

US Alliance Corporation

Consolidated Financial Statements
December 31, 2019 and 2018
(With Independent Auditor's Report Thereon)

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and
Shareholders of US Alliance Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of US Alliance Corporation and Subsidiaries (the Company) as of December 31, 2019 and 2018, and the related consolidated statements of comprehensive income (loss), changes in shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2019, and the related notes (collectively referred to as the financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. 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, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Kerber, Eck & Braeckel, LLP

We have served as the US Alliance Corporation's auditor since 2016.

Springfield, Illinois
February 20, 2020

US Alliance Corporation
Consolidated Balance Sheets

	December 31, 2019	December 31, 2018
Assets		
Investments:		
Available for sale fixed maturity securities (amortized cost: \$30,823,397 and \$28,069,450 as of December 31, 2019 and December 31, 2018, respectively)	\$ 33,152,892	\$ 26,983,803
Available for sale equity securities (cost: \$9,982,950 and \$11,984,735 as of December 31, 2019 and December 31, 2018, respectively)	10,141,503	10,885,975
Policy loans	118,930	56,539
Total investments	43,413,325	37,926,317
Cash and cash equivalents	6,678,805	2,077,646
Investment income due and accrued	321,362	286,890
Reinsurance related assets	188,382	161,846
Deferred acquisition costs, net	2,652,674	2,757,404
Value of business acquired, net	559,994	580,297
Property, equipment and software, net	43,841	54,078
Goodwill	277,542	277,542
Deferred tax asset, net of valuation allowance	431,158	-
Other assets	372,166	406,969
Total assets	\$ 54,939,249	\$ 44,528,989
Liabilities and Shareholders' Equity		
Liabilities:		
Policy liabilities		
Deposit-type contracts	\$ 19,396,614	\$ 16,626,218
Policyholder benefit reserves	17,326,524	14,697,519
Dividend accumulation	123,038	176,056
Advance premiums	78,709	56,736
Total policy liabilities	36,924,885	31,556,529
Accounts payable and accrued expenses	122,981	311,082
Federal Home Loan Bank advance	1,000,000	-
Other liabilities	15,186	28,712
Total liabilities	38,063,052	31,896,323
Shareholders' Equity:		
Common stock, \$0.10 par value. Authorized 20,000,000 shares; issued and outstanding 7,734,004 and 7,650,551 shares as of December 31, 2019 and December 31, 2018, respectively	773,401	765,056
Additional paid-in capital	23,210,257	22,989,443
Accumulated deficit	(9,436,956)	(8,937,404)
Accumulated other comprehensive income (loss)	2,329,495	(2,184,429)
Total shareholders' equity	16,876,197	12,632,666
Total liabilities and shareholders' equity	\$ 54,939,249	\$ 44,528,989

See Notes to Consolidated Financial Statements.

US Alliance Corporation
Consolidated Statements of Comprehensive Income (Loss)

	Years Ended December 31,	
	2019	2018
Income:		
Premium income	\$ 9,076,205	\$ 8,807,779
Net investment income	1,790,601	1,477,403
Net investment gains (losses)	1,042,334	(4,499)
Gain on bargain purchase	-	1,140,996
Other income	57,146	37,608
Total income	11,966,286	11,459,287
Expenses:		
Death claims	1,287,893	959,005
Policyholder benefits	4,212,534	3,957,090
Increase in policyholder reserves	2,599,575	2,766,169
Commissions, net of deferrals	783,724	637,425
Amortization of deferred acquisition costs	433,218	454,906
Amortization of value of business acquired	20,303	20,304
Salaries & benefits	1,081,955	1,152,728
Other operating expenses	1,379,034	1,967,796
Total expense	11,798,236	11,915,423
Income (loss) before total federal income tax expense (benefit)	\$ 168,050	\$ (456,136)
Deferred federal income tax benefit	431,158	-
Total federal income tax benefit	431,158	-
Net Income (loss)	\$ 599,208	\$ (456,136)
Net income (loss) per common share, basic and diluted	\$ 0.08	\$ (0.06)
Unrealized net holding gains (losses) arising during the period	3,420,928	(2,594,366)
Reclassification adjustment for (gains) losses included in net income (loss)	(5,764)	4,499
Other comprehensive income (loss)	3,415,164	(2,589,867)
Comprehensive income (loss)	\$ 4,014,372	\$ (3,046,003)

See Notes to Consolidated Financial Statements.

US Alliance Corporation
Consolidated Statements of Changes in Shareholders' Equity
Years Ended December 31, 2019 and 2018

	Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income / (Loss)	Accumulated Deficit	Total
Balance, December 31, 2017	7,310,939	\$ 731,095	\$ 21,280,437	\$ 405,438	\$ (8,481,268)	\$ 13,935,702
Common stock issued, \$7 per share	339,612	33,961	2,343,323	-	-	2,377,284
Costs associated with common stock issued	-	-	(634,317)	-	-	(634,317)
Other comprehensive loss	-	-	-	(2,589,867)	-	(2,589,867)
Net loss	-	-	-	-	(456,136)	(456,136)
Balance, December 31, 2018	7,650,551	\$ 765,056	\$ 22,989,443	\$ (2,184,429)	\$ (8,937,404)	\$ 12,632,666
Common stock issued, \$7 per share	83,453	8,345	575,826	-	-	584,171
Costs associated with common stock issued	-	-	(355,012)	-	-	(355,012)
Cumulative effect, adoption of accounting guidance for equity securities	-	-	-	1,098,760	(1,098,760)	-
Other comprehensive income	-	-	-	3,415,164	-	3,415,164
Net income	-	-	-	-	599,208	599,208
Balance, December 31, 2019	7,734,004	\$ 773,401	\$ 23,210,257	\$ 2,329,495	\$ (9,436,956)	\$ 16,876,197

See Notes to Consolidated Financial Statements.

US Alliance Corporation
Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2019	2018
Cash Flows from Operating Activities:		
Net income (loss)	\$ 599,208	\$ (456,136)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	10,237	172,332
Net realized investment losses on the sale of securities	214,435	4,499
Unrealized gain on equity securities	(1,256,769)	-
Gain on bargain purchase	-	(1,140,996)
Amortization of investment securities, net	45,133	42,628
Deferred acquisition costs capitalized	(328,488)	(285,187)
Deferred acquisition costs amortized	433,218	454,906
Value of business acquired amortized	20,303	20,304
Interest credited on deposit type contracts	593,794	579,038
(Increase) decrease in operating assets:		
Investment income due and accrued	(34,472)	(57,918)
Reinsurance related assets	(26,536)	88,033
Deferred tax asset, net of valuation allowance	(431,158)	-
Other assets	34,803	(240,785)
Increase (decrease) in operating liabilities:		
Policyowner benefit reserves	2,629,005	2,786,098
Dividend Accumulation	(53,018)	-
Advance premiums	21,973	49,229
Other liabilities	(13,526)	19,836
Accounts payable and accrued expenses	(188,101)	208,187
Net cash provided by operating activities	2,270,041	2,244,068
Cash Flows from Investing Activities:		
Available-for-sale securities		
Purchase of fixed income investments	(1,888,127)	(4,643,809)
Purchase of equity investments	(7,729,600)	(1,333,779)
Proceeds from fixed income sales and repayments	981,939	460,638
Proceeds from equity sales and repayments	7,623,536	-
Interest on policy loans	(8,122)	(2,762)
Increase in policy loans	(54,269)	(7,107)
Acquisition of Great Western Life Insurance Company	-	372,391
Purchase of property, equipment and software	-	(5,334)
Net cash used in investing activities	(1,074,643)	(5,159,762)
Cash Flows from Financing Activities:		
Receipts on deposit-type contracts	3,535,094	4,048,626
Withdrawals on deposit-type contracts	(1,358,492)	(1,450,062)
Proceeds from FHLB advance	1,000,000	-
Proceeds received from issuance of common stock, net of costs of issuance	229,159	1,742,967
Net cash provided by financing activities	3,405,761	4,341,531
Net increase in cash and cash equivalents	4,601,159	1,425,837
Cash and Cash Equivalents:		
Beginning	2,077,646	651,809
Ending	<u>\$ 6,678,805</u>	<u>\$ 2,077,646</u>

See Notes to Consolidated Financial Statements.

US Alliance Corporation
Supplemental Cash Flow Information

	Years Ended December 31,	
	2019	2018
Supplemental Disclosure of Non-Cash Information		
Fixed maturity securities acquired with the Great Western Life Acquisition	\$ -	\$ 1,380,606
Deposit-type contract liabilities acquired with the Great Western Life acquisition	-	35,569

US Alliance Corporation

Notes to Consolidated Financial Statements

Note 1. Description of Business and Significant Accounting Policies

Description of business: US Alliance Corporation ("USAC") was formed as a Kansas corporation on April 24, 2009 to raise capital to form a new Kansas-based life insurance company. The Company's offices are located at 4123 SW Gage Center Drive, Suite 240, Topeka, Kansas 66604. The Company's telephone number is 785-228-0200 and website address is www.usalliancecorporation.com.

USAC has five wholly-owned operating subsidiaries. US Alliance Life and Security Company ("USALSC") was formed June 9, 2011, to serve as the Company's life insurance company. US Alliance Marketing Corporation ("USAMC") was formed April 23, 2012, to serve as a marketing resource. US Alliance Investment Corporation ("USAIC") was formed April 23, 2012 to serve as investment manager for USAC. Dakota Capital Life Insurance Company ("DCLIC"), was acquired on August 1, 2017 when USAC merged with Northern Plains Capital Corporation ("NPCC"). US Alliance Life and Security Company - Montana (USALSC-Montana), was acquired December 14, 2018. Both DCLIC and USALSC-Montana are wholly-owned subsidiaries of USALSC.

The Company terminated its initial public offering on February 24, 2013. During the balance of 2013, the Company achieved approval of an array of life insurance and annuity products, began development of various distribution channels and commenced insurance operations and product sales. The Company sold its first insurance product on May 1, 2013. The Company continued to expand its product offerings and distribution channels throughout 2014 and 2015. On February 24, 2015, the Company commenced a warrant exercise offering set to expire on February 24, 2016. On February 24, 2016, the Company extended the offering until February 24, 2017 and made additional shares available for purchase. All outstanding warrants expired on April 1, 2016. The Company further extended this offering to February 24, 2020. During the 4th quarter of 2017, the Company began a private placement offering to accredited investors in the state of North Dakota.

USALSC received a Certificate of Authority from the Kansas Insurance Department ("KID") effective January 2, 2012, and sold its first insurance product on May 1, 2013. DCLIC received a Certificate of Authority from the North Dakota Insurance Department ("NDID") effective January 24, 2012.

The Company's single pay life products (which include our Juvenile and Pre-Need products) accounted for 56% of 2019 direct premium revenue. The Company's individual life and Critical Illness products (which include Term Life and Whole Life products) accounted for 25% of 2019 direct premium revenue. The Company's group products accounted for 19% of 2019 direct written premiums.

USALSC and DCLIC seek opportunities to develop and market additional products.

The Company's business model also anticipates the acquisition by USAC and/or USALSC of other insurance and insurance related companies, including third-party administrators, marketing organizations, and rights to other blocks of insurance business through reinsurance or other transactions.

Basis of presentation: The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted ("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 Company is authorized to operate in the states of Kansas, North Dakota, Missouri, Nebraska and Oklahoma. DCLIC is authorized to operate in the states of North Dakota and South Dakota. USALSC-Montana is authorized to operate in the state of Montana.

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

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 operating 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, 2019. The Company also has funds deposited in an overnight deposit account at the Federal Home Loan Bank of Topeka which are included as part of its cash and cash equivalents. 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, equipment and software: Property, equipment and software 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. Major categories of depreciable assets and the respective book values as of December 31, 2019 and 2018 are represented below.

	Year Ended December 31, 2019	Year Ended December 31, 2018
Computer	\$ 20,755	\$ 20,755
Furniture and equipment	97,410	97,410
Accumulated depreciation	(74,324)	(64,087)
Balance at end of period	<u>\$ 43,841</u>	<u>\$ 54,078</u>

Pre-paid expenses: The Company recognizes pre-paid expenses (reported in other assets) as the expenses are incurred. Pre-paid expenses consist of systems consulting hours and insurance. Systems consulting hours are charged as they are incurred on projects. Insurance expenses are charged straight line over the life of the contract.

Investments: Investments in available-for-sale securities are carried in the consolidated financial statements at fair value. Net unrealized holding gains (losses) on fixed maturity securities are included in accumulated other comprehensive income. Bond premiums and discounts are amortized using the scientific-yield method over the term of the bonds. Net unrealized holding gains (losses) on equity securities are included as a component of net investment gains (losses).

Realized gains and losses on securities sold during the year are determined using the specific identification method and included in investment income as a component of net investment gains (losses). Investment income is recognized as earned.

Management has a policy and process in place to identify securities that could potentially have an impairment that is other-than-temporary. The assessment of whether impairments have occurred is based on a case-by-case evaluation of underlying reasons for the decline in fair value. Management considers severity of impairment, duration of impairment, forecasted recovery period, industry outlook, financial condition of the issuer, issuer credit ratings and whether the Company intends to sell a security or it is more likely than not that the Company would be required to sell a security prior to the recovery of the amortized cost.

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

The recognition of other-than-temporary impairment losses on debt securities is dependent on the facts and circumstances related to the specific security. If the Company intends to sell a security or it is more likely than not that the Company would be required to sell a security prior to recovery of the amortized cost, the difference between amortized cost and fair value is recognized in the income statement as an other-than-temporary impairment. As it relates to debt securities, if the Company does not expect to recover the amortized basis, do not plan to sell the security and if it is not more likely than not that the Company would be required to sell a security before the recovery of its amortized cost, the other-than-temporary impairment would be recognized. The Company would recognize the credit loss portion through earnings in the income statement and the noncredit loss portion in accumulated other comprehensive loss. As of December 31, 2019 and 2018, the Company had no investment securities that were evaluated to be other than temporarily impaired.

Value of business acquired: Value of business acquired (VOBA) represents the estimated value assigned to purchased companies or insurance in- force of the assumed policy obligations at the date of acquisition of a block of policies. At least annually, a review is performed of the models and the assumptions used to develop expected future profits, based upon management's current view of future events. VOBA is reviewed on an ongoing basis to determine that the unamortized portion does not exceed the expected recoverable amounts. Management's view primarily reflects our experience but can also reflect emerging trends within the industry. Short-term deviations in experience affect the amortization of VOBA in the period, but do not necessarily indicate that a change to the long-term assumptions of future experience is warranted. If it is determined that it is appropriate to change the assumptions related to future experience, then an unlocking adjustment is recognized for the block of business being evaluated. Certain assumptions, such as interest spreads and surrender rates, may be interrelated. As such, unlocking adjustments often reflect revisions to multiple assumptions. The VOBA balance is immediately impacted by any assumption changes, with the change reflected through the statements of comprehensive income as an unlocking adjustment in the amount of VOBA amortized. These adjustments can be positive or negative with adjustments reducing amortization limited to amounts previously deferred plus interest accrued through the date of the adjustment. VOBA is amortized on a straight-line method over 30 years.

In addition, management may consider refinements in estimates due to improved capabilities resulting from administrative or actuarial system upgrades. The Company considers such enhancements to determine whether and to what extent they are associated with prior periods or simply improvements in the projection of future expected gross profits due to improved functionality. To the extent they represent such improvements, these items are applied to the appropriate financial statement line items in a manner similar to unlocking adjustments.

Goodwill: Goodwill represents the excess of the amounts paid to acquire subsidiaries and other businesses over the fair value of their net assets at the date of acquisition. Goodwill is tested for impairment at least annually in the fourth quarter or more frequently if events or circumstances change that would indicate that a triggering event has occurred. Management assess the recoverability of indefinite-lived intangible assets at least annually or whenever events or circumstances suggest that the carrying value of an identifiable indefinite-lived intangible asset may exceed the sum of the future discounted cash flows expected to result from its use and eventual disposition. If the asset is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset.

Reinsurance: In the normal course of business, the Company seeks to limit aggregate and single exposure to losses on 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, 2019 and 2018.

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

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 as of December 31, 2019 and 2018 is \$127,711 and \$139,753 and is included as a part of policyholder benefit reserves.

Deposit-type contracts: Deposit-type contracts consist of amounts on deposit associated with deferred annuity contracts and premium deposit funds. 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.

Liabilities for deferred annuity deposit-type contracts are included without reduction for potential surrender charges. This liability is equal to the accumulated account deposits, plus interest credited, and less policyholder withdrawals. The following table provides information about deferred annuity deposit-type contracts for the years ended December 31, 2019 and 2018.

	Year Ended December 31, 2019	Year ended December 31, 2018
Balance at beginning of period	\$ 16,201,166	\$ 12,931,900
Acquisition of Great Western Life	-	35,659
Deposits received	3,517,203	4,004,619
Interest credited	583,038	566,999
Withdrawals	(1,238,266)	(1,338,011)
Balance at end of period	<u>\$ 19,063,141</u>	<u>\$ 16,201,166</u>

The premium deposit funds credit interest based upon a fixed interest rate set by the Company. The Company has the ability to change this rate subject to minimums established by law or administrative regulation.

Liabilities for premium deposit fund deposit-type contracts are included without reduction for potential surrender charges. This liability is equal to the accumulated account deposits, plus interest credited, and less withdrawals. The table on the following page provides information about premium deposit fund deposit-type contracts for the years ended December 31, 2019 and 2018.

US Alliance Corporation

Notes to Consolidated Financial Statements

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

	Year Ended December 31, 2019	Year ended December 31, 2018
Balance at beginning of period	\$ 425,052	\$ 516,991
Assumed from American Life & Security Corp	-	(35,934)
Deposits received	17,891	44,007
Interest credited	10,756	12,039
Withdrawals	(120,226)	(112,051)
Balance at end of period	<u>\$ 333,473</u>	<u>\$ 425,052</u>

Revenue recognition and related expenses: Revenues on traditional life insurance products consist of direct premiums reported as earned when due. Premium income includes reinsurance assumed and is reduced by premiums ceded.

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 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.

The following table provides information about deferred acquisition costs for the years ended December 31, 2019 and 2018, respectively.

	Year ended December 31, 2019	Year ended December 31, 2018
Balance at beginning of period	\$ 2,757,404	\$ 2,963,057
Deferred cost of reinsurance, American Life block acquisition	-	(35,934)
Capitalization of commissions, sales and issue expenses	328,488	285,187
Amortization net of interest	(433,218)	(454,906)
Balance at end of period	<u>\$ 2,652,674</u>	<u>\$ 2,757,404</u>

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

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

Common stock and earnings (loss) per share: The par value for common stock is \$0.10 per share with 20,000,000 shares authorized. As of December 31, 2019 and 2018 the company had 7,734,004 and 7,650,551 common shares issued and outstanding, respectively.

Earnings (loss) per share attributable to the Company's common stockholders were computed based on the net income (loss) and the weighted average number of shares outstanding during each year. The weighted average number of shares outstanding during the years ended December 31, 2019 and 2018 were 7,688,560 and 7,393,795 shares, respectively. Potential common shares are excluded from the computation when their effect is anti-dilutive. Basic and diluted net loss per common share is the same for the years ended December 31, 2019 and 2018.

Income taxes: The Company is subject to U.S. federal and state taxes. The provision for income taxes is based on income as reported in the consolidated 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 tax returns are subject to U.S. federal, state and local income tax examinations by tax authorities. The Company had no known uncertain tax benefits included in its provision for income taxes as of December 31, 2019 and 2018. The Company's policy is to recognize interest and penalties (if applicable) 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, 2016 through 2019.

Risk and uncertainties: Certain risks and uncertainties are inherent in the Company's day-to-day operations and in the process of preparing its consolidated financial statements. The more significant of those risks and uncertainties, as well as the Company's method for mitigating the risks, are presented below and throughout the notes to the consolidated financial statements.

- Use of Estimates: The preparation of consolidated financial statements in conformity with US GAAP, generally accepted accounting principles in the United States, 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

- Regulatory Factors: The insurance laws of Kansas, North Dakota, and Montana give insurance regulators broad regulatory authority, including powers to (i) grant and revoke licenses to transact business; (ii) regulate and supervise trade practices and market conduct, (iii) establish guaranty associations; (iv) license agents; (v) approve policy forms; (vi) approve premium rates for some lines of business; (vii) establish reserve requirements; (viii) prescribe the form and content of required financial statements and reports; (ix) determine the reasonableness and adequacy of statutory capital and surplus; and (x) regulate the type and amount of permitted investments.

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

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Reform Act") reshapes financial regulations in the United States by creating new regulators, regulating new markets and firms, and providing new enforcement powers to regulators. Virtually all major areas of the Reform Act continue to be subject to regulatory interpretation and implementation rules requiring rulemaking that may take several years to complete. The ultimate outcome of the regulatory rulemaking proceedings cannot be predicted with certainty. The regulations promulgated could have a material impact on consolidated financial results or financial condition.

- Reinsurance: In order to manage the risk of financial exposure to adverse underwriting results, the Company reinsures a portion of its individual and group life risks with other insurance companies. The Company retains \$35,000 on its Whole Life products and \$25,000 on its term life products. The Company also reinsures 100% of the risk on its individual accidental death benefit rider. The Company retains 25% of the risk for each covered life on its group life product to a maximum of \$100,000 on any individual person. The Company retains 25% of the risk for each covered life on its group accidental death and dismemberment product to a maximum of \$25,000 on any individual person. The Company also has catastrophic reinsurance coverage to protect against three or more group life deaths resulting from a single event. The Company also reinsures 90% of the risk on its group disability products. The Company reinsures 66% of the risk on its critical illness product. Optimum Re Insurance Company (a subsidiary of Optimum Group), General Reinsurance Corporation (a subsidiary of Berkshire Hathaway), Reliance Standard Life Insurance Company (a subsidiary of Tokio Marine Holdings), Hartford Life and Accident Company, and Unified Life Insurance Company provide reinsurance for USALSC and DCLIC. The Company evaluates the financial condition of its reinsurers to minimize its exposure to losses from reinsurer insolvencies. Management believes that any liabilities arising from this contingency would not be material to the Company's financial position.

- Interest Rate Risk: Interest rate fluctuations could impair an insurance company's ability to pay policyholder benefits with operating and investment cash flows, cash on hand and other cash sources. Annuity products expose the risk that changes in interest rates will reduce any spread, or the difference between the amounts that the insurance company is required to pay under the contracts and the amounts the insurance subsidiary is able to earn on its investments intended to support its obligations under the contracts. Spread is a key component of revenues.

To the extent that interest rates credited are less than those generally available in the marketplace, policyholder lapses, policy loans and surrenders, and withdrawals of life insurance policies and annuity contracts may increase as contract holders seek to purchase products with perceived higher returns. This process may result in cash outflows requiring that an insurance subsidiary sell investments at a time when the prices of those investments are adversely affected by the increase in market interest rates, which may result in realized investment losses.

Increases in market interest rates may also negatively affect profitability in periods of increasing interest rates. The ability to replace invested assets with higher yielding assets needed to fund the higher crediting rates that may be necessary to keep interest sensitive products competitive.

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

If interest rates were to increase by 1%, the market value of our fixed income securities would decrease by 9.4% as of December 31, 2019. The Company therefore may have to accept a lower spread and thus lower profitability or face a decline in sales and greater loss of existing contracts.

Conversely, in a period of prolonged low interest rates it is difficult to invest assets and earn the rate of return necessary to support insurance products. Some central banks currently have negative interest rates which contributes to the current low interest rate environment.

Policy lapses in excess of those actuarially anticipated would have a negative impact on our financial performance.

Profitability could be reduced if lapse and surrender rates exceed the assumptions upon which the insurance policies were priced. Policy sales costs are deferred and recognized over the life of a policy. Excess policy lapses, however, cause the immediate expensing or amortizing of deferred policy sales costs.

- Investment Risk: Our invested assets are subject to customary risks of defaults and changes in market values. Factors that may affect the overall default rate on, and market value of, the invested assets include interest rate levels, financial market performance, and general economic conditions.
- Assumptions Risk: In the life insurance business, assumptions as to expected mortality, lapse rates and other factors in developing the pricing and other terms of life insurance products are made. These assumptions are based on industry experience and are reviewed and revised regularly by an outside actuary to reflect actual experience on a current basis. However, variation of actual experience from that assumed in developing such terms may affect a product's profitability or sales volume and in turn adversely impact our revenues.

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.

New accounting standards:

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued updated guidance to clarify the principles for recognizing revenue. While insurance contracts and revenues from financial institutions are not within the scope of this updated guidance, the Company's fee income related to providing services will be subject to this updated guidance. The Company did not earn any fee income in 2019 or 2018. The updated guidance requires an entity to recognize revenue as performance obligations are met, in order to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration the entity is entitled to receive for those goods or services.

The following steps are applied in the updated guidance: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract and (5) recognize revenue when, or as, the entity satisfies a performance obligation.

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

In July 2015, the FASB deferred the effective date of the updated guidance on revenue recognition by one year to the quarter ending March 31, 2018. As an emerging growth company, the Company has chosen to defer implementation of this accounting standard until the year ending December 31, 2019. The adoption of this guidance did not have any effect on the Company's result of operations, financial position or liquidity.

Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued updated guidance regarding financial instruments. This guidance intends to enhance reporting for financial instruments and addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The significant amendments in this update generally require equity investments to be measured at fair value with changes in fair value recognized in net income, require the use of an exit price notion when measuring the fair value of financial instruments for disclosure purposes and clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities. This guidance also intends to enhance the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments.

This guidance was effective for the Company for the year ended December 31, 2019 and required a cumulative effect adjustment to opening retained earnings to be recorded for equity investments with readily determinable fair values. As of the adoption date, the Company held publicly traded equity investments with a fair value of \$ 10,987,539 million in a net unrealized gain position of \$ 1,098,760 million. The Company has recorded a cumulative-effect adjustment of \$ 1,098,760 to decrease Accumulated Other Comprehensive Income (AOCI) with a corresponding increase to accumulated deficit for unrealized gains as of the beginning of fiscal year 2019. As a result of the implementation of ASU 2016-01, unrealized gains and losses in equity investments with readily determinable fair values are recorded on the Consolidated Statements of Comprehensive Income (Loss) within net investment gains (losses). The Company recorded a gain in net investment gains (losses) of \$1.1 million for year ended December 31, 2019 as a result of adopting this standard. The implementation of this guidance is expected to increase volatility in our net income as the volatility previously recorded in Comprehensive Income (OCI) related to changes in the fair market value of available-for-sale equity investments will now be reflected in net income effective with the adoption date.

Leases

In February 2016, the FASB issued updated guidance to require lessees to recognize a right-to-use asset and a lease liability for leases with terms of more than 12 months. The updated guidance retains the two classifications of a lease as either an operating or finance lease (previously referred to as a capital lease). Both lease classifications require the lessee to record the right-to-use asset and the lease liability based upon the present value of cash flows. Finance leases will reflect the financial arrangement by recognizing interest expense on the lease liability separately from the amortization expense of the right-to-use asset. Operating leases will recognize lease expense (with no separate recognition of interest expense) on a straight-line basis over the term of the lease. The accounting by lessors is not significantly changed by the updated guidance. The updated guidance requires expanded qualitative and quantitative disclosures, including additional information about the amounts recorded in the financial statements.

The updated guidance is effective for reporting periods beginning after December 15, 2018, and will require that the earliest comparative period presented include the measurement and recognition of existing leases with an adjustment to equity as if the updated guidance had always been applied. Early adoption is permitted. As an emerging growth company, the Company has elected to defer implementation of this standard to fiscal years beginning after December 15, 2020. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

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

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued updated guidance for the accounting for credit losses for financial instruments. The updated guidance applies a new credit loss model (current expected credit losses or CECL) for determining credit-related impairments for financial instruments measured at amortized cost (e.g. reinsurance recoverables) and requires an entity to estimate the credit losses expected over the life of an exposure or pool of exposures. The estimate of expected credit losses should consider historical information, current information, as well as reasonable and supportable forecasts, including estimates of prepayments. The expected credit losses, and subsequent adjustments to such losses, will be recorded through an allowance account that is deducted from the amortized cost basis of the financial asset, with the net carrying value of the financial asset presented on the consolidated balance sheet at the amount expected to be collected.

The updated guidance also amends the current other-than-temporary impairment model for available-for-sale debt securities by requiring the recognition of impairments relating to credit losses through an allowance account and limits the amount of credit loss to the difference between a security's amortized cost basis and its fair value. In addition, the length of time a security has been in an unrealized loss position will no longer impact the determination of whether a credit loss exists.

The updated guidance is effective for reporting periods beginning after December 15, 2019. Early adoption is permitted for reporting periods beginning after December 15, 2018. As an emerging growth company, the Company has elected to defer implementation of this standard to fiscal years beginning after December 15, 2022. The Company will not be able to determine the impact that the updated guidance will have on its results of operations, financial position or liquidity until the updated guidance is adopted.

Classification of Certain Cash Receipts and Cash Payment

In August 2016, the FASB issued new guidance that clarifies the classification of certain cash receipts and cash payments in the statement of cash flows under eight different scenarios including, but not limited to: (i) debt prepayment or debt extinguishment costs; (ii) proceeds from the settlement of corporate-owned life insurance policies including bank-owned life insurance policies; (iii) distributions received from equity method investees; and (iv) separately identifiable cash flows and application of the predominance principle. This guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. As an emerging growth company, the Company elected to defer implementation of this standard to fiscal years beginning after December 15, 2018. The implementation of this standard did not have a material impact on the Company's statement of cash flows.

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

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

On December 22, 2017, the U.S. federal government enacted a tax bill, H.R.1, An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018 (Tax Cuts and Jobs Act). In February 2018, FASB issued guidance to address certain issues related to the Tax Cuts and Jobs Act. This new guidance allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. Consequently, the amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and will improve the usefulness of information reported to financial statement users. This guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

Targeted Improvements to the Accounting for Long-Duration Contracts

In August 2018, the FASB issued ASU 2018-12 "Targeted Improvements to the Accounting for Long-Duration Contracts." ASU 2018-12 requires periodic reassessment of actuarial and discount rate assumptions used in the valuation of policyholder liabilities and deferred acquisition costs arising from the issuance of long-duration insurance and reinsurance contracts, with the effects of the changes in cash flow assumptions reflected in earnings and the effects of changes in discount rate assumptions reflected in other comprehensive income. Under current accounting guidance, the actuarial and discount rate assumptions are set at the contract inception date and not subsequently changed, except in limited circumstances. ASU 2018-12 also requires new disclosures and is effective for fiscal years beginning after December 15, 2023, with early adoption permitted. The Company is evaluating the effect this standard will have on our Consolidated Financial Statements.

All other new accounting standards and updates of existing standards issued through the date of this filing were considered by management and did not relate to accounting policies and procedures pertinent or material to the Company at this time.

US Alliance Corporation**Notes to Consolidated Financial Statements**

Note 2. Acquisitions

On December 14, 2018 the Company acquired USALSC-Montana (formerly Great Western Life Insurance Company, "GWLIC") pursuant to a Stock Purchase Agreement ("SPA") with Great Western Insurance Company, a wholly-owned subsidiary of American Enterprise Group, Inc. Pursuant to the SPA, the Company paid \$500,000 to acquire all of the outstanding shares of GWLIC.

The acquisition was accounted for under the acquisition method of accounting, which requires the consideration transferred and all assets and liabilities assumed to be recorded at fair value. The following table summarizes the fair value of GWLIC's assets acquired and liabilities assumed and the gain from purchase:

Preliminary amounts of identifiable assets acquired and liabilities assumed	
Investment securities	\$ 1,380,606
Cash	872,391
Other assets	26,669
Policyholder reserves	(422,442)
Deposit type contracts	(35,659)
Other liabilities	(180,569)
Total identifiable net assets	\$ 1,640,996
Cash paid as purchase consideration	(500,000)
Gain from purchase of Great Western Life	\$ 1,140,996

Note 3. Investments

The amortized cost and fair value of available for sale investments as of December 31 is as follows:

	December 31, 2019			Fair Value
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Available for sale:				
Fixed maturities:				
US Treasury securities	\$ 608,477	\$ 24,162	\$ -	\$ 632,639
Corporate bonds	18,407,211	1,697,265	(20,079)	20,084,397
Municipal bonds	6,538,883	518,059	(1,883)	7,055,059
Redeemable preferred stock	2,097,206	36,687	-	2,133,893
Mortgage backed and asset backed securities	3,171,620	77,593	(2,309)	3,246,904
Total fixed maturities	30,823,397	2,353,766	(24,271)	33,152,892
Equities:				
Common stock	9,064,262	239,490	(89,058)	9,214,694
Preferred stock	918,688	8,121	-	926,809
Total equities	9,982,950	247,611	(89,058)	10,141,503
Total available for sale	\$ 40,806,347	\$ 2,601,377	\$ (113,329)	\$ 43,294,395

	December 31, 2018			Fair Value
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Available for sale:				
Fixed maturities:				
US Treasury securities	\$ 597,265	\$ -	\$ (27,325)	\$ 569,940
Corporate bonds	16,847,623	43,051	(1,048,313)	15,842,361
Municipal bonds	6,559,854	118,890	(80,631)	6,598,113
Redeemable preferred stock	211,313	-	(18,909)	192,404
Mortgage backed and asset backed securities	3,853,395	11,425	(83,835)	3,780,985
Total fixed maturities	28,069,450	173,366	(1,259,013)	26,983,803
Equities:				
Common stock	11,808,771	31,505	(1,104,341)	10,735,935
Preferred stock	175,964	-	(25,924)	150,040
Total equities	11,984,735	31,505	(1,130,265)	10,885,975
Total available for sale	\$ 40,054,185	\$ 204,871	\$ (2,389,278)	\$ 37,869,778

The amortized cost and fair value of debt securities as of December 31, 2019 and 2018, by contractual maturity, are shown on the following page. Equity securities do not have 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.

Note 3. Investments (Continued)

	As of December 31, 2019		As of December 31, 2018	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Amounts maturing in:				
One year or less	\$ 99,987	\$ 100,239	\$ -	\$ -
After one year through five years	1,424,337	1,471,552	1,472,228	1,462,745
After five years through ten years	3,286,937	3,574,191	2,101,676	2,055,173
More than 10 years	20,743,310	22,626,113	20,430,838	19,492,496
Redeemable preferred stocks	2,097,206	2,133,893	211,313	192,404
Mortgage backed and asset backed securities	3,171,620	3,246,904	3,853,395	3,780,985
Total amortized cost and fair value	\$ 30,823,397	\$ 33,152,892	\$ 28,069,450	\$ 26,983,803

Proceeds from the sale of securities, maturities, and asset paydowns in 2019 and 2018 were \$8,605,475 and \$460,638, respectively. Realized gains and losses related to the sale of securities are summarized as follows:

	Years Ended December 31,	
	2019	2018
Gross gains	\$ 43,935	\$ 530
Gross losses	(258,370)	(5,029)
Net security losses	\$ (214,435)	\$ (4,499)

Gross unrealized losses by duration are summarized as follows:

	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2019						
Available for sale:						
Fixed maturities:						
Corporate bonds	\$ 967,848	\$ (20,079)	\$ -	\$ -	\$ 967,848	\$ (20,079)
Municipal bonds	46,646	(1,883)	-	-	46,646	(1,883)
Mortgage backed and asset backed securities	-	-	296,576	(2,309)	296,576	(2,309)
Total fixed maturities	1,014,494	(21,962)	296,576	(2,309)	1,311,070	(24,271)
Equities:						
Common stock	68,789	(6,920)	3,174,847	(82,138)	3,243,636	(89,058)
Total equities	68,789	(6,920)	3,174,847	(82,138)	3,243,636	(89,058)
Total available for sale	\$ 1,083,283	\$ (28,882)	\$ 3,471,423	\$ (84,447)	\$ 4,554,706	\$ (113,329)

	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2018						
Available for sale:						
Fixed maturities:						
US Treasury securities	\$ 251,206	\$ (27,325)	\$ -	\$ -	\$ 251,206	\$ (27,325)
Corporate bonds	11,743,222	(948,539)	830,239	(99,774)	12,573,461	(1,048,313)
Municipal bonds	2,114,260	(51,267)	859,305	(29,364)	2,973,565	(80,631)
Redeemable preferred stock	90,840	(8,720)	101,564	(10,189)	192,404	(18,909)
Mortgage backed and asset backed securities	544,714	(6,656)	2,448,551	(77,179)	2,993,265	(83,835)
Total fixed maturities	14,744,242	(1,042,507)	4,239,659	(216,506)	18,983,901	(1,259,013)
Equities:						
Common stock	3,312,528	(228,148)	7,188,900	(876,193)	10,501,428	(1,104,341)
Preferred stock	-	-	150,040	(25,924)	150,040	(25,924)
Total equities	3,312,528	(228,148)	7,338,940	(902,117)	10,651,468	(1,130,265)
Total available for sale	\$ 18,056,770	\$ (1,270,655)	\$ 11,578,599	\$ (1,118,623)	\$ 29,635,369	\$ (2,389,278)

Note 3. Investments (Continued)

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, 2019 was 19, which represented an unrealized loss of \$113,329 of the aggregate carrying value of those securities. The 19 securities breakdown as follows: 6 bonds, 6 mortgage and asset backed securities, 4 common stocks, 2 preferred stock index funds, and 1 senior loan fund. The Company determined that no securities were considered to be other-than-temporarily impaired as of December 31, 2019 and 2018.

The Company was required to implement a new accounting standard in the first quarter of 2019 which requires that the unrealized gains and losses on equity securities be reported as income on the Consolidated Statements of Comprehensive Income (Loss). For 2019, net investment gains (losses) is comprised of \$1,256,769 of unrealized gains on our equity portfolio and net realized losses of \$214,435. For 2018, net investment losses consist entirely of our realized losses of \$4,499.

Note 4. 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 assumptions that market participants would use in pricing an asset or liability. The Company uses 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: Fair values of available for sale fixed maturity securities are provided by a third-party pricing service. The pricing service uses a variety of sources to determine fair value of securities. The Company's fixed maturity securities are highly liquid, which allows for a high percentage of the portfolio to be priced through pricing sources. Fair values for equity securities are also provided by a third-party pricing service and are derived from active trading on national market exchanges. The Company's investment in FHLB stock is carried at redemption value which approximates fair value.

US Alliance Corporation

Notes to Consolidated Financial Statements

Note 4. Fair Value Measurements (Continued)

Federal Home Loan Bank advance: FHLB advances are stated at the outstanding principal balance and the carrying value approximates their fair value.

Policyholder deposits in deposit-type contracts: The fair value for policyholder deposits deposit-type insurance contracts (accumulation annuities) is calculated using a discounted cash flow approach. Cash flows are projected using actuarial assumptions and discounted to the valuation date using risk-free rates adjusted for credit risk and the nonperformance risk of the liabilities.

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

	December 31, 2019		Level 1	Level 2	Level 3
	Carrying Value	Fair Value			
Financial Assets:					
Cash and cash equivalents	\$ 6,678,805	\$ 6,678,805	\$ 6,678,805	\$ -	\$ -
Investment income due and accrued	321,362	321,362	-	-	321,362
Policy loans	118,930	118,930	-	-	118,930
Total Financial Assets (excluding available for sale investments)	\$ 7,119,097	\$ 7,119,097	\$ 6,678,805	\$ -	\$ 440,292
Financial Liabilities:					
Policyholder deposits in deposit-type contracts	\$ 19,396,614	\$ 19,186,265	\$ -	\$ -	\$ 19,186,265
Federal Home Loan Bank advance	1,000,000	1,000,000	-	-	1,000,000
Total Financial Liabilities	\$ 20,396,614	\$ 20,186,265	\$ -	\$ -	\$ 20,186,265
December 31, 2018					
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Financial Assets:					
Cash and cash equivalents	\$ 2,077,646	\$ 2,077,646	\$ 2,077,646	\$ -	\$ -
Investment income due and accrued	286,890	286,890	-	-	286,890
Policy loans	56,539	56,539	-	-	56,539
Total Financial Assets (excluding available for sale investments)	\$ 2,241,075	\$ 2,241,075	\$ 2,077,646	\$ -	\$ 343,519
Financial Liabilities:					
Policyholder deposits in deposit-type contracts	\$ 16,626,218	\$ 15,361,164	\$ -	\$ -	\$ 15,361,164
Total Financial Liabilities	\$ 16,626,218	\$ 15,361,164	\$ -	\$ -	\$ 15,361,164

Note 5. Federal Income Taxes

USAC files federal income taxes returns based on type of return. USAC files a consolidated corporate federal income tax return with USAMC and USAIC. USASLC, DCLIC, and USALSC-MT file a consolidated life insurance federal income tax return. Certain items included in income reported for financial statement purposes are not included in taxable income for the current period, resulting in deferred income taxes.

A reconciliation of federal income tax expense computed by applying the federal income tax rate of 21% to income before federal income tax expense for the years ended December 31, 2019 and 2018, respectively, is summarized as follows:

	2019	2018
Income (loss) before total federal income tax	\$ 168,050	\$ (456,136)
Tax Rate	21%	21%
Expected income tax expense (benefit)	35,291	(95,789)
Effect of tax-exempt income	(11,925)	(9,808)
Disallowed deductions	693	-
Other GAAP to tax differences	(24,059)	105,597
Change in valuation allowance	(431,158)	-
Total income tax benefit	\$ (431,158)	\$ -

Notes to Consolidated Financial Statements

Note 5. Federal Income Taxes (Continued)

For the year ended December 31, 2019, the Company recognized a deferred tax benefit related to the reduction of its deferred tax asset valuation allowance. The net change in the allowance resulted in a net tax benefit of \$431,158. Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets as of December 31, 2019 and 2018 are summarized as follows:

	12/31/2019	12/31/2018
Deferred Tax Assets		
Net operating loss carryforwards	\$ 2,641,247	\$ 2,649,673
Unamortized Start-Up Costs	168,803	189,903
Policy owner benefit reserves	1,154,684	1,334,952
Unrealized Loss	-	458,730
Deferred tax asset valuation allowance	(2,423,438)	(4,179,283)
Deferred Tax Assets	1,541,296	453,975
Deferred Tax Liability		
Deferred acquisition costs	227,921	306,614
Fixed assets	8,699	25,499
8 Year Spread	233,429	-
Value of business acquired	117,599	121,862
Unrealized Gain	522,490	-
	1,110,138	453,975
Net Deferred Tax Asset	\$ 431,158	\$ -

As of December 31, 2019, the Company has net operating loss carryforwards of \$12,577,367 of which \$10,485,338 will expire between 2026 through 2037 and of which \$2,092,029 is indefinite. The Company had net operating loss carryforwards of \$12,617,489 as of December 31, 2018.

The 2016 through 2019 U.S. federal tax years are subject to income tax examination by tax authorities. Penalties and interest assessed by taxing authorities are included in the provision for income taxes, if applicable. There were no interest or penalties paid during 2019 and 2018.

US Alliance Corporation

Notes to Consolidated Financial Statements

Note 6. Reinsurance

A summary of significant reinsurance amounts affecting the accompanying consolidated financial statements as of December 31, 2019 and 2018 and for the years ended December 31, 2019 and 2018 is listed in the following table.

	December 31, 2019	December 31, 2018
Balance Sheet		
Benefits and claim reserves ceded	\$ 136,579	\$ 64,451
Amounts due from ceding company	50,824	97,395
Benefits and claim reserves assumed	12,597,007	11,521,657
Statements of Comprehensive Income (Loss)		
Ceded premium	\$ 800,525	\$ 629,196
Assumed premium	4,906,522	4,863,227
Allowances on ceded premium	17,672	19,347
Allowances paid on assumed premium	495,327	401,147
Assumed benefits and policyholder reserve increases	4,269,695	4,078,572

The company currently reinsures business in excess of its retention with General Re Life Corporation, Reliance Standard Life Insurance Company, Unified Life Insurance Company, Hartford Life and Accident Company, and Optimum Re Insurance Company. The Company also currently assumes business under agreements with Unified Life Insurance Company and American Life and Security Corporation.

Note 7. Lease Commitments

Total rent expense was \$45,785 and \$39,166 for the years ended December 31, 2019 and 2018, respectively. The Company amended its lease on its Topeka headquarters effective January 1, 2019 which extended its termination date for two years with three additional optional years. The future rent payments required under the lease are \$37,824 in 2020. The Company also maintains an office in Bismarck, ND with a lease that expires on September 30, 2020. The future rent payments required under this lease are \$8,446 in 2020.

Note 8. Related Party Transaction

Brier Development Company, Inc. is owned solely by Jack Brier, President and CEO of the Company. Brier Development Company, Inc. owns 20,000 shares of stock in USAC which are in escrow until 5 years after the termination of the public offering. The Company makes reimbursements to Brier Development Company, Inc. on behalf of Jack H. Brier for single coverage for long-term care and an allowance for vehicle expenses. Reimbursements for these items were \$19,421 and \$19,421 for years ended December 31, 2019 and 2018, respectively.

Note 9. Federal Home Loan Bank Advances

One of the Company's subsidiaries, USALSC, is a member of the Federal Home Loan Bank of Topeka (FHLB), which provides access to collateralized borrowings. Any borrowings from FHLB requires the purchase of FHLB common stock in an amount equal to 4.5% of the borrowing. On October 31, 2019, USALSC received an advance of \$1,000,000 based on USALSC purchasing \$45,000 of FHLB common stock. The Company had outstanding advances from the Federal Home Loan Bank of Topeka of \$1,000,000 at December 31, 2019. Advances from the FHLB are secured by the Federal Home Loan Bank of Topeka stock and pledged assets consisting of mortgage backed securities and overnight deposit funds with a fair value of \$1,132,099. This regular fixed convertible advance has a 10 year term with an FHLB option to convert to an adjustable rate on the 5th anniversary. The interest rate at issue was 1.66%.

As of December 31, 2019, USALSC had pledged \$932,099 of mortgage backed securities and \$200,000 of overnight deposits to FHLB in support of its outstanding advance.

Note 10. Restricted Funds

As required by Kansas law, US Alliance Life and Security Company maintains a trust account at Capitol Federal Savings Bank which is jointly owned by the Kansas Insurance Department. The life insurance company is required by the State of Kansas to hold \$400,000 of asset book value in this account. The Company placed additional assets into this trust account in 2015 to meet the minimum deposit requirement for the State of Missouri. These assets were held in bonds and other invested assets with a statement value of \$625,000 and \$625,000 as of December 31, 2019 and 2018, respectively. Additionally, the Company has a special deposit with the State of Missouri with asset book value of \$300,000. Dakota Capital Life Insurance Company has \$200,000 of funds on deposit jointly owned with the North Dakota Insurance Department at the Bank of North Dakota. US Alliance Life and Security Company – Montana has \$325,000 of funds on deposit jointly owned by the Montana Department of Insurance at Wells Fargo.

US Alliance Corporation

Notes to Consolidated Financial Statements

Note 11. 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 Insurance Department. Dakota Capital Life Insurance Company is required to prepare statutory financial statements in accordance with statutory accounting practices prescribed or permitted by the North Dakota Insurance Department. US Alliance Life and Security Company - Montana is required to prepare statutory financial statements in accordance with statutory accounting practices prescribed or permitted by the Montana Insurance Department. 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 income (loss) and statutory capital and surplus of US Alliance Life and Security Company, Dakota Capital Life Insurance Company, and US Alliance Life and Security Company - Montana as of December 31, 2019 and 2018 and for the years ended December 31, 2019 and 2018.

	Statutory Capital and Surplus as of	
	December 31 2019	December 31 2018
US Alliance Life and Security Company	\$ 5,831,153	\$ 5,239,874
Dakota Capital Life Insurance Company	1,472,930	1,373,390
US Alliance Life and Security Company - Montana	1,674,410	1,721,012

	Statutory Net Income (loss) for the years ended December 31,	
	2019	2018
US Alliance Life and Security Company	\$ 6,120	\$ 28,883
Dakota Capital Life Insurance Company	116,748	70,393
US Alliance Life and Security Company - Montana	(44,873)	42,957

The payment of dividends to US Alliance Corporation by US Alliance Life and Security Company is subject to limitations imposed by applicable insurance laws. For example, “extraordinary” dividends may not be paid without permission of the Kansas Insurance Department. An “extraordinary” dividend is defined, in general, as any dividend or distribution of cash or other property whose fair market value, compared with that of other dividends or distributions made within the preceding 12 months, exceeds the greater of (i) 10% of the policyholders’ surplus (total statutory capital stock and surplus) as of December 31 of the preceding year or (ii) the statutory net gain from operations excluding realized gains on investments) of the insurer for the 12 month period ending December 31 of the preceding year.

The payment of dividends to US Alliance Life and Security Company by Dakota Capital Life Insurance Company and US Alliance Life and Security Company – Montana is subject to similar limitations.

Note 12. 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 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 February 20, 2020, the date on which the consolidated financial statements were issued.