ 1,426 in 2019. The Company recognized realized losses from the sale of bonds of \$ 2,170 in 2019. No gains or losses were recognized on bonds sold or matured in 2018.

Bonds having a carrying value of \$ 1,510,465 and \$ 1,518,631 and a fair value of \$ 1,529,599 and \$ 1,530,685 were on deposit with regulatory authorities in Oklahoma, New Mexico, and Louisiana in accordance with statutory requirements, as of December 31, 2019 and 2018, respectively.

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2019 and 2018

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.

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2019 and 2018

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 and Stocks*

Fair values of bonds, preferred stocks, and common stocks 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.

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:

	<u>Fair Value</u>	<u>Admitted Assets</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>2019</u>					
Common stocks	\$ <u>67,700</u>	\$ <u>67,700</u>	\$ <u>-</u>	\$ <u>67,700</u>	\$ <u>-</u>
<u>2018</u>					
Common stocks	\$ <u>64,800</u>	\$ <u>64,800</u>	\$ <u>-</u>	\$ <u>64,800</u>	\$ <u>-</u>

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2019 and 2018

NOTE C - FAIR VALUES OF FINANCIAL INSTRUMENTS - Continued

The fair values for the Company's insurance contracts (insurance 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:

	<u>Fair Value</u>	<u>Admitted Assets</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>2019</u>					
Financial assets					
Investments					
Bonds	\$ 2,308,655	\$ 2,260,927	\$ 1,515,141	\$ 793,514	\$ -
Preferred stocks	5,980,482	5,769,963	-	5,980,482	-
Policy loans	117,353	117,353	-	117,353	-
Cash, cash equivalents and short-term investments					
	2,286,271	2,286,271	2,286,271	-	-
Accrued investment income					
	44,878	44,878	-	44,878	-
<u>2018</u>					
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	-



Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2019 and 2018

NOTE D - REAL ESTATE

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

	<u>2019</u>	<u>2018</u>
Buildings	\$ 900,784	\$ 900,784
Less accumulated depreciation	<u>(213,668)</u>	<u>(192,878)</u>
Real estate occupied by Company, net	<u>\$ 687,116</u>	<u>\$ 707,906</u>

The Company recorded depreciation expense of \$ 20,790 and \$ 20,789 during 2019 and 2018, respectively.

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

	<u>2019</u>	<u>2018</u>
Buildings	\$ 500,000	\$ 500,000
Less accumulated depreciation	<u>(233,333)</u>	<u>(216,667)</u>
Real estate held for the production of income, net	<u>\$ 266,667</u>	<u>\$ 283,333</u>

The Company recorded depreciation expense of \$ 16,666 and \$ 16,667 during 2019 and 2018, respectively.

NOTE E - PREMIUMS DUE AND DEFERRED

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

<u>2019</u>	<u>Gross</u>	<u>Loading</u>	<u>Net</u>
Ordinary new business	\$ 284,940	\$ 200,339	\$ 84,601
Ordinary renewal	<u>782,689</u>	<u>112,441</u>	<u>670,248</u>
Totals	<u>\$ 1,067,629</u>	<u>\$ 312,780</u>	<u>\$ 754,849</u>

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2019 and 2018

NOTE E - PREMIUMS DUE AND DEFERRED - Continued

<u>2018</u>	<u>Gross</u>	<u>Loading</u>	<u>Net</u>
Ordinary new business	\$ 306,062	\$ 214,650	\$ 91,412
Ordinary renewal	<u>534,133</u>	<u>79,196</u>	<u>454,937</u>
Totals	<u>\$ 840,195</u>	<u>\$ 293,846</u>	<u>\$ 546,349</u>

NOTE F - INCOME TAXES

The Company is taxed for federal income taxes as a life insurance company. The main components of deferred tax amounts at December 31 are as follows:

	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
<u>2019</u>			
Total gross deferred tax assets	\$ 442,976	\$ -	\$ 442,976
Total gross deferred tax liabilities	<u>(232,917)</u>	<u>(798)</u>	<u>(233,715)</u>
Net admitted deferred tax assets	<u>\$ 210,059</u>	<u>\$ (798)</u>	<u>\$ 209,261</u>
Change in non-admitted deferred tax assets			<u>\$ -</u>
	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
<u>2018</u>			
Total gross deferred tax assets	\$ 696,273	\$ -	\$ 696,273
Total gross deferred tax liabilities	<u>(233,898)</u>	<u>-</u>	<u>(233,898)</u>
Net admitted deferred tax assets	<u>\$ 462,375</u>	<u>\$ -</u>	<u>\$ 462,375</u>
Change in non-admitted deferred tax assets			<u>\$ 5,988</u>

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2019 and 2018

NOTE F - INCOME TAXES - Continued

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:

	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
<u>2019</u>			
<u>Admissible under paragraph</u>			
11b. lesser of adjusted gross deferred tax assets			
i. Expected to be recognized within three years	\$ 342,227	\$ -	\$ 342,227
ii. Allowed per limitation threshold of 15% of surplus less deferred tax asset			748,762
11c. adjusted gross deferred tax assets offset against existing deferred tax liabilities	<u>100,749</u>	<u>-</u>	<u>100,749</u>
Total admitted deferred tax asset	<u>\$ 442,976</u>	<u>\$ -</u>	<u>\$ 442,976</u>

	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
<u>2018</u>			
<u>Admissible under paragraph</u>			
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	<u>217,461</u>	<u>-</u>	<u>217,461</u>
Total admitted deferred tax asset	<u>\$ 696,273</u>	<u>\$ -</u>	<u>\$ 696,273</u>

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2019 and 2018

NOTE F - INCOME TAXES - Continued

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, 2019 and 2018, the Company's adjusted capital, less deferred tax assets, was \$ 5,234,600 and \$ 5,511,678, respectively. The resulting authorized control level risk-based capital ratio, excluding deferred tax assets, was 633% and 706%, respectively.

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

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Deferred tax assets (liabilities)			
Deferred acquisition costs	\$ 333,082	\$ 462,728	\$ (129,646)
Discount of reserves	85,849	129,909	(44,060)
Other assets	24,045	15,013	9,032
AMT credit carryforward	-	88,623	(88,623)
Deferred and uncollected premium	(194,950)	(159,629)	(35,321)
Other liabilities	<u>(38,765)</u>	<u>(74,269)</u>	<u>35,504</u>
Total net deferred tax assets	209,261	462,375	(253,114)
Non-admitted deferred tax assets	<u>-</u>	<u>-</u>	<u>-</u>
Admitted deferred tax assets	<u>\$ 209,261</u>	<u>\$ 462,375</u>	<u>\$ (253,114)</u>

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.

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2019 and 2018

NOTE F - INCOME TAXES - Continued

Current income taxes incurred consist of the following major components:

	<u>2019</u>	<u>2018</u>
Federal income tax expense on operations	\$ 100,372	\$ 335,230
Prior years adjustment	<u>(246,898)</u>	<u>31,175</u>
Current federal income tax expense (benefit)	<u>\$ (146,526)</u>	<u>\$ 366,405</u>

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 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.

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2019 and 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:

	<u>2019</u>	<u>2018</u>
EDP equipment and software	\$ 695,723	\$ 658,696
Furniture and fixtures	78,620	76,431
Less accumulated depreciation	<u>(657,221)</u>	<u>(556,195)</u>
	117,122	178,932
Assets non-admitted	<u>(84,223)</u>	<u>-</u>
Admitted EDP equipment and software, net	<u>\$ 32,899</u>	<u>\$ 178,932</u>

Depreciation expense was \$ 101,026 and \$ 71,036 during 2019 and 2018, respectively.

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2019 and 2018

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:

	<u>2019</u>	<u>2018</u>
Liability for claims, beginning of year	\$ 2,340,936	\$ 1,602,439
Incurred claims related to		
Current year claims	7,727,120	6,441,398
Prior years' claims	<u>(563,392)</u>	<u>(835,716)</u>
Total incurred claims	7,163,728	5,605,682
Paid claims related to		
Current year claims	4,640,579	4,100,807
Prior years' claims	<u>1,741,608</u>	<u>766,378</u>
Total paid claims	<u>6,382,187</u>	<u>4,867,185</u>
Liability for claims, end of year	<u>\$ 3,122,477</u>	<u>\$ 2,340,936</u>

As a result of changes in estimates of insured events in prior years, the provision for policy and accident claims liability decreased by \$ 563,392 and \$ 835,716 in 2019 and 2018, respectively, due to favorable development on case-basis reserves and less than anticipated incurred but not reported claims.

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2019 and 2018

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, 2019, 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 \$ 650,000 and \$ 350,000 to its sole shareholder in 2019 and 2018, respectively.

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 2019 and 2018. The plan contains a 401(k) feature, which provides for voluntary employee contributions of up to 15 percent of qualifying wages.



Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2019 and 2018

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:

	<u>2019</u>		<u>2018</u>	
	<u>Written</u>	<u>Earned</u>	<u>Written</u>	<u>Earned</u>
Direct	\$ 6,928,840	\$ 6,951,658	\$ 7,797,315	\$ 7,682,431
Assumed	11,185,159	11,363,241	10,172,374	10,401,067
Ceded	<u>(5,848,883)</u>	<u>(5,884,195)</u>	<u>(6,966,506)</u>	<u>(6,877,067)</u>
Net premium	<u>\$ 12,265,116</u>	<u>\$ 12,430,704</u>	<u>\$ 11,003,183</u>	<u>\$ 11,206,431</u>

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

	<u>2019</u>	<u>2018</u>
Direct	\$ 7,402,112	\$ 7,920,797
Assumed	6,709,626	5,152,450
Ceded	<u>(6,341,112)</u>	<u>(6,780,336)</u>
Net	<u>\$ 7,770,626</u>	<u>\$ 6,292,911</u>

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2019 and 2018

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, 2019 and 2018, revenue, receivables and funds held by customers with more than 10 percent of income or accounts receivable balances were as follows:

<u>2019</u>	<u>Revenue</u>	<u>Receivable</u>	<u>Funds Held</u>
LifeShield National Insurance	\$ 8,484,973	\$ 845,705	\$ -
Unified Life Insurance Co.	<u>4,661,900</u>	<u>151,409</u>	<u>2,446,494</u>
Totals	<u>\$ 13,146,873</u>	<u>\$ 997,114</u>	<u>\$ 2,446,494</u>
<u>2018</u>			
LifeShield National Insurance	\$ 9,640,734	\$ 633,823	\$ -
Unified Life Insurance Co.	<u>4,377,798</u>	<u>126,362</u>	<u>2,491,530</u>
Totals	<u>\$ 14,018,532</u>	<u>\$ 760,185</u>	<u>\$ 2,491,530</u>

The Company performs third party administration work for several companies. Revenue from four customers was 25% and 30% of total income as of December 31, 2019 and 2018, respectively.

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2019 and 2018

NOTE M - LEASES

The Company has operating leases for equipment. Lease expense was \$ 71,106 and \$ 56,026 for the years ended December 31, 2019 and 2018, respectively. As of December 31, 2019, the minimum aggregate rental commitments are as follows for the five succeeding years:

2020	\$ 54,421
2021	54,421
2022	54,421
2023	54,421
2024	13,605

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, 2019 and 2018, the Company received \$ 109,640 and \$ 199,309 for the processing of ERISA benefit plan administration in accordance with an administrative services agreement with UFAC.

As of December 31, 2019, the Company had a receivable of \$ 13,359 from affiliated entities and a payable of \$ 316,587 to affiliated entities. 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.

During the years ended December 31, 2019 and 2018, an entity owned by the Company's stockholder reimbursed the Company \$ 54,000 for insurance administration, data processing, marketing, accounting and other services performed by the Company.

At December 31, 2019 and 2018, the Company owed \$ 172,799 and \$ 263,306, 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, 2019 and 2018, the Company paid commissions of \$ 176,496 and \$ 30,753, respectively to this entity. The Company also paid this entity \$ 60,048 and \$ 113,928 during the years ended December 31, 2019 and 2018 for marketing fees towards its Medicare Supplement line of business.

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2019 and 2018

NOTE O - PARTICIPATING POLICIES

At December 31, 2019 and 2018, 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 \$ 2,285 and \$ 2,109 for 2019 and 2018, respectively.

NOTE P - CONTINGENCIES

The Company is involved in legal proceedings in the ordinary course of its business. Although the outcome of any such legal actions cannot be predicted, in the opinion of management, there are no legal proceedings pending against or of involving the Company for which the outcome is likely to have a material adverse effect upon the financial position or results of operations of the Company.

NOTE Q - SUBSEQUENT EVENTS

Through May 18, 2020, the Company purchased 42,407 shares of the Company's stock at a cost of \$ 275,425 from its sole shareholder.

As a result of Coronavirus Disease 2019, which was declared a pandemic on March 11, 2020, the United States Federal, State, and Local Governments, and other countries have taken measures that have suddenly limited economic output. Due to the decline in economic activity, the Company is faced with a sudden uncertainty as of the date of this report on its operations when considering its revenue sources and potential future liquidity needs. Management is actively monitoring the situation and the impact to its operations. As the pandemic continues, should liquidity conditions worsen in the short-term, management may work with its financial institution to assist with liquidity needs. The Company has not made any adjustment to these financial statements as a result of this issue.

## OTHER FINANCIAL INFORMATION



Kerber, Eck & Braeckel LLP

CPAs and  
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Independent Auditors' Report on Other Financial Information

The Board of Directors  
Universal Fidelity Life Insurance Company

We have audited the statutory financial statements of Universal Fidelity Life Insurance Company as of and for the year ended December 31, 2019, and our report thereon dated May 18, 2020, which expressed an unmodified opinion on those statutory financial statements, appears on pages 3 and 4. Our audit was performed for the purpose of forming an opinion on the statutory financial statements as a whole. As explained in the sixth paragraph of our auditors' report on the statutory financial statements, these statutory financial statements do not purport to be presented in conformity with accounting principles generally accepted in the United States of America. The accompanying supplemental schedules of selected statutory basis financial data, investment risks interrogatories and summary investment schedule are presented to comply with the National Association of Insurance Commissioners' *Annual Statement Instructions and Accounting Practices and Procedures Manual* and are not a required part of the statutory financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the statutory financial statements. The information has been subjected to the auditing procedures applied in the audit of the statutory financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory financial statements or to the statutory financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the statutory financial statements as a whole.

*Kerber, Eck & Braeckel LLP*

Springfield, Illinois  
May 18, 2020

Universal Fidelity Life Insurance Company

SCHEDULE OF SELECTED STATUTORY  
BASIS FINANCIAL DATA

December 31, 2019

Investment income earned	
U. S. Government bonds	\$ 38,486
Other bonds (unaffiliated)	53,090
Bonds of affiliates	-
Preferred stocks (unaffiliated)	349,480
Preferred stocks of affiliates	-
Common stocks (unaffiliated)	305
Common stocks of affiliates	-
Mortgage loans on real estate	-
Real estate	95,505
Contract loans	1,401
Cash, cash equivalents, and short-term investments	27,232
Other invested assets	10,324
Derivative instruments	-
Aggregate write-ins for investment income	-
	<hr/>
Total gross investment income	<u>\$ 575,823</u>
Real estate owned, at book value less encumbrances	\$ 953,783
Mortgage loans on real estate by collateral classification, at book value	
Farm mortgages	\$ -
Residential mortgages	-
Commercial mortgages	-
	<hr/>
Total mortgage loans on real estate	<u>\$ -</u>
Mortgage loans on real estate by standing, at book value	
Good standing	\$ -
Good standing with restructured terms	-
Interest overdue more than ninety days, not in foreclosure	-
Foreclosure in process	-
	<hr/>
Total mortgage loans on real estate	<u>\$ -</u>
Other long-term assets, at statement value	\$ -
Collateral loans	\$ -

Universal Fidelity Life Insurance Company

SCHEDULE OF SELECTED STATUTORY  
BASIS FINANCIAL DATA - CONTINUED

December 31, 2019

Bonds and stocks of parents, subsidiaries and affiliates, at book value	
Bonds	\$ -
Preferred stocks	-
Common stocks	-
	-
Total bonds and stocks of parents, subsidiaries and affiliates	\$ -
Bonds and short-term investments by maturity, at statement value	
Due within one year or less	\$ 515,127
Over 1 year through 5 years	993,882
Over 5 years through 10 years	-
Over 10 years through 20 years	51,436
Over 20 years	700,482
	700,482
Total bonds and short-term investments	\$ 2,260,927
Bonds and short-term investments by class, at statement value	
Class 1	\$ 1,510,464
Class 2	750,463
Class 3	-
Class 4	-
Class 5	-
Class 6	-
	-
Total bonds and short-term investments	\$ 2,260,927
Bonds and short-term investments by trading category, at statement value	
Total bonds publicly traded	\$ 2,260,927
Total bonds privately placed	-
	-
Total bonds and short-term investments	\$ 2,260,927
Preferred stocks, at statement value	
Common stocks, at market value	\$ 5,769,963
Short-term investments, at book value	67,700
Options, caps and floors owned, at statement value	-
Options, caps and floors written and in force, at statement value	-
Collars, swap and forward agreements open, at statement value	-
Futures contracts open, at current value	-
Cash on deposit and cash equivalents	2,286,271



Universal Fidelity Life Insurance Company

SCHEDULE OF SELECTED STATUTORY  
BASIS FINANCIAL DATA - CONTINUED

December 31, 2019

Life insurance in force	
Ordinary (\$ 46,958,000 less reinsurance ceded of \$ 12,229,000)	\$ 34,729,000
Amount of accidental death insurance in force under ordinary policies	1,454,100
Supplementary contracts in force	
Ordinary, not involving life contingencies	
Amount on deposit	-
Income payable	-
Ordinary, involving life contingencies - income payable	-
Annuities	
Ordinary	
Immediate - income payable	-
Deferred - fully paid (account balance)	-
Deferred - not fully paid (account balance)	-
Accident and health insurance (premiums in force)	
Ordinary	929,623
Group	985,639
Deposit funds and dividend accumulations (account balance)	
Deposit funds	-
Dividend accumulations	-
Claim payments for the year ended December 31, 2019	
by year in which losses were incurred	
Group accident and health	
2019	3,986,044
Prior	1,638,267
Other accident and health	
2019	654,535
Prior	103,341

Universal Fidelity Life Insurance Company

SCHEDULE OF INVESTMENT RISKS INTERROGATORIES

December 31, 2019

1. The Company's total admitted assets as reported on page two of its Annual Statement is \$ 16,308,133.
2. Following are the ten largest exposures to a single issuer/borrower/investment, by investment category, excluding: (i) U.S. government, U.S. government agency securities and those U.S. government money market funds listed in the Appendix to the *SVO Practices and Procedures Manual* as exempt, (ii) property occupied by the Company, and (iii) policy loans:

<u>Investment Category/Issuer</u>	<u>Amount</u>	<u>Percentage of Total Admitted Assets</u>
a. Chimera Investment Corp.	\$ 535,907	3.29%
b. Apollo Global Management	507,711	3.11
c. CHS Inc.	497,205	3.05
d. Axis Capital Holdings, LTD	476,396	2.92
e. Senior HSG	451,677	2.77
f. W. R. Berkley Corp	436,363	2.68
g. KKR & Co LP	298,042	1.83
h. BOK Finl Corp.	251,266	1.54
i. Qwest Corporation	247,954	1.52
j. Prudential Financial Inc.	245,516	1.51

3. The Company's total admitted assets held in bonds and preferred stock by NAIC rating:

<u>Bonds</u>	<u>Amount</u>	<u>Percentage of Total Admitted Assets</u>
1	\$ 1,510,464	9.26%
2	750,463	4.60
3	-	.00
4	-	.00
5	-	.00
6	-	.00

Universal Fidelity Life Insurance Company

SCHEDULE OF INVESTMENT RISKS INTERROGATORIES - CONTINUED

December 31, 2019

3. The Company's total admitted assets held in bonds and preferred stock by NAIC rating:

<u>Preferred Stocks</u>	<u>Amount</u>	<u>Percentage of Total Admitted Assets</u>
1	\$ -	.00%
2	5,769,963	35.38
3	-	.00
4	-	.00
5	-	.00
6	-	.00

4. At December 31, 2019, assets held in foreign investments are less than 2.5% of the Company's total admitted assets.

Interrogatories 5 through 10 are not applicable.

11. Assets held in Canadian investments are less than 2.5% of the Company's total admitted assets.

12. Assets held in investments with contractual sales restrictions are less than 2.5% of the Company's total admitted assets.

Universal Fidelity Life Insurance Company

SCHEDULE OF INVESTMENT RISKS INTERROGATORIES - CONTINUED

December 31, 2019

13. Assets held in equity interests are greater than 2.5% of the Company's total admitted assets. Following are the Company's ten largest equity interests:

<u>Issuer</u>	<u>Amount</u>	<u>Percentage of Total Admitted Assets</u>
a. Chimera Investment Corp.	\$ 535,907	3.29%
b. Apollo Global Management	507,711	3.11
c. CHS Inc.	497,205	3.05
d. Axis Capital Holdings, LTD	476,396	2.92
e. Senior HSG	451,677	2.77
f. W. R. Berkley Corp	436,363	2.68
g. KKR & Co LP	298,042	1.83
h. BOK Finl Corp.	251,266	1.54
i. Qwest Corporation	247,954	1.52
j. Prudential Financial Inc.	245,516	1.51

14. Assets held in nonaffiliated, privately placed equities are less than 2.5% of the Company's total admitted assets.

15. Assets held in general partnership interests are less than 2.5% of the Company's total admitted assets.

Interrogatories 16 through 17 are not applicable.

18. Assets held in one parcel or group of contiguous parcels of real estate are less than 2.5% of the Company's total admitted assets.

Interrogatories 19-23 are not applicable.

Universal Fidelity Life Insurance Company

SUMMARY INVESTMENT SCHEDULE

December 31, 2019

Investment Categories	Gross Investment Holdings*		Admitted Assets as Reported in the Annual Statement	
	Amount	Percentage	Amount	Percentage
Long-Term Bonds (Schedule D Part 1):				
U.S. governments	\$ 1,497,816	13.1 %	\$ 1,497,816	13.1 %
U.S. special revenue and special assessment obligations, etc. non-guaranteed	12,649	0.1	12,649	0.1
Industrial and miscellaneous	<u>750,462</u>	<u>6.6</u>	<u>750,462</u>	<u>6.6</u>
Total long-term bonds	2,260,927	19.8	2,260,927	19.8
Preferred stocks (Schedule D, Part 2, Section 1):				
Industrial and miscellaneous (Unaffiliated)	<u>5,769,963</u>	<u>50.4</u>	<u>5,769,963</u>	<u>50.4</u>
Total preferred stocks	5,769,963	50.4	5,769,963	50.4
Common stocks (Schedule D, Part 2, Section 2):				
Industrial and miscellaneous publicly traded (Unaffiliated)	67,700	0.6	67,700	0.6
Parent, subsidiaries and affiliates publicly traded	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total common stocks	67,700	0.6	67,700	0.6
Real estate (Schedule A):				
Properties occupied by company	687,116	6.0	687,116	6.0
Properties held for production of income	<u>266,667</u>	<u>2.3</u>	<u>266,667</u>	<u>2.3</u>
Total real estate	953,783	8.3	953,783	8.3
Cash, cash equivalents and short-term investments:				
Cash (Schedule E, Part 1)	2,223,320	19.4	2,223,320	19.4
Cash equivalents (Schedule E, Part 2)	<u>62,951</u>	<u>0.5</u>	<u>62,951</u>	<u>0.5</u>
Total cash, cash equivalents and short-term investments	2,286,271	19.9	2,286,271	19.9
Policy loans	<u>117,353</u>	<u>1.0</u>	<u>117,353</u>	<u>1.0</u>
Total invested assets	<u>\$ 11,455,997</u>	<u>100.0 %</u>	<u>\$ 11,455,997</u>	<u>100.0 %</u>

\* Gross investment holding as valued in compliance with *NAIC Accounting Practices and Procedures Manual*.

Note: The Company does not participate in securities lending transactions. As such, those columns were eliminated for presentation purposes.

Universal Fidelity Life Insurance Company

NOTE TO OTHER FINANCIAL INFORMATION

December 31, 2019

NOTE A - BASIS OF PRESENTATION

The accompanying schedules and interrogatories present selected statutory basis financial data as of December 31, 2019, and for the year then ended, for purposes of complying with the Annual Audited Financial Reports in the Annual Audited Report section of the National Association of Insurance Commissioners' *Annual Statement Instructions* and the National Association of Insurance Commissioners' *Accounting Practices and Procedures Manual* and agrees to or is included in the amounts reported in the Company's 2019 Statutory Annual Statement as filed with the Oklahoma Insurance Department.

Certain items required of the Annual Audited Financial Reports in the Annual Audited Report section of the National Association of Insurance Commissioners' *Annual Statement Instructions* and the National Association of Insurance Commissioners' *Accounting Practices and Procedures Manual* have been omitted from the schedule presented herein as amounts are zero or items are not applicable.