

US Alliance Corporation

Consolidated Financial Statements
December 31, 2013 and 2012
(With Independent Auditor's Report Thereon)

Contents

Independent Auditor's Report	1
Consolidated Financial Statements	
Consolidated Balance Sheets	3
Consolidated Statements of Comprehensive Loss	4
Consolidated Statements of Changes in Shareholders' Equity	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7



Independent Auditor's Report

To the Board of Directors
US Alliance Corporation
Topeka, Kansas

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of US Alliance Corporation and its subsidiaries which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated 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 US Alliance Corporation and its subsidiaries as of December 31, 2013 and 2012, 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.

McGladrey LLP

Omaha, Nebraska
March 4, 2014

US Alliance Corporation

Consolidated Balance Sheets

December 31, 2013 and 2012

	2013	2012
Assets		
Cash and cash equivalents	\$ 817,276	\$ 6,735,561
Investments in available-for-sale securities, at fair value	6,925,100	722,568
Investments in held-to-maturity securities, at amortized cost	773,185	1,018,892
Investment income due and accrued	40,670	-
Restricted cash	-	400,000
Deferred acquisition costs, net	17,166	-
Reinsurance related assets	5,557	-
Other assets	9,672	11,493
Property and equipment, net of accumulated depreciation	158,718	179,138
Total assets	\$ 8,747,344	\$ 9,067,652
Liabilities and Shareholders' Equity		
Liabilities:		
Accounts payable and accrued expenses	\$ 17,591	\$ 26,240
Policyowner benefit reserves	428,211	-
Deposit-type contracts	130,281	-
Advance premiums	18,482	-
Other liabilities	6,861	-
Total liabilities	601,426	26,240
Shareholders' Equity:		
Preferred stock, \$5.00 par value. Authorized 1,000,000 shares; none issued or outstanding	-	-
Common stock, \$0.10 par value. Authorized 9,000,000 shares; issued and outstanding 4,232,400 shares as of December 31, 2013 and 4,082,800 shares as of December 31, 2012	423,240	408,280
Outstanding warrants	25,324	-
Additional paid-in capital	11,353,508	10,733,402
Accumulated deficit	(3,534,516)	(2,132,269)
Accumulated other comprehensive (loss) / income	(121,638)	31,999
Total shareholders' equity	8,145,918	9,041,412
Total liabilities and shareholders' equity	\$ 8,747,344	\$ 9,067,652

See Notes to Consolidated Financial Statements.

US Alliance Corporation

**Consolidated Statements of Comprehensive Loss
Years Ended December 31, 2013 and 2012**

	2013	2012
Income:		
Premium income	\$ 510,702	\$ -
Net investment income	205,108	67,729
Net realized gain/(loss) on sale of securities	13,720	(17,202)
Other reinsurance related income	10,556	-
Total income	740,086	50,527
Expenses:		
Death claims	17,151	-
Increase in policyowner reserves and benefits	441,673	-
Commissions, net of deferrals	7,840	-
Amortization of deferred acquisition costs	30,452	-
Management salaries & benefits	559,985	472,393
Selling & marketing	410,562	183,857
Office and general administration	406,987	247,375
Professional fees	236,056	97,284
Premium tax	10,437	-
Depreciation and amortization	21,190	7,247
Total expense	2,142,333	1,008,156
Loss before income taxes	(1,402,247)	(957,629)
Provision for income tax expense	-	-
Net loss	\$ (1,402,247)	\$ (957,629)
Unrealized net holding (losses) arising during the period	(139,917)	(1,843)
Reclassification adjustment for (gains) losses included in net loss	(13,720)	17,202
Other comprehensive (loss) income	(153,637)	15,359
Comprehensive loss	\$ (1,555,884)	\$ (942,270)

See Notes to Consolidated Financial Statements.

US Alliance Corporation

Consolidated Statements of Changes in Shareholders' Equity
Years Ended December 31, 2013 and 2012

	Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Outstanding Warrants	Accumulated Other Comprehensive Income / (Loss)	Accumulated Deficit	Total
Balance, December 31, 2011	3,046,600	\$ 304,660	\$ 6,218,358	-	\$ 16,640	\$ (1,174,640)	\$ 5,365,018
Public offering, \$5.00 per share	1,036,200	103,620	5,077,380	-	-	-	5,181,000
Costs associated with public offering	-	-	(562,336)	-	-	-	(562,336)
Other comprehensive income	-	-	-	-	15,359	-	15,359
Net loss	-	-	-	-	-	(957,629)	(957,629)
Balance, December 31, 2012	4,082,800	408,280	10,733,402	-	31,999	(2,132,269)	9,041,412
Public offering, \$5.00 per share	149,600	14,960	707,716	25,324	-	-	748,000
Costs associated with public offering	-	-	(87,610)	-	-	-	(87,610)
Other comprehensive income	-	-	-	-	(153,637)	-	(153,637)
Net loss	-	-	-	-	-	(1,402,247)	(1,402,247)
Balance, December 31, 2013	4,232,400	\$ 423,240	\$ 11,353,508	25,324	\$ (121,638)	\$ (3,534,516)	\$ 8,145,918

See Notes to Consolidated Financial Statements.

US Alliance Corporation

Consolidated Statements of Cash Flows
Years Ended December 31, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities:		
Net loss	\$ (1,402,247)	\$ (957,629)
Adjustments to reconcile net loss to net cash and cash equivalents used in operating activities:		
Depreciation and amortization	21,190	7,247
Net realized (gains) losses on the sale of securities	(13,720)	17,202
Amortization of investment securities, net	8,884	(11,119)
Interest credited on deposit type contracts	537	-
(Increase) decrease in operating assets:		
Investment income due and accrued	(40,670)	-
Deferred acquisition costs, net	(17,166)	-
Reinsurance related assets	(5,557)	-
Other assets	1,821	5,747
Increase (decrease) in operating liabilities:		
Policyowner benefit reserves	428,211	-
Advance premiums	18,482	-
Other liabilities	6,861	-
Accounts payable and accrued expenses	(8,649)	(11,263)
Net cash (used in) operating activities	(1,002,023)	(949,815)
Cash Flows from Investing Activities:		
Available-for-sale securities		
Purchase of investments	(6,572,775)	(577,575)
Proceeds from sales and repayments	617,149	215,643
Held-to-maturity securities		
Purchase of investments	-	(248,664)
Proceeds from maturity	250,000	150,000
Purchase of property and equipment	(770)	(89,792)
Net cash (used in) investing activities	(5,706,396)	(550,388)
Cash Flows from Financing Activities:		
Receipts on deposit-type contracts	129,744	-
Sale of common stock, net of costs of issuance	660,390	4,618,664
Net cash provided by financing activities	790,134	4,618,664
Net (decrease) increase in cash and cash equivalents	(5,918,285)	3,118,461
Cash and Cash Equivalents:		
Beginning	6,735,561	3,617,100
Ending	\$ 817,276	\$ 6,735,561

See Notes to Consolidated Financial Statements.

US Alliance Corporation

Notes to Consolidated Financial Statements

Note 1. Description of Business and Significant Accounting Policies

Description of business: US Alliance Corporation ("the Company") is a Kansas corporation located in Topeka, Kansas. The Company was incorporated April 24, 2009, as a holding company to form, own, operate and manage a life insurance company and its marketing and investment affiliates. On June 9, 2011, the wholly owned subsidiary, US Alliance Life and Security Company was incorporated. US Alliance Life and Security Company received its Certificate of Authority from the Kansas Insurance Department (KID) effective January 2, 2012. On April 23, 2012, US Alliance Investment Corporation and US Alliance Marketing Corporation were incorporated as wholly-owned subsidiaries of the Company to provide investment management and marketing services. US Alliance Marketing Corporation may provide marketing services to those with whom we contract.

The Company completed its public offering on February 24, 2013. As of the end of the offering, the Company is no longer a development stage company. During the balance of 2013, the Company has achieved approval of an array of life insurance and annuity products, begun development of various distribution channels and commenced insurance operations and product sales. The Company sold its first insurance product on May 1, 2013.

Basis of presentation: The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles ("GAAP") in the United States of America.

Principles of consolidation: The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated from the consolidated financial statements.

Area of Operation: US Alliance Life and Security is authorized to operate in the state of Kansas.

Cash and cash equivalents: For purposes of the statement of cash flows, the Company considers demand deposits and highly liquid investments with original maturities of three months or less when purchased to be cash and cash equivalents. The Company maintains its cash balances in one financial institution located in Topeka, Kansas. The FDIC insures aggregate balances, including interest-bearing and noninterest-bearing accounts, of \$250,000 per depositor per insured institution. The Company's financial institution is a member of a network that participates in the Insured Cash Sweep (ICS) program. By participating in ICS, the Company's deposits in excess of the insured limit are apportioned and placed in demand deposit accounts at other financial institutions in amounts under the insured limit. As a result, the Company can access insurance coverage from multiple financial institutions while working directly with one. The Company had no amounts uninsured as of December 31, 2013. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Property and equipment: Property and equipment are stated at cost less accumulated depreciation. Expenditures for additions and improvements that significantly add to the productive capacity or extend the useful life of an asset are capitalized. Expenditures for maintenance and repairs are charged to income currently. Upon disposition, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is included in income.

Depreciation is computed by the straight-line method over the estimated useful lives of the assets. Computer equipment is depreciated over no longer than a 5-year period. Furniture and equipment are depreciated over no longer than a 10-year period.

US Alliance Corporation

Notes to Consolidated Financial Statements

Note 1. Description of Business and Significant Accounting Policies (Continued)

Investments: Investments in available-for-sale securities are carried in the consolidated financial statements at fair value with the net unrealized holding gains (losses) included in accumulated other comprehensive income. Held-to-maturity securities are carried in the consolidated financial statements at amortized cost. Bond premiums and discounts are amortized using the scientific-yield method over the term of the bonds.

Realized gains and losses on securities sold during the year are determined using the specific identification method and included in investment income.

Management evaluates securities in a loss position for other-than-temporary impairment. Consideration is given to the length of time and extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and whether we have the intent to sell the security and is it more likely than not we will have to sell the security before recovery of its cost basis.

Reinsurance: In the normal course of business, the Company seeks to limit aggregate and single exposure to losses on large risks by purchasing reinsurance. The amounts reported in the consolidated balance sheets as reinsurance recoverable include amounts billed to reinsurers on losses paid as well as estimates of amounts expected to be recovered from reinsurers on insurance liabilities that have not yet been paid. Reinsurance recoverable on unpaid losses are estimated based upon assumptions consistent with those used in establishing the liabilities related to the underlying reinsured contracts. Insurance liabilities are reported gross of reinsurance recoverable. Management believes the recoverables are appropriately established. Reinsurance premiums are generally reflected in income in a manner consistent with the recognition of premiums on the reinsured contracts. Reinsurance does not extinguish the Company's primary liability under the policies written. Therefore, the Company regularly evaluates the financial condition of its reinsurers including their activities with respect to claim settlement practices and commutations, and establishes allowances for uncollectible reinsurance recoverable as appropriate. There were no allowances as of December 31, 2013.

Benefit reserves: The Company establishes liabilities for amounts payable under insurance policies, including traditional life insurance and annuities. Generally, amounts are payable over an extended period of time. Liabilities for future policy benefits of traditional life insurance have been computed by a net level premium method based upon estimates at the time of issue for investment yields, mortality and withdrawals. These estimates include provisions for experience less favorable than initially expected. Mortality assumptions are based on industry experience expressed as a percentage of standard mortality tables.

Policy claims: Policy claims are based on reported claims plus estimated incurred but not reported claims developed from trends of historical data applied to current exposure. The Company's current estimate of incurred but not reported claims is zero.

Deposit-type contracts: Deposit-type contracts consist of amounts on deposit associated with deferred annuity contracts. The deferred annuity contracts credit interest based upon a fixed interest rate set by the Company. The Company has the ability to change this rate annually subject to minimums established by law or administrative regulation.

Revenue recognition and related expenses: Revenues on traditional life insurance products consist of direct premiums reported as earned when due.

Amounts received as payment for annuity contracts without life contingencies are recognized as deposits to policyholder account balances and included in future insurance policy benefits. Revenues from these contracts are comprised of fees earned for contract-holder services, which are recognized over the period

US Alliance Corporation

Notes to Consolidated Financial Statements

Note 1. Description of Business and Significant Accounting Policies (Continued)

of the contracts, and included in revenue. Deposits are shown as a financing activity in the Consolidated Statements of Cash Flows.

Liabilities for future policy benefits are provided and acquisition costs are amortized by associating benefits and expenses with earned premiums to recognize related profits over the life of the contracts.

Deferred acquisition costs: The company capitalizes and amortizes over the life of the premiums produced incremental direct costs that result directly from and are essential to the contract acquisition transaction and would not have been incurred by the Company had the contract acquisition not occurred. An entity may defer incremental direct costs of contract acquisition that are incurred in transactions with independent third parties or employees as well as the portion of employee compensation and other costs directly related to underwriting, policy issuance and processing, medical inspection, and contract selling for successfully negotiated contracts. Additionally, an entity may capitalize as a deferred acquisition cost only those advertising costs meeting the capitalization criteria for direct-response advertising. Acquisition costs are amortized over the premium paying period using the net level premium method. Traditional life insurance products are treated as long duration contracts, which generally remain in force for the lifetime of the insured.

Comprehensive loss: Comprehensive loss is comprised of net loss and other comprehensive income (loss). Other comprehensive loss includes unrealized gains and losses from marketable securities classified as available for sale, net of applicable taxes.

Income taxes: The Company is subject to U.S. federal and Kansas state taxes. The provision for income taxes is based on income as reported in the financial statements. The income tax provision is calculated using the asset and liability method. Deferred income taxes are recorded based on the differences between the financial statement and tax basis of assets and liabilities at the enacted rates expected to apply to taxable income in the years in which the differences are expected to reverse. A valuation allowance is established for the amount of any deferred tax asset that exceeds the amount of the estimated future taxable income needed to utilize the future tax benefits.

All of the Company's returns are subject to U.S. federal, state and local income tax examinations by tax authorities. As of December 31, 2013 and 2012, the Company had no unrecognized tax benefits. The Company does not anticipate that the amount of unrecognized tax benefits will significantly increase in the next 12 months. The Company's policy is to recognize interest and penalties on any unrecognized tax benefits as an element of the provision for income taxes in the consolidated statements of income. The tax years which remain subject to examination by taxing authorities are the years ended December 31, 2010, 2011, 2012, and 2013.

Reclassifications: Certain reclassifications of a minor nature have been made to prior-year balances to conform to current-year presentation with no net impact to net loss/income or equity.

Use of estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Regulatory Factors: The Company is highly regulated by the state of Kansas. Such regulations, among other things, limit the amount of rate increases on policies and impose restrictions on the amount and type of investments and the minimum surplus required to conduct business in the state.

US Alliance Corporation

Notes to Consolidated Financial Statements

Note 1. Description of Business and Significant Accounting Policies (Continued)

The impact of the regulatory initiatives in response to the recent financial crisis, including the Dodd-Frank Wall Street Reform and Consumer Protection Act, could subject the Company to substantial additional regulation.

Note 2. Investments

The amortized cost and fair value of available for sale and held to maturity investments as of December 31, 2013 and 2012 is as follows:

	2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale:				
Fixed maturities:				
US Treasury securities	\$ 50,004	\$ 22	\$ -	\$ 50,026
Non-guaranteed government agency bonds	49,975	35	-	50,010
Corporate bonds	1,582,202	4,693	(66,456)	1,520,439
Municipal bonds	790,709	-	(75,676)	715,033
Mortgage backed and asset backed securities	2,615,514	2,577	(138,552)	2,479,539
Total fixed maturities	5,088,404	7,327	(280,684)	4,815,047
Equities:				
Equities	1,722,258	129,454	(33,649)	1,818,063
Other equity investments	178,823	35,112	-	213,935
Limited partnership interests	57,253	20,802	-	78,055
Total equities	1,958,334	185,368	(33,649)	2,110,053
Total available for sale	\$ 7,046,738	\$ 192,695	\$ (314,333)	\$ 6,925,100
Held to maturity:				
US Treasury securities	\$ 773,185	\$ 4,664	\$ (50,185)	\$ 727,664
Total held to maturity	\$ 773,185	\$ 4,664	\$ (50,185)	\$ 727,664

	2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale:				
Equities	\$ 498,169	\$ 27,902	\$ (26,958)	\$ 499,113
Other equity investments	94,542	10,533	-	105,075
Limited partnership interests	97,858	25,721	(5,199)	118,380
Total available for sale	\$ 690,569	\$ 64,156	\$ (32,157)	\$ 722,568
Held to maturity:				
US Treasury securities	\$ 1,018,892	\$ 39,219	\$ -	\$ 1,058,111
Total held to maturity	\$ 1,018,892	\$ 39,219	\$ -	\$ 1,058,111

US Alliance Corporation

Notes to Consolidated Financial Statements

Note 2. Investments (Continued)

The amortized cost and fair value of debt securities as of December 31, 2013, by contractual maturity, are shown below. Equity securities do not have a stated maturity dates and therefore are not included in the following maturity summary. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Available for Sale		
Amounts maturing in:		
After one year through five years	\$ 558,199	\$ 552,980
After five years through ten years	1,223,982	1,163,612
More than 10 years	690,709	618,916
Mortgage backed and asset backed securities	2,615,514	2,479,539
	<u>\$ 5,088,404</u>	<u>\$ 4,815,047</u>
Held to Maturity		
Amounts maturing in:		
One year or less	\$ 249,981	\$ 250,820
After one year through five years	265,972	269,796
More than 10 years	257,232	207,048
	<u>\$ 773,185</u>	<u>\$ 727,664</u>

Proceeds from the sale of securities in 2013 and 2012 were \$617,149 and \$215,643, respectively. Realized gains and losses related to the sale of securities are summarized as follows:

	For the Year Ended December 31,	
	2013	2012
Gross gains	\$ 52,991	\$ 11,432
Gross losses	(39,271)	(28,634)
Net security gains (losses)	<u>\$ 13,720</u>	<u>\$ (17,202)</u>

US Alliance Corporation

Notes to Consolidated Financial Statements

Note 2. Investments (Continued)

Gross unrealized losses by duration are summarized as follows:

	Less than 12 months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2013				
Available for sale:				
Corporate bonds	\$ 1,307,744	\$ (66,456)	\$ 1,307,744	\$ (66,456)
Municipal bonds	715,033	(75,676)	715,033	(75,676)
Mortgage backed and asset backed securities	2,079,276	(138,552)	2,079,276	(138,552)
Equities	725,917	(33,649)	725,917	(33,649)
	<u>\$ 4,827,970</u>	<u>\$ (314,333)</u>	<u>\$ 4,827,970</u>	<u>\$ (314,333)</u>
Held to maturity:				
US Treasury securities	\$ 207,048	\$ (50,185)	\$ 207,048	\$ (50,185)
	<u>\$ 207,048</u>	<u>\$ (50,185)</u>	<u>\$ 207,048</u>	<u>\$ (50,185)</u>
December 31, 2012				
Available for sale:				
Equities	\$ 72,100	\$ (26,958)	\$ 72,100	\$ (26,958)
Limited partnership interest	27,900	(5,199)	27,900	(5,199)
	<u>\$ 100,000</u>	<u>\$ (32,157)</u>	<u>\$ 100,000</u>	<u>\$ (32,157)</u>

Unrealized losses occur from market price declines that may be due to a number of factors, including economic downturns, changes in interest rates, competitive forces within an industry, issuer specific events, operational difficulties, lawsuits, and market pricing anomalies caused by factors such as temporary lack of liquidity.

The total number of securities in the investment portfolio in an unrealized loss position as of December 31, 2013 was 49, which represented a loss of \$364,518 of the aggregate carrying value of those securities. The 49 securities breakdown as follows: 26 bonds, 18 mortgage and asset backed securities, 2 common stocks, 1 high yield corporate bond fund, 1 preferred stock index fund, and 1 senior loan fund. The unrealized gains on the remainder of the available for sale portfolio as of December 31, 2013 were \$192,695. None of the securities have been in an unrealized loss position for more than twelve months.

Note 3. Fair Value Measurements

The fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that liability in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. In estimating fair value, the Company utilizes valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the

US Alliance Corporation

Notes to Consolidated Financial Statements

Note 3. Fair Value Measurements (Continued)

assumptions that market participants would use in pricing an asset or liability. FASB ASC Topic 820 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement rate.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 inputs are unobservable for the asset or liability and reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Investments, available for sale: Investments in securities that are classified as available for sale are recorded at fair value utilizing Level 1 and Level 2 measurements.

US Alliance Corporation

Notes to Consolidated Financial Statements

Note 3. Fair Value Measurements (Continued)

The table below presents the amounts of assets measured at fair value on a recurring basis as of December 31, 2013 and 2012:

	2013			
	Total	Level 1	Level 2	Level 3
Available for sale:				
Fixed maturities:				
US Treasury securities	\$ 50,026	\$ 50,026	\$ -	\$ -
Non-guaranteed government agency bonds	50,010	-	50,010	-
Corporate bonds	1,520,439	-	1,520,439	-
Municipal bonds	715,033	-	715,033	-
Mortgage backed and asset backed securities	2,479,539	-	2,479,539	-
Total fixed maturities	4,815,047	50,026	4,765,021	-
Equities:				
Equities	1,818,063	1,818,063	-	-
Other equity investments	213,935	213,935	-	-
Limited partnership interests	78,055	78,055	-	-
Total equities	2,110,053	2,110,053	-	-
Total	\$ 6,925,100	\$ 2,160,079	\$ 4,765,021	\$ -

	2012			
	Total	Level 1	Level 2	Level 3
Available for sale:				
Equities	\$ 499,113	\$ 499,113	\$ -	\$ -
Other equity investments	105,075	105,075	-	-
Limited partnership interests	118,380	118,380	-	-
Total	\$ 722,568	\$ 722,568	\$ -	\$ -

The Company discloses the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis. The methodologies for estimating the fair value of financial assets and financial liabilities that are measured at fair value on a recurring or non-recurring basis are discussed above. The estimated fair value approximates carrying value for accrued interest. The methodologies for other financial assets and financial liabilities are discussed below:

Cash, cash equivalents, and restricted cash: The carrying amounts approximate fair value because of the short maturity of these instruments.

Investments, held to maturity: Investments in securities that are classified as held to maturity have fair value determined utilizing Level 1 measurements.

Policyholder deposits in deposit-type contracts: Policyholder deposits in investment type contracts have fair value estimated based upon the actuarial assumptions of the underlying product.

US Alliance Corporation

Notes to Consolidated Financial Statements

Note 3. Fair Value Measurements (Continued)

The estimated fair values of the Company's financial assets and liabilities at December 31 are as follows:

	2013		2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:				
Cash and cash equivalents	\$ 817,276	\$ 817,276	\$ 6,735,561	\$ 6,735,561
Investments, at fair value	6,925,100	6,925,100	722,568	722,568
Investments, at amortized cost	773,185	727,664	1,018,892	1,058,111
Restricted cash	-	-	400,000	400,000
	<u>\$ 8,515,561</u>	<u>\$ 8,470,040</u>	<u>\$ 8,877,021</u>	<u>\$ 8,916,240</u>
Financial Liabilities:				
Policyholder deposits in deposit-type contracts	\$ 130,281	\$ 140,000	\$ -	\$ -
	<u>\$ 130,281</u>	<u>\$ 140,000</u>	<u>\$ -</u>	<u>\$ -</u>

Note 4. Income Tax Provision

No income tax expense or (benefit) has been reflected for the years ended December 31, 2013 and 2012 due to the lack of taxable net income generated by the Company and the 100% valuation allowance pertaining to the deferred tax asset. The difference between the reported amount of income tax expense and the amount expected based upon statutory rates is primarily due to the increase in the valuation allowance on deferred taxes.

The significant components of deferred tax assets and liabilities are as follows:

	2013	2012
Deferred tax liability:		
Net unrealized gains	\$ -	\$ 12,800
Deferred tax asset:		
Net operating loss carryforwards	1,313,224	836,460
Net unrealized losses	41,357	-
Policyowner benefit reserves	23,237	-
Deferred tax asset valuation allowance	(1,377,818)	(849,260)
Total deferred tax asset	<u>-</u>	<u>(12,800)</u>
Net tax asset (liability)	<u>\$ -</u>	<u>\$ -</u>

The valuation allowance relating to the deferred tax asset was established by the uncertainty relating to the use of the tax loss carryforwards in future years. The valuation allowance increased by \$528,558 during 2013. The net operating loss and capital loss carryforwards will begin to expire in 2024.

US Alliance Corporation

Notes to Consolidated Financial Statements

Note 5. Lease Commitments

The Company leases its office from an unrelated third party under a three-year operating lease which commenced on October 11, 2011 with a termination date of December 31, 2014. Annual rent is \$24,000. Total rent expense was \$24,000 for the years ended December 31, 2013 and 2012. The future minimum rent payments required under the lease are \$24,000 in 2014. Management has had discussions with the landlord about extending the lease.

Note 6. Warrants

The Company conducted its public stock offering through the sale of units. Each unit was sold for \$1,000 and consisted of 200 shares of common stock and a warrant to purchase an additional 200 shares of common stock at \$6.00 per share. The warrant holder may exercise the warrant anytime up until February 24, 2016. As of December 31, 2013 and 2012, there were 12,662 and 11,914 warrants outstanding, representing 2,532,400 and 2,382,800 shares of common stock, respectively. Management engaged the services of an experienced valuation firm to value the warrants as of February 24, 2013. The valuation performed valued the warrants to be worth \$0.01 per share of common stock and management has allocated this amount from additional paid-in capital to the warrants.

Note 7. Restricted Funds

As required by Kansas law, US Alliance Life and Security Company maintains a trust account at Capital City Bank which is jointly owned by the Kansas Insurance Department. The life insurance company is required to hold \$400,000 of asset book value in this account. These assets were held in bonds and other invested assets with a statement value of \$400,354 as of December 31, 2013. On December 31, 2012, these assets were shown as \$400,000 of restricted cash.

Note 8. Statutory Net Income and Surplus

US Alliance Life and Security Company is required to prepare statutory financial statements in accordance with statutory accounting practices prescribed or permitted by the Kansas Department of Insurance. Statutory practices primarily differ from GAAP by charging policy acquisition costs to expense as incurred, establishing future policy benefit liabilities using different actuarial assumptions as well as valuing investments and certain assets and accounting for deferred taxes on a different basis. The following table summarizes the statutory net loss and statutory capital and surplus of US Alliance Life and Security Company as of December 31, 2013 and 2012 and for the years ended December 31, 2013 and 2012.

Statutory Capital and Surplus as of December 31,			
	2013		2012
\$	2,939,887	\$	2,378,908

Statutory Net Loss for the Years ended December 31,			
	2013		2012
\$	(1,101,570)	\$	(621,485)

US Alliance Corporation

Notes to Consolidated Financial Statements

Note 9. Subsequent Events

All of the effects of subsequent events that provide additional evidence about conditions that existed at the balance sheet date, including the estimates inherent in the process of preparing the consolidated financial statements, are recognized in the consolidated financial statements. The Company does not recognize subsequent events that provide evidence about conditions that did not exist at the balance sheet date but arose after, but before the consolidated financial statements are available to be issued. In some cases, unrecognized subsequent events are disclosed to keep the consolidated financial statements from being misleading.

The Company has evaluated subsequent events through March 4, 2014, the date on which the consolidated financial statements were available to be issued.