Sentinel Security Life Insurance Company

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

For the Years Ended December 31, 2015 and 2014

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 consolidated financial statements of **Sentinel Security Life Insurance Company**, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of **Sentinel Security Life Insurance Company** as of December 31, 2015 and 2014, 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.

Larson & Company PC

Salt Lake City, Utah
May 10, 2016

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SENTINEL SECURITY LIFE INSURANCE COMPANY

Consolidated Balance Sheets
As of December 31, 2015 and 2014

	2015	2014
Assets		
Investments:		
Bonds held to maturity, at amortized cost	$ 5,166,337	$ 12,040,610
Bonds withheld for reinsurance, at estimated fair vale (amortized cost: $250,833,061 and $246,275,977, respectively)	257,784,743	257,736,157
Bonds available for sale, at estimated fair value, (amortized cost: $166,676,600 and $167,072,424, respectively)	161,240,135	171,268,221
Preferred stock withheld for reinsurance, at estimated fair value (cost value: $2,000,000 and $2,000,000, respectively)	2,002,000	2,024,000
Preferred stock available for sale at estimated fair value, (cost value: $6,743,857 and $6,559,453, respectively)	6,910,935	6,705,190
Common stock, at fair market value	1,408,367	238,913
Mortgage loans, amortized cost	25,437,965	5,834,435
Other invested assets	134,763	264,345
Policy loans	1,339,099	1,361,260
Total investments	461,424,344	457,473,131
Cash and cash equivalents, at estimated fair value	15,087,776	17,087,335
Cash and cash equivalents withheld for reinsurance, at estimated fair value	9,070,688	8,483,091
Accrued investment income	2,395,883	1,573,479
Premiums, reinsurance, and other receivables, net of uncollectable agent balances	1,285,420	983,048
Deferred policy acquisition costs	15,906,233	14,462,879
Property and equipment, net	7,424,400	7,502,858
Deferred income tax asset	2,845,269	848,751
Other assets	1,670,309	701,409
Total assets	$ 517,110,322	$ 509,115,981
Liabilities and Stockholders' Equity		
Liabilities:		
Future policy benefits and policyholder account balances	$ 186,187,963	$ 182,212,002
Other policy-related balances	1,146,764	1,422,626
Payables and accrued liabilities	15,176,748	14,724,941
Funds held under reinsurance treaties	263,831,873	267,507,875
Unearned investment income	31,321	29,609
Unearned ceding commission	300,781	-
Capital lease obligation	1,494,601	-
Surplus notes payable	15,000,000	15,000,000
Total liabilities	483,170,051	480,897,053
Stockholders' equity:		
Common stock, $8 and $8 par value; 10,000,000 and 10,000,000 shares authorized; 605,289 and 359,526 issued, and 540,900 and 303,156 outstanding as of December 31, 2015 and 2014, respectively	4,842,259	2,876,211
Treasury stock	(1,257,735)	(1,257,735)
Additional paid-in capital	9,313,762	1,279,810
Retained earnings	24,655,662	22,512,943
Accumulated other comprehensive income (loss), net of tax	(3,460,620)	2,918,449
Noncontrolling interest	(153,057)	(110,750)
Total stockholders' equity	33,940,271	28,218,928
Total liabilities and stockholders' equity	$ 517,110,322	$ 509,115,981

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

SENTINEL SECURITY LIFE INSURANCE COMPANY

Consolidated Statements of Income

For the Years Ended December 31, 2015 and 2014

	2015	2014
Revenues:		
Premiums revenue	$ 23,402,580	$ 31,256,305
Commission revenue	60,019	36,806
Service revenue	126,163	3,331
Net investment income	12,620,135	6,241,998
Total	36,208,897	37,538,440
Net investment gains:		
Realized investment gains	309,947	1,180,658
Total net investment gains	309,947	1,180,658
Other revenues	112,311	7,386
Total revenues	36,631,155	38,726,484
Expenses:		
Policyholder benefits and claims and adjustments to policyholder accounts	22,661,038	32,040,030
Other expenses	10,580,034	9,216,699
Total expenses	33,241,072	41,256,729
Net income (loss) before provision for income taxes	3,390,083	(2,530,245)
Income tax benefit (expense)	(1,289,671)	1,155,109
Consolidated net income (loss)	2,100,412	(1,375,136)
Net loss attributable to the noncontrolling interest	(42,307)	(55,387)
Net income (loss) attributable to the controlling interest	$ 2,142,719	$ (1,319,749)

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

SENTINEL SECURITY LIFE INSURANCE COMPANY

Consolidated Statements of Comprehensive Income
For the Years Ended December 31, 2015 and 2014

	2015	2014
Net income (loss)	$ 2,142,719	$ (1,319,749)
Other comprehensive income (loss):		
Unrealized investment gains (losses) arising during period	(9,355,310)	4,906,444
Less reclassification adjustment for gains included in net income	(309,947)	(1,180,658)
Other comprehensive income (loss) before income tax	(9,665,257)	3,725,786
Income tax expense (benefit) related to items of other comprehensive income (loss)	(3,286,188)	1,266,768
Other comprehensive income (loss) net of income tax	(6,379,069)	2,459,018
Total comprehensive income (loss)	$ (4,236,350)	$ 1,139,269

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

SENTINEL SECURITY LIFE INSURANCE COMPANY

Consolidated Statements of Changes in Stockholders' Equity
For the Years Ended December 31, 2015 and 2014

	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Controlling Interest Equity	Total Non-controlling Interest	Total Stockholders' Equity
Balance at January 1, 2014	$ 1,438,104	$ (1,257,771)	$ 1,279,810	$ 25,451,316	$ 459,431	$ 27,370,890	$ (55,363)	$ 27,315,527
Net loss	-	-	-	(1,319,749)	-	(1,319,749)	(55,387)	(1,375,136)
Other comprehensive income, net of income tax	-	-	-	-	2,459,018	2,459,018	-	2,459,018
Change in common stock par value	1,438,107	-	-	(1,438,107)	-	-	-	-
Change in treasury stock	-	36	-		-	36	-	36
Change in accounting principle	-	-	-	(180,517)		(180,517)	-	(180,517)
Balance at December 31, 2014	2,876,211	(1,257,735)	1,279,810	22,512,943	2,918,449	28,329,678	(110,750)	28,218,928
Net income	-	-	-	2,142,719	-	2,142,719	(42,307)	2,100,412
Other comprehensive loss, net of income tax	-	-	-	-	(6,379,069)	(6,379,069)	-	(6,379,069)
Issuance of common stock	1,966,048	-	8,033,952	-	-	10,000,000	-	10,000,000
Balance at December 31, 2015	$ 4,842,259	$ (1,257,735)	$ 9,313,762	$ 24,655,662	$ (3,460,620)	$ 34,093,328	$ (153,057)	$ 33,940,271

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

SENTINEL SECURITY LIFE INSURANCE COMPANY

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2015 and 2014

	2015	2014
Cash from operating activities:		
Consolidated net income (loss)	$ 2,100,412	$ (1,375,136)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Depreciation expense	335,468	524,751
Amortization of premiums and discounts associated with investments	(1,138,964)	(366,288)
Gains on investments	(309,947)	(1,180,658)
Bad-debt expense	178,907	(89,354)
Change in assets and liabilities:		
Accrued investment income	(822,404)	(317,937)
Premiums, reinsurance, and other receivables	(482,280)	2,954,466
Deferred acquisition costs	(1,443,354)	(3,204,012)
Current income tax recoverable	-	674,584
Deferred income tax	1,289,671	(1,137,283)
Other assets	(1,168,901)	98,424
Future policy benefits	4,915,532	20,814,542
Policyholder account balances	5,552,857	(2,359,329)
Other policy related balances	(275,862)	123,413
Payables and accrued liabilities	651,807	6,872,434
Unearned investment income	1,712	(2,456)
Other	1,106	-
Net cash provided from operating activities	9,385,760	22,030,161
Cash from investing activities:		
Sales, maturities and repayments of:		
Bonds	177,644,233	94,640,769
Equity securities	2,571,090	5,200,679
Mortgage loans	3,202,124	166,108
Real estate	305	1,014,783
Other	6,358,856	
Purchases of:		
Bonds	(171,463,241)	(147,147,420)
Equity securities	(3,951,102)	(6,870,355)
Mortgage loans	(22,799,289)	(4,372,098)
Property and equipment	(680,676)	(1,129,044)
Policy loans	22,161	(36,421)
Other	(7,385,857)	(256,510)
Net cash used by investing activities	(16,481,396)	(58,789,509)
Cash flow from financing and miscellaneous activities:		
Deposits	(6,788,907)	37,313,571
Treasury stock	-	36
Sales leaseback transaction	1,500,000	-
Issuance of common stock	9,999,998	-
Surplus notes payable	-	15,000,000
Other cash (applied) provided for funds withheld	972,583	(3,468,479)
Net cash provided from financing activities	5,683,674	48,845,128
Change in cash and cash equivalents	(1,411,962)	12,085,780
Cash and cash equivalents, beginning of year	25,570,426	13,484,646
Cash and cash equivalents, end of year	$ 24,158,464	$ 25,570,426

The accompanying notes to consolidated 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.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company; its 75% owned subsidiary, Secure Marketing Partners (SMP) and its 100% owned subsidiary Secure Administrative Solutions (SAS). SMP is an independent marketing company and was formed in 2013 by the Company as a joint venture with Ed Porter to market insurance products for other insurance companies. Based on the terms of the joint venture agreement, the Company controls the entity and has consolidated SMP as a subsidiary. SAS was formed in 2014 as a third party administrator for the Medicare Supplement and Hospital Indemnity plans of the Company. In 2015, SAS took over responsibilities for the administration of life and annuity blocks for the Company as well. Also in 2015, SAS began providing third party administrator services for other entities. Since the Company controls the entity the Company has consolidated SAS as a subsidiary. All significant intercompany transactions and balances have been eliminated in consolidation.

Basis of Presentation

The preparation of the consolidated 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 consolidated 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.

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.

Use of Estimates

The preparation of consolidated financial statements requires management of the Company to make estimates and assumptions relating to the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the period. These estimates are inherently subject to change and actual results could differ from these estimates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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:

	2015		2014	
	Gross	**Net of Loading**	**Gross**	**Net of Loading**
Ordinary new business	$ 802,607	$ 232,109	$ 850,321	$ 245,308
Ordinary renewal	3,702,987	2,639,049	3,484,904	2,440,098
Total	$ 4,505,594	$ 2,871,158	$ 4,335,225	$ 2,685,406

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recognition of Premium Revenue and Related Expenses (Continued)

Commission Revenue

Commission revenue is earned based on a percentage of written premiums. The Company receives commissions on all products sold by agents writing under the Company's agreements with the related insurance companies.

Service Revenue

Service revenue is determined based on two factors. The Company receives a flat fee for the number of policies that are issued during the year for which the Company will be providing administrative services. The Company also earns service revenue based on a percentage of earned premiums for the year on the policies in which they administer. The Company recognizes the flat fee at the time it begins administrating the policy and recognized the percentage of the earned premium over the life of the policy.

Participating Policies

At December 31, 2015 and 2014, participating policies account for less than 1% of total insurance, respectively. Total dividends for 2015 and 2014 were $21,939 and $18,240, respectively.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Policy Acquisition Costs (Continued)

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reinsurance (Continued)

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.

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, 2015 and 2014 was $359,512 and $180,605, respectively.

Investments

Bonds at December 31, 2015 and 2014 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, 2015 and 2014 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)

Investment Income

Investment income on mortgage-backed securities is initially based upon yield, cash flow, and prepayment assumptions at the date of purchase. Subsequent revisions in those assumptions are recorded using the retrospective method, except for adjustable rate residential mortgage-backed securities where the prospective method is used. Under the retrospective method, the amortized cost of the security is adjusted to the amount that would have existed had the revised assumptions been in place at the time of purchase. Under the prospective method, future cash flows are estimated and interest income is recognized going forward using the new effective yield to maturity. The adjustments to amortized cost under both methods are recorded as a charge or credit to net investment income. These results are based upon validations and comparisons to similar securities provided by third parties, such as rating agencies.

Mortgage Loans

Mortgage loans are stated at the outstanding principal amount, adjusted for amortization of premium and accrual of discount, less an allowance for potential future losses. A loan is considered impaired if it is probable that all contractual amounts due will not be collected. The allowance for potential future losses on mortgage loans is maintained at a level believed by management to be adequate to absorb potential future credit losses. Management's periodic evaluation and assessment of the adequacy of the allowance is based on known and inherent risks in the portfolio, historical and industry data, current economic conditions and other relevant factors, along with specific risks related to specific loans.

Policy Loans

Policy loans are carried at the outstanding principal amount. Short-term investments are stated at cost, adjusted for amortization of premium and accrual of discount.

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 $162,542 and $368,859 for the years ended December 31, 2015 and 2014, 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 $64,372 and $58,066 for the years ended December 31, 2015 and 2014, respectively.

Buildings and improvements are depreciated on the straight-line basis between three and fifty years. Depreciation expense was $108,554 and $97,826 for the years ended December 31, 2015 and 2014, 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 $202,334 and $47,410 for the years ended December 31, 2015 and 2014, were expensed, respectively.

Future Policyholder Benefits

The liability for life future policyholder benefits are based upon an earned interest rate basis, with mortality and lapses drive 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Future Policyholder Benefits (Continued)

As of December 31, 2015 and 2014, the Company had 94 and 163 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 $11,938 and $15,209 less than net premiums for 2015 and 2014, respectively. Given the small number of policies where the net premiums exceed the gross premium the Company has not established a deficiency reserve.

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 consolidated 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, 2015 and 2014.

SMP has elected to be treated as a partnership for federal and state income tax purposes. A partnership is not a tax paying entity for federal and state income tax purposes. Income, loss, deductions and credits pass through proportionately to its members and are taxed at the individual members' income tax rates. The Company's allocated portion of revenues are combined with the income and expenses of the Company and reported on their tax return.

As a wholly owned company of **Sentinel Security Life Insurance Company**, SAS is treated as a disregarded entity for income tax purposes. As such its revenue and expenses are combined with the income and expenses of the Company and reported on their tax return.

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 consolidated 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 2014 through 2012 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, 2015 and 2014. 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 $288,976 and $393,126 for the years ended December 31, 2015 and 2014, respectively.

Adoption of New Accounting Pronouncements

During 2014 and 2015, the FASB issued Accounting Standards Update 2014-09 and 2015-14, Revenue from Contract with Customers, respectively, which revises previous revenue recognition standards to improve guidance on revenue recognition requirements. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also provides additional disclosure requirements. This new guidance is effective for fiscal years beginning after December 15, 2018. The Company does not anticipate a significant impact on the Company's results of operations, financial position, or cash flows as a result of this new standard.

In August of 2014, the FASB issued Accounting Standards Update 2014-15, Presentation of Financial Statements – Going Concern, which clarifies the responsibility of management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued or within one year after the date that the financial statements are available to be issued, when applicable. If such conditions are identified, additional disclosures are required. This new guidance is effective for fiscal years beginning after December 15, 2016. The Company does not anticipate a significant impact on the Company's results of operations, financial position, or cash flows as a result of this new standard.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Pronouncements (Continued)

In January of 2015, the FASB issued Accounting Standards Update 2015-01, Income Statement – Extraordinary and Unusual Items, which eliminates within U.S. General Accepted Accounting Principles the concept of extraordinary items. This new guidance is effective for fiscal years beginning after December 15, 2015. The Company does not anticipate a significant impact on the Company's results of operations, financial position, or cash flows as a result of this new standard.

In May of 2015, the FASB issued Accounting Standards Update 2015-09, Financial Services – Insurance, which requires additional disclosure in the financial statements relating to the liability for unpaid claims and claim adjustment expenses. Such disclosure will include an exhibit showing 10 years of historical information as of the reporting period-end date regarding incurred and paid claims development information by accident year as well as a general description of reserving methodologies for how the Company determines its reserves. This new guidance is effective for fiscal years beginning after December 15, 2016. The Company does not anticipate a significant impact on the Company's results of operations, financial position, or cash flows as a result of this new standard.

In November of 2015, the FASB issued Accounting Standards Update 2015-17, Income Taxes, which requires all deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. This new guidance is effective for fiscal years beginning after December 15, 2017. The Company does not anticipate a significant impact on the Company's results of operations, financial position, or cash flows as a result of this new standard.

In January of 2016, the FASB issued Accounting Standards Updates 2016-01, Financial Instruments – Overall, which requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) be measured at fair value with changes in fair value recognized in net income. An entity may choose, however, to measure equity investments that do not have readily determinable fair values at cost minus impairment. It also eliminates disclosure of fair value for investments recorded at amortized cost. The amendment also introduced regarding the process for determining impairments of securities and simplified certain disclosures. This new guidance is effective for fiscal years beginning after December 15, 2018. Any adjustment at adoption will be made by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The Company does not anticipate a significant impact on the Company's results of operations, financial position, or cash flows as a result of this new standard.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Changes

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.

There were no changes in accounting principles as of and for the year ended December 31, 2015.

3. INVESTED ASSETS ON DEPOSIT

At December 31, 2015 and 2014, bonds with a fair market value of $3,025,311 and $3,079,022 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, 2015				
Bonds:				
Held-to-maturity	$ 5,166,337	$ 470,275	$ (73,861)	$ 5,562,751
Available-for-sale	166,676,600	3,355,601	(8,792,066)	161,240,135
Withheld for reinsurance	250,833,061	8,843,249	(1,891,567)	257,784,743
Total bonds	422,675,998	12,669,125	(10,757,494)	424,587,629
Preferred stock:				
Available-for-sale	6,743,857	172,468	(5,390)	6,910,935
Withheld for reinsurance	2,000,000	2,000	-	2,002,000
Total preferred stocks	8,743,857	174,468	(5,390)	8,912,935
Common stock	1,382,209	65,912	(39,754)	1,408,367
Total	$ 432,802,064	$ 12,909,505	$ (10,802,638)	$ 434,908,931

	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
Total	$ 434,106,564	$ 19,771,353	$ (3,622,608)	$ 450,255,309

4. INVESTMENTS (Continued)

Maturities of bonds are as follows as of December 31, 2015:

	Amortized Cost
Within in year	$ 31,505,509
After one year through five years	155,995,060
After five years through ten years	142,352,884
After ten years through twenty years	59,316,092
After twenty years	33,506,453
Total	$ 422,675,998

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 as of December 31, 2015 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, 2015:				
Assets				
Stocks:				
Common	$ 1,408,367	$ 184,255	$ -	$ 1,224,112
Preferred	8,912,935	8,912,935	-	-
Available-for-sale bonds	419,024,878	-	398,812,282	20,212,596
Total	$ 429,346,180	$ 9,097,190	$ 398,812,282	$ 21,436,708
Liabilities:				
Securities held under reinsurance treaties	$ 259,786,743	$ 2,002,000	$ 253,876,750	$ 3,907,993
Total	$ 259,786,743	$ 2,002,000	$ 253,876,750	$ 3,907,993

4. INVESTMENTS (Continued)

Fair values for assets measured on a recurring basis as of December 31, 2014 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	-	-
Available-for-sale bonds	429,004,378	-	404,751,237	24,253,141
Total	$ 437,972,481	$ 8,968,103	$ 404,751,237	$ 24,253,141
Liabilities:				
Securities held under reinsurance treaties	$ 259,760,157	$ 2,024,000	$ 257,736,157	$ -
Total	$ 259,760,157	$ 2,024,000	$ 257,736,157	$ -

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, 2015 and 2014 represent a temporary decline in market value.

As of December 31, 2015 and 2014, 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, 2015 and 2014, were in an unrealized loss position for which other-than-temporary declines in value have not been recognized:

($ In Thousands)	Less Than 12 Months			12 Months or More			
At December 31, 2015	Number Of Issues	Fair Value	Unrealized Losses	Number Of Issues	Fair Value	Unrealized Losses	Total Unrealized Losses
Bonds:							
U.S. government and agencies	5	$ 4,793	$ (36)	11	$ 2,582	$ (193)	$ (229)
Industrial and miscellaneous	77	50,189	(2,169)	40	22,752	(2,490)	(4,659)
Hybrid securities	-	-	-	4	3,125	(234)	(234)
Mortgage-backed securities	64	67,672	(2,559)	51	45,927	(3,076)	(5,635)
Total bonds	146	122,654	(4,764)	106	74,386	(5,993)	(10,757)
Equity securities:							
Common stock - industrial and misc.	-	-	-	2	86	(40)	(40)
Preferred stock - industrial and misc.	1	123	(2)	1	204	(2)	(4)
Total bonds and equity securities	147	$ 122,777	$ (4,766)	109	$ 74,676	$ (6,035)	$ (10,801)
Investment grade bonds	146	$ 122,654	$ (4,764)	106	$ 74,386	$ (5,993)	$ (10,757)
Below investment grade bonds	-	-	-	-	-	-	-
Total bonds	146	$ 122,654	$ (4,764)	106	$ 74,386	$ (5,993)	$ (10,757)

($ In Thousands)	**Less Than 12 Months**			**12 Months or More**			
At December 31, 2014	**Number Of Issues**	**Fair Value**	**Unrealized Losses**	**Number Of Issues**	**Fair Value**	**Unrealized Losses**	**Total Unrealized Losses**
Bonds:							
U.S. government and agencies	27	$ 7,838	$ (416)	1	$ 265	$ (32)	$ (448)
Industrial and miscellaneous	57	38,202	(1,357)	1	735	(15)	(1,372)
Hybrid securities	4	3,537	(126)	-	-	-	(126)
Mortgage-backed securities	79	79,953	(1,586)	4	4,356	(45)	(1,631)
Total bonds	167	129,530	(3,485)	6	5,356	(92)	(3,577)
Equity securities:							
Common stock - industrial and misc.	-	-	-	2	91	(36)	(36)
Preferred stock - industrial and misc.	2	599	(8)	-	-	-	(8)
Total bonds and equity securities	169	$ 130,129	$ (3,493)	8	$ 5,447	$ (128)	$ (3,621)
Investment grade bonds	167	$ 129,530	$ (3,485)	6	$ 5,356	$ (92)	$ (3,577)
Below investment grade bonds	-	-	-	-	-	-	-
Total bonds	167	$ 129,530	$ (3,485)	6	$ 5,356	$ (92)	$ (3,577)

4. INVESTMENTS (Continued)

Realized capital gains on investments consisted of the following:

	2015	2014
Bonds:		
Gross gains from sales	$ 1,873,152	$ 751,372
Gross losses from sales	(1,880,047)	(54,601)
Other invested assets:		
Gross gains from sales	311,570	-
Gross losses from sales	(23,808)	-
Preferred stock:		
Gross gains from sales	17,600	-
Gross losses from sales	(3,040)	(3,600)
Other-than temporary impairment	14,520	(14,520)
Common stock:		
Gross gains from sales	-	-
Gross losses from sales	-	-
Real Estate:		
Gross gains from sales	-	502,007
Net capital gains	$ 309,947	$ 1,180,658

Mortgage Loans

In 2015, The Company participated in sixteen joint commercial mortgages with Asset Capital Management. The participated joint commercial mortgages had a minimum rate of 8 percent and a maximum rate of 15 percent. The participating mortgages had loan-to-values with a minimum of 5% and maximum of 38% (participating portion versus security value).

In 2014, the Company participated in four joint commercial mortgages with Advantage Capital Management and issued one new residential mortgage loan. The new residential mortgage loan had an interest rate of 6 percent and the participated joint commercial mortgages had a minimum rate of 8 percent and a maximum rate of 12 percent.

Mortgage loans at December 31, 2015 and 2014 totaled $25,437,966 and $5,834,435 respectively. As of December 31, 2015 and 2014, the Company did not have any mortgages with interest more than 180 days past due.

5. NET INVESTMENT INCOME

For the years ended December 31, net investment income consisted of the following:

	2015	2014
Interest:		
Bonds	$ 11,421,175	$ 6,644,902
Preferred stocks	374,038	437,938
Common stocks	34,393	6,544
Mortgage loans	1,442,878	87,340
Real estate	424,533	159,368
Policy loans	86,721	90,331
Cash and short-term investments	93	198,193
Other invested assets	255,109	6,309
Aggregate write-ins for investment income	11,094	-
Total	14,050,034	7,630,925
Less:		
Allocated expenses:		
Depreciation	108,554	97,826
Investment taxes, licenses and fees	119,121	67,136
Investment expenses	1,202,224	1,223,965
Net investment income	$ 12,620,135	$ 6,241,998

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following at December 31, 2015 and 2014:

	2015	2014
Cash and cash equivalents	$ 15,087,776	$ 17,087,335
Cash and cash equivalents, withheld for reinsurance	9,070,688	8,483,091
Total cash and cash equivalents	$ 24,158,464	$ 25,570,426

7. 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. At times for the years ended December 31, 2015 and 2014, such amounts were in excess of the FDIC insurance limit of $250,000. The Company has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk on this balance due to the financial integrity of this institution.

7. CONCENTRATION OF CREDIT AND MARKET RISK (Continued)

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, 2015 and 2014 the Company held $14,302,851 and $20,741,831 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 consolidated 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.

8. ACCRUED INVESTMENT INCOME RECEIVABLE

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

	2015	2014
Accrued investment income:		
Bonds	$ 1,865,963	$ 1,560,928
Preferred stock	26,957	3,558
Mortgage loans	497,036	8,993
Policy loans	5,927	-
Total accrued investment income	2,395,883	1,573,479

9. PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2015 and 2014 is summarized in the following schedules:

	2015	2014
Properties occupied by the Company:		
Land	$ 364,100	$ 364,100
Properties occupied by the Company	4,966,261	4,887,662
Total properties occupied by the Company	5,330,361	5,251,762
Accumulated depreciation	(277,464)	(154,804)
Net properties occupied by the Company	5,052,897	5,096,958
Properties held for the production of income:		
Land	-	-
Buildings	550,765	551,070
Total properties held for the production of income	550,765	551,070
Accumulated depreciation	-	-
Net properties held for the production of income	550,765	551,070
Net properties	5,603,662	5,648,028
Other property and equipment:		
Furniture and fixtures	-	618,379
Electronic data processing equipment	602,306	2,242,683
Capital lease property and equipment	1,494,601	-
Total other property and equipment	2,096,907	2,861,062
Accumulated depreciation	(276,169)	(1,006,232)
Net other property and equipment	1,820,738	1,854,830
Total	$ 7,424,400	$ 7,502,858

10. 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 $291,333,008 and $136,964,174 and contract liabilities by $967,150,736 and $638,771,070 for the years ended December 31, 2015 and 2014, respectively. During 2015 and 2014, 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 were administered by American Insurance Administrators LLC (AIA) for the year ended December 31, 2014. For the year ended December 31, 2015, the majority of the premiums and claims for the Medicare supplement block of business were administered by Secure Administrative Solutions. 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. 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.

10. REINSURANCE (Continued)

The following summarizes the amounts of reinsurance ceded for premiums, benefits paid or provided, and loss reserves presented in the accompanying consolidated financial statements for the years ended December 31, 2015 and 2014:

	2015	2014
Premiums:		
Gross	$ 314,735,588	$ 168,215,012
Ceded	(291,333,008)	(136,958,707)
Net	$ 23,402,580	$ 31,256,305
Net due and deferred:		
Gross due and deferred		
Gross	$ 4,505,594	$ 4,355,225
Ceded	-	-
Net	4,505,594	4,355,225
Loading		
Gross	(1,634,437)	(1,649,819)
Ceded	-	-
Net	(1,634,437)	(1,649,819)
Net due and deferred		
Gross	2,871,157	2,685,406
Ceded	-	-
Net	$ 2,871,157	$ 2,685,406
Aggregate reserves - life and deposit-type contracts:		
Gross	$ 1,154,340,491	$ 820,302,219
Ceded	(965,520,594)	(636,859,479)
Net	$ 188,819,897	$ 183,442,740
Aggregate reserves - accident and health:		
Gross	$ 1,839,239	$ 2,143,366
Ceded	(1,630,142)	(1,911,591)
Net	$ 209,097	$ 231,775
Claims payable:		
Gross	$ 4,599,966	$ 5,251,157
Ceded	(3,551,948)	(3,919,241)
Net	$ 1,048,018	$ 1,331,916
Claims:		
Gross	$ 44,971,190	$ 45,365,210
Ceded	(35,957,478)	(36,801,886)
Net	$ 9,013,712	$ 8,563,324

11. INCOME TAXES

Income taxes for the years ended December 31, 2015 and 2014 consisted of the following:

	2015	2014
Current:		
Federal	$ -	$ (17,826)
Total current income taxes	-	(17,826)
Deferred:		
Federal	1,289,671	(1,137,283)
Total deferred income taxes	1,289,671	(1,137,283)
Total tax benefit (expense)	$ 1,289,671	$ (1,155,109)

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

	2015	Percentage	2014	Percentage
Computed income tax (benefit) expense at the statutory rate of 34%	$ 1,609,129	34.0%	$ (996,768)	34.0%
Meals and entertainment	9,562	0.2%	15,137	-0.6%
Amortization of interest maintenance reserve	-	0.0%	(95,672)	3.9%
Loading on deferred and uncollected premium reclass	-	0.0%	(4,328)	0.2%
Dividends received deduction	(4,699)	-0.1%	(2,900)	0.1%
Tax exempt interest	(91,376)	-1.9%	(92,707)	3.7%
Capital gains (losses) reclassification	-	0.0%	-	0.0%
Small life insurance company deduction	-	0.0%	-	0.0%
Reduction in the AMT credit	-	0.0%	-	0.0%
Prior period corrections	493,412	10.4%	17,605	-0.7%
NOL noninsurance	(656,296)	-13.9%	-	0.0%
Change in income tax recoverable	-	0.0%	-	0.0%
Other	(70,061)	-1.5%	4,524	-0.2%
Total tax provision	$ 1,289,671	27.3%	$ (1,155,109)	40.4%

11. INCOME TAXES (Continued)

The temporary differences and carryforwards which give rise to the deferred tax assets (liabilities) as of December 31, 2015 and 2014 consist of the following:

	2015	2014
Deferred tax assets:		
Advanced premium	$ 25,584	$ -
Interest income	395,959	297,462
Policyholder share of tax-exempt interest	-	116,477
Reserves	2,247,154	3,873,262
Capital gains (losses)	492,257	459,033
Unrealized capital gains (losses)	1,782,738	-
Accrued vacation	107,116	60,509
NOL carryforward	1,389,203	720,838
AMT carryforward	1,358,101	1,320,974
Other	225,181	419,311
Total deferred tax assets	8,023,293	7,267,866
Deferred tax liabilities:		
Uncollected premiums	10,244	16,301
Deferred acquisition costs	4,448,328	3,856,947
Interest maintenance reserve	-	351,648
Unrealized capital gains (losses)	-	1,503,444
Dividend income	295,716	189,264
Fixed assets	348,662	440,098
Other	75,074	61,413
Total deferred tax liabilities	5,178,024	6,419,115
Net deferred tax assets (liabilities)	$ 2,845,269	$ 848,751

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, 2015 and 2014.

At December 31, 2015 and 2014, the Company has federal alternative minimum tax (AMT) credit carryforwards of $1,358,101 and $1,320,974, respectively, which have no expiration date.

At December 31, 2015 and 2014, the Company has a net operating loss carryforward (NOL) of $2,307,813 and $4,195,819, respectively, which are set to expire beginning in 2034.

12. 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 for the years ended December 31, 2015 and 2014 is 6% and 10%, respectively, 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 $226,364 and $267,954 for 2015 and 2014, respectively. As of December 31, 2015 and 2014, the fair value of the plan assets was $2,032,283 and $1,599,321 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, 2015 and 2014, the Company estimated the obligation for compensated absences to be $336,271 and $177,969, 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 for the years ending December 31, 2015 and 2014.

13. 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 consolidated 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, 2015 and 2014.

14. 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, 2015 and 2014, 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 did not pay an ordinary dividend in 2014 or 2015.

15. 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 $(104,208) and $(86,374) during the years ended December 31, 2015 and 2014, respectively.

	2015	2014
Balance at January 1	$ 459,800	$ 517,560
Incurred, related to:		
Current year	3,076,639	3,459,093
Prior years	(104,208)	(86,374)
Total incurred	2,972,431	3,372,719
Paid, related to:		
Current year	2,635,865	3,012,096
Prior years	351,073	418,383
Total paid	2,986,938	3,430,479
Balance at December 31	$ 445,293	$ 459,800

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.

16. 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, 2015 and 2014 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, 2015:					
Secure Administrative Solutions, LLC	46-4813559	No	Medicare	C,CA,P,U	$ 37,911,922
1405 West 2200 South			Supplement		
Salt Lake City, Utah 84119					
			Traditional Life Insurance		$ 9,764,444
			Life Annuities		$ 180,570,183
			Deposit-Type Annuities		$ 148,234,755
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					

17. 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.

	2015	2014
Statutory net income (loss) per the annual statement	$ 1,917,983	$ (1,613,746)
Adjustments:		
Future policy benefits and policyholder's account balances	1,894,980	(2,467,584)
Deferred policy acquisition costs	1,443,354	3,204,012
Deferred income taxes	(1,289,671)	749,199
Interest maintenance reserve	(239,297)	92,663
Allowance for bad-debts	(178,907)	89,354
Net loss from consolidation	(1,405,723)	(1,398,485)
Other	-	24,838
GAAP net income (loss)	$ 2,142,719	$ (1,319,749)

17. STATUTORY ACCOUNTING PRINCIPLES (Continued)

	2015	2014
Statutory capital and surplus as of December 31, prior year	$ 25,720,904	$ 15,230,705
Adjustments:		
GAAP net (loss) income	2,100,412	(1,375,136)
Surplus note	(15,000,000)	-
Other comprehensive income	(3,694,485)	2,837,634
Issuance of common stock	9,999,998	-
Asset valuation reserve	3,358,829	2,494,852
Nonadmitted assets	5,958,879	4,684,036
Interest maintenance reserve	1,202,388	1,109,725
Deferred acquisition costs	14,462,879	11,258,867
Future policy benefits and policyholder's account balances	(7,856,577)	(5,401,724)
Dividends	-	-
Treasury stock	-	-
Allowance for doubtful accounts	(180,605)	(269,958)
Tax provision	(2,174,658)	(2,115,262)
Noncontrolling interest adjustment	42,307	55,387
Change in accounting principles	-	(289,725)
Other	-	(473)
GAAP capital and surplus as of December 31, current year	$ 33,940,271	$ 28,218,928

18. 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. At December 31, 2015 and 2014, the Company had accrued **$0** and $62,500, respectively, in accrued interest on the surplus note.

Interest payments on the surplus note as of December 31, 2015 were as follows:

Date Issued	Interest Rate	Par Value	Carrying Value of Note	Interest and/or Principal Paid During Current Year	Total Interest and/or Principal Paid	Unapproved Interest and/or Principal	Date of Maturity
3/14/2014	7%	$ 15,000,000	$ 15,000,000	$ 1,025,000	$ 1,525,000	$ -	12/25/2025
Totals		$ 15,000,000	$ 15,000,000	$ 1,025,000	$ 1,525,000	$ -	

19. LEASES

The Company leases four automobiles with minimum lease terms of 6 months each. The lease expense for the automobiles for the years ended December 31, 2015 and 2014 was **$33,673** and $27,950, respectively.

The Company entered into a sales leaseback transaction on December 31, 2015. The sales price of the leaseback transaction was $1,500,000. The lease has a 30 month term with a monthly payment of $58,950. This lease was reported as a capital lease at December 31, 2015 and is included in property and equipment on the balance sheet.

The following is a schedule of future minimum lease payments and the present value of the net minimum lease payments as of December 31, 2015.

	2015
Total minimum lease payments	$ 1,768,500
Less amount representing interest	(273,899)
Present value of net minimum lease payments	1,494,601
Less current portion	(538,612)
Total	$ 955,989

Future maturities of capital lease obligations are as follows:

Year ending December 31:	
2016	$ 538,612
2017	615,772
2018	340,216
	$ 1,494,601

20. SUBSEQUENT EVENTS

In the fourth quarter of 2015, a Statement Regarding the Acquisition of Control of or Merger with a Domestic Insurer, of the Company, by theStageCoach LLC (StageCoach) and Advantage West LLC (Ad West) referred to collectively as "the Applicant", was filed with the Utah Insurance Department.

Upon approval from the State of Utah Insurance Department, StageCoach will purchase newly issued shares of the Company and Ad West will acquire all of the remaining outstanding capital stock in the Company via a merger transaction in accordance with Utah Code, such that subsequent to the aforementioned transactions, StageCoach and Ad West shall own all of the outstanding shares of the Company. The acquisition by StageCoach and Ad West of the Company will be effected pursuant to a two-stage process.

Stage One – StageCoach will purchase from the Company 245,760.63 newly issued shares of the Company in accordance with the terms of the Subscription Agreements. The purchase of the Stage One shares was completed in December of 2015.

Stage Two – Ad West will acquire the remaining 295,137.95 shares via a shareholder approved merger transaction in accordance with Utah Code. Under the merger agreement, the Company shall merge with StageCoach II, Inc., a wholly owned direct subsidiary of Ad West, with the Company surviving as the successor Company in the merger as a subsidiary of Ad West. Stage Two was approved at the Annual Stockholders' meeting on April 15, 2016 by a majority of the stockholders'. In connection with Stage Two, the Company filed amended Articles of Incorporation which were filed and approved by the Utah Insurance Department; and were subsequently filed with the Utah Division of Corporation and Commercial Code on April 25, 2016. Additionally the Articles of Incorporation were filed with the Utah Division of Corporation and Commercial Code on April 25, 2016. The Company is now in the process of filing the notice of change in control with the states in which the Company does business. It is anticipated that the merger will be completed the first half of June 2016.

In preparing these consolidated financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through May 10, 2016, the date the consolidated financial statements were available to be issued.