Sentinel Security Life Insurance Company

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

For the Years Ended December 31, 2014 and 2013

Larson

CERTIFIED PUBLIC ACCOUNTANTS

SENTINEL SECURITY LIFE INSURANCE COMPANY

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Larson
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

The Board of Directors
Sentinel Security Life Insurance Company

We have audited the accompanying financial statements of **Sentinel Security Life Insurance Company**, which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion

As discussed in Note 1 to the financial statements, the Company reports its investment in Secure Marketing Partners, LLC and Secure Administrative Solutions, LLC, partially and wholly owned subsidiaries, respectively, on the cost method of accounting. In our opinion, accounting principles generally accepted in the United States of America require that all majority-owned subsidiaries be accounted for as consolidated subsidiaries. If the financial statements of Secure Marketing Partners, LLC and Secure Administrative Solutions, LLC had been consolidated with those of **Sentinel Security Life Insurance Company**, total assets and total liabilities would be decreased by ($110,749) and ($62,652) as of December 31, 2014 and 2013, respectively, and revenues and expenses would be decreased by ($1,398,488) and ($166,089) for the years then ended, respectively.

Qualified Opinion

In our opinion, except for the effects of not consolidating all majority-owned subsidiaries, as discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of **Sentinel Security Life Insurance Company** as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Larsen & Company PC

Salt Lake City, Utah
May 11, 2015

SENTINEL SECURITY LIFE INSURANCE COMPANY

Balance Sheets

As of December 31, 2014 and 2013

		2014		2013
Assets				
Investments:				
Bonds held to maturity, at amortized cost	$	12,040,610	$	10,192,442
Bonds w ithheld for reinsurance, at estimated fair vale				
(amortized cost: $246,275,977 and $243,953,447, respectively)		257,736,157		256,173,942
Bonds available for sale, at estimated fair value,				
(amortized cost: $167,072,424 and $113,045,618, respectively)		171,268,221		113,979,061
Preferred stock w ithheld for reinsurance, at estimated fair value		2,024,000		2,018,000
(cost value: $2,000,000 and $2,000,000, respectively)				
Preferred stock available for sale at estimated fair value,				
(cost value: $6,559,453 and $4,907,321, respectively)		6,705,190		4,573,032
Common stock, at fair market value		238,913		237,877
Mortgage loans, amortized cost		5,834,435		1,628,444
Other invested assets		596,212		94,760
Policy loans		1,361,260		1,324,839
Total investments		457,804,998		390,222,397
Cash and cash equivalents, at estimated fair value		16,907,217		3,614,385
Cash and cash equivalents w ithheld for reinsurance,				
at estimated fair value		8,483,091		9,648,034
Accrued investment income		1,573,479		1,242,878
Premiums, reinsurance, and other receivables,				
net of uncollectable agent balances		983,048		1,491,205
Deferred policy acquisition costs		14,462,879		11,258,867
Current income tax recoverable		-		674,584
Property and equipment, net		7,502,858		7,389,180
Deferred income tax asset		848,751		978,236
Other assets		660,409		989,951
Total assets	$	509,226,730	$	427,509,717
Liabilities and Stockholders' Equity				
Liabilities:				
Future policy benefits and				
policyholder account balances	$	182,212,002	$	123,370,076
Other policy-related balances		1,422,626		1,299,213
Payables and accrued liabilities		14,724,941		10,934,252
Funds held under reinsurance treaties		267,507,875		264,503,221
Unearned investment income		29,609		32,065
Surplus notes payable		15,000,000		-
Total liabilities		480,897,053		400,138,827
Stockholders' equity:				
Common stock, $8 and $4 par value; 10,000,000 and 10,000,000				
shares authorized; 359,526 and 359,526 issued,				
and 303,136 and 295,136 outstanding as of				
December 31, 2014 and 2013, respectively		2,876,211		1,438,104
Treasury stock		(1,257,735)		(1,257,771)
Additional paid-in capital		1,279,810		1,279,810
Retained earnings		24,077,521		25,617,406
Accumulated other comprehensive income, net of tax		1,353,870		293,341
Total stockholders' equity		28,329,677		27,370,890
Total liabilities and stockholders' equity	$	509,226,730	$	427,509,717

The accompanying notes to financial statements
are an integral part of these statements.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Statements of Income

For the Years Ended December 31, 2014 and 2013

	2014	2013
Revenues:		
Premiums revenue	$ 31,256,305	$ 16,684,927
Net investment income	6,241,998	5,830,410
Total	37,498,303	22,515,337
Net investment gains:		
Realized investment gains	1,180,658	1,634,853
Total net investment gains	1,180,658	1,634,853
Other revenues	7,386	8,942
Total revenues	38,686,347	24,159,132
Expenses:		
Policyholder benefits and claims and adjustments to policyholder accounts	32,040,030	16,617,652
Other expenses	7,722,687	6,748,826
Total expenses	39,762,717	23,366,478
Net (loss) income before provision for income taxes	(1,076,370)	792,654
Income tax benefit (expense)	1,155,109	(267,729)
Net income	$ 78,739	$ 524,925

The accompanying notes to financial statements
are an integral part of these statements.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Statements of Comprehensive Income
For the Years Ended December 31, 2014 and 2013

	2014	2013
Net income	$ 78,739	$ 524,925
Other comprehensive income (loss):		
Unrealized investment gains (losses) arising during period	3,507,957	(2,987,039)
Less reclassification adjustment for gains included in net income	(1,180,658)	(1,634,853)
Other comprehensive income (loss) before income tax	2,327,299	(4,621,892)
Income tax expense (benefit) related to items of other comprehensive income (loss)	1,266,770	(1,552,243)
Other comprehensive income (loss) net of income tax	1,060,529	(3,069,649)
Total comprehensive income (loss)	$ 1,139,268	$ (2,544,724)

The accompanying notes to financial statements
are an integral part of these statements.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Statements of Changes in Stockholders' Equity
For the Years Ended December 31, 2014 and 2013

	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at January 1, 2013	$ 2,516,685	$ (1,416,215)	$ 201,229	$ 25,557,112	$ 3,362,990	$ 30,221,801
Net income	-	-	-	524,925	-	524,925
Other comprehensive loss, net of income tax	-	-	-	-	(3,069,649)	(3,069,649)
Dividends paid to stockholders	-	-	-	(464,631)	-	(464,631)
Change in common stock par value	(1,078,581)	-	1,078,581	-	-	-
Change in treasury stock	-	158,444	-	-	-	158,444
Balance at December 31, 2013	1,438,104	(1,257,771)	1,279,810	25,617,406	293,341	27,370,890
Net income	-	-	-	78,739	-	78,739
Other comprehensive income, net of income tax	-	-	-	-	1,060,529	1,060,529
Change in common stock par value	1,438,107	-	-	(1,438,107)	-	-
Change in treasury stock	-	36	-	-	-	36
Change in accounting principle	-	-	-	(180,517)	-	(180,517)
Balance at December 31, 2014	$ 2,876,211	$ (1,257,735)	$ 1,279,810	$ 24,077,521	$ 1,353,870	$ 28,329,677

The accompanying notes to financial statements
are an integral part of these statements.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Statements of Cash Flows

For the Years Ended December 31, 2014 and 2013

	2014	2013
Cash from operating activities:		
Net income	$ 78,739	$ 524,925
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	524,751	283,202
Amortization of premiums and discounts associated with investments	(366,288)	(756,248)
Gains on investments	(1,180,658)	(1,636,543)
Bad-debt expense	(89,354)	11,337
Stock compensation	-	198,000
Change in assets and liabilities:		
Accrued investment income	(317,937)	(292,924)
Premiums, reinsurance, and other receivables	2,954,466	185,089
Deferred acquisition costs	(3,204,012)	(3,043,179)
Current income tax recoverable	674,584	(330,136)
Deferred income tax	(1,137,283)	701,260
Other assets	305,808	(469,542)
Future policy benefits	20,814,542	6,804,992
Policyholder account balances	(2,359,329)	(198,718)
Other policy related balances	123,413	(668,863)
Payables and accrued liabilities	6,872,434	3,761,623
Unearned investment income	(2,456)	4,479
Other	203	(4,126)
Net cash provided from operating activities	23,691,623	5,074,628
Cash from investing activities:		
Sales, maturities and repayments of:		
Bonds	94,640,769	115,394,660
Equity securities	5,200,679	3,674,897
Mortgage loans	64,896	389,135
Real estate	774,563	-
Purchases of:		
Bonds	(147,147,420)	(129,795,317)
Equity securities	(6,870,355)	(1,211,066)
Mortgage loans	(4,083,750)	-
Property and equipment	(1,129,044)	(4,659,984)
Policy loans	(36,421)	(86,650)
Other	(1,902,954)	(250,000)
Net cash used by investing activities	(60,489,037)	(16,544,325)
Cash flow from financing and miscellaneous activities:		
Deposits	37,313,571	8,100,567
Treasury stock	36	(37,756)
Dividends on common stock	-	(464,632)
Surplus note payable	15,000,000	-
Other cash (applied) provided for funds withheld	(3,388,304)	(2,117,486)
Net cash provided from financing activities	48,925,303	5,480,693
Change in cash and cash equivalents	12,127,889	(5,989,004)
Cash and cash equivalents, beginning of year	13,262,419	19,251,423
Cash and cash equivalents, end of year	$ 25,390,308	$ 13,262,419

The accompanying notes to financial statements
are an integral part of these statements.

1. ORGANIZATION

Sentinel Security Life Insurance Company (the Company) a Utah corporation is organized in accordance with the Utah Insurance Code. The Company's principal lines of business consist of individual ordinary whole life and term life insurance. In 2010, the Company began selling Medicare supplement plans. In 2011, the Company began selling a fixed annuity product. In 2012, the Company began selling a hospital indemnity plan. The Company writes its insurance under a general agency plan. All general agents, associate general agents, and special agents contract directly with the Company as independent contractors.

Basis of Presentation

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to adopt accounting policies and make estimates and assumptions that affect amounts reported in the financial statements. In applying these policies and estimates, management makes subjective and complex judgments that frequently require assumptions about matters that are inherently uncertain. Many of these policies, estimates and related judgments are common in the insurance and financial services industries; others are specific to the Company's business and operations. Actual results could differ from estimates.

Generally Accepted Accounting Principle Departure

As discussed on page 2 of this report, the Company reports its investment in Secure Marketing Partners, LLC and Secure Administrative Solutions, LLC, partially and wholly owned subsidiaries, respectively, on the cost method of accounting. Accounting principles generally accepted in the United States of America require that all majority-owned subsidiaries be accounted for as consolidated subsidiaries. The management of the Company has elected to record the majority-owned subsidiaries on the cost method of accounting in order to present the financials of the Company on a stand-alone basis. Management believes a stand-alone presentation of the Company allows management and users of the financial statements to assess and evaluate the Company more accurately. As such, the auditor's opinion is qualified with respect to this matter.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the Company's significant accounting policies with references to notes providing additional information on such policies and critical accounting estimates relating to such policies.

Future Policy Benefit Liabilities and Policyholder Account Balances

The Company establishes liabilities for amounts payable under insurance policies. Generally, amounts are payable over an extended period of time and related liabilities are calculated as the present value of future expected benefits to be paid reduced by the present value of future expected premiums. Such liabilities are established based on methods and underlying assumptions in accordance with U.S. GAAP and applicable actuarial standards.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Future Policy Benefit Liabilities and Policyholder Account Balances (Continued)

Principal assumptions used in the establishment of liabilities for future policy benefits are mortality, morbidity, policy lapse, renewal, disability incidence, investment returns, inflation, expenses and other contingent events as appropriate to the respective product type and geographical area. These assumptions are established at the time the policy is issued and are intended to estimate the experience for the period the policy benefits are payable. Utilizing these assumptions, liabilities are established on a block of business basis.

For long duration insurance contracts, assumptions such as mortality, morbidity and interest rates are "locked in" upon the issuance of new business. However, significant adverse changes in experience on such contracts may require the establishment of premium deficiency reserves. Such reserves are determined based on the then current assumptions and do not include a provision for adverse deviation.

Premium deficiency reserves may also be established for short duration contracts to provide for expected future losses. These reserves are based on actuarial estimates of the amount of loss inherent in that period, including losses incurred for which claims have not been reported. The provisions for unreported claims are calculated using studies that measure the historical length of time between the incurred date of a claim and its eventual reporting to the Company.

The Company regularly reviews its estimates of liabilities for future policy benefits and compares them with its actual experience. Differences result in changes to the liability balances with related charges or credits to benefit expenses in the period in which the changes occur. Policyholder account balances relate to contract or contract features where the Company has no significant insurance risk. The Company issues directly certain annuity products with insurance risk. These annuities are accounted for as insurance liabilities.

Other Policy-Related Balances

Other policy-related balances include policy and contract claims, unearned revenue liabilities, premiums received in advance, policyholder dividends due and unpaid, and policyholder dividends left on deposit. The liability for policy and contract claims generally relates to incurred but not reported death or accident and health claims, as well as claims which have been reported but not yet settled. The liability for these claims is based on the Company's estimated ultimate cost of settling all claims. The Company derives estimates for the development of incurred but not reported claims principally from analyses of historical patterns of claims by business line. The methods used to determine these estimates are continually reviewed. Adjustments resulting from this continuous review process and differences between estimates and payments for claims are recognized in policyholder benefits and claims expense in the period in which the estimates are changed or payments are made.

The Company accounts for the prepayment of premiums on its individual life, and accident and health contracts as premium received in advance and applies the cash received to premiums when due.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recognition of Premium Revenue and Related Expenses

Premiums related to traditional life, annuity policies, and long-duration accident and health policies are recognized as revenues when due from policyholders. Policyholder benefits and expenses are provided to recognize profits over the estimated lives of the insurance policies. When premiums are due over a significantly shorter period than the period over which benefits are provided, any excess profit is deferred and recognized into earnings in a constant relationship to insurance in-force or, for annuities, the amount of expected future policy benefit payments.

Deposits related to investment-type products are credited to PABs (policyholder account balances). Revenues from such contracts consist of fees for policy administration and surrender charges and are recorded in investment-type product policy fees in the period in which services are provided. Amounts that are charged to earnings include interest credited in excess of related PABs. Premiums, policy fees, policyholder benefits and expenses are presented net of reinsurance.

Deferred and uncollected life insurance premiums as of December 31 were as follows:

	2014		2013	
	Gross	**Net of Loading**	**Gross**	**Net of Loading**
Ordinary new business	$ 850,321	$ 245,308	$ 946,171	$ 276,494
Ordinary renewal	3,484,904	2,440,098	3,080,900	2,114,631
Total	$ 4,335,225	$ 2,685,406	$ 4,027,071	$ 2,391,125

Uncollected life insurance premiums are included in the premiums, reinsurance, and other receivables account balance on the balance sheet.

Deferred life insurance premiums are included in the future policy benefits and policyholder account balances on the balance sheet.

Participating Policies

At December 31, 2014 and 2013, participating policies account for less than 1% of total insurance, respectively. Total dividends for 2014 and 2013 were $36,669 and $20,985, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Policy Acquisition Costs

The Company incurs significant costs in connection with acquiring new and renewal insurance business. Costs that are related directly to the successful acquisition or renewal of insurance contracts are capitalized as deferred acquisition costs (DAC).

Such costs include: (i) incremental direct costs of contract acquisition, such as commissions; (ii) the portion of an employee's total compensation and benefits related to time spent selling, underwriting or processing the issuance of new and renewal insurance business only with respect to actual policies acquired or renewed; (iii) other essential direct costs that would not have been incurred had a policy not been acquired or renewed; and (iv) in limited circumstances, the costs of direct-response advertising, the primary purpose of which is to elicit sales to customers who could be shown to have responded specifically to the advertising and that results in probable future benefits.

All other acquisition-related costs, including those related to general advertising and solicitation, market research, agent training, product development, unsuccessful sales and underwriting efforts, as well as all indirect costs, are expensed as incurred. DAC is amortized over the estimated lives of the related insurance contracts in proportion to the following:

- Non-participating and non-dividend-paying traditional contracts: Historic actual and expected future gross premiums.
- Non-participating whole life insurance: Historic actual and expected future gross premiums
- Participating, dividend-paying traditional contracts: Actual and expected future gross margins.
- Fixed deferred annuity contracts: Actual and expected future gross profits.
- Medicare Supplement contracts: Actual and expected future gross profits.
- Hospital indemnity contracts: Actual and expected future gross profits.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reinsurance

For each of its reinsurance agreements, the Company determines whether the agreement provides indemnification against loss or liability relating to insurance risk in accordance with applicable accounting standards. Cessions under reinsurance agreements do not discharge the Company's obligations as the primary insurer. The Company reviews all contractual features, particularly those that may limit the amount of insurance risk to which the reinsurer is subject or features that delay the timely reimbursement of claims. For reinsurance of existing in-force blocks of long-duration contracts that transfer significant insurance risk, the difference, if any, between the amounts paid (received), and the liabilities ceded related to the underlying contracts is considered the net cost of reinsurance at the inception of the reinsurance agreement.

The net cost of reinsurance is recorded as an adjustment to DAC and recognized as a component of other expenses on a basis consistent with the way the acquisition costs on the underlying reinsured contracts would be recognized. Subsequent amounts paid on the reinsurance of in-force blocks, as well as amounts paid related to new business, are recorded as ceded premiums and ceded future policy benefit liabilities are established.

Amounts currently recoverable under reinsurance agreements are included in premiums, reinsurance and other receivables and amounts currently payable are included in other liabilities. Assets and liabilities relating to reinsurance agreements with the same reinsurer may be recorded net on the balance sheet, if a right of offset exists within the reinsurance agreement. In the event that reinsurers do not meet their obligations to the Company under the terms of the reinsurance agreements, reinsurance recoverable balances could become uncollectible. In such instances, reinsurance recoverable balances are stated net of allowances for uncollectible reinsurance.

If the Company determines that a reinsurance agreement does not expose the reinsurer to a reasonable possibility of a significant loss from insurance risk, the Company records the agreement using the deposit method of accounting. Deposits received are included in other liabilities and deposits made are included within premiums, reinsurance and other receivables. As amounts are paid or received, consistent with the underlying contracts, the deposit assets or liabilities are adjusted. Interest on such deposits is recorded as other revenues or other expenses, as appropriate. Periodically, the Company evaluates the adequacy of the expected payments or recoveries and adjusts the deposit asset or liability through other revenues or other expenses, as appropriate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less at the date of acquisition to be cash equivalents. Therefore, cash and cash equivalents include demand deposits, money market funds, and funds withheld for ceded reinsurance. The carrying amounts of these assets are stated at cost which approximates fair value.

Accounts Receivable

The Company considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

Agent Balances

The Company has established an allowance for uncollectible agent balances. The allowance at December 31, 2014 and 2013 was $180,605 and $257,294, respectively.

Investments

Bonds at December 31, 2014 and 2013 consist of those that are available for sale and those that are held-to-maturity securities. Held-to-maturity securities are reported at cost, adjusted for amortization of premiums and accretion of discounts that are recognized in interest income using the interest method over the period to maturity. Available-for-sale bonds are recorded at fair value.

Common stocks and preferred stocks at December 31, 2014 and 2013 consist of available-for-sale securities. Available-for-sale common and preferred stocks are recorded at fair value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Property and equipment is carried at cost, net of accumulated depreciation. Maintenance and repairs which do not materially extend the useful lives of furniture and equipment and minor replacements are charged to earnings as incurred.

Electronic data processing (EDP) equipment is depreciated on the straight-line basis over an estimated useful life of three to five years. Depreciation expense was $368,859 and $181,907 for the years ended December 31, 2014 and 2013, respectively.

Furniture and fixtures are depreciated on the straight-line basis over a five to fifteen year period. Depreciation expense for furniture and fixtures was $58,066 and $37,354 for the years ended December 31, 2014 and 2013, respectively.

Buildings and improvements are depreciated on the straight-line basis between three and fifty years. Depreciation expense was $97,826 and $63,941 for the years ended December 31, 2014 and 2013, respectively.

Guarantee Assessments

The states in which the Company operates have guaranty fund laws under which insurers doing business in the state are required to fund policyholder liabilities of insolvent insurance companies. Generally, assessments are levied within the state, up to prescribed limits, on all insurers doing business in the state on the basis of the proportionate share of the premiums written by insurers doing business in that state in the lines of business in which the impaired, insolvent or failed insurer is engaged. Guarantee assessments of $47,410 and $52,735 for the years ended December 31, 2014 and 2013, respectively, were expensed.

Future Policyholder Benefits

The liability for life future policyholder benefits are based upon an earned interest rate basis, with mortality and lapses driven by experience or expected experience. The Company waives deduction of deferred fractional premiums upon death of insured and returns any portion of the final premium beyond the death date. Surrender values are not promised in excess of the legally computed reserves. The reserve for waiver of deferred fractional premiums upon death is determined, by line of business, using total net premium and a reserve factor over the average remaining premium paying period. Since all policies are monthly pay, there is no reserve for return of premium.

As of December 31, 2014 and 2013, the Company had 163 and 155 policies in force for which the gross premiums are less than the net premium according to the standard valuation set by the State of Utah. The gross premiums for these policies were $15,209 and $11,869 less than net premiums for 2014 and 2013, respectively. Given the small number of policies where the net premiums exceed the gross premium the Company has not established a deficiency reserve.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Policy and Contract Claims

The liability for life, accident, and health policyholder claims was estimated using past experience and other actuarial methods.

Income Taxes

The Company is classified as a "C" corporation under the Internal Revenue Code and as such they are subject to income taxes. Income taxes are provided for the tax effects of transactions presented in the financial statements. Deferred income taxes are calculated using the liability method of accounting for income taxes. Under the liability method, deferred income tax assets and liabilities are provided based on the difference between the financial reporting and tax reporting bases of assets and liabilities as measured by the currently enacted tax rates in effect for the years in which these differences are expected to reverse.

Deferred income tax expense or benefit is the result of changes in deferred income tax assets and liabilities. An allowance against deferred income tax assets is recorded in whole or in part when it is more likely than not that those deferred income tax assets will not be realized.

Net cash paid for federal income taxes was $0 for the years ended December 31, 2014 and 2013.

The Company accounts for uncertain tax positions in accordance with certain provisions of FASB ASC 740. Management has determined that the Companies do not have any uncertain tax positions and associated unrecognized benefits that materially impact the financial statements or related disclosures. Since tax matters are subject to some degree of uncertainty, there can be no assurance that the Company's tax returns will not be challenged by the taxing authorities and that the Company will not be subject to additional tax, penalties, and interest as a result of such challenge. The Company's federal income tax returns from 2013 through 2011 are subject to examination by the Internal Revenue Service, generally for three years after they are filed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

Prior to 1984, the Company was allowed certain special deductions for federal income tax reporting purposes that were required to be accumulated in a "policyholders' surplus account" (PSA). In the event that those amounts are distributed to shareholders, or the balance of the account exceeds certain limitations prescribed by the Internal Revenue code, the excess amounts would be subject to income tax at current rates. Income taxes also would be payable at current rates if the Company ceases to qualify as a life insurance company for tax reporting purposes, or if the income tax deferral status of the PSA is modified by future tax legislation. Management does not intend to take actions nor does management expect any events to occur that would cause income taxes to become payable on the PSA balance. Accordingly, the Company has not accrued income taxes on the PSA balance of $1,220,000 at December 31, 2014 and 2013. However, if such taxes were assessed the amount of the taxes payable would be approximately $415,000. No deferred tax liabilities are recognized related to the PSA.

Concentration of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist of temporary cash investments, fixed maturity securities, and receivables.

Advertising Costs

Advertising costs are charged to operations when incurred. Advertising expense was $389,020 and $398,188 for the years ended December 31, 2014 and 2013, respectively.

Adoption of New Accounting Pronouncements

In February of 2013, the FASB issued Accounting Standards Update 2013-12, which requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. This new guidance is effective for fiscal years, and interim periods within those years, beginning after December 31, 2013. The Company does not expect the adoption of this guidance to have any material impact on the Company's results of operations, financial position, or cash flows.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Pronouncements (Continued)

In July of 2013, the FASB issued Accounting Standards Update 2013-11, which requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This new guidance is effective for fiscal years, and interim periods within those years, beginning after December 31, 2014. The Company does not expect the adoption of this guidance to have any material impact on the Company's results of operations, financial position, or cash flows.

Accounting Changes

Effective January 1, 2013, the Company changed the way it classifies certain annuity considerations. Fixed annuity considerations received for contracts that do not included riders containing any mortality or morbidity risk have been reclassified from premiums to deposit-type consideration. There was no effect on net income, stockholders' equity, total assets, or total liabilities as a result of this change. The change was for classification purposes only.

The reclassification effect of this change resulted in $8,100,567 of net annuity considerations and $7,700,651 of related reserves from premium being reclassified to the liability for deposit-type contracts. The net difference from above (change in liability deposit-type contracts) of $218,935 is included in the statements of income in the expenses under the policyholder benefits and claims and adjustments to policyholder account balances.

During 2014, the Company contracted with The Conning Group to begin accounting for its bonds, preferred stocks and common stocks. As a result, classification changes between bonds and preferred stocks were made to certain hybrid securities. This caused changes to amortization and accretion, interest due and accrued, and the cash flows of investments. The Company benefits from The Conning Group's ability to receive daily updates on securities' cash flows, interest due and accrued, principle payments, sink schedules, and fair market values. Prior to this change, the Company's investment software only allowed quarterly cash flow updates. This change will bring overall consistency to the accounting of the Company's investments. As a result of these changes, stockholders' equity as of December 31, 2014 decreased by $180,517.

3. INVESTED ASSETS ON DEPOSIT

At December 31, 2014 and 2013, bonds with a fair market value of $3,079,022 and $2,887,324 were on deposit with state insurance departments to satisfy regulatory requirements.

4. INVESTMENTS

The amortized cost and approximate fair values of investments are as follows:

	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2014				
Bonds:				
Held-to-maturity	$ 12,040,610	$ 648,454	$ (406,236)	$ 12,282,828
Available-for-sale	167,072,427	6,259,345	(2,063,551)	171,268,221
Withheld for reinsurance	246,275,977	12,569,858	(1,109,678)	257,736,157
Total bonds	425,389,014	19,477,657	(3,579,465)	441,287,206
Preferred stock:				
Available-for-sale	6,559,453	153,257	(7,520)	6,705,190
Withheld for reinsurance	2,000,000	24,000	-	2,024,000
Total preferred stocks	8,559,453	177,257	(7,520)	8,729,190
Common stock	158,097	116,439	(35,623)	238,913
Other invested assets	1,896,444	-	(1,564,576)	331,868
Total	$ 436,003,008	$ 19,771,353	$ (5,187,184)	$ 450,587,177

	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2013				
Bonds:				
Held-to-maturity	$ 10,192,442	$ 151,049	$ (1,384,023)	$ 8,959,468
Available-for-sale	113,045,618	3,804,150	(2,870,707)	113,979,061
Withheld for reinsurance	243,953,447	13,519,194	(1,298,699)	256,173,942
Total bonds	367,191,507	17,474,393	(5,553,429)	379,112,471
Preferred stock:				
Available-for-sale	4,907,321	9,140	(343,429)	4,573,032
Withheld for reinsurance	2,000,000	18,000	-	2,018,000
Total preferred stocks	6,907,321	27,140	(343,429)	6,591,032
Common stock	158,097	113,660	(33,880)	237,877
Other invested assets	250,000	-	(166,089)	83,911
Total	$ 374,506,925	$ 17,615,193	$ (6,096,827)	$ 386,025,291

4. INVESTMENTS (Continued)

Maturities of bonds are as follows as of December 31, 2014:

		Amortized Cost
Within in year	$	8,885,999
After one year through five years		129,453,892
After five years through ten years		114,701,145
After ten years through twenty years		98,649,009
After twenty years		73,698,969
Total	$	425,389,014

The expected maturities in the foregoing table may differ from the contractual maturities because certain borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various valuation approaches including a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company’s assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the observability of inputs as follows:

Level 1—Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2—Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary from product to product and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new and not yet established in the marketplace, the liquidity of markets and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment.

4. INVESTMENTS (Continued)

Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety. Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Company's own assumptions are set to reflect those that the Company believes market participants would use in pricing the asset or liability at the measurement date.

The Company has categorized its assets and liabilities into the three-level fair value hierarchy based upon the priority of the inputs to the respective valuation technique.

Fair values for assets measured on a recurring basis are as follows:

	Assets Measured at Fair Value			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2014:				
Assets				
Stocks:				
Common	$ 238,913	$ 238,913	$ -	$ -
Preferred	8,729,190	8,729,190	-	-
Other invested assets	331,868	-	-	331,868
Available-for-sale bonds	429,004,378	-	404,751,237	24,253,141
Total	$ 438,304,349	$ 8,968,103	$ 404,751,237	$ 24,585,009
Liabilities:				
Available-for-sale bonds funds withheld	$ 257,736,157	$ -	$ 257,736,157	$ -
Total	$ 257,736,157	$ -	$ 257,736,157	$ -

4. INVESTMENTS (Continued)

On a quarterly basis, the Company reviews its investment portfolio for securities in an unrealized loss position for other-than-temporary impairment. This review for potential impairment is performed on a specific identification basis and requires significant management judgment related to a number of qualitative and quantitative factors including the severity of the impairment, the duration of the impairment, recent trends and expected market performance. Management believes that the majority of the Company's unrealized losses on individual securities at December 31, 2014 and 2013 represent a temporary decline in market value.

As of December 31, 2014 and 2013, the Company did not have any bonds and/or common stocks in an unrealized loss position for which other-than-temporary declines in value have not been recognized.

For the year ended December 31, 2014, the Company recognized a $14,520 other-than temporary impairment on preferred stock.

4. INVESTMENTS (Continued)

The following tables summarize those investments that, as of December 31, 2014 and 2013, were in an unrealized loss position for which other-than-temporary declines in value have not been recognized:

($ In Thousands)	Less Than 12 Months		
At December 31, 2014	Number Of Issues	Fair Value	Unrealized Losses
Bonds:			
U.S. government and agencies	-	$ -	$ -
U.S. special revenue and assessments	-	-	-
Industrial and miscellaneous	67	78,864	(2,176)
Hybrid	1	1,960	(40)
Mortgage-backed securities	11	4,798	(138)
Total bonds	79	85,622	(2,354)
Equity securities:			
Preferred stocks - industrial and miscellaneous	-	-	-
Preferred stocks - hybrid	-	-	-
Common stocks - industrial and miscellaneous	-	-	-
Other invested assets	1	178	(1,233)
Total bonds and equity securities	80	$ 85,800	$ (3,587)

	12 Months or More		
	Number Of Issues	Fair Value	Unrealized Losses
Bonds:			
U.S. government and agencies	10	$ 2,694	$ (66)
U.S. special revenue and assessments	2	271	(5)
Industrial and miscellaneous	29	15,171	(667)
Hybrid	3	1,577	(86)
Mortgage-backed securities	29	10,356	(401)
Total bonds	73	30,070	(1,225)
Equity securities:			
Preferred stocks - industrial and miscellaneous	1	395	(5)
Preferred stocks - hybrid	2	399	(3)
Common stocks - industrial and miscellaneous	2	91	(36)
Other invested assets	1	154	(332)
Total bonds and equity securities	79	$ 31,109	$ (1,601)

	Total		
	Number Of Issues	Fair Value	Unrealized Losses
Bonds:			
U.S. government and agencies	10	$ 2,694	$ (66)
U.S. special revenue and assessments	2	271	(5)
Industrial and miscellaneous	96	94,035	(2,843)
Hybrid	4	3,537	(126)
Mortgage-backed securities	40	15,154	(539)
Total bonds	152	115,692	(3,579)
Equity securities:			
Preferred stocks - industrial and miscellaneous	1	395	(5)
Preferred stocks - hybrid	2	399	(3)
Common stocks - industrial and miscellaneous	2	91	(36)
Other invested assets	2	332	(1,565)
Total bonds and equity securities	159	$ 116,909	$ (5,188)

4. INVESTMENTS (Continued)

($ In Thousands)	Less Than 12 Months		
At December 31, 2013	Number Of Issues	Fair Value	Unrealized Losses
Bonds:			
U.S. government and agencies	13	$ 3,953	$ (529)
U.S. special revenue and assessments	2	467	(12)
Industrial and miscellaneous	71	41,413	(1,893)
Hybrid	5	880	(38)
Mortgage-backed securities	68	41,447	(2,053)
Total bonds	159	88,160	(4,524)
Equity securities:			
Common stock - industrial and miscellaneous	-	-	-
Preferred stock - industrial and miscellaneous	11	2,672	(229)
Other invested assets	1	84	(166)
Total bonds and equity securities	171	90,916	(4,918)

	12 Months or More		
	Number Of Issues	Fair Value	Unrealized Losses
Bonds:			
U.S. government and agencies	5	$ 838	$ (152)
U.S. special revenue and assessments	1	242	(40)
Industrial and miscellaneous	8	2,712	(277)
Hybrid	8	1,812	(107)
Mortgage-backed securities	12	10,013	(454)
Total bonds	34	15,618	(1,030)
Equity securities:			
Common stock - industrial and miscellaneous	2	92	(34)
Preferred stock - industrial and miscellaneous	8	1,192	(115)
Other invested assets	-	-	-
Total bonds and equity securities	44	16,902	(1,178)

	Total		
	Number Of Issues	Fair Value	Unrealized Losses
Bonds:			
U.S. government and agencies	18	$ 4,791	$ (680)
U.S. special revenue and assessments	3	710	(51)
Industrial and miscellaneous	79	44,125	(2,170)
Hybrid	13	2,692	(145)
Mortgage-backed securities	80	51,460	(2,507)
Total bonds	193	103,778	(5,553)
Equity securities:			
Common stock - industrial and miscellaneous	2	92	(34)
Preferred stock - industrial and miscellaneous	19	3,864	(343)
Other invested assets	1	84	(166)
Total bonds and equity securities	215	107,818	(6,097)

4. INVESTMENTS (Continued)

Realized capital gains on investments consisted of the following:

	2014	2013
Bonds:		
Gross gains from sales	$ 751,372	$ 2,141,872
Gross losses from sales	(54,601)	(332,694)
Preferred stock:		
Gross gains from sales	-	2,400
Gross losses from sales	(3,600)	(207,501)
Other-than temporary impairment	(14,520)	(102,259)
Common stock:		
Gross gains from sales	-	487,072
Gross losses from sales	-	(354,037)
Real Estate:		
Gross gains from sales	502,007	-
Net capital gains	$ 1,180,658	$ 1,634,853

Mortgage Loans

In 2013, the Company's investments in mortgage loans principally involve commercial and residential real estate located in the state of Utah and Wyoming. Such investments consist of first mortgage liens on completed income-producing properties. In 2014, the Company participated in four joint commercial mortgages with Advantage Capital Management and issued one new residential mortgage loan. Mortgage loans at December 31, 2014 and 2013 totaled $5,834,435 and $1,628,444 respectively. The maximum and minimum lending rate for mortgage loans during the years 2014 and 2013 were 12.00% and 6.00%. At December 31, 2013, the Company had one mortgage with interest more than 180 days past due.

While the borrower did not making regular mortgage payments, the fair value of the underlying property was sufficient that an allowance for bad debts was recorded on the unpaid mortgage interest only. As such, as of December 31, 2014 and 2013, the Company had a $0 and $12,664, respectively, an allowance for uncollectible mortgage interest.

The aforementioned mortgage was subsequently foreclosed on in 2014.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following at December 31, 2014 and 2013:

	2014	2013
Cash and cash equivalents	$ 16,907,217	$ 3,614,385
Cash and cash equivalents, withheld for reinsurance	8,483,091	9,648,034
Total cash and cash equivalents	$ 25,390,308	$ 13,262,419

6. CONCENTRATION OF CREDIT AND MARKET RISK

The Company maintains several bank accounts at the same institution. Accounts at this institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. Cash at this institution exceeded federally insured limits. The amount in excess of FDIC limits totaled $6,774,534 and $4,289,476 as of December 31, 2014 and 2013, respectively.

The Company invests in money market funds that are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although a money market fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the fund. As of December 31, 2014 and 2013 the Company held $20,741,831 and $11,183,867 in money market funds, respectively.

The Company maintains accounts with brokerage firms. These accounts contain bonds, preferred stocks and common stocks. These investments are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with these investments, it is reasonably possible that changes in the values of investments will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

The Company’s revenues and receivables are from customers located in more than 27 states. The majority of the Company’s customers are located in the states of California, Colorado, Florida, North Carolina, Oklahoma, Texas, and Utah.

7. ACCRUED INVESTMENT INCOME RECEIVABLE

Accrued interest and other investment income receivable consisted of the following at December 31:

	2014	2013
Bonds	$ 1,560,928	$ 1,202,858
Preferred stock	3,558	29,751
Mortgage loans	8,993	20,898
Policy loans	-	2,035
Total accrued investment income	1,573,479	1,255,542
Less: allowance of doubtful accounts	-	12,664
Total accrued investment income less allowance for doubtful accounts	$ 1,573,479	$ 1,242,878

8. PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2014 and 2013 is summarized in the following schedules:

	2014	2013
Properties occupied by the Company:		
Land	$ 364,100	$ 364,100
Properties occupied by the Company	4,887,662	4,883,828
Total properties occupied by the Company	5,251,762	5,247,928
Accumulated depreciation	(154,804)	(56,978)
Net properties occupied by the Company	5,096,958	5,190,950
Properties held for sale:		
Land	-	68,444
Buildings	551,070	879,504
Total properties held for sale	551,070	947,948
Accumulated depreciation	-	(536,385)
Net properties held for sale	551,070	411,563
Net properties	5,648,028	5,602,513
Other property and equipment:		
Furniture and fixtures	618,379	617,326
Electronic data processing equipment	2,242,683	1,748,648
Total other property and equipment	2,861,062	2,365,974
Accumulated depreciation	(1,006,232)	(579,307)
Net other property and equipment	1,854,830	1,786,667
Total	$ 7,502,858	$ 7,389,180

9. REINSURANCE

Certain premiums and benefits are ceded to other insurance companies under various reinsurance agreements. The ceded reinsurance agreements provide the Company with increased capacity to write larger risks and maintain its exposure to loss within its capital resources. The Company remains obligated for amounts ceded in the event that the reinsurers do not meet their obligations. Amounts payable or recoverable for reinsurance on policy and contract liabilities are not subject to periodic or maximum limits.

Reinsurance ceded has reduced premiums by $136,958,012 and $155,880,592, and contract liabilities by $638,771,070 and $454,515,389 for the years ended December 31, 2014 and 2013, respectively. During 2014 and 2013, the Company did not write off to operations any reinsurance balances.

The Company actively sells individual whole life insurance. The Company also maintains other blocks of insurance business; annuities, accidental death, Medicare supplements, and hospital indemnity. The majority of the premiums and claims for the Medicare supplement block of business are administered by American Insurance Administrators LLC (AIA). The accident and health insurance contracts are reinsured by Mutual of Omaha. Life insurance, annuities, deposit funds and other related benefits were reinsured by Optimum Re Insurance Company, Athene Life Re Ltd., Guggenheim Life and Annuity Company, and Ability Insurance Company. As of December 31, 2014 and 2013, approximately 80% of the annuities and deposit-type contracts were reinsured while 90% of the fixed index annuities were reinsured. Policyholder reserves and claims liabilities are stated net of the deduction for reserves and claims applicable to reinsurance ceded to other companies. However, the Company is contingently liable for these amounts in the event such companies are unable to pay their portion of the claims.

9. REINSURANCE (Continued)

The following summarizes the amounts of reinsurance ceded for premiums, benefits paid or provided, and loss reserves presented in the accompanying financial statements for the years ended December 31, 2014 and 2013:

	2014	2013
Premiums:		
Gross	$ 168,215,012	$ 172,977,976
Ceded	(136,958,707)	(155,880,592)
Net	$ 31,256,305	$ 17,097,384
Net due and deferred:		
Gross due and deferred		
Gross	$ 4,335,225	$ 4,027,071
Ceded	-	-
Net	4,335,225	4,027,071
Loading		
Gross	(1,649,819)	(1,635,946)
Ceded	-	-
Net	(1,649,819)	(1,635,946)
Net due and deferred		
Gross	2,685,406	2,391,125
Ceded	-	-
Net	$ 2,685,406	$ 2,391,125
Aggregate reserves - life and deposit-type contracts:		
Gross	$ 820,302,219	$ 576,830,104
Ceded	(636,859,479)	(451,912,340)
Net	$ 183,442,740	$ 124,917,764
Aggregate reserves - accident and health:		
Gross	$ 2,143,366	$ 2,904,293
Ceded	(1,911,591)	(2,603,049)
Net	$ 231,775	$ 301,244
Claims payable:		
Gross	$ 5,251,157	$ 5,796,393
Ceded	(3,919,241)	(4,567,787)
Net	$ 1,331,916	$ 1,228,606
Claims:		
Gross	$ 45,365,210	$ 49,356,156
Ceded	(36,801,886)	(40,918,868)
Net	$ 8,563,324	$ 8,437,288

10. INCOME TAXES

Income taxes for the years ended December 31, 2014 and 2013 consisted of the following:

	2014	2013
Current:		
Federal	$ (17,826)	$ (433,531)
Total current income taxes	(17,826)	(433,531)
Deferred:		
Federal	(1,137,283)	701,260
Total deferred income taxes	(1,137,283)	701,260
Total tax benefit (expense)	$ (1,155,109)	$ 267,729

A reconciliation of income tax expense at the federal statutory rate to the Company's effective rate is as follows:

	2014	Percentage	2013	Percentage
Computed income tax (benefit) expense at the statutory rate of 34%	$ (996,768)	34.0%	$ 213,032	34.0%
Meals and entertainment	15,137	-0.5%	15,137	2.4%
Amortization of interest maintenance reserve	(95,672)	3.3%	(64,248)	-10.3%
Loading on deferred and uncollected premium reclass	(4,328)	0.1%	-	0.0%
Dividends received deduction	(2,900)	0.1%	(1,584)	-0.3%
Tax exempt interest	(92,707)	3.2%	(119,866)	-19.1%
Capital gains (losses) reclassification	-	0.0%	(189,184)	-30.2%
Small life insurance company deduction	-	0.0%	458,562	73.2%
Reduction in the AMT credit	-	0.0%	86,238	13.8%
Prior period corrections	17,605	-0.6%	-	0.0%
NOL carryback rate differential	-	0.0%	305,707	48.8%
Change in income tax recoverable	-	0.0%	(388,084)	-61.9%
Other	4,524	-0.2%	(47,981)	-7.7%
Total tax provision	$ (1,155,109)	39.4%	$ 267,729	42.7%

10. INCOME TAXES (Continued)

The temporary differences and carryforwards which give rise to the deferred tax assets (liabilities) as of December 31, 2014 and 2013 consist of the following:

	2014	2013
Deferred tax assets:		
Uncollected premiums	$ -	$ 55,526
Advanced premium	-	17,603
Interest income	297,462	298,297
Policyholder share of tax-exempt interest	116,477	116,477
Reserves	3,873,262	2,919,490
Capital gains (losses)	459,033	454,804
Accrued vacation	60,509	58,320
NOL carryforward	720,838	615,747
AMT carryforward	1,320,974	1,320,974
Other	419,311	-
Total deferred tax assets	7,267,866	5,857,238
Deferred tax liabilities:		
Uncollected premiums	16,301	-
Deferred premiums and agent balances	-	989,578
Deferred acquisition costs	3,856,947	2,803,710
Interest maintenance reserve	351,648	320,142
Unrealized capital gains (losses)	1,503,444	236,676
Dividend income	189,264	197,050
Fixed assets	440,098	310,092
Other	61,413	21,754
Total deferred tax liabilities	6,419,115	4,879,002
Net deferred tax assets (liabilities)	$ 848,751	$ 978,236

The Company has examined all available evidence, both positive and negative, and has determined that a valuation allowance is not needed for its deferred tax assets at December 31, 2014 and 2013.

At December 31, 2014 and 2013, the Company has federal alternative minimum tax (AMT) credit carryforwards of $1,320,974 and $1,320,974, respectively, which have no expiration date.

At December 31, 2014 and 2013, the Company has a net operating loss carryforward (NOL) of $2,120,111 and $1,811,020, respectively, which are set to expire beginning in 2028.

11. EMPLOYEE BENEFITS

Defined Contribution Plans

The Company has a noncontributory master profit sharing and trust plan that qualifies under Section 401(a) of the Internal Revenue Code and is therefore exempt from income taxes. All eligible Company employees may participate in the plan after completing three months of service. The Company's annual contribution is 10% of the eligible participants' compensation as defined, but only to the extent net profits exceed $50,000 in the taxable year of contribution. Contributions are made to participants in the same percentage that the individual participant's compensation bears to the total compensation of all participants for the plan year. All contributions to the plan are made to an independent trustee for investment and administration. The contributions become partially vested after two years and fully vested after six years of service. The Company's cost of the plan was $267,954 and $274,722 for 2014 and 2013, respectively. As of December 31, 2014 and 2013, the fair value of the plan assets was $1,599,321 and $2,804,405 respectively.

The Company's health, long-term disability, dental, and group life plans cover substantially all of its employees and qualified employee dependents. The Company makes contributions to these plans sufficient to provide for benefit payments required under the plans.

Postemployment benefits and compensated absences have been accrued in accordance with FASB ASC Topic 715. As of December 31, 2014 and 2013, the Company estimated the obligation for compensated absences to be $177,969 and $216,668 respectively.

In 2013, the Compensation Committee approved an equity incentive plan for the Company. The incentive plan is designed to allow the Company to compensate employee performance through stock compensation by a committee designated by the Board of Directors. The stock compensation can be administered in the following ways: (i) options to purchase shares of common stock in the form of Incentive Stock Options or Nonqualified Stock Options (which may include Performance Options), (ii) stock appreciation rights (SARs) in the form of Tandem SARs or Free Standing SARs or (iii) stock awards in the form of unrestricted stock awards, restricted stock, restricted stock units or performance stock units. In November 2013, the committee approved restricted stock awards for employee performance in the amount $198,000. The employees receiving the restricted stock awards were compensated with Company treasury stock. No stock compensation was approved during the 2014 year.

12. CONTINGENCIES

The Company is subject to assessments for its proportionate share of liabilities of insolvent insurers in the states where the Company operates which have guaranty company statutes. A provision for future assessments has not been recorded in the accompanying financial statements because they cannot be estimated

The Company is subject to litigation from the settlement of claims contested in the normal course of business. The losses from the actual settlement of such unknown claims are taken into consideration in the computation of the estimated claims liabilities. No contingent liabilities have been established by the Company. There is no pending litigation as of December 31, 2014 and 2013.

13. CAPITAL REQUIREMENTS

The State of Utah has adopted the National Company of Insurance Commissioners' (NAIC) risk-based capital (RBC) calculation to evaluate the minimum capital requirements for an insurance Company to support its overall business operations in consideration of its size and risk profile. The Company's risk-based capital is calculated by applying factors to various asset, premium, and reserve items.

The RBC requirements provide for four different levels of regulatory attention depending on the ratio of the Company's total adjusted capital (TAC) to its authorized control level (ACL). The four regulatory attention levels (and the associated percentage of TAC to ACL) are defined as follows: (1) Company Action (200%), (2) Regulatory Action (150%), (3) Authorized Control (100%), and (4) Mandatory Control Levels (70%). As of December 31, 2014 and 2013, the Company maintained TAC in excess of 200% of ACL.

The payment of dividends by the Company to shareholders is limited and can only be made from earned profits unless prior approval is received from the Utah Insurance Commissioner. The maximum amount of dividends that may be paid by life insurance companies without prior approval of the Utah Insurance Commissioner is also subject to restrictions relating to statutory surplus and net income. The Company paid ordinary dividends to its stockholders on April 1, 2013 of $464,631. The Company did not pay an ordinary dividend in 2014.

14. UNPAID CLAIMS, LOSSES AND LOSS ADJUSTMENT EXPENSES

Reserves for incurred losses and loss adjustment expenses attributable to insured events of prior years has (decreased) increased by approximately $(86,374) and $27,400 during the years ended December 31, 2014 and 2013, respectively.

	2014	2013
Balance at January 1	$ 517,560	$ 973,954
Incurred, related to:		
Current year	3,459,093	4,035,452
Prior years	(86,374)	27,400
Total incurred	3,372,719	4,062,852
Paid, related to:		
Current year	3,012,096	3,523,654
Prior years	418,383	995,592
Total paid	3,430,479	4,519,246
Balance at December 31	$ 459,800	$ 517,560

Management believes that the liability for unpaid claims is adequate to cover the ultimate development of claims. The liability is continually reviewed and revised to reflect current conditions and claim trends and any resulting adjustments are reflected in operating results in the year made.

15. DIRECT PREMIUM WRITTEN/PRODUCED BY THIRD PARTY ADMINISTRATOR

The aggregate amount of direct premiums written through managing general agents or third party administrators as of December 31, 2014 and 2013 was:

Name and Address Managing General Agent Or Third Part Administrator	FEIN#	Exclusive Contract	Type of Business Written	Type of Activity Granted	Total Direct Prem Written/ Produced By
For the year ended December 31, 2014:					
American Insurance Administrators LLC	26-1193300	No	Medicare	C,CA,,P,U	$ 43,749,702
2536 Countryside Blvd., Suite 430			Supplement		
Clearwater, FL 33763					
For the year ended December 31, 2013:					
American Insurance Administrators LLC	26-1193300	No	Medicare	C,CA,,P,U	$ 51,660,776
2536 Countryside Blvd., Suite 430			Supplement		
Clearwater, FL 33763					

16. STATUTORY ACCOUNTING PRINCIPLES

The Company, which is domiciled in State of Utah, prepares its statutory financial statements in accordance with accounting principles and practices prescribed or permitted by the Utah Insurance Department, which Utah recognizes for determining solvency under the Utah Insurance Law.

The following schedules reconcile the Company's statutory net income and statutory surplus and capital stock determined in accordance with accounting practices prescribed or permitted by the Utah Insurance Department with net earnings (loss) and equity on a U.S. GAAP basis.

	2014	2013
Statutory net income (loss) per the annual statement	$ (1,613,746)	$ (2,808,567)
Adjustments:		
Future policy benefits and policyholder's account balances	(2,467,584)	(253,855)
Deferred policy acquisition costs	3,204,012	3,043,179
Deferred income taxes	749,199	(313,176)
Interest maintenance reserve	92,663	759,473
Allowance for bad-debts	89,354	(11,336)
Other	24,841	109,207
GAAP net income	$ 78,739	$ 524,925

16. STATUTORY ACCOUNTING PRINCIPLES (Continued)

	2014	2013
Statutory capital and surplus as of December 31, prior year	$ 15,230,705	$ 19,683,946
Adjustments:		
GAAP net income	78,739	524,925
Other comprehensive income	1,549,895	507,425
Asset valuation reserve	2,494,852	1,796,900
Nonadmitted assets	4,684,036	2,212,210
Interest maintenance reserve	1,109,725	350,252
Deferred acquisition costs	11,258,867	8,215,688
Future policy benefits and policyholder's account balances	(5,401,724)	(5,127,828)
Dividends	-	(464,632)
Treasury stock	-	158,444
Allowance for doubtful accounts	(269,958)	(258,622)
Tax provision	(2,115,262)	(284,638)
Change in accounting principles	(289,725)	-
Other	(473)	56,820
GAAP capital and surplus as of December 31, current year	$ 28,329,677	$ 27,370,890

17. SURPLUS NOTES PAYABLE

During 2014, the Utah Insurance Department approved a contribution (surplus) note between the Company (issuer) and Ability Insurance Company (lender) in the amount of $15,000,000. The scheduled maturity date of the loan is December 1, 2025. Subject to the approval of the Insurance Commissioner of the State of Utah the Company will pay interest thereon, quarterly, in arrears on March 1, June 1, September 1, and December 1 each year commencing March 1, 2014 at the rate of 7% annum. As of December 31, 2014 the Utah Insurance Department had approved $500,000 in interest payments. At December 31, 2014, the Company had accrued $62,500 in accrued interest on the surplus note payable.

18. SUBSEQUENT EVENTS

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through May 11, 2015, the date the financial statements were available to be issued.