FIRST TRINITY FINANCIAL CORPORATION

2019 ANNUAL REPORT

Dear Shareholder:

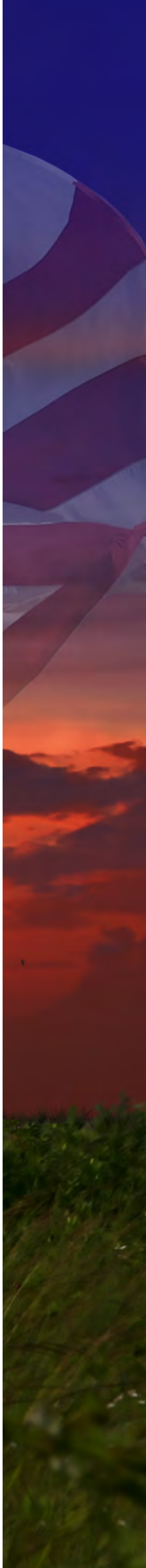
2019 was an exceptional year for First Trinity Financial Corporation ("FTFC" or "the Company") and its subsidiaries, Trinity Life Insurance Company ("TLIC"), Family Benefit Life Insurance Company ("FBLIC") and Trinity American, Inc. ("TAI"). As your Chairman, President and Chief Executive Officer, it is with great pleasure that I present to you the consolidated financial results for the year ended December 31, 2019.

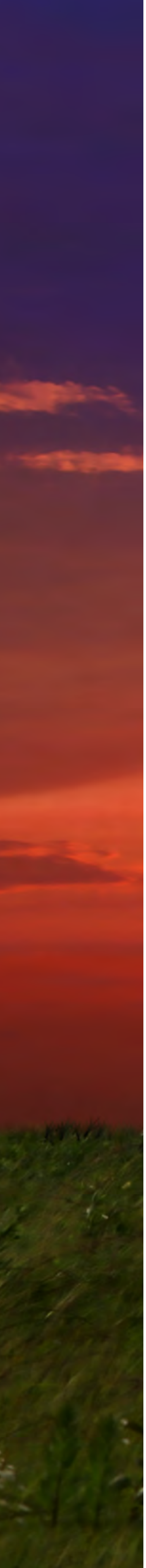
Assets increased by $171,429,524 from $433,506,850 in 2018 to $604,936,374 in 2019, an increase of 39.5%! Revenues increased by 26.8 % from $39,241,095 in 2018 to $49,776,695 in 2019. Net income after tax rose 18.6% to $6,099,720 ($.78 per share), an increase of $957,574 over 2018 net income after tax of $5,142,146 ($.66 per share)!

Most of the Company's asset growth can be attributed to our annuity sales. In 2019, annuity considerations received reached an all-time high of $163,781,048 of which $71,681,653 was reinsured. In addition, the Company's life insurance premiums received reached an all-time high and eclipsed the $20,000,000 for the first time ever in company history! 2019 life insurance premium income was $23,125,090, an increase of $4,302,573 or a 22.9% increase over year end 2018 insurance premiums of $18,822,517.

One reason for the Company's increase in earnings is the increase in net investment income. Net investment income for 2019 was $24,370,040 an increase $4,760,654 or 24.3% over 2018 net investment income of $19,609,386. The increase in net investment income was derived primarily from two sources; first the Company had significantly more assets under management than it did in 2018, and second the increase in investments in mortgage loans. Over half of the company's net investment income was derived from interest on our mortgage portfolio. At year-end 2019, the Company's mortgage loan portfolio totaled $162,404,640 with a gross return of 8.74% and a loan to value on the entire portfolio of 50.5%. This low loan to value is highly unusual in a portfolio that returns 8.74% gross yield and provides tremendous security in case of an economic downturn in the real estate market. Due to the success of our mortgage portfolio, the Company is entering into partnerships to expand our mortgage loan production. In addition, the Company is also seeking agreements to sell mortgages produced in excess of the Company's investment needs which in turn may provide the Company with additional revenue producing opportunities in the future.

Furthermore, during fourth quarter 2019, FTFC reached an agreement to acquire K-TENN Insurance Company ("KTIC"), Nashville Tennessee. FTFC acquired KTIC through the issuance of 168,866 shares of FTFC stock valued at $10.94 per share. In the first quarter of 2020, KTIC was successfully merged into TLIC. This represents the first acquisition FTFC has made using its shares as consideration. I am also proud to announce that in 2019 FTFC declared its first cash dividend and its third stock dividend to our shareholders as part of the recapitalization process.





In my 2016 letter to the shareholders, I mentioned that management worked with the Oklahoma Insurance Department and the Speaker of the Oklahoma House of Representatives to pass a bill to increase mortgage loan investment limits from 25% to 35% of admitted assets for life insurance companies domiciled in the state of Oklahoma. The passing of this bill aided the Company tremendously by increasing our investment in mortgage loans. During 2020 management will continue working with the Oklahoma Insurance Department and the Oklahoma legislature to pursue an increase in mortgage loan investments from 35% to 45% (our original goal) of an Oklahoma Domestic insurer's admitted assets. If the company can accomplish this goal, it will put the Oklahoma investment regulations in mortgage loans on a more level playing field with our surrounding states allowing Oklahoma's domestic insurers to compete more fairly in the marketplace.

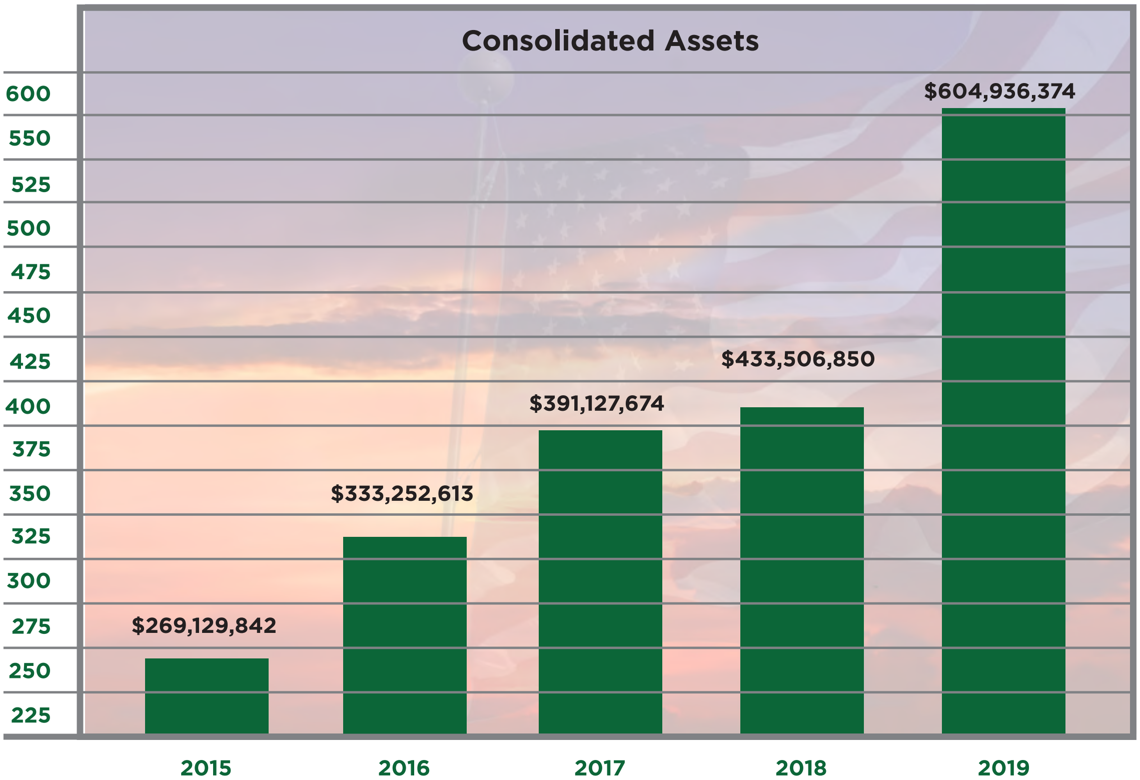
As stated in previous letters, it has been our goal to seek additional opportunities to aid in the growth and expansion for FTFC, TLIC, FBLIC and TAI. To that end, management has held numerous meetings with investment bankers, corporate brokers, financial institutions and multi-billion dollar asset life insurers to determine if the development of strategic partnerships, potential mergers and/or to raise additional capital would be beneficial and the right course of action for the Company's future. However, no action will be undertaken without careful consideration and protection of our existing shareholders. The reclassification of our shares from common stock to both Class A and Class B shares will aid in this protection. Due to our significant growth and profitability over the years, our Company is in a very envious position. We can seek external capital infusions to continue our historic and significant growth but with outside constraints due to having a large outside investor or we can grow through capital we generate internally with no constraints. Management will continue to move cautiously and diligently and determine whether to rely on external or internal capital. Rest assured that we will remain a profitable and growing company!

I can personally guarantee our shareholders that our Board of Directors, executive management and our home office staff are committed to continually building a profitable and successful Company. I hope that the steady increase in assets, premium income, net investment income, revenue and net income each year reflects that our dedication is persistent as well as optimistic for all new endeavors the Company may encounter.

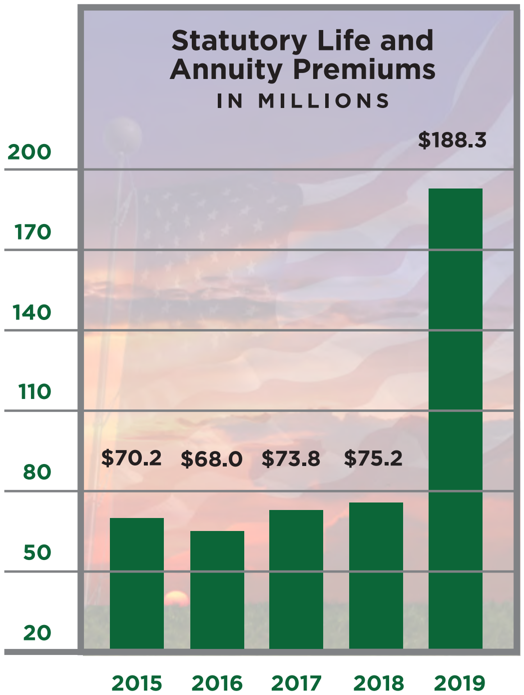
We are deeply appreciative of our shareholder's continued support. FTFC could not be as successful as it has been without your assistance and we will work to continue to earn that support every day.

Sincerely,

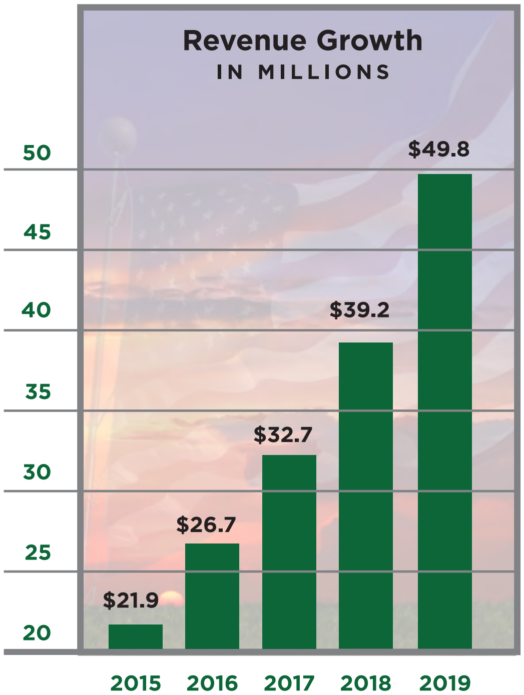
Gregg E. Zahn
Chairman, President, Chief Executive Officer



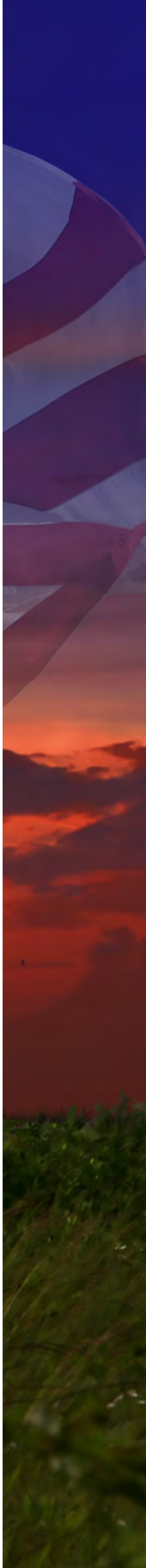
Assets increased by $171,429,524 from $433,506,850 in 2018 to $604,936,374 in 2019, an increase of 39.5%!

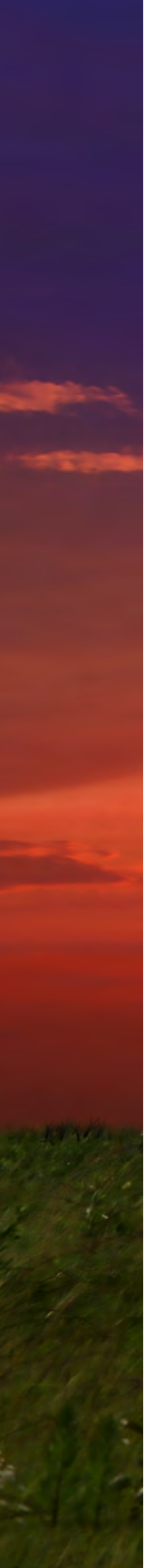


Statutory life insurance premiums and annuity considerations before reinsurance ceded increased by $113.1 Million in 2019, an increase of 150.4%! (Reinsurance ceded was $71,936,037, $30,445,152, $350,591, $375,794 and $385,571 in 2019, 2018, 2017, 2016, and 2015 respectively.)



Revenues increased by 26.8 % from $39,241,095 in 2018 to $49,776,695 in 2019.





Executive Officers and Board of Directors

Gregg E. Zahn
Chairman / President
Chief Executive Officer
Director

Jeffrey J. Wood
Chief Financial Officer
Secretary
Treasurer

William S. Lay
Vice President
Chief Investment Officer
Director

Alvin J. Begnoche
Vice President
Marketing

Porter Horgan
Vice President
Director of Mortgage Loans

Bill H. Hill
Director

Will W. Klein
Director

Gerald J. Kohout
Director

Charles (Tinker) Owens
Director

George E. Peintner
Director

Gary L. Sherrer
Director

Corporate Information

Corporate Address
Corporate Office
7633 East 63rd Place, Suite 230
Tulsa, Oklahoma 74133

Annual Shareholder Meeting
Diplomat Room of the
Embassy Suites Tulsa – Interstate 44
3332 South 79th East Avenue
Tulsa, Oklahoma 74145
May 20, 2020
1:00 p.m. Central Daylight Savings Time

Transfer Agent and Registrar
For Shareholder inquires concerning transferring ownership, address change, or lost certificates, please contact:

Computershare Trust Company
C/O Shareholder Services
462 South 4th Street
Suite 1600
Louisville, KY 40202

Shareholder Service Line
1-800-962-4284 or 781-575-3120

Independent Auditors
Kerber, Eck & Braeckel LLP
3200 Robbins Road, Suite 200A
Springfield, IL 62704

Investor Relations
Additional copies of this report, Form 10-K or other financial information are available without charge and may be obtained by written request to Investor Relations at the corporate address.

Market Information
Trading of the Company's common stock is limited and sporadic and an established market does not exist.

Directors and Officers

Bill H. Hill (1) (2) (3) (4)
Will W. Klein (1) (2) (3) (4)
Gerald J. Kohout (1) (2) (3) (4)
William S. Lay (1) (2) (3) (4)
Charles W. Owens (1) (2) (3) (4)
George E. Peintner (1) (2) (3) (4)
Gary L. Sherrer (1) (2) (3) (4)
Gregg E. Zahn (1) (2) (3) (4)
Jeffrey J. Wood (4)

(1) First Trinity Financial Corporation
(2) Trinity Life Insurance Corporation
(3) First Trinity Capital Corporation
(4) Family Benefit Life Insurance

Executive Officers

Gregg E. Zahn
Chairman, President and Chief Executive Officer

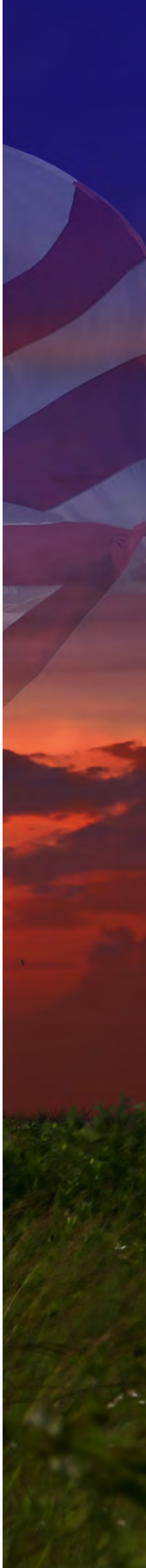
Jeffrey J. Wood
Chief Financial Officer, Secretary and Treasurer

Alvin J. Begnoche
Vice President, Marketing

Porter Horgan
Vice President, Director of Mortgage Loans

William S. Lay
Vice President, Chief Investment Officer

Websites
We invite you to visit our websites at:
www.firsttrinityfinancial.com
www.trinitylifeinsurance.com
www.familybenefitlife.com



FIRST TRINITY FINANCIAL CORPORATION

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PART I

Item 1. Business

Business Development

First Trinity Financial Corporation (the "Company" or "FTFC") is the parent holding company of Trinity Life Insurance Company ("TLIC"), Family Benefit Life Insurance Company ("FBLIC"), First Trinity Capital Corporation ("FTCC") and Trinity American, Inc. ("TAI"). The Company was incorporated in Oklahoma on April 19, 2004, for the primary purpose of organizing a life insurance subsidiary.

The Company owns 100% of TLIC. TLIC owns 100% of FBLIC. TLIC and FBLIC are primarily engaged in the business of marketing, underwriting and distributing a broad range of individual life insurance products and annuity contracts to individuals.

TLIC's and FBLIC's current product portfolio consists of a modified premium whole life insurance policy with a flexible premium deferred annuity rider, whole life, term, final expense, accidental death and dismemberment policies and annuity contracts. The term products are both renewable and convertible and issued for 10, 15, 20 and 30 years. They can be issued with premiums fully guaranteed for the entire term period or with a limited premium guarantee. The final expense is issued as either a simplified issue or as a graded benefit, determined by underwriting. The TLIC and FBLIC products are sold through independent agents.

TLIC is licensed in the states of Illinois, Kansas, Kentucky, Montana, Nebraska, North Dakota, Ohio, Oklahoma, Tennessee and Texas. FBLIC is licensed in the states of Alabama, Arizona, Arkansas, Colorado, Georgia, Illinois, Indiana, Kansas, Kentucky, Louisiana, Michigan, Mississippi, Missouri, Montana, Nebraska, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Pennsylvania, South Dakota, Tennessee, Texas, Utah, Virginia and West Virginia.

The Company owns 100% of FTCC that was incorporated in 2006, and began operations in January 2007. FTCC provided financing for casualty insurance premiums for individuals and companies and was licensed to conduct premium financing business in the states of Alabama, Arkansas, Louisiana, Mississippi and Oklahoma. FTCC has made no premium financing loans since June 30, 2012.

The Company owns 100% of TAI (formerly known as Citizens American Life, Inc.). TAI was incorporated in Barbados, West Indies on March 24, 2016 for the primary purpose of forming a life insurance company producing United States (U.S.) dollar denominated life insurance policies and annuity contracts outside of the United States and Barbados. TAI is licensed as an Exempt Insurance Company under the Exempt Insurance Act of Barbados. TAI was initially involved in developing life insurance and annuity contracts and identifying distribution channels but is now issuing life insurance policies and annuity contracts through associations with distribution channels. The Company's acquisition of TAI was formally approved by Barbados regulators and the certifications were received in 2019.

Company Capitalization

Our operations have been financed primarily through the private placement of equity securities and intrastate public stock offerings. Through December 31, 2019, we have received $27,119,480 from the sale of our shares. The Company raised $1,450,000 from two private placements during 2004 and $25,669,480 from two public stock offerings and one private placement stock offering from June 22, 2005 through February 23, 2007; June 29, 2010 through April 30, 2012 and August 15, 2012 through March 8, 2013. The Company issued 7,347,488 shares of its common stock and incurred $3,624,518 of offering costs during these private placements and public stock offerings. The Company also issued 702,685 shares of its common stock in connection with two stock dividends paid to shareholders in 2011 and 2012.

During 2012, 2013, 2014 and 2015, the Company repurchased 247,580 shares of its common stock at a total cost of $893,947 from former members of the Board of Directors including the former Chairman of the Board of Directors, a former agent, the former spouse of the Company's current Chairman, Chief Executive Officer and President and a charitable organization where a former member of the Board of Directors had donated shares of the Company's common stock.

Acquisitions

On December 23, 2008, FTFC acquired 100% of the outstanding common stock of First Life America Corporation ("FLAC") from an unaffiliated company. The acquisition of FLAC was accounted for as a purchase. The aggregate purchase price for FLAC was $2,695,234 including direct cost associated with the acquisition of $195,234. The acquisition of FLAC was financed with the working capital of FTFC.

On December 31, 2008, FTFC made FLAC a 15 year loan in the form of a surplus note in the amount of $250,000 with an interest rate of 6% payable monthly, that was approved by the Oklahoma Insurance Department ("OID"). This surplus note is eliminated in consolidation.

On August 31, 2009, two of the Company's subsidiaries, Trinity Life Insurance Company ("Old TLIC") and FLAC, were merged, with FLAC being the surviving company. Immediately following the merger, FLAC changed its name to TLIC.

On December 28, 2011, TLIC acquired 100% of the outstanding common stock of FBLIC from FBLIC's shareholders. The acquisition of FBLIC was accounted for as a purchase. The aggregate purchase price for the acquisition of FBLIC was $13,855,129. The acquisition of FBLIC was financed with the working capital of TLIC.

On April 28, 2015, the Company acquired a block of life insurance policies and annuity contracts according to the terms of an assumption reinsurance agreement. The Company acquired assets of $3,644,839 (including cash), assumed liabilities of $3,055,916 and recorded a gain on reinsurance assumption of $588,923.

On April 3, 2018, FTFC acquired 100% of the outstanding stock of TAI domiciled in Barbados, West Indies. The Barbados regulators approved the acquisition and supplied certifications during 2019. The aggregate purchase price for the acquisition of TAI was $250,000. The acquisition of TAI was financed with the working capital of FTFC.

Effective January 1, 2020, the Company acquired 100% of the outstanding common stock of K-TENN Insurance Company ("K-TENN") from its sole shareholder in exchange for 168,866 shares of FTFC's common stock. The acquisition of K-TENN was accounted for as a purchase. The aggregate purchase price of K-TENN was $1,837,469. Immediately subsequent to this acquisition, the $1,837,469 of net assets and liabilities of K-TENN along with the related life insurance business operations were contributed to TLIC.

Financial Information about Segments

The Financial Accounting Standards Board ("FASB") guidance requires a "management approach" in the presentation of business segments based on how management internally evaluates the operating performance of business units. The discussion of segment operating results that follows is being provided based on segment data prepared in accordance with this methodology.

Our business segments are as follows:

- Life insurance operations, consisting of the life insurance operations of TLIC and FBLIC;
- Annuity operations, consisting of the annuity operations of TLIC and FBLIC and
- Corporate operations, which includes the results of the parent company and FTCC after the elimination of intercompany amounts.

Please see below and Note 11 to the consolidated financial statements as of and for the years ended December 31, 2019 and 2018 for additional information regarding segment information.

Life Insurance and Annuity Operations

Our Life Insurance and Annuity Operations consists of issuing ordinary whole life insurance, endowments, modified premium whole life with an annuity rider, term, final expense and accidental death and dismemberment policies and annuity contracts. The policies can be issued with premiums fully guaranteed for the entire term period or with a limited premium guarantee. The final expense is issued as either a simplified issue or as a graded benefit, determined by underwriting.

TLIC renewed its administrative services agreement with Investors Heritage Life Insurance Company ("IHLIC") on September 1, 2017. Under the terms of this agreement, the services provided by IHLIC include underwriting, actuarial, policy issue, accounting, claims processing and other services incidental to the operations of TLIC. The agreement is effective for a period of five (5) years from September 1, 2017 through August 31, 2022 and includes a provision that the agreement may be terminated at any time by either party with a 180 day prior notice.

FBLIC renewed its administrative services agreement with IHLIC on November 1, 2017. Under the terms of this agreement, the services provided by IHLIC include underwriting, actuarial, policy issue, accounting, claims processing and other services incidental to the operations of FBLIC. The agreement is effective for a period of five (5) years from November 1, 2017 through October 31, 2022 and includes a provision that the agreement may be terminated at any time by either party with a 180 day prior notice.

TLIC continues to seek to serve middle income households in the states of Illinois, Kansas, Kentucky, Nebraska, North Dakota, Ohio, Oklahoma and Texas. TLIC markets its products through independent agents. With the acquisition of FBLIC in late 2011, we expanded into Arizona, Colorado, Missouri and New Mexico. FBLIC also had initial licenses in Kansas, Nebraska and Oklahoma where TLIC was also licensed. In late 2012, FBLIC was licensed in Arkansas, Indiana, Kentucky, North Dakota, South Dakota, Texas and West Virginia. In 2013, FBLIC was licensed in Illinois and Pennsylvania. In 2014, FBLIC was licensed in Georgia, Louisiana, Michigan, Mississippi, North Carolina, Ohio, Tennessee and Virginia. In 2015, FBLIC was licensed in Alabama and Utah. In 2018, FBLIC and TLIC were licensed in Montana. In 2019, FBLIC and TLIC were licensed in Tennessee.

The following tables sets forth our direct collected life insurance premiums and annuity considerations by the policyholder's state of residence at the time of premium collection and annuity consideration, for the most significant states in which we are licensed, for the years ended December 31, 2019 and 2018, in accordance with statutory accounting practices prescribed by the states of domicile of TLIC and FBLIC.

	Year Ended December 31, 2019			
	Life		Annuity	
State	Premiums	Percentage	Considerations	Percentage
Alabama	$ 521,441	2.39%	$ 239,232	0.15%
Arizona	153,169	0.70%	3,512,507	2.15%
Arkansas	306,292	1.41%	1,091,080	0.67%
Colorado	713,272	3.28%	1,829,878	1.12%
Georgia	846,972	3.89%	2,025,709	1.24%
Illinois	1,665,679	7.65%	4,156,611	2.55%
Indiana	902,189	4.14%	5,116,469	3.13%
Kansas	2,155,408	9.90%	8,797,802	5.39%
Kentucky	673,336	3.09%	1,486,046	0.91%
Louisiana	634,294	2.91%	2,308,710	1.41%
Michigan	469,578	2.16%	13,352,907	8.18%
Missouri	784,434	3.60%	2,421,882	1.48%
Nebraska	210,395	0.97%	5,037,505	3.08%
North Carolina	1,931,032	8.87%	14,891,247	9.12%
North Dakota	89,808	0.41%	18,626,695	11.41%
Ohio	2,886,556	13.26%	4,518,836	2.77%
Oklahoma	1,160,860	5.33%	3,001,413	1.84%
Pennsylvania	844,738	3.88%	6,038,947	3.70%
Tennessee	454,065	2.09%	1,697,493	1.04%
Texas	3,500,652	16.08%	53,321,880	32.63%
Virginia	381,508	1.75%	3,970,829	2.43%
All other states	488,075	2.24%	5,873,697	3.60%
Total direct collected premiums and considerations	$ 21,773,753	100.00%	$ 163,317,375	100.00%

State	Year Ended December 31, 2018			
	Life		Annuity	
	Premiums	Percentage	Considerations	Percentage
Alabama	$ 359,367	1.91%	$ 50,800	0.09%
Arizona	100,989	0.54%	177,560	0.33%
Arkansas	256,591	1.36%	205,795	0.38%
Colorado	582,423	3.09%	343,234	0.63%
Georgia	630,534	3.35%	695,687	1.28%
Illinois	1,623,150	8.62%	1,644,945	3.01%
Indiana	768,182	4.08%	496,481	0.91%
Kansas	2,253,023	11.96%	1,976,325	3.62%
Kentucky	603,186	3.20%	231,112	0.42%
Louisiana	573,141	3.04%	160,132	0.29%
Michigan	364,120	1.93%	1,201,305	2.20%
Missouri	750,749	3.98%	673,760	1.23%
Nebraska	212,891	1.13%	1,564,585	2.87%
North Carolina	1,407,279	7.47%	422,725	0.77%
North Dakota	98,125	0.52%	13,311,590	24.40%
Ohio	2,360,144	12.53%	699,796	1.28%
Oklahoma	1,285,488	6.82%	1,179,828	2.16%
Pennsylvania	629,500	3.34%	2,618,266	4.80%
Tennessee	339,087	1.80%	414,392	0.76%
Texas	2,952,455	15.67%	24,492,681	44.90%
Virginia	310,985	1.65%	50,000	0.09%
All other states	378,239	2.01%	1,949,102	3.58%
Total direct collected premiums and considerations	$ 18,839,648	100.00%	$ 54,560,101	100.00%

Reinsurance

TLIC cedes reinsurance under various agreements allowing management to control exposure to potential losses arising from large risks and providing additional capacity for growth and risk diversification. TLIC reinsures all amounts of risk on any one life in excess of $100,000 for individual life insurance with IHLIC, Optimum Re Insurance Company (“Optimum Re”), RGA Reinsurance Company and Wilton Reassurance Company (“Wilton Re”).

The Company also assumes reinsurance under various agreements allowing management to increase growth in assets and profitability. TLIC is a party to an Automatic Retrocession Pool Agreement (the “Reinsurance Pool”) with Optimum Re, Catholic Order of Foresters, American Home Life Insurance Company and Woodmen of the World. The agreement provides for automatic retrocession of coverage in excess of Optimum Re’s retention on business ceded to Optimum Re by the other parties to the Reinsurance Pool. TLIC’s maximum exposure on any one insured under the Reinsurance Pool is $100,000. As of January 1, 2008, the Reinsurance Pool stopped accepting new cessions.

Effective September 29, 2005, FLAC and Wilton Re executed a binding letter of intent whereby both parties agreed that FLAC would cede the simplified issue version of its Golden Eagle Whole Life (Final Expense) product to Wilton Re on a 50/50 quota share original term coinsurance basis. The letter of intent was executed on a retroactive basis to cover all applicable business issued by FLAC subsequent to January 1, 2005. Wilton Re agreed to provide various commission and expense allowances to FLAC in exchange for FLAC ceding 50% of the applicable premiums to Wilton Re as they were collected. As of June 24, 2006, Wilton Re terminated the reinsurance agreement for new business issued after the termination date.

FBLIC also participates in reinsurance in order to provide risk diversification, additional capacity for future growth and limit the maximum net loss potential arising from large amounts of risk. FBLIC reinsures initial amounts of risk on any one life in excess of $100,000 for individual life insurance with Optimum Re. TLIC and FBLIC also reinsure its accidental death benefit portion of their life policies under a bulk agreement with Optimum Re. To the extent that the reinsurance companies are unable to meet their obligations under the reinsurance agreements, TLIC and FBLIC remain primarily liable for the entire amount at risk.

Coinsurance

Effective January 1, 2018, TLIC entered into an annuity coinsurance agreement with an offshore annuity and life insurance company whereby 90% of TLIC’s annuity considerations originated after December 31, 2017 were ceded to the assuming company. The assuming company contractually reimburses TLIC for the related commissions, withdrawals, settlements, interest credited, submission costs, maintenance costs, marketing costs, excise taxes and other costs plus a placement fee.

In accordance with this annuity coinsurance agreement, TLIC holds assets and recognizes a funds withheld liability for the benefit of the assuming company in an amount at least equal to the annuity reserves in accordance with U.S. statutory accounting principles generated by this ceded business. In addition, the assuming company maintains a trust related to this ceded business amounting to at least an additional 4% of assets above the annuity reserve required under U.S. statutory accounting principles. This coinsurance agreement may be terminated for new business by either party at any time upon 30 days prior written notice to the other party.

In 2019, TLIC entered into a life insurance coinsurance agreement with TAI, effective October 1, 2018, whereby 100% of TAI’s life insurance policies and annuity contracts issued after September 30, 2018 were ceded to TLIC. TLIC contractually reimburses TAI for the related commissions, submission costs, maintenance costs, marketing costs and other costs related to the production of life insurance policies and annuity contracts.

Competition

The U.S. life insurance industry is a mature industry that has experienced little to no growth. Competition is intense because the life insurance industry is consolidating, with larger, more efficient and more effective organizations emerging from consolidation. In addition, legislation became effective in the United States that permits commercial banks, insurance companies and investment banks to combine. These factors have increased competitive pressures in general.

Many domestic life insurance companies have significantly greater financial, marketing and other resources, longer business histories and more diversified lines of insurance products than we do. We also face competition from companies marketing in person as well as with direct mail and internet sales campaigns. Although we may be at a competitive disadvantage to these entities, we believe that our premium rates, policy features, marketing approaches and policyholder services are generally competitive with those of other life insurance companies selling similar types of products and provide us with niche marketing opportunities not actively pursued by other life insurance companies.

Governmental Regulation

TLIC and FBLIC, respectively, are subject to regulation and supervision by the OID and the Missouri Department of Insurance (“MDOI”). The insurance laws of Oklahoma and Missouri give the OID and MDOI 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.

TLIC and FBLIC can be required, under the solvency or guaranty laws of most states in which they do business, to pay assessments (up to prescribed limits) to fund policyholder losses or liabilities of other insurance companies that become insolvent. These assessments may be deferred or foregone under most guaranty laws if they would threaten an insurer's financial strength and, in certain instances, may be offset against future premium taxes.

TLIC is subject to Oklahoma laws and FBLIC is subject to Missouri laws that limit the amount of dividends insurance companies can pay to stockholders without approval of the respective Departments of Insurance. The maximum dividend, which may be paid in any twelve-month period without notification or approval, is limited to the greater of 10% of statutory surplus as of December 31 of the preceding year or the net gain from operations of the preceding calendar year. Cash dividends may only be paid out of surplus derived from realized net profits. Based on these limitations, there is capacity for TLIC to pay a dividend up to $1,245,184 in 2020 without prior approval. In addition, based on those limitations, there is the capacity for FBLIC to pay a dividend up to $918,511 in 2020 without prior approval. FBLIC paid a dividend of $760,347 to TLIC in 2018 but none in 2019. Dividends paid by FBLIC are eliminated in consolidation. TLIC has paid no dividends to FTFC.

There are certain factors particular to the life insurance business which may have an adverse effect on the statutory operating results of TLIC and FBLIC. One such factor is that the costs associated with issuing a new policy in force is usually greater than the first year's policy premium. Accordingly, in the early years of a new life insurance company, these initial costs and the required provisions for reserves often have an adverse effect on statutory operating results.

Employees

As of March 9, 2020, the Company had fifteen full-time employees and one part-time employee.

Item 2. Properties

The Company leases 6,769 square feet of office space pursuant to an original five-year lease that began October 1, 2010 and was amended on October 1, 2015 for another five-year term. Under the terms of the original home office lease, the monthly rent was $7,897 from October 1, 2010 through September 30, 2015. Under the terms of the amended home office lease, the monthly rent is $8,461 from October 1, 2015 through September 30, 2016, $8,630 from October 1, 2016 through September 30, 2017, $8,805 from October 1, 2017 through September 30, 2018, $8,920 from October 1, 2018 through September 30, 2019 and $9,161 from October 1, 2019 through September 30, 2020. The Company incurred rent expense (including charges for the lessor's building operating expenses above those specified in the lease agreement less monthly amortization of the leasehold improvement allowance received from the lessor) of $97,489 and $97,063 for the years ended December 31, 2019 and 2018, respectively, under this lease.

On January 1, 2011, the Company received a $120,000 leasehold improvement allowance from the lessor related to the original lease that was fully amortized by September 30, 2015. In accordance with the amended lease on October 1, 2015, the Company was provided an allowance of $54,152 for leasehold improvements. The leasehold improvement allowance is amortized over the remaining amended non-cancellable lease term and reduced rent expense by $10,830 for both the years ended December 31, 2019 and 2018. The future minimum lease payments to be paid under the amended non-cancellable lease agreement is $82,446 for the year 2020.

TLIC owns approximately six and one-half acres of land located in Topeka, Kansas. A 20,000 square foot office building has been constructed on approximately one-fourth of this land. TLIC executed a two year lease agreement effective January 1, 2015, for 7,500 square feet of its building in Topeka, Kansas. Effective January 1, 2017, this lease was renewed for two years. The terms of the lease leave TLIC responsible for paying real estate taxes, building insurance and building and ground maintenance. The monthly lease payments were $8,696 for 2015, 2016, 2017 and 2018. Effective December 31, 2018, the lease agreement expired without renewal. TLIC renewed a five year lease agreement effective June 1, 2011, for 10,000 square feet in the Topeka, Kansas office building. Beginning June 1, 2014, the lessee can terminate the lease with a 180 day written notice. The terms of the lease leave TLIC responsible for paying real estate taxes, building insurance and building and ground maintenance with partial reimbursement from the lessee. The lease agreement calls for minimum monthly base lease payments of $17,750.

This 10,000 square feet lease was renewed for five years to be effective from June 1, 2016 through May 31, 2021, with an option for an additional five years from June 1, 2021 through May 31, 2026. Beginning June 1, 2021, the lessee can terminate the lease with a 120 day written notice. The terms of the lease leave TLIC responsible for paying real estate taxes, building insurance and building and ground maintenance with partial reimbursement from the lessee. The lease agreement calls for a monthly lease payment of $16,598 from June 1, 2016 through June 30, 2016. Starting July 1, 2016, the lease agreement includes an $88,833 tenant improvement allowance that is amortized over 59 months with interest at 5.00%. The monthly lease payments were $18,299 from July 1, 2016 through May 31, 2017, $18,376 from June 1, 2017 through May 31, 2018, $18,508 from June 1, 2018 through May 31, 2019 and $18,584 from June 1, 2019 through May 31, 2021.

A five year lease agreement effective September 1, 2010 automatically renewed on 2,500 square feet of the Topeka, Kansas office building with a 90 day notice by the lessee to terminate the lease. This lease was renewed on September 1, 2015 to run through August 31, 2017 with an option for an additional three years through August 31, 2020. Beginning September 1, 2017, the lessee can terminate the lease with a 120 day written notice. The terms of the lease leave TLIC responsible for paying real estate taxes, building insurance and building and ground maintenance with partial reimbursement from the lessee. The lease payments are $4,236 per month from September 1, 2015 through August 31, 2016, $4,242 from September 1, 2016 through August 31, 2017, $4,263 from September 1, 2017 through August 31, 2018, $4,293 from September 1, 2018 through August 31, 2019 and $4,310 from September 1, 2019 through December 31, 2019.

The future minimum lease payments to be received under the non-cancellable lease agreements are $223,008 and $92,920 for the years 2020 and 2021, respectively.

FBLIC owns approximately one-half acre of undeveloped land located in Jefferson City, Missouri with a carrying value of $131,000.

During 2019 and 2018 the Company foreclosed on residential mortgage loans of real estate totaling $99,218 and $467,593, respectively, and transferred those properties to investment real estate held for sale. The Company's policy is to reduce the carrying value of this residential real estate obtained through foreclosure to the lower of acquisition cost or net realizable value.

During 2019, the Company sold investment real estate property with an aggregate carrying value of $394,002. The Company recorded a gross realized investment loss on sale of $43,185 based on an aggregate sales price of $350,817. During 2018, the Company sold investment real estate property with an aggregate carrying value of $313,040. The Company recorded a gross realized investment gain on sale of $51,649 based on an aggregate sales price of $364,689.

Item 3. Legal Proceedings

A lawsuit filed by the Company and Chairman, President and Chief Executive Officer, Gregg E. Zahn, in 2013 against former Company Board of Directors member Wayne Pettigrew and Mr. Pettigrew's company, Group & Pension Planners, Inc. (the "Defendants"), concluded on February 17, 2017. The lawsuit was filed in the District Court of Tulsa County, Oklahoma (Case No. CJ-2013-03385). In the lawsuit, the Company alleged that Mr. Pettigrew had defamed the Company by making untrue statements to certain shareholders of the Company, to the press and to regulators of the state of Oklahoma and had breached his fiduciary duties. Mr. Pettigrew denied the allegations.

The jury concluded that Mr. Pettigrew, while still a member of the Company's Board of Directors, did, in fact, make untrue statements regarding the Company and Mr. Zahn and committed breaches of his fiduciary duties to the Company and the jury awarded the Company $800,000 of damages against Mr. Pettigrew. In addition, the jury found that Mr. Pettigrew had defamed Mr. Zahn and intentionally inflicted emotional distress on Mr. Zahn and awarded Mr. Zahn $3,500,000 of damages against Mr. Pettigrew. In addition to the damages awarded by the jury, the Company and Mr. Zahn have initiated steps to aggressively communicate the correction of the untrue statements to outside parties.

Mr. Pettigrew appealed this decision. The appeal challenged two trial court judgments based on separate verdicts against him in the jury trial. On February 28, 2020, the Court of Civil Appeals of the state of Oklahoma reversed the judgments entered by the trial court and remanded the case for a new trial. The Court of Appeals reversal, however, is not final. The Company will request that the Court of Appeals grant a rehearing and reverse its decision. Should it not do so, the Company will petition the Oklahoma Supreme Court to reverse the Court of Appeals decision.

In 2013, the Company's Board of Directors, represented by independent counsel, concluded that there was no action to be taken against Mr. Zahn and that the allegations by Mr. Pettigrew were without substance. The Company was also informed back in 2013 by the Oklahoma Insurance Department that it would take no action and was also informed in 2013 that the Oklahoma Department of Securities, after its investigation of the allegations, concluded that no proceedings were needed with respect to the alleged matters. It remains the Company's intention to again vigorously prosecute this action against the Defendants for damages and for correction of the defamatory statements. In the opinion of the Company's management, the ultimate resolution of any contingencies that may arise from this litigation is not considered material in relation to the financial position or results of operations of the Company.

Prior to being acquired by TLIC, FBLIC developed, marketed, and sold life insurance products known as "Decreasing Term to 95" policies. On January 17, 2013, FBLIC's Board of Directors voted that, effective March 1, 2013, it was not approving, and therefore was not providing, a non-guaranteed dividend for the Decreasing Term to 95 policies since that group of policies was not producing a positive divisible surplus to allow the payment of a non-guaranteed dividend.

On November 22, 2013, a lawsuit was filed in the Circuit Court of Greene County, Missouri asserting claims by two individuals and a class of Missouri residents against FBLIC relating to this decision to not pay a non-guaranteed dividend. A trial was held November 27, 2017 through December 1, 2017 regarding those class and individual claims. During 2018, a settlement was reached by the parties and the Court approved the settlement agreement on June 11, 2018. FBLIC paid $1.85 million to resolve all class and individual claims and all active Decreasing Term to 95 policies for individuals in the class were cancelled.

Item 4. Mine Safety Disclosures

None

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities

(a) Market Information

Trading of the Company's common stock is limited and an established public market does not exist.

(b) Holders

As of March 9, 2020, there were approximately 4,500 shareholders of the Company's outstanding common stock.

On October 2, 2019, at our Annual Shareholders' Meeting, our shareholders approved the following proposals subject to regulatory approval and adoption by our Board of Directors:

- An amendment and restatement of our Certificate of Incorporation to authorize 40,000,000 shares of Class A common stock and 10,000,000 shares of Class B common stock and to establish the relative rights, preferences and privileges of, and the restrictions and limitations on, the Class A common Stock and the Class B common stock.

- An amendment and restatement of the Certificate of Incorporation to automatically reclassify each issued and outstanding share of our existing common stock as one (1) share of Class A common stock or, at the shareholder's election, into one (1) share of new Class B common stock.

These proposals recently received regulatory approval from the OID and MDOI. Upon full implementation after formal adoption by our Board of Directors in March 2020, Class B shareholders will be entitled to elect a majority of our Board of Directors (one-half plus one) but will only receive, compared to Class A shareholders, 85% of cash dividends, stock dividends or amounts due upon any Company merger, sale or liquidation event. Class B shareholders may also convert one share of Class B common stock for a .85 share of Class A common stock. Class A shareholders will elect the remaining Board of Directors members and will receive 100% of cash dividends, stock dividends or amounts due upon any Company merger, sale or liquidation event.

(c) Dividends

The Company has not paid any cash dividends since inception (April 19, 2004). The Board of Directors of the Company has not adopted a dividend payment policy; however, dividends must necessarily depend upon the Company's earnings and financial condition, applicable legal restrictions, and other factors relevant at the time the Board of Directors considers a dividend policy. Cash available for dividends to shareholders of the Company must initially come from income and capital gains earned on its investment portfolio and dividends paid by the Company's subsidiaries.

Provisions of the Oklahoma Insurance Code relating to insurance holding companies subject transactions between the Company and TLIC and the Company and FBLIC, including dividend payments, to certain standards generally intended to prevent such transactions from adversely affecting the adequacy of life insurance subsidiaries' capital and surplus available to support policyholder obligations. In addition, under the Oklahoma General Corporation Act, the Company may not pay dividends if, after giving effect to a dividend, it would not be able to pay its debts as they become due in the usual course of business or if its total liabilities would exceed its total assets.

On January 10, 2011, the Company's Board of Directors approved a 5% share dividend by which shareholders received a share of common stock for each 20 shares of common stock of the Company they hold. The dividend was payable to the holders of shares of the Corporation as of March 10, 2011. Fractional shares were rounded to the nearest whole number of shares. The Company issued 323,777 shares in connection with the stock dividend.

On January 11, 2012, the Company's Board of Directors approved another 5% share dividend by which shareholders received a share of common stock for each 20 shares of common stock of the Company they hold. The dividend was payable to the holders of shares of the Corporation as of March 10, 2012. Fractional shares were rounded to the nearest whole number of shares. The Company issued 378,908 shares in connection with the stock dividend.

Upon full implementation after formal adoption by our Board of Directors in March 2020, Class A shareholders will receive a $0.05 per share cash dividend followed by a 10% stock dividend. The Class B shareholders will not receive these cash and stock dividends.

(d) Securities Authorized for Issuance Under Equity Compensation Plans

There are no plans under which equity securities are authorized for issuance.

(e) Performance Graph – Not Required

(f) Purchases of Equity Securities by Issuer

During 2012, 2013, 2014 and 2015, the Company repurchased 247,580 shares of its common stock at a total cost of $893,947 from former members of the Board of Directors including the former Chairman of the Board of Directors, a former agent, the former spouse of the Company's current Chairman, Chief Executive Officer and President and a charitable organization where a former member of the Board of Directors had donated shares of the Company's common stock.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

First Trinity Financial Corporation ("we" "us", "our", "FTFC" or the "Company") conducts operations as an insurance holding company emphasizing ordinary life insurance products and annuity contracts in niche markets. We are no longer operating a premium finance company that financed casualty insurance premiums. As an insurance provider, we collect premiums and annuity considerations in the current period to pay future benefits to our policy and contract holders. Our core TLIC operations include issuing modified premium whole life insurance with a flexible premium deferred annuity, ordinary whole life, final expense and term products and annuity contracts to predominately middle income households in the states of Illinois, Kansas, Kentucky, Nebraska, North Dakota, Ohio, Oklahoma and Texas through independent agents. In 2018, TLIC was licensed in Montana. In 2019, TLIC was licensed in Tennessee.

With the acquisition of FBLIC in late 2011, we expanded into Arizona, Colorado, Missouri and New Mexico. FBLIC also had initial licenses in Kansas, Nebraska and Oklahoma where TLIC was also licensed. In late 2012, FBLIC was licensed in Arkansas, Indiana, Kentucky, North Dakota, South Dakota, Texas and West Virginia. In 2013, FBLIC was licensed in Illinois and Pennsylvania. In 2014, FBLIC was licensed in Georgia, Louisiana, Michigan, Mississippi, North Carolina, Ohio, and Virginia. In 2015, FBLIC was licensed in Alabama and Utah. In 2018, FBLIC was licensed in Montana. In 2019, FBLIC was licensed in Tennessee.

We also realize revenues from our investment portfolio, which is a key component of our operations. The revenues and funds we collect as premiums and annuity considerations from policyholders are invested to ensure future benefit payments under the policy contracts. Life insurance companies earn profits on the investment spread, which reflects the investment income earned on the premiums and annuity considerations paid to the insurer between the time of receipt and the time benefits are paid out under our policies and contracts. Changes in interest rates, changes in economic conditions and volatility in the capital markets can all impact the amount of earnings that we realize from our investment portfolio.

Acquisitions

The Company expects to facilitate growth through acquisitions of other life insurance companies and/or blocks of life insurance and annuity business. In late December 2008, the Company completed its acquisition of 100% of the outstanding stock of First Life America Corporation for $2,500,000 and had additional acquisition related expenses of $195,234.

In late December 2011, the Company completed its acquisition of 100% of the outstanding stock of FBLIC for $13,855,129.

In late April 2015, the Company acquired a block of life insurance policies and annuity contracts according to the terms of an assumption reinsurance agreement. The Company acquired assets of $3,644,839, assumed liabilities of $3,055,916 and recorded a gain on reinsurance assumption of $588,923.

On April 3, 2018, FTFC acquired 100% of the outstanding stock of TAI domiciled in Barbados, West Indies. The Barbados regulators approved the acquisition and supplied certifications during 2019. The aggregate purchase price for the acquisition of TAI was $250,000. The acquisition of TAI was financed with the working capital of FTFC.

Effective January 1, 2020, the Company acquired 100% of the outstanding common stock of K-TENN Insurance Company ("K-TENN") from its sole shareholder in exchange for 168,866 shares of FTFC's common stock. The acquisition of K-TENN was accounted for as a purchase. The aggregate purchase price of K-TENN was $1,837,469. Immediately subsequent to this acquisition, the $1,837,469 of net assets and liabilities of K-TENN along with the related life insurance business operations were contributed to TLIC.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition, results of operations and liquidity and capital resources is based on our consolidated financial statements that have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). Preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. We evaluate our estimates and assumptions continually, including those related to investments, deferred acquisition costs, value of insurance business acquired and policy liabilities. We base our estimates on historical experience and on various other factors and assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe the following accounting policies, judgments and estimates are the most critical to the preparation of our consolidated financial statements.

Investments in Fixed Maturity Securities

We hold fixed maturity interests in a variety of companies. We continuously evaluate all of our fixed maturity investments based on current economic conditions, credit loss experience and other developments. We evaluate the difference between the amortized cost and estimated fair value of our fixed maturity investments to determine whether any decline in fair value is other-than-temporary in nature. This determination involves a degree of uncertainty. If a decline in the fair value of a fixed maturity security is determined to be temporary, the decline is recognized in other comprehensive income (loss) within shareholders' equity. If a decline in a security's fair value is considered to be other-than-temporary, we then determine the proper treatment for the other-than-temporary impairment.

For fixed maturity securities, the amount of any other-than-temporary impairment related to a credit loss is recognized in earnings and reflected as a reduction in the cost basis of the security. The amount of any other-than-temporary impairment related to other factors is recognized in other comprehensive income (loss) with no change to the cost basis of the security.

The assessment of whether a decline in fair value is considered temporary or other-than-temporary includes management's judgment as to the financial position and future prospects of the entity issuing the security. It is not possible to accurately predict when it may be determined that a specific security will become impaired. Future adverse changes in market conditions, poor operating results of underlying fixed maturity investments and defaults on interest and principal payments could result in losses or an inability to recover the current carrying value of the fixed maturity investments, thereby possibly requiring an impairment charge in the future.

In addition, if a change occurs in our intent to sell temporarily impaired fixed maturity securities prior to maturity or recovery in value, or if it becomes more likely than not that we will be required to sell such securities prior to recovery in value or maturity, a future impairment charge could result. If an other-than-temporary impairment related to a credit loss occurs with respect to a fixed maturity security, we amortize the reduced book value back to the security's expected recovery value over the remaining term of the fixed maturity investment. We continue to review the fixed maturity security for further impairment that would prompt another write-down in the book value.

Mortgage Loans on Real Estate

We carry mortgage loans on real estate at unpaid balances, net of unamortized premium or discounts. Interest income and the amortization of premiums or discounts are included in net investment income. Mortgage loan fees, certain direct loan origination costs and purchase premiums and discounts on loans are recognized as an adjustment of yield by the interest method based on the contractual terms of the loan. In certain circumstances, prepayments may be anticipated. We have established a valuation allowance for mortgage loans on real estate that are not supported by funds held in escrow.

This allowance for possible loan losses from investments in mortgage loans on real estate is a reserve established through a provision for possible loan losses charged to expense which represents, in our judgment, the known and inherent credit losses existing in the residential and commercial and industrial mortgage loan portfolio. This allowance, in our judgment, is necessary to reserve for estimated loan losses inherent in the residential and commercial and industrial mortgage loan portfolio and reduces the carrying value of investments in mortgage loans on real estate to the estimated net realizable value on the consolidated statement of financial position.

While we utilize our best judgment and information available, the ultimate adequacy of this allowance is dependent upon a variety of factors beyond our control, including the performance of the residential and commercial mortgage loan portfolio, the economy and changes in interest rates. Our allowance for possible mortgage loan losses consists of specific valuation allowances established for probable losses on specific loans and a portfolio reserve for probable incurred but not specifically identified loans.

We consider mortgage loans on real estate impaired when, based on current information and events, it is probable that we will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the mortgage loan agreement. Impairment is measured on a loan-by-loan basis. Factors that we consider in determining impairment include payment status, collateral value of the real estate subject to the mortgage loan and the probability of collecting scheduled principal and interest payments when due. Mortgage loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired.

We determine the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the mortgage loan on real estate and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed.

Deferred Policy Acquisition Costs

Commissions and other acquisition costs which vary with and are primarily related to the successful production of new and renewal insurance contracts are deferred and amortized in a systematic manner based on the related contract revenues or gross profits as appropriate. The recovery of deferred acquisition costs is dependent on the future profitability of the underlying business for which acquisition costs were incurred. Each reporting period, we evaluate the recoverability of the unamortized balance of deferred acquisition costs. We consider estimated future gross profits or future premiums; expected mortality or morbidity; interest earned and credited rates; persistency and expenses in determining whether the balance is recoverable.

If we determine a portion of the unamortized balance is not recoverable, it is immediately charged to amortization expense. The assumptions we use to amortize and evaluate the recoverability of the deferred acquisition costs involve significant judgment. A revision to these assumptions may impact future financial results. Deferred acquisition costs related to the successful production of new and renewal insurance business for traditional life insurance contracts are deferred to the extent deemed recoverable and amortized over the premium paying period of the related policies using assumptions consistent with those used in computing future policy benefit liabilities.

Deferred acquisition costs related to the successful production of new and renewal insurance and annuity products that subject us to mortality or morbidity risk over a period that extends beyond the period or periods in which premiums are collected and that have terms that are fixed and guaranteed (i.e., limited-payment long-duration annuity contracts) are deferred to the extent deemed recoverable and amortized in relation to the present value of actual and expected gross profits on the policies. To the extent that realized gains and losses on securities result in adjustments to deferred acquisition costs related to insurance and annuity products, such adjustments are reflected as a component of the amortization of deferred acquisition costs.

Deferred acquisition costs related to limited-payment long-duration insurance and annuity contracts are also adjusted, net of tax, for the change in amortization that would have been recorded if the unrealized gains (losses) from securities had actually been realized. This adjustment is included in the change in net unrealized appreciation (depreciation) on available-for-sale securities, a component of "Accumulated Other Comprehensive Income (Loss)" in the shareholders' equity section of the statement of financial position.

Value of Insurance Business Acquired

As a result of our purchases of FLAC and FBLIC, an asset was recorded in the application of purchase accounting to recognize the value of acquired insurance in force. The Company's value of acquired insurance in force is an intangible asset with a definite life and is amortized under FASB guidance. The value of acquired insurance in force is amortized primarily over the emerging profit of the related policies using the same assumptions that were used in computing liabilities for future policy benefits. The recovery of the value of insurance business acquired is dependent on the future profitability of the underlying business that was initially recorded in the purchases of FLAC and FBLIC. Each reporting period, we evaluate the recoverability of the unamortized balance of the value of insurance business acquired.

For the amortization of the value of acquired insurance in force, the Company reviews its estimates of gross profits each reporting period. The most significant assumptions involved in the estimation of gross profits include interest rate spreads; future financial market performance; business surrender and lapse rates; mortality and morbidity; expenses and the impact of realized investment gains and losses. In the event actual experience differs significantly from assumptions or assumptions are significantly revised, the Company is required to record a charge or credit to amortization expense for the period in which an adjustment is made.

As of December 31, 2019 and 2018, there was $3,848,430 and $3,554,008, respectively, of accumulated amortization of the value of insurance business acquired due to the purchases of FLAC and FBLIC. The Company expects to amortize the value of insurance business acquired by the following amounts over the next five years: $275,501 in 2020, $257,083 in 2021, $237,034 in 2022, $226,150 in 2023 and $216,735 in 2024.

Future Policy Benefits

Our liability for future policy benefits is primarily comprised of the present value of estimated future payments to or on behalf of policyholders, where the timing and amount of payment depends on policyholder mortality or morbidity, less the present value of future net premiums. For life insurance and annuity products, expected mortality and morbidity is generally based on the Company's historical experience or standard industry tables including a provision for the risk of adverse deviation.

Interest rate assumptions are based on factors such as market conditions and expected investment returns. Although mortality and morbidity and interest rate assumptions are "locked-in" upon the issuance of new insurance with fixed and guaranteed terms, significant changes in experience or assumptions may require the Company to provide for expected future losses on a product by establishing premium deficiency reserves.

Estimating liabilities for our long-duration insurance contracts requires management to make various assumptions, including policyholder persistency, mortality rates, investment yields, discretionary benefit increases, new business pricing and operating expense levels.

Since many of these factors are interdependent and subject to short-term volatility during the long-duration contract period, substantial judgment is required. Actual experience may emerge differently from that originally estimated. Any such difference would be recognized in the current year's consolidated statement of operations.

Recent Accounting Pronouncements

Leases

In February 2016, the FASB issued updated guidance (Accounting Standards Update 2016-02) to require lessees to recognize a right-of-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-of-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-of-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.

In July 2018, the FASB amended the updated guidance on leases that was issued in February 2016 (Accounting Standards Update 2018-11) and provided an additional transition method with which to adopt the updated guidance. Under the additional transition method, entities may elect to recognize a cumulative-effect adjustment to the opening balance of retained earnings in the year of adoption. Consequently, if this transition method is elected, an entity's reporting for the comparative periods prior to adoption presented in the financial statements would continue to be in accordance with current lease guidance. The amendments also provide lessors with a practical expedient to combine non-lease components (e.g., a fee for common area maintenance when leasing office space) with the associated lease component rather than accounting for those components separately if certain criteria are met. The updated guidance requires entities to recognize a right-of-use asset and lease liability equal to the present value of lease payments for all leases other than those that are less than one year. The updated guidance, as amended, is effective for reporting periods beginning after December 15, 2018.

In December 2018, the FASB issued additional guidance (Accounting Standards Update 2018-20) that permits an accounting policy election for lessors to not evaluate whether certain sales taxes and other similar taxes are lessor costs or lessee costs. A lessor making this election will exclude from the consideration in the contract and from variable payments not included in the consideration of the contract all collections from lessees of certain sales taxes and other similar taxes and to provide certain disclosures.

The Company adopted this guidance in first quarter 2019. The adoption of this guidance in 2019 did not have a material effect on the Company's results of operations, financial position or liquidity.

Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued updated guidance (Accounting Standards Update 2016-13) 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, including structured settlements that are recorded as part of 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 was effective for reporting periods beginning after December 15, 2019. As a Smaller Reporting Company, the effective date was recently changed and the delayed effective date is now for reporting periods beginning after December 15, 2022. Early adoption is permitted for reporting periods beginning after December 15, 2018.

Based on the financial instruments currently held by the Company, there would not be a material effect on the Company’s results of operations, financial position or liquidity if the new guidance had been adopted in the current accounting period. The impact on the Company’s results of operations, financial position or liquidity at the date of adoption of the updated guidance will be determined by the financial instruments held by the Company and the economic conditions at that time.

Intangibles - Goodwill and Other

In January 2017, the FASB issued updated guidance (Accounting Standards Update 2017-04) that eliminates the requirement to calculate the implied fair value of goodwill (i.e., Step 2 of the current goodwill impairment test) to measure a goodwill impairment charge. Instead, entities will record an impairment charge by comparing a reporting unit’s fair value with its carrying amount and recognizing an impairment charge for the excess of the carrying amount over estimated fair value (i.e., Step 1 of current guidance). The implied fair value of goodwill is currently determined in Step 2 by deducting the fair value of all assets and liabilities of the reporting unit (determined in the same manner as a business combination) from the reporting unit’s fair value as determined in Step 1 (including any corporate-level assets or liabilities that were included in the determination of the carrying amount and fair value of the reporting unit in Step 1). The updated guidance requires an entity to perform its annual, or interim, impairment test by either: (1) an initial qualitative assessment of factors (such as changes in management, key personnel, strategy, key technology or customers) that may impact a reporting unit’s fair value and lead to the determination that it is more likely than not that the reporting unit’s fair value is less than its carrying value, including goodwill (consistent with current guidance), or (2) applying Step 1.

The updated guidance is effective for reporting periods beginning after December 15, 2019 and is to be applied prospectively. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of this guidance is not expected to 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 updated guidance (Accounting Standards Update 2018-12) to the existing recognition, measurement, presentation and disclosure requirements for long-duration contracts issued by an insurance entity. This update improves the timeliness of recognizing changes in the liability for future policy benefits, modifies the rate used to discount future cash flows, simplifies and improves accounting for certain market-based options or guarantees associated with deposit (i.e., account balance) contracts, simplifies the amortization of deferred acquisitions costs and expands required disclosures.

The expanded disclosure requires an insurance entity to provide disaggregated roll forwards of beginning to ending balances of the following: liability for future policy benefits, policyholder account balances, market risk benefits, separate account liabilities and deferred acquisition costs including disclosure about, changes to and effect of changes for significant inputs, judgments, assumptions and methods used in measurements.

The updated guidance was effective for reporting periods beginning after December 15, 2020. As a Smaller Reporting Company, the effective date was recently changed and the delayed effective date is now for reporting periods beginning after December 15, 2023. Early adoption is permitted. With respect to the liability for future policyholder benefits for traditional and limited-payment contracts and deferred acquisition costs, an insurance entity may elect to apply the amendments retrospectively as of the beginning of the earliest period presented. With respect to the market risk benefits, an insurance entity should apply the amendments retrospectively as of the beginning of the earliest period presented. The Company expects that the impact on the Company’s results of operations, financial position and liquidity at the date of adoption of the updated guidance in 2024 will be determined by the long-duration contracts then held by the Company and the economic conditions at that time.

Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement

In August 2018, the FASB issued amendments (Accounting Standards Update 2018-13) to modify the disclosure requirements related to fair value measurements including the consideration of costs and benefits of producing the modified disclosures. The updated guidance is effective for reporting periods beginning after December 15, 2019. Early adoption is permitted and an entity is permitted to early adopt any removed or modified disclosures upon issuance and delay adoption of the additional disclosures until their effective date. The adoption of this guidance in 2020 is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

Income Taxes - Simplifying the Accounting for Income Taxes

In December 2019, the FASB issued updated guidance (Accounting Standards Update 2019-12) for the accounting for income taxes. The updated guidance is intended to simplify the accounting for income taxes by removing several exceptions contained in existing guidance and amending other existing guidance to simplify several other income tax accounting matters. The updated guidance is effective for the quarter ending March 31, 2021. Early adoption is permitted. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

Business Segments

The FASB guidance requires a "management approach" in the presentation of business segments based on how management internally evaluates the operating performance of business units. The discussion of segment operating results that follows is being provided based on segment data prepared in accordance with this methodology.

Our business segments are as follows:

- Life insurance operations, consisting of the life insurance operations of TLIC and FBLIC;
- Annuity operations, consisting of the annuity operations of TLIC and FBLIC and
- Corporate operations, which includes the results of the parent company and FTCC after the elimination of intercompany amounts.

Please see below and Note 11 to the consolidated financial statements as of and for the years ended December 31, 2019 and 2018 for additional information regarding segment information.

The following is a discussion and analysis of our financial condition, results of operations and liquidity and capital resources.

FINANCIAL HIGHLIGHTS

Consolidated Condensed Results of Operations for the Years Ended December 31, 2019 and 2018

	Years Ended December 31,		Amount Change
	2019	2018	2019 less 2018
Premiums	$ 23,125,090	$ 18,822,517	$ 4,302,573
Net investment income	24,370,040	19,609,386	4,760,654
Net realized investment gains	967,978	266,498	701,480
Service fees	1,087,181	465,528	621,653
Other income	226,406	77,166	149,240
Total revenues	49,776,695	39,241,095	10,535,600
Benefits and claims	28,395,457	22,455,883	5,939,574
Expenses	13,161,622	10,180,945	2,980,677
Total benefits, claims and expenses	41,557,079	32,636,828	8,920,251
Income before federal income tax expense	8,219,616	6,604,267	1,615,349
Federal income tax expense	2,119,896	1,462,121	657,775
Net income	$ 6,099,720	$ 5,142,146	$ 957,574
Net income per common share basic and diluted	$ 0.78	$ 0.66	$ 0.12

Consolidated Condensed Financial Position as of December 31, 2019 and 2018

	December 31, 2019	December 31, 2018	Amount Change 2019 less 2018
Investment assets	$ 419,242,515	$ 325,844,275	$ 93,398,240
Assets held in trust under coinsurance agreement	105,089,240	25,494,700	79,594,540
Other assets	80,604,619	82,167,875	(1,563,256)
Total assets	$ 604,936,374	$ 433,506,850	$ 171,429,524
Policy liabilities	$ 429,631,596	$ 354,604,734	$ 75,026,862
Funds withheld under coinsurance agreement	105,638,974	29,285,119	76,353,855
Deferred federal income taxes	6,345,918	2,373,478	3,972,440
Other liabilities	5,901,624	8,118,268	(2,216,644)
Total liabilities	547,518,112	394,381,599	153,136,513
Shareholders' equity	57,418,262	39,125,251	18,293,011
Total liabilities and shareholders' equity	$ 604,936,374	$ 433,506,850	$ 171,429,524
Shareholders' equity per common share	$ 7.36	$ 5.01	$ 2.35

Results of Operations – Years Ended December 31, 2019 and 2018

Revenues

Our primary sources of revenue are life insurance premium income and investment income. Premium payments are classified as first-year, renewal and single. In addition, realized gains and losses on investment holdings can significantly impact revenues from period to period.

Our revenues for the years ended December 31, 2019 and 2018 are summarized as follows:

	Years Ended December 31, 2019	2018	Amount Change 2019 less 2018
Premiums	$ 23,125,090	$ 18,822,517	$ 4,302,573
Net investment income	24,370,040	19,609,386	4,760,654
Net realized investment gains	967,978	266,498	701,480
Service fees	1,087,181	465,528	621,653
Other income	226,406	77,166	149,240
Total revenues	$ 49,776,695	$ 39,241,095	$ 10,535,600

The $10,535,600 increase in total revenues for the year ended December 31, 2019 is discussed below.

Premiums

Our premiums for the years ended December 31, 2019 and 2018 are summarized as follows:

	Years Ended December 31,		Amount Change
	2019	2018	2019 less 2018
Ordinary life first year	$ 1,533,619	$ 406,793	$ 1,126,826
Ordinary life renewal	2,224,638	2,094,982	129,656
Final expense first year	4,809,064	4,498,389	310,675
Final expense renewal	14,430,278	11,736,143	2,694,135
Supplementary contracts with life contingencies	127,491	86,210	41,281
Total premiums	$ 23,125,090	$ 18,822,517	$ 4,302,573

The $4,302,573 increase in premiums for the year ended December 31, 2019 is primarily due to a $2,694,135 increase in final expense renewal premiums and a $1,126,826 increase in ordinary life first year premiums.

The increase in final expense renewal premiums reflects the persistency of prior years' final expense production. Our marketing efforts are focused on final expense and annuity production. The increase in ordinary life first year premiums reflects ordinary life insurance sold in the international market that the Company started producing in fourth quarter 2018.

Net Investment Income

The major components of our net investment income for the years ended December 31, 2019 and 2018 are summarized as follows:

	Years Ended December 31,		Amount Change
	2019	2018	2019 less 2018
Fixed maturity securities	$ 7,419,650	$ 6,278,105	$ 1,141,545
Preferred stock and equity securities	131,823	83,263	48,560
Other long-term investments	4,860,323	3,992,882	867,441
Mortgage loans	13,544,895	11,079,802	2,465,093
Policy loans	137,492	122,587	14,905
Real estate	269,123	376,599	(107,476)
Short-term and other investments	637,999	233,366	404,633
Gross investment income	27,001,305	22,166,604	4,834,701
Investment expenses	(2,631,265)	(2,557,218)	74,047
Net investment income	$ 24,370,040	$ 19,609,386	$ 4,760,654

The $4,834,701 increase in gross investment income for the year ended December 31, 2019 is primarily due to increased investments in fixed maturity securities, mortgage loans and other long-term investments. In the year ended December 31, 2019, we have increased investments in fixed maturity securities by $47.8 million, mortgage loans on real estate by $32.4 million and other long-term investments by $12.6 million.

The $74,047 increase in investment expense is primarily related to production of investments in mortgage loans on real estate.

Net Realized Investment Gains

Our net realized investment gains result from sales of fixed maturity securities, equity securities, investment real estate, preferred stock securities and changes in the fair value of equity securities.

Our net realized investment gains for the years ended December 31, 2019 and 2018 are summarized as follows:

	Years Ended December 31, 2019	Years Ended December 31, 2018	Amount Change 2019 less 2018
Fixed maturity securities available-for-sale:			
Sale proceeds	$ 33,700,106	$ 22,037,796	$ 11,662,310
Amortized cost at sale date	32,710,599	21,791,718	10,918,881
Net realized gains	$ 989,507	$ 246,078	$ 743,429
Equity securities at fair value:			
Sale proceeds	$ 19,371	$ 361,947	$ (342,576)
Cost at sale date	6,999	336,214	(329,215)
Net realized gains	$ 12,372	$ 25,733	$ (13,361)
Investment real estate:			
Sale proceeds	$ 350,817	$ 364,689	$ (13,872)
Carrying value at sale date	394,002	313,040	80,962
Net realized gains (losses)	$ (43,185)	$ 51,649	$ (94,834)
Preferred stock securities available-for-sale:			
Sale proceeds	$ 50,000	$ -	$ 50,000
Cost at sale date	50,000	-	50,000
Net realized gains (losses)	$ -	$ -	$ -
Equity securities, changes in fair value	$ 9,284	$ (56,962)	$ 66,246
Net realized investment gains	$ 967,978	$ 266,498	$ 701,480

Service Fees

The $621,653 increase in service fees for the year ended December 31, 2019 is primarily due to ceding fees related to TLIC’s annuity coinsurance agreement with an offshore annuity and life insurance company.

Total Benefits, Claims and Expenses

Our benefits, claims and expenses are primarily generated from benefit payments, surrenders, interest credited to policyholders, change in reserves, commissions and other underwriting, insurance and acquisition expenses. Benefit payments can significantly impact expenses from period to period.

Our benefits, claims and expenses for the years ended December 31, 2019 and 2018 are summarized as follows:

	Years Ended December 31,		Amount Change
	2019	2018	2019 less 2018
Benefits and claims			
Increase in future policy benefits	$ 8,769,777	$ 6,634,114	$ 2,135,663
Death benefits	6,555,001	5,345,707	1,209,294
Surrenders	1,000,447	913,977	86,470
Interest credited to policyholders	11,782,286	9,282,425	2,499,861
Dividend, endowment and supplementary life contract benefits	287,946	279,660	8,286
Total benefits and claims	28,395,457	22,455,883	5,939,574
Expenses			
Policy acquisition costs deferred	(12,369,350)	(8,527,380)	(3,841,970)
Amortization of deferred policy acquisition costs	4,015,480	3,515,624	499,856
Amortization of value of insurance business acquired	294,422	340,775	(46,353)
Commissions	12,125,929	8,228,279	3,897,650
Other underwriting, insurance and acquisition expenses	9,095,141	6,623,647	2,471,494
Total expenses	13,161,622	10,180,945	2,980,677
Total benefits, claims and expenses	$ 41,557,079	$ 32,636,828	$ 8,920,251

The $8,920,251 increase in total benefits, claims and expenses for the year ended December 31, 2019 is discussed below.

Benefits and Claims

The $5,939,574 increase in total benefits and claims for the year ended December 31, 2019 is primarily due to the following:

- $2,499,861 increase in interest credited to policyholders is primarily due to an increase of approximately $65.9 million in the amount of policyholders' account balances in the consolidated statement of financial position (increased deposits and interest credited in excess of withdrawals) during the year ended December 31, 2019.

- $2,135,663 increase in future policy benefits is primarily due to the increased number of life policies in force and the aging of existing life policies.

- $1,209,294 increase in death benefits is primarily due to approximately $1.2 million of increased final expense settlements. The increase in final expense incurred claims is expected by the Company due to the continued growth in the number and amount of final expense policies in force.

Deferral and Amortization of Deferred Acquisition Costs

Certain costs related to the successful acquisition of traditional life insurance policies are capitalized and amortized over the premium-paying period of the policies. Certain costs related to the successful acquisition of insurance and annuity policies that subject us to mortality or morbidity risk over a period that extends beyond the period or periods in which premiums are collected and that have terms that are fixed and guaranteed (i.e., limited-payment long-duration annuity contracts) are capitalized and amortized in relation to the present value of actual and expected gross profits on the policies. These acquisition costs, which are referred to as deferred policy acquisition costs, include commissions and other successful costs of acquiring life insurance, which vary with, and are primarily related to, the successful production of new and renewal insurance and annuity contracts.

For the years ended December 31, 2019 and 2018, capitalized costs were $12,369,350 and $8,527,380, respectively. During 2019, $11,521,406 of commissions (95.0% of total 2019 commissions of $12,125,929) and $847,944 of expenses (9.3% of total 2019 other underwriting, insurance and acquisition expenses of $9,095,141) were eligible for deferral and were capitalized. During 2018, $7,505,616 of commissions (91.2% of total 2018 commissions of $8,228,279) and $1,021,764 of expenses (15.4% of total 2018 other underwriting, insurance and acquisition expenses of $6,623,647) were eligible for deferral and were capitalized. The $3,841,970 increase in the 2019 acquisition costs deferred primarily relates to increased ordinary life, final expense and annuity production and deferral and capitalization of the increased eligible commissions and decreased eligible expenses.

Amortization of deferred policy acquisition costs for the years ended December 31, 2019 and 2018 were $4,015,480 and $3,515,624, respectively. The $499,856 increase in the 2019 amortization of deferred acquisition costs is primarily due to an increased number and amount of final expense policies and annuity contracts in force and lapsation of ordinary life policies reflected by increased death benefits, surrenders and annuity withdrawals.

Amortization of Value of Insurance Business Acquired

The cost of acquiring insurance business is amortized over the emerging profit of the related policies using the same assumptions that were used in computing liabilities for future policy benefits. Amortization of the value of insurance business acquired was $294,422 and $340,775 for the years ended December 31, 2019 and 2018, respectively.

Commissions

Our commissions for the years ended December 31, 2019 and 2018 are summarized as follows:

	Years Ended December 31,		Amount Change
	2019	2018	2019 less 2018
Annuity	$ 3,225,813	$ 1,221,517	$ 2,004,296
Ordinary life first year	1,672,935	406,707	1,266,228
Ordinary life renewal	73,071	61,268	11,803
Final expense first year	5,734,930	5,385,178	349,752
Final expense renewal	1,419,180	1,153,609	265,571
Total commissions	$ 12,125,929	$ 8,228,279	$ 3,897,650

The $3,897,650 increase in commissions for the year ended December 31, 2019 is primarily due to a $2,004,296 increase in annuity commissions (due to a $67,299,833 increase in annuity considerations net of coinsurance), a $1,266,228 increase in ordinary life first year commissions (due to a $1,126,826 increase in ordinary life first year premiums), a $349,752 increase in final expense first year commissions (due to a $310,675 increase in final expense first year premiums) and a $265,571 increase in final expense renewal commissions (due to $2,694,135 increase in final expense renewal premiums).

Other Underwriting, Insurance and Acquisition Expenses

The $2,471,494 increase in other underwriting, insurance and acquisition expenses for the year ended December 31, 2019 was primarily related to increases in bonuses, salaries, benefits, consulting fees, legal fees, third party administration fees and expenses associated with the increased production of ordinary life, final expense and annuity policies and contracts.

Federal Income Taxes

FTFC files a consolidated federal income tax return with TLIC, FBLIC and FTCC. 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.

For the years ended December 31, 2019 and 2018, current income tax expense was $1,388,711 and $100,075, respectively. Deferred federal income tax expense was $731,185 and $1,362,046 for the years ended December 31, 2019 and 2018, respectively.

Net Income Per Common Share Basic and Diluted

Net income was $6,099,720 ($0.78 per common share basic and diluted) and $5,142,146 ($0.66 per common share basic and diluted) for the years ended December 31, 2019 and 2018, respectively.

Net income per common share basic and diluted is calculated using the weighted average number of common shares outstanding during the year. The weighted average outstanding common shares basic and diluted were 7,802,593 for both of the years ended December 31, 2019 and 2018.

Business Segments

The Company has a life insurance segment, consisting of the life insurance operations of TLIC and FBLIC, an annuity segment, consisting of the annuity operations of TLIC and FBLIC and a corporate segment. Results for the parent company and the operations of FTCC, after elimination of intercompany amounts, are allocated to the corporate segment.

The revenues and income before federal income taxes from our business segments for the years ended December 31, 2019 and 2018 are summarized as follows:

	Years Ended December 31,		Amount Change
	2019	2018	2019 less 2018
Revenues:			
Life insurance operations	$ 27,170,994	$ 21,985,441	$ 5,185,553
Annuity operations	21,931,249	16,739,274	5,191,975
Corporate operations	674,452	516,380	158,072
Total	$ 49,776,695	$ 39,241,095	$ 10,535,600
Income before federal income taxes:			
Life insurance operations	$ 621,436	$ 780,362	$ (158,926)
Annuity operations	7,109,199	5,369,900	1,739,299
Corporate operations	488,981	454,005	34,976
Total	$ 8,219,616	$ 6,604,267	$ 1,615,349

Life Insurance Operations

The $5,185,553 increase in revenues from Life Insurance Operations for the year ended December 31, 2019 is primarily due to the following:

- $4,302,573 increase in premiums
- $711,824 increase in net investment income

- $104,777 increase in service fees and other income
- $66,379 increase in net realized investment gains

The $158,926 decreased profitability from Life Insurance Operations for the year ended December 31, 2019 is primarily due to the following:

- $2,135,663 increase in future policy benefits
- $1,893,354 increase in commissions
- $1,603,984 increase in other underwriting, insurance and acquisition expenses
- $1,209,294 increase in death benefits
- $86,470 increase in surrenders
- $8,286 increase in dividend, endowment and supplementary life contract benefits
- $23,177 decrease in amortization of value of insurance business acquired
- $66,379 increase in net realized investment gains
- $104,777 increase in service fees and other income
- $711,824 increase in net investment income
- $1,569,395 increase in policy acquisition costs deferred net of amortization
- $4,302,573 increase in premiums

Annuity Operations

The $5,191,975 increase in revenues from Annuity Operations for the year ended December 31, 2019 is due to the following:

- $3,947,177 increase in net investment income
- $635,101 increase in net realized investment gains
- $609,697 increase in service fees and other income

The $1,739,299 increased profitability from Annuity Operations for the year ended December 31, 2019 is due to the following:

- $3,947,177 increase in net investment income
- $1,772,719 increase in policy acquisition costs deferred net of amortization
- $635,101 increase in net realized investment gains
- $609,697 increase in service fees and other income
- $23,176 decrease in amortization of value of insurance business acquired
- $744,414 increase in other underwriting, insurance and acquisition expenses

- $2,004,296 increase in commissions

- $2,499,861 increase in interest credited to policyholders

Corporate Operations

The $158,072 increase in revenues from Corporate Operations for the year ended December 31, 2019 is primarily due to $101,653 of increased net investment income and $56,419 of increased other income.

The $34,976 increase in Corporate Operations profitability for the year ended December 31, 2019 is primarily due to $101,653 of increased net investment income and $56,419 of increased other income that exceeded $123,096 of increased operating expenses.

Consolidated Financial Condition

Our invested assets as of December 31, 2019 and 2018 are summarized as follows:

	December 31, 2019	December 31, 2018	Amount Change 2019 less 2018
Assets			
Investments			
Available-for-sale fixed maturity securities at fair value (amortized cost: $166,760,448 and $134,414,517 as of December 31, 2019 and 2018, respectively)	$ 178,951,324	$ 131,152,199	$ 47,799,125
Available-for-sale preferred stock at fair value (cost: $49,945 and $99,945 as of December 31, 2019 and 2018, respectively)	51,900	90,580	(38,680)
Equity securities at fair value (cost: $180,194 and $187,122 as of December 31, 2019 and 2018 respectively)	201,024	198,668	2,356
Mortgage loans on real estate	162,404,640	130,049,610	32,355,030
Investment real estate	1,951,759	2,392,031	(440,272)
Policy loans	2,026,301	1,809,339	216,962
Short-term investments	1,831,087	896,371	934,716
Other long-term investments	71,824,480	59,255,477	12,569,003
Total investments	$ 419,242,515	$ 325,844,275	$ 93,398,240

The $47,799,125 increase and $18,530,940 decrease in fixed maturity available-for-sale securities for the years ended December 31, 2019 and 2018, respectively, are summarized as follows:

	Years Ended December 31,	
	2019	2018
Fixed maturity securities, available-for-sale, beginning	$ 131,152,199	$ 149,683,139
Purchases	65,657,914	13,191,134
Unrealized appreciation (depreciation)	15,453,194	(9,323,510)
Net realized investment gains	989,507	246,078
Sales proceeds	(29,175,106)	(16,961,796)
Maturities	(4,525,000)	(5,076,000)
Premium amortization	(601,384)	(606,846)
Increase (decrease)	47,799,125	(18,530,940)
Fixed maturity securities, available-for-sale, ending	$ 178,951,324	$ 131,152,199

Fixed maturity securities available-for-sale are reported at fair value with unrealized gains and losses, net of applicable income taxes, reflected as a separate component in shareholders' equity within accumulated other comprehensive income (loss). The available-for-sale fixed maturity securities portfolio is invested primarily in a variety of companies, U. S. government and government agencies, states and political subdivisions, asset-backed securities and foreign securities.

The $38,680 and $10,140 decreases in preferred stock available-for-sale for the years ended December 31, 2019 and 2018, respectively, are summarized as follows:

	Years Ended December 31,	
	2019	2018
Preferred stock, available-for-sale, beginning	$ 90,580	$ 100,720
Sale proceeds	(50,000)	-
Unrealized appreciation (depreciation)	11,320	(10,140)
Decrease	(38,680)	(10,140)
Preferred stock, available-for-sale, ending	$ 51,900	$ 90,580

Preferred stock available-for-sale is also reported at fair value with unrealized gains and losses, net of applicable income taxes, reflected as a separate component in shareholders' equity within accumulated other comprehensive income (loss).

The $2,356 increase and $372,759 decrease in equity securities available-for-sale for the years ended December 31, 2019 and 2018, respectively, are summarized as follows:

	Years Ended December 31,	
	2019	2018
Equity securities, available-for-sale, beginning	$ 198,668	$ 571,427
Purchases	115,357	76,127
Sales proceeds	(19,371)	(361,947)
Joint venture distribution	(115,286)	(55,710)
Net realized investment gains, sale of securities	12,372	25,733
Net realized investment gains (losses), changes in fair value	9,284	(56,962)
Increase (decrease)	2,356	(372,759)
Equity securities, available-for-sale, ending	$ 201,024	$ 198,668

Equity securities are reported at fair value with the change in fair value reflected in net realized investment gains within the consolidated statements of operations.

The $32,355,030 and $27,553,159 increases in mortgage loans on real estate for the years ended December 31, 2019 and 2018, respectively, are summarized as follows:

	Years Ended December 31,	
	2019	2018
Mortgage loans on real estate, beginning	$ 130,049,610	$ 102,496,451
Purchases	74,689,461	63,066,644
Discount accretion	374,670	536,331
Payments	(42,502,954)	(35,461,456)
Foreclosed - transferred to real estate	(99,218)	(467,593)
Increase in allowance for bad debts	(81,212)	(81,351)
Amortization of loan origination fees	(25,717)	(39,416)
Increase	32,355,030	27,553,159
Mortgage loans on real estate, ending	$ 162,404,640	$ 130,049,610

The $440,272 decrease and $9,065 increase in investment real estate for the years ended December 31, 2019 and 2018, respectively, are summarized as follows:

	Years Ended December 31,	
	2019	2018
Investment real estate, beginning	$ 2,392,031	$ 2,382,966
Real estate acquired through mortgage loan foreclosure	99,218	467,593
Sales proceeds	(350,817)	(364,689)
Depreciation of building	(145,488)	(145,488)
Net realized investment gains (losses)	(43,185)	51,649
Increase (decrease)	(440,272)	9,065
Investment real estate, ending	$ 1,951,759	$ 2,392,031

The $12,569,003 and $3,440,894 increases in other long-term investments (comprised of lottery receivables) for the years ended December 31, 2019 and 2018, respectively, are summarized as follows:

	Years Ended December 31,	
	2019	2018
Other long-term investments, beginning	$ 59,255,477	$ 55,814,583
Purchases	18,605,374	9,143,277
Accretion of discount	4,862,978	3,998,117
Payments	(10,899,349)	(9,700,500)
Increase	12,569,003	3,440,894
Other long-term investments, ending	$ 71,824,480	$ 59,255,477

The $934,716 increase in short-term investments is due to management's decision to increase our investment in funds that have a maturity of more than 90 days but less than one year at the date of purchase.

Our assets other than invested assets as of December 31, 2019 and 2018 are summarized as follows:

	December 31, 2019	December 31, 2018	Amount Change 2019 less 2018
Cash and cash equivalents	$ 23,212,170	$ 29,665,605	$ (6,453,435)
Accrued investment income	5,207,823	2,672,978	2,534,845
Recoverable from reinsurers	1,244,733	2,323,157	(1,078,424)
Assets held in trust under coinsurance agreement	105,089,240	25,494,700	79,594,540
Agents' balances and due premiums	1,618,115	1,418,916	199,199
Deferred policy acquisition costs	38,005,639	29,681,737	8,323,902
Value of insurance business acquired	4,891,448	5,185,870	(294,422)
Other assets	6,424,691	11,219,612	(4,794,921)
Assets other than investment assets	$ 185,693,859	$ 107,662,575	$ 78,031,284

The $6,453,435 decrease in cash and cash equivalents for the year ended December 31, 2019 and the corresponding decrease of $1,830,554 for the year ended December 31, 2018 are summarized in the Company's consolidated statements of cash flows.

The $79,594,540 increase in assets held in trust under the coinsurance agreement is due to assets acquired under TLIC's annuity coinsurance agreement with an offshore annuity and life insurance company that is administered on a funds withheld basis.

The increase in deferred policy acquisition costs for the years ended December 31, 2019 and 2018, respectively, are summarized as follows:

	Years Ended December 31,	
	2019	2018
Balance, beginning of year	$ 29,681,737	$ 24,555,902
Capitalization of commissions, sales and issue expenses	12,369,350	8,527,380
Amortization	(4,015,480)	(3,515,624)
Deferred acquisition costs allocated to investments	(29,968)	114,079
Balance, end of year	$ 38,005,639	$ 29,681,737

Our other assets as of December 31, 2019 and December 31, 2018 are summarized as follows:

	December 31, 2019	December 31, 2018	Amount Change 2019 less 2018
Advances to mortgage loan originator	$ 4,436,787	$ 4,942,870	$ (506,083)
Federal and state income taxes recoverable	1,301,868	4,492,793	(3,190,925)
Notes receivable	445,778	446,978	(1,200)
Accrual of mortgage loan and long-term investment payments due	-	1,045,634	(1,045,634)
Receivable for securities sold	-	33,600	(33,600)
Guaranty funds	71,455	69,740	1,715
Lease asset - right to use	76,711	-	76,711
Other receivables, prepaid assets and deposits	92,092	187,997	(95,905)
Total other assets	$ 6,424,691	$ 11,219,612	$ (4,794,921)

There was a $3,190,925 decrease in federal and state income taxes recoverable primarily due to receipt of the 2017 and 2018 federal tax refunds in excess of federal and state tax withholdings on lottery receivables.

During second quarter 2019 the Company changed its accounting practice and no longer accrued the principal collections on mortgage loans causing this change of $1,045,634.

There was a $506,083 decrease in advances to one mortgage loan originator who acquires residential mortgage loans for our life insurance companies.

The decrease in other receivables, prepaid assets and deposits of $95,905 was primarily due to a reclassification of a $125,000 deposit to record the acquisition of Trinity American, Inc., a Barbados, West Indies domiciled life insurance company, approved by local country regulators and the certifications were received in 2019.

The Company reported a lease asset of $76,711 as of December 31, 2019, in accordance with the lease guidance adopted in 2019.

On April 15, 2019, the Company renewed its previous one-year loan of $400,000 to its former Chairman. The renewed loan has a term of one year and a contractual interest rate of 5.00%. The loan is collateralized by 100,000 shares of the Company's Common stock owned by the former Chairman.

Our liabilities as of December 31, 2019 and 2018 are summarized as follows:

	December 31, 2019	December 31, 2018	Amount Change 2019 less 2018
Policy liabilities			
Policyholders' account balances	$ 363,083,838	$ 297,168,411	$ 65,915,427
Future policy benefits	65,015,390	56,261,507	8,753,883
Policy claims	1,399,393	1,102,257	297,136
Other policy liabilities	132,975	72,559	60,416
Total policy liabilities	429,631,596	354,604,734	75,026,862
Funds withheld under coinsurance agreement	105,638,974	29,285,119	76,353,855
Deferred federal income taxes	6,345,918	2,373,478	3,972,440
Other liabilities	5,901,624	8,118,268	(2,216,644)
Total liabilities	$ 547,518,112	$ 394,381,599	$ 153,136,513

The $76,353,855 increase in the liability for funds withheld under coinsurance agreement is due to liabilities incurred under TLIC's annuity coinsurance agreement with an offshore annuity and life insurance company that is administered on a funds withheld basis.

The $65,915,427 and $4,258,649 increases in policyholders' account balances for the years ended December 31, 2019 and 2018, respectively, are summarized as follows:

	Years Ended December 31, 2019	Years Ended December 31, 2018
Policyholders' account balances, beginning	$ 297,168,411	$ 292,909,762
Deposits	163,781,048	54,957,500
Withdrawals	(33,294,052)	(30,696,157)
Funds withheld under coinsurance agreement	(76,353,855)	(29,285,119)
Interest credited	11,782,286	9,282,425
Increase	65,915,427	4,258,649
Policyholders' account balances, ending	$ 363,083,838	$ 297,168,411

The $8,753,883 increase in future policy benefits during the year ended December 31, 2019 is primarily related to the production of new life insurance policies and the aging of existing policies.

The $3,972,440 increase in deferred federal income taxes during the year ended December 31, 2019 was due to $3,241,255 of increased deferred federal income taxes on the unrealized appreciation of fixed maturity and preferred stock available-for-sale and $731,185 of operating deferred federal tax expense.

Our other liabilities as of December 31, 2019 and December 31, 2018 are summarized as follows:

	December 31, 2019	December 31, 2018	Amount Change 2019 less 2018
Suspense accounts payable	$ 20,166	$ 7,379,975	$ (7,359,809)
Accounts payable	21,387	47,309	(25,922)
Accrued expenses payable	679,000	668,000	11,000
Payable for securities purchased	564	393,762	(393,198)
Guaranty fund assessments	25,000	35,000	(10,000)
Unearned investment income	62,404	71,234	(8,830)
Deferred revenue	8,123	18,953	(10,830)
Unclaimed funds	38,273	39,325	(1,052)
Lease liability	76,711	-	76,711
Mortgage loans suspense	5,782,427	-	5,782,427
Other payables, withholdings and escrows	(812,431)	(535,290)	(277,141)
Total other liabilities	$ 5,901,624	$ 8,118,268	$ (2,216,644)

The $7,359,809 decrease in suspense accounts payable is due to decreased deposits on policy applications that had not been issued as of the financial reporting date primarily due to a suspension of annuity production after June 30, 2019.

As of December 31, 2019, the Company had $564 of security purchases where the trade date and settlement date were in different financial reporting periods compared to $393,762 of security purchases overlapping financial reporting periods as of December 31, 2018.

The $277,141 decrease in other payables, withholdings and escrows is primarily due to a $273,000 increase in escrow amounts on purchased mortgage loans due from previous servicers that has been traditionally recorded as a contra liability.

The Company reported a lease liability of $76,711 as of December 31, 2019, in accordance with the lease guidance adopted in 2019.

The Company changed its accounting practice and no longer reclassified its mortgage loan suspense account to reduce balances of mortgage loans on real estate causing this change of $5,782,427.

Liquidity and Capital Resources

Our operations have been financed primarily through the private placement of equity securities and intrastate public stock offerings. Through December 31, 2019, we have received $27,119,480 from the sale of our shares.

The Company raised $1,450,000 from two private placements during 2004 and $25,669,480 from two public stock offerings and one private placement stock offering from June 22, 2005 through February 23, 2007; June 29, 2010 through April 30, 2012; and August 15, 2012 through March 8, 2013. The Company issued 7,347,488 shares of its common stock and incurred $3,624,518 of offering costs during these private placements and public stock offerings.

The Company also issued 702,685 shares of its common stock in connection with two stock dividends paid to shareholders in 2011 and 2012 that resulted in accumulated earnings being charged $5,270,138 with an offsetting credit of $5,270,138 to common stock and additional paid-in capital.

During 2012, 2013, 2014 and 2015, the Company repurchased 247,580 shares of its common stock at a total cost of $893,947 from former members of the Board of Directors including the former Chairman of the Board of Directors, a former agent, the former spouse of the Company’s current Chairman, Chief Executive Officer and President and a charitable organization where a former member of the Board of Directors had donated shares of the Company’s common stock.

As of December 31, 2019, we had cash and cash equivalents totaling $23,212,170. As of December 31, 2019, cash and cash equivalents of $11,650,247 and $9,690,063, respectively, totaling $21,340,310 were held by TLIC and FBLIC and may not be available for use by FTFC due to the required pre-approval by the OID and MDOI of any dividend or intercompany transaction to transfer funds to FTFC. The maximum dividend, which may be paid in any twelve-month period without notification or approval, is limited to the greater of 10% of statutory surplus as of December 31 of the preceding year or the net gain from operations of the preceding calendar year.

Cash dividends may only be paid out of surplus derived from realized net profits. Based on these limitations, there is capacity for TLIC to pay a dividend up to $1,245,184 in 2020 without prior approval. In addition, based on those limitations, there is the capacity for FBLIC to pay a dividend up to $918,511 in 2020 without prior approval. FBLIC paid dividends of $760,347 to TLIC in 2018 but none in 2019. Dividends paid by FBLIC are eliminated in consolidation. TLIC has paid no dividends to FTFC.

The Company maintains cash and cash equivalents at multiple institutions. The Federal Deposit Insurance Corporation insures interest and non-interest bearing accounts up to $250,000. Uninsured balances aggregate $18,089,331 and $14,663,402 as of December 31, 2019 and December 31, 2018, respectively. Other funds are invested in mutual funds that invest in U.S. government securities. We monitor the solvency of all financial institutions in which we have funds to minimize the exposure for loss. The Company has not experienced any losses in such accounts.

On November 8, 2019, the Company renewed its $1.5 million line of credit with a bank to provide working capital and funds for expansion. The terms of the line of credit allows for advances, repayments and re-borrowings through a maturity date of September 15, 2020. Any outstanding advances will incur interest at a variable interest rate of the prime rate set forth in the Wall Street Journal plus 1% per annum adjusting monthly based on a 360 day year with a minimum interest rate floor of 5%.

Our cash flows for the years ended December 31, 2019 and 2018 are summarized as follows:

	Years Ended December 31,		Amount Change
	2019	2018	2019 less 2018
Net cash used in operating activities	$ (65,150,610)	$ (8,858,987)	$ (56,291,623)
Net cash used in investing activities	(71,789,821)	(17,232,910)	(54,556,911)
Net cash provided by financing activities	130,486,996	24,261,343	106,225,653
Decrease in cash	(6,453,435)	(1,830,554)	(4,622,881)
Cash and cash equivalents, beginning of period	29,665,605	31,496,159	(1,830,554)
Cash and cash equivalents, end of period	$ 23,212,170	$ 29,665,605	$ (6,453,435)

The $65,150,610 and $8,858,987 cash used in operating activities for the years ended December 31, 2019 and 2018, respectively, are summarized as follows:

	Years Ended December 31, 2019	Years Ended December 31, 2018	Amount Change 2019 less 2018
Premiums collected	$ 23,149,802	$ 18,843,535	$ 4,306,267
Net investment income collected	18,235,735	17,033,536	1,202,199
Service fees and other income collected	1,313,587	542,694	770,893
Death benefits paid	(5,179,442)	(6,374,420)	1,194,978
Surrenders paid	(1,000,447)	(913,977)	(86,470)
Dividends and endowments paid	(290,557)	(282,029)	(8,528)
Commissions paid	(12,287,862)	(8,176,470)	(4,111,392)
Other underwriting, insurance and acquisition expenses paid	(3,277,801)	(8,609,969)	5,332,168
Taxes received (paid)	1,802,214	(2,088,374)	3,890,588
Increased (decreased) advances to mortgage loan originator	506,083	(17,611)	523,694
Increased (decreased) deposits of pending policy applications	(7,359,809)	7,337,074	(14,696,883)
Increased assets held in trust under coinsurance agreement	(79,594,540)	(25,494,700)	(54,099,840)
Increased short-term investments	(934,716)	(348,402)	(586,314)
Increased policy loans	(216,962)	(149,164)	(67,798)
Increased deposits	-	(125,000)	125,000
Other	(15,895)	(35,710)	19,815
Cash used in operating activities	$ (65,150,610)	$ (8,858,987)	$ (56,291,623)

Please see the consolidated statements of cash flows for the years ended December 31, 2019 and 2018 for a summary of the components of net cash used in investing activities and net cash provided by financing activities.

Our shareholders' equity as of December 31, 2019 and 2018 is summarized as follows:

	December 31, 2019	December 31, 2018	Amount Change 2019 less 2018
Common stock, par value $.01 per share (20,000,000 shares authorized, 8,050,173 issued as of December 31, 2019 and 2018 and 7,802,593 outstanding as of December 31, 2019 and 2018)	$ 80,502	$ 80,502	$ -
Additional paid-in capital	28,684,598	28,684,598	-
Treasury stock, at cost (247,580 shares as of December 31, 2019 and 2018)	(893,947)	(893,947)	-
Accumulated other comprehensive income (loss)	9,616,660	(2,576,631)	12,193,291
Accumulated earnings	19,930,449	13,830,729	6,099,720
Total shareholders' equity	$ 57,418,262	$ 39,125,251	$ 18,293,011

The increase in shareholders' equity of $18,293,011 for the year ended December 31, 2019 is due to $12,193,291 in accumulated other comprehensive income and $6,099,720 in net income.

Shareholders' equity per common share outstanding increased 46.9% from $5.01 per share as of December 31, 2018 to $7.36 per share as of December 31, 2019, based upon 7,802,593 common shares outstanding as of both December 31, 2019 and 2018.

The liquidity requirements of our life insurance companies are met primarily by funds provided from operations. Premium and annuity consideration deposits, investment income and investment maturities are the primary sources of funds, while investment purchases, policy benefits, and operating expenses are the primary uses of funds. There were no liquidity issues in 2019 or 2018. Our investments include marketable debt securities that could be readily converted to cash for liquidity needs. We are subject to various market risks. The quality of our investment portfolio and the current level of shareholders' equity continue to provide a sound financial base as we strive to expand our marketing to offer competitive products.

Our investment portfolio had unrealized appreciation (depreciation) on available-for-sale securities of $12,192,831 and ($3,271,683) as of December 31, 2019 and 2018, respectively, prior to the impact of income taxes and deferred acquisition cost adjustments. An increase of $16,454,021 in unrealized gains arising for year ended December 31, 2019 and 2019 net realized investment gains of $989,507 originating from the sale and call activity for fixed maturity securities available-for-sale resulting in net unrealized gains on investments of $15,464,514.

A primary liquidity concern is the risk of an extraordinary level of early policyholder withdrawals. We include provisions within our insurance policies, such as surrender charges, that help limit and discourage early withdrawals. Individual life insurance policies are less susceptible to withdrawal than annuity reserves and deposit liabilities because policyholders may incur surrender charges and undergo a new underwriting process in order to obtain a new insurance policy. Cash flow projections and cash flow tests under various market interest rate scenarios are also performed annually to assist in evaluating liquidity needs and adequacy. We currently anticipate that available liquidity sources and future cash flows will be adequate to meet our needs for funds.

One of our significant risks relates to the fluctuations in interest rates. Regarding interest rates, the value of our available-for-sale fixed maturity securities investment portfolio will increase or decrease in an inverse relationship with fluctuations in interest rates, while net investment income earned on newly acquired available-for-sale fixed maturity securities increases or decreases in direct relationship with interest rate changes.

From an income perspective, we are exposed to rising interest rates which could be a significant risk, as TLIC's and FBLIC’s annuity business is impacted by changes in interest rates. Life insurance company policy liabilities bear fixed rates. From a liquidity perspective, our fixed rate policy liabilities are relatively insensitive to interest rate fluctuations. We believe gradual increases in interest rates do not present a significant liquidity exposure for the life insurance policies and annuity contracts. We maintain conservative durations in our fixed maturity portfolio.

As of December 31, 2019, cash and cash equivalents, short-term investments, the fair value of fixed maturity available-for-sale securities with maturities of less than one year and the fair value of lottery receivables with maturities of less than one year equaled 8.9% of total policy liabilities. If interest rates rise significantly in a short time frame, there can be no assurance that the life insurance industry, including the Company, would not experience increased levels of surrenders and reduced sales, and thereby be materially adversely affected.

In addition to the measures described above, TLIC and FBLIC must comply with the National Association of Insurance Commissioners promulgated Standard Valuation Law ("SVL") which specifies minimum reserve levels and prescribes methods for determining them, with the intent of enhancing solvency. Upon meeting certain tests, which TLIC and FBLIC met during 2019, the SVL also requires the Company to perform annual cash flow testing for TLIC and FBLIC. This testing is designed to ensure that statutory reserve levels will maintain adequate protection in a variety of potential interest rate scenarios. The Actuarial Standards Board of the American Academy of Actuaries also requires cash flow testing as a basis for the actuarial opinion on the adequacy of the reserves which is a required part of the annual statutory reporting process.

Our marketing plan could be modified to emphasize certain product types and reduce others. New business levels could be varied in order to find the optimum level. We believe that our current liquidity, current bond portfolio maturity distribution and cash position give us substantial resources to administer our existing business and fund growth generated by direct sales.

The operations of TLIC and FBLIC may require additional capital contributions to meet statutory capital and surplus requirements mandated by state insurance departments. Life insurance contract liabilities are generally long term in nature and are generally paid from future cash flows or existing assets and reserves. We will service other expenses and commitments by: (1) using available cash, (2) dividends from TLIC and FBLIC that are limited by law to the greater of prior year net operating income or 10% of prior year-end surplus unless specifically approved by the controlling insurance department, (3) public and private offerings of our common stock and (4) corporate borrowings, if necessary.

Effective January 1, 2019, the Company entered into a revised advance agreement with one loan originator. As of December 31, 2019, the Company has outstanding advances to this loan originator totaling $4,436,787. The advances are secured by $7,032,420 of residential mortgage loans on real estate that are assigned to the Company. The Company has committed to fund up to an additional $2,063,213 to the loan originator that would result in additional security in the form of residential mortgage loans on real estate to be assigned to the Company.

Effective January 1, 2019, the Company also entered into a revised escrow agreement with the same loan originator. According to the revised terms of the escrow agreement, as of December 31, 2019, $798,753 of additional and secured residential mortgage loan balances on real estate are held in escrow by the loan originator. As of December 31, 2019, $489,965 of that escrow amount is available to the Company as additional collateral on $4,436,787 of advances to the loan originator. The remaining December 31, 2019 escrow amount of $308,788 is available to the Company as additional collateral on its investment of $61,757,602 in residential mortgage loans on real estate.

We are not aware of any commitments or unusual events that could materially affect our capital resources. We are not aware of any current recommendations by any regulatory authority which, if implemented, would have a material adverse effect on our liquidity, capital resources or operations. We believe that our existing cash and cash equivalents as of December 31, 2019 will be sufficient to fund our anticipated operating expenses.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

SPECIAL NOTE CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements contained herein are forward-looking statements. The forward-looking statements are made pursuant to the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995, and include estimates and assumptions related to economic, competitive and legislative developments. Forward-looking statements may be identified by words such as “expects,” “intends,” “anticipates,” “plans,” “believes,” “estimates,” “will” or words of similar meaning; and include, but are not limited to, statements regarding the outlook of our business and financial performance. These forward-looking statements are subject to change and uncertainty, which are, in many instances, beyond our control and have been made based upon our expectations and beliefs concerning future developments and their potential effect upon us. There can be no assurance that future developments will be in accordance with our expectations, or that the effect of future developments on us will be as anticipated. These forward-looking statements are not a guarantee of future performance and involve risks and uncertainties. There are certain important factors that could cause actual results to differ, possibly materially, from expectations or estimates reflected in such forward-looking statements. These factors include among others:

- general economic conditions and financial factors, including the performance and fluctuations of fixed income, equity, real estate, credit capital and other financial markets;
- differences between actual experience regarding mortality, morbidity, persistency, surrenders, investment returns, and our pricing assumptions establishing liabilities and reserves or for other purposes;
- the effect of increased claims activity from natural or man-made catastrophes, pandemic disease, or other events resulting in catastrophic loss of life;
- adverse determinations in litigation or regulatory matters and our exposure to contingent liabilities, including and in connection with our divestiture or winding down of businesses such as FTCC;
- inherent uncertainties in the determination of investment allowances and impairments and in the determination of the valuation allowance on the deferred income tax asset;
- investment losses and defaults;
- competition in our product lines;
- attraction and retention of qualified employees and agents;
- ineffectiveness of risk management policies and procedures in identifying, monitoring and managing risks;
- the availability, affordability and adequacy of reinsurance protection;
- the effects of emerging claim and coverage issues;
- the cyclical nature of the insurance business;
- interest rate fluctuations;
- changes in our experiences related to deferred policy acquisition costs;
- the ability and willingness of counterparties to our reinsurance arrangements and derivative instruments to pay balances due to us;
- impact of medical epidemics and viruses;
- domestic or international military actions;
- the effects of extensive government regulation of the insurance industry;
- changes in tax and securities law;
- changes in statutory or U.S. generally accepted accounting principles (“GAAP”), practices or policies;

- regulatory or legislative changes or developments;
- the effects of unanticipated events on our disaster recovery and business continuity planning;
- failures or limitations of our computer, data security and administration systems;
- risks of employee error or misconduct;
- the assimilation of life insurance businesses we acquire and the sound management of these businesses; and
- the availability of capital to expand our business.

It is not our corporate policy to make specific projections relating to future earnings, and we do not endorse any projections regarding future performance made by others. In addition, we do not publicly update or revise forward-looking statements based on the outcome of various foreseeable or unforeseeable developments.

FIRST TRINITY FINANCIAL CORPORATION AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

Report of Independent Registered Public Accounting Firm

To the Board of Directors and
Shareholders of First Trinity Financial Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial position of First Trinity Financial Corporation and Subsidiaries (the Company) as of December 31, 2019 and 2018, and the related consolidated statements of operations, 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 financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Kerber, Eck & Braeckel LLP

We have served as the Company's auditor since 2004.

Springfield, Illinois
March 11, 2020

First Trinity Financial Corporation and Subsidiaries
Consolidated Statements of Financial Position

	December 31, 2019	December 31, 2018
Assets		
Investments		
Available-for-sale fixed maturity securities at fair value (amortized cost: $166,760,448 and $134,414,517 as of December 31, 2019 and 2018, respectively)	$ 178,951,324	$ 131,152,199
Available-for-sale preferred stock at fair value (cost: $49,945 and $99,945 as of December 31, 2019 and 2018, respectively)	51,900	90,580
Equity securities at fair value (cost: $180,194 and $187,122 as of December 31, 2019 and 2018, respectively)	201,024	198,668
Mortgage loans on real estate	162,404,640	130,049,610
Investment real estate	1,951,759	2,392,031
Policy loans	2,026,301	1,809,339
Short-term investments	1,831,087	896,371
Other long-term investments	71,824,480	59,255,477
Total investments	419,242,515	325,844,275
Cash and cash equivalents	23,212,170	29,665,605
Accrued investment income	5,207,823	2,672,978
Recoverable from reinsurers	1,244,733	2,323,157
Assets held in trust under coinsurance agreement	105,089,240	25,494,700
Agents' balances and due premiums	1,618,115	1,418,916
Deferred policy acquisition costs	38,005,639	29,681,737
Value of insurance business acquired	4,891,448	5,185,870
Other assets	6,424,691	11,219,612
Total assets	$ 604,936,374	$ 433,506,850
Liabilities and Shareholders' Equity		
Policy liabilities		
Policyholders' account balances	$ 363,083,838	$ 297,168,411
Future policy benefits	65,015,390	56,261,507
Policy claims	1,399,393	1,102,257
Other policy liabilities	132,975	72,559
Total policy liabilities	429,631,596	354,604,734
Funds withheld under coinsurance agreement	105,638,974	29,285,119
Deferred federal income taxes	6,345,918	2,373,478
Other liabilities	5,901,624	8,118,268
Total liabilities	547,518,112	394,381,599
Shareholders' equity		
Common stock, par value $.01 per share (20,000,000 shares authorized, 8,050,173 issued as of December 31, 2019 and 2018 and 7,802,593 outstanding as of December 31, 2019 and 2018)	80,502	80,502
Additional paid-in capital	28,684,598	28,684,598
Treasury stock, at cost (247,580 shares as of December 31, 2019 and 2018)	(893,947)	(893,947)
Accumulated other comprehensive income (loss)	9,616,660	(2,576,631)
Accumulated earnings	19,930,449	13,830,729
Total shareholders' equity	57,418,262	39,125,251
Total liabilities and shareholders' equity	$ 604,936,374	$ 433,506,850

See notes to consolidated financial statements.

First Trinity Financial Corporation and Subsidiaries
Consolidated Statements of Operations

	Years Ended December 31, 2019	Years Ended December 31, 2018
Revenues		
Premiums	$ 23,125,090	$ 18,822,517
Net investment income	24,370,040	19,609,386
Net realized investment gains	967,978	266,498
Service fees	1,087,181	465,528
Other income	226,406	77,166
Total revenues	49,776,695	39,241,095
Benefits, Claims and Expenses		
Benefits and claims		
Increase in future policy benefits	8,769,777	6,634,114
Death benefits	6,555,001	5,345,707
Surrenders	1,000,447	913,977
Interest credited to policyholders	11,782,286	9,282,425
Dividend, endowment and supplementary life contract benefits	287,946	279,660
Total benefits and claims	28,395,457	22,455,883
Policy acquisition costs deferred	(12,369,350)	(8,527,380)
Amortization of deferred policy acquisition costs	4,015,480	3,515,624
Amortization of value of insurance business acquired	294,422	340,775
Commissions	12,125,929	8,228,279
Other underwriting, insurance and acquisition expenses	9,095,141	6,623,647
Total expenses	13,161,622	10,180,945
Total benefits, claims and expenses	41,557,079	32,636,828
Income before total federal income tax expense	8,219,616	6,604,267
Current federal income tax expense	1,388,711	100,075
Deferred federal income tax expense	731,185	1,362,046
Total federal income tax expense	2,119,896	1,462,121
Net income	$ 6,099,720	$ 5,142,146
Net income per common share basic and diluted	$ 0.78	$ 0.66

See notes to consolidated financial statements.

First Trinity Financial Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income (Loss)

	Years Ended December 31,	
	2019	2018
Net income	$ 6,099,720	$ 5,142,146
Other comprehensive income (loss)		
Total net unrealized investment gains (losses) arising during the period	16,454,021	(9,087,572)
Cumulative effect, adoption of accounting guidance for equity securities	-	(68,508)
Less net realized investment gains	989,507	246,078
Net unrealized investment gains (losses)	15,464,514	(9,402,158)
Adjustment to deferred acquisition costs	29,968	(114,079)
Other comprehensive income (loss) before federal income tax expense (benefit)	15,434,546	(9,288,079)
Federal income tax expense (benefit)	3,241,255	(1,950,497)
Total other comprehensive income (loss)	12,193,291	(7,337,582)
Total comprehensive income (loss)	$ 18,293,011	$ (2,195,436)

See notes to consolidated financial statements.

First Trinity Financial Corporation and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
Years Ended December 31, 2019 and 2018

	Common Stock $.01 Par Value	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Accumulated Earnings	Total Shareholders' Equity
Balance as of January 1, 2018 ..	$ 80,502	$28,684,598	$ (893,947)	$ 4,760,951	$ 8,620,075	$ 41,252,179
Comprehensive loss:						
Net income	-	-	-	-	5,142,146	5,142,146
Cumulative effect, adoption of accounting guidance for equity securities	-	-	-	-	68,508	68,508
Other comprehensive loss	-	-	-	(7,337,582)	-	(7,337,582)
Balance as of December 31, 2018	$ 80,502	$28,684,598	$ (893,947)	$ (2,576,631)	$ 13,830,729	$ 39,125,251
Comprehensive income:						
Net income	-	-	-	-	6,099,720	6,099,720
Other comprehensive income	-	-	-	12,193,291	-	12,193,291
Balance as of December 31, 2019	$ 80,502	$28,684,598	$ (893,947)	$ 9,616,660	$ 19,930,449	$ 57,418,262

See notes to consolidated financial statements.

First Trinity Financial Corporation and Subsidiaries
Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2019	2018
Operating activities		
Net income	$ 6,099,720	$ 5,142,146
Adjustments to reconcile net income to net cash used in operating activities:		
Provision for depreciation	145,488	145,488
Accretion of discount on investments	(4,636,264)	(3,927,602)
Net realized investment gains	(967,978)	(266,498)
Amortization of policy acquisition cost	4,015,480	3,515,624
Policy acquisition cost deferred	(12,369,350)	(8,527,380)
Amortization of loan origination fees	25,717	39,416
Amortization of value of insurance business acquired	294,422	340,775
Allowance for mortgage loan losses	81,212	81,351
Provision for deferred federal income tax expense	731,185	1,362,046
Interest credited to policyholders	11,782,286	9,282,425
Change in assets and liabilities:		
Policy loans	(216,962)	(149,164)
Short-term investments	(934,716)	(348,402)
Accrued investment income	(2,534,845)	(128,015)
Recoverable from reinsurers	1,078,424	(982,457)
Assets held in trust under coinsurance agreement	(79,594,540)	(25,494,700)
Agents' balances and due premiums	(199,199)	66,389
Other assets (excludes change in receivable for securities sold of ($33,600) and ($331,012) in 2019 and 2018, respectively)	4,761,321	(630,054)
Future policy benefits	8,753,883	6,598,408
Policy claims	297,136	(46,256)
Other policy liabilities	60,416	4,069
Other liabilities (excludes change in payable of securities purchased of ($393,198) and ($68,838) in 2019 and 2018, respectively)	(1,823,446)	5,063,404
Net cash used in operating activities	(65,150,610)	(8,858,987)
Investing activities		
Purchases of fixed maturity securities	(65,657,914)	(13,191,134)
Maturities of fixed maturity securities	4,525,000	5,076,000
Sales of fixed maturity securities	29,175,106	16,961,796
Purchases of equity securities	(115,357)	(76,127)
Sales of equity securities	19,371	361,947
Joint venture distribution	115,286	55,710
Sales of preferred stock	50,000	-
Purchases of mortgage loans	(74,689,461)	(63,066,644)
Payments on mortgage loans	42,502,954	35,461,456
Purchases of other long-term investments	(18,605,374)	(9,143,277)
Collections on other long-term investments	10,899,349	9,700,500
Sales of real estate	350,817	364,689
Net change in receivable and payable for securities sold and purchased	(359,598)	262,174
Net cash used in investing activities	(71,789,821)	(17,232,910)
Financing activities		
Policyholders' account deposits	163,781,048	54,957,500
Policyholders' account withdrawals	(33,294,052)	(30,696,157)
Net cash provided by financing activities	130,486,996	24,261,343
Decrease in cash and cash equivalents	(6,453,435)	(1,830,554)
Cash and cash equivalents, beginning of period	29,665,605	31,496,159
Cash and cash equivalents, end of period	$ 23,212,170	$ 29,665,605

See notes to consolidated financial statements.

First Trinity Financial Corporation and Subsidiaries
Consolidated Statements of Cash Flows (continued)
Supplemental Disclosure – Cash and Non-Cash Impact on Operating, Investing and Financing Activities

During 2019 and 2018, the Company foreclosed on residential mortgage loans of real estate totaling $99,218 and $467,593, respectively, and transferred those properties to investment real estate that are now held for sale.

In conjunction with these foreclosures, the non-cash impact on investing activities is summarized as follows:

	Year Ended December 31, 2019	Year Ended December 31, 2018
Reductions in mortgage loans due to foreclosure	$ 99,218	$ 467,593
Investment real estate held-for-sale acquired through foreclosure	(99,218)	(467,593)
Net cash used in investing activities	$ -	$ -

See notes to consolidated financial statements.

1. Organization and Significant Accounting Policies

First Trinity Financial Corporation (the "Company" or "FTFC") is the parent holding company of Trinity Life Insurance Company ("TLIC"), Family Benefit Life Insurance Company ("FBLIC"), First Trinity Capital Corporation ("FTCC") and Trinity American, Inc. ("TAI"). The Company was incorporated in Oklahoma on April 19, 2004, for the primary purpose of organizing a life insurance subsidiary.

The Company owns 100% of TLIC. TLIC owns 100% of FBLIC. TLIC and FBLIC are primarily engaged in the business of marketing, underwriting and distributing a broad range of individual life insurance and annuity products to individuals. TLIC's and FBLIC's current product portfolio consists of a modified premium whole life insurance policy with a flexible premium deferred annuity rider, whole life, term, final expense, accidental death and dismemberment and annuity products. The term products are both renewable and convertible and issued for 10, 15, 20 and 30 years. They can be issued with premiums fully guaranteed for the entire term period or with a limited premium guarantee. The final expense product is issued as either a simplified issue or as a graded benefit, determined by underwriting. The TLIC and FBLIC products are sold through independent agents. TLIC is licensed in the states of Illinois, Kansas, Kentucky, Montana, Nebraska, North Dakota, Ohio, Oklahoma, Tennessee and Texas. FBLIC is licensed in the states of Alabama, Arizona, Arkansas, Colorado, Georgia, Illinois, Indiana, Kansas, Kentucky, Louisiana, Michigan, Mississippi, Missouri, Montana, Nebraska, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Pennsylvania, South Dakota, Tennessee, Texas, Utah, Virginia, West Virginia and Tennessee.

The Company owns 100% of FTCC that was incorporated in 2006, and began operations in January 2007. FTCC provided financing for casualty insurance premiums for individuals and companies and was licensed to conduct premium financing business in the states of Alabama, Arkansas, Louisiana, Mississippi and Oklahoma. FTCC has made no premium financing loans since June 30, 2012.

The Company owns 100% of TAI (formerly known as Citizens American Life, Inc.). TAI was incorporated in Barbados, West Indies on March 24, 2016 for the primary purpose of forming a life insurance company producing United States (U.S.) dollar denominated life insurance policies and annuity contracts outside of the United States and Barbados. TAI is licensed as an Exempt Insurance Company under the Exempt Insurance Act of Barbados. TAI was initially involved in developing life insurance and annuity contracts through an association with distribution channels but is now issuing life insurance policies and annuity contracts. The Company's acquisition of TAI was formally approved by Barbados regulators and the certifications were received in 2019.

Company Capitalization

The Company raised $1,450,000 from two private placement stock offerings during 2004 and $25,669,480 from two public stock offerings and one private placement stock offering from June 22, 2005 through February 23, 2007; June 29, 2010 through April 30, 2012 and August 15, 2012 through March 8, 2013. The Company issued 7,347,488 shares of its common stock and incurred $3,624,518 of offering costs during these private placements and public stock offerings. The Company also issued 702,685 shares of its common stock in connection with two stock dividends paid to shareholders in 2011 and 2012.

During 2012, 2013, 2014 and 2015, the Company repurchased 247,580 shares of its common stock at a total cost of $893,947 from former members of the Board of Directors including the former Chairman of the Board of Directors, a former agent, the former spouse of the Company's current Chairman, Chief Executive Officer and President and a charitable organization where a former member of the Board of Directors had donated shares of the Company's common stock.

Acquisition of Other Companies

On December 23, 2008, FTFC acquired 100% of the outstanding common stock of First Life America Corporation ("FLAC") from an unaffiliated company. The acquisition of FLAC was accounted for as a purchase. The aggregate purchase price for FLAC was $2,695,234 including direct costs associated with the acquisition of $195,234. The acquisition of FLAC was financed with the working capital of FTFC.

1. Organization and Significant Accounting Policies (continued)

On December 31, 2008, FTFC made FLAC a 15 year loan in the form of a surplus note in the amount of $250,000 with an interest rate of 6% payable monthly, that was approved by the Oklahoma Insurance Department ("OID"). This surplus note is eliminated in consolidation.

On August 31, 2009, two of the Company's subsidiaries, Trinity Life Insurance Company ("Old TLIC") and FLAC, were merged, with FLAC being the surviving company. Immediately following the merger, FLAC changed its name to TLIC.

On December 28, 2011, TLIC acquired 100% of the outstanding common stock of FBLIC from FBLIC's shareholders. The acquisition of FBLIC was accounted for as a purchase. The aggregate purchase price for the acquisition of FBLIC was $13,855,129. The acquisition of FBLIC was financed with the working capital of TLIC.

On April 28, 2015, the Company acquired a block of life insurance policies and annuity contracts according to the terms of an assumption reinsurance agreement. The Company acquired assets of $3,644,839, assumed liabilities of $3,055,916 and recorded a gain on reinsurance assumption of $588,923.

On April 3, 2018, FTFC acquired 100% of the outstanding stock of TAI domiciled in Barbados, West Indies. The Barbados regulators approved the acquisition and supplied certifications during 2019. The aggregate purchase price for the acquisition of TAI was $250,000. The acquisition of TAI was financed with the working capital of FTFC.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Principles of Consolidation

The consolidated financial statements include the accounts and operations of the Company and its subsidiaries. All intercompany accounts and transactions are eliminated in consolidation.

Reclassifications

Certain reclassifications have been made in the prior year financial statements to conform to current year classifications. These reclassifications had no effect on previously reported net income or shareholders' equity**.**

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

Investments

Fixed maturity securities comprised of bonds and preferred stocks are classified as available-for-sale and are carried at fair value with unrealized gains and losses, net of applicable income taxes, reported in accumulated other comprehensive income. The amortized cost of fixed maturity securities available-for-sale is adjusted for amortization of premium and accretion of discount to maturity.

Interest income on fixed maturity securities, as well as the related amortization of premium and accretion of discount, is included in net investment income under the effective yield method. Dividend income on preferred stocks are recognized in net investment income when declared. The amortized cost of fixed maturity securities available-for-sale and the cost of preferred stocks are written down to fair value when a decline in value is considered to be other-than-temporary.

1. Organization and Significant Accounting Policies (continued)

The Company evaluates the difference between the cost or amortized cost and estimated fair value of its fixed maturity and preferred stock investments to determine whether any decline in value is other-than-temporary in nature. This determination involves a degree of uncertainty. If a decline in the fair value of a security is determined to be temporary, the decline is recorded as an unrealized loss in stockholders' equity. If a decline in a security's fair value is considered to be other-than-temporary, the Company then determines the proper treatment for the other-than-temporary impairment.

For fixed maturity securities available-for-sale, the amount of any other-than-temporary impairment related to a credit loss is recognized in earnings and reflected as a reduction in the cost basis of the security; and the amount of any other-than-temporary impairment related to other factors is recognized in other comprehensive income (loss) with no change to the cost basis of the security. For preferred stocks available-for-sale, the amount of any other-than-temporary impairment is recognized in earnings and reflected as a reduction in the cost basis of the security.

The assessment of whether a decline in fair value is considered temporary or other-than-temporary includes management's judgment as to the financial position and future prospects of the entity issuing the security. It is not possible to accurately predict when it may be determined that a specific security will become impaired. Future adverse changes in market conditions, poor operating results of underlying investments and defaults on mortgage loan payments could result in losses or an inability to recover the current carrying value of the investments, thereby possibly requiring an impairment charge in the future.

Likewise, if a change occurs in the Company’s intent to sell temporarily impaired securities prior to maturity or recovery in value, or if it becomes more likely than not that the Company will be required to sell such securities prior to recovery in value or maturity, a future impairment charge could result.

If an other-than-temporary impairment related to a credit loss occurs with respect to a bond, the Company amortizes the reduced book value back to the security's expected recovery value over the remaining term of the bond. The Company continues to review the security for further impairment that would prompt another write-down in the value.

Equity securities are comprised of mutual funds and common stocks and are carried at fair value. The associated unrealized gains and losses are included in net realized investment gains (losses). Dividends from these investments are recognized in net investment income when declared.

Mortgage loans are carried at unpaid balances, net of unamortized premium or discounts. Interest income and the amortization of premiums or discounts are included in net investment income. Mortgage loan fees, certain direct loan origination costs, and purchase premiums and discounts on loans are recognized as an adjustment of yield by the interest method based on the contractual terms of the loan. In certain circumstances, prepayments may be anticipated. The Company has established a valuation allowance for mortgage loans on real estate that are not supported by funds held in escrow.

Investment real estate in buildings held for the production of income is carried at cost less accumulated depreciation. Depreciation on investment real estate in buildings held for the production of income is calculated over an estimated useful life of 19 years. Investment real estate in land held for both the production of income and for sale is carried at cost. Investment real estate obtained through foreclosure on mortgage loans on real estate is carried at the lower of acquisition cost or net realizable value.

Policy loans are carried at unpaid principal balances. Interest income on policy loans is recognized in net investment income at the contract interest rate when earned.

Other long term investments are comprised of lottery prize receivables and are carried at amortized cost. Interest income and the accretion of discount are included in net investment income.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, amounts due from banks and money market instruments.

1. Organization and Significant Accounting Policies (continued)

Short-term investments

Short-term investments include funds that have a maturity of more than 90 days but less than one year at the date of purchase.

Investment Income and Realized Gains and Losses on Sales of Investments

Interest and dividends earned on investments are included in net investment income. Realized gains and losses on sales of investments are recognized in operations on the specific identification basis.

Deferred Policy Acquisition Costs

Commissions and other acquisition costs which vary with and are primarily related to the successful production of new business are deferred and amortized in a systematic manner based on the related contract revenues or gross profits as appropriate. Recoverability of deferred acquisition costs is evaluated periodically by comparing the current estimate of the present value of expected pretax future profits to the unamortized asset balance. If this current estimate is less than the existing balance, the difference is charged to expense.

Deferred acquisition costs for the successful production of traditional life insurance contracts are deferred to the extent deemed recoverable and amortized over the premium paying period of the related policies using assumptions consistent with those used in computing future policy benefit liabilities. Deferred acquisition costs related to the successful production of insurance and annuity products that subject the Company to mortality or morbidity risk over a period that extends beyond the period or periods in which premiums are collected and that have terms that are fixed and guaranteed (i.e., limited-payment long-duration annuity contracts) are deferred to the extent deemed recoverable and amortized in relation to the present value of actual and expected gross profits on the policies.

To the extent that realized gains and losses on fixed income securities result in adjustments to deferred acquisition costs related to insurance and annuity products, such adjustments are reflected as a component of the amortization of deferred acquisition costs. Deferred acquisition costs related to limited-payment long-duration insurance and annuity contracts are also adjusted, net of tax, for the change in amortization that would have been recorded if the unrealized gains (losses) from available-for-sale securities had actually been realized. This adjustment is included in the change in net unrealized appreciation (depreciation) on available-for-sale securities, a component of “Accumulated Other Comprehensive Income (Loss)” in the shareholders’ equity section of the statement of financial position.

Allowance for Loan Losses from Mortgage Loans

The allowance for possible loan losses from investments in mortgage loans on real estate is a reserve established through a provision for possible loan losses charged to expense which represents, in the Company’s judgment, the known and inherent credit losses existing in the residential and commercial mortgage loan portfolio. The allowance, in the judgment of the Company, is necessary to reserve for estimated loan losses inherent in the residential and commercial mortgage loan portfolios and reduces the carrying value of investments in mortgage loans on real estate to the estimated net realizable value on the consolidated statement of financial position.

While the Company utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Company’s control, including the performance of the residential and commercial mortgage loan portfolios, the economy and changes in interest rates. The Company’s allowance for possible mortgage loan losses consists of specific valuation allowances established for probable losses on specific loans and a portfolio reserve for probable incurred but not specifically identified loans.

Mortgage loans are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the mortgage loan agreement. Factors considered by the Company in determining impairment include payment status, collateral value of the real estate subject to the mortgage loan, and the probability of collecting scheduled principal and interest payments when due.

1. Organization and Significant Accounting Policies (continued)

Mortgage loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. The Company determines the significance of payment delays and shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the mortgage loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation or amortization. Office furniture, equipment and computer software is recorded at cost or fair value at acquisition less accumulated depreciation or amortization using the straight-line method over the estimated useful life of the respective assets of three to ten years. Leasehold improvements are recorded at cost and depreciated over the remaining non-cancellable lease term.

Reinsurance

The Company cedes reinsurance under various agreements allowing management to control exposure to potential losses arising from large risks and providing additional capacity for growth. Estimated reinsurance recoverable balances are reported as assets and are recognized in a manner consistent with the liabilities related to the underlying reinsured ceded contracts. The Company also assumes reinsurance under various agreements allowing management to increase growth in assets and profitability. Estimated reinsurance payable balances are reported as liabilities and are recognized in a manner consistent with the assets related to the underlying assumed reinsurance contracts.

Value of Insurance Business Acquired

As a result of the Company's purchases of FLAC and FBLIC, an asset was recorded in the application of purchase accounting to recognize the value of acquired insurance in force. The Company's value of acquired insurance in force is an intangible asset with a definite life and is amortized under Financial Accounting Standards Board ("FASB") guidance. The value of acquired insurance in force is amortized primarily over the emerging profit of the related policies using the same assumptions that were used in computing liabilities for future policy benefits.

For the amortization of the value of acquired insurance in force, the Company periodically reviews its estimates of gross profits. The most significant assumptions involved in the estimation of gross profits include interest rate spreads, future financial market performance, business surrender/lapse rates, mortality and morbidity, expenses and the impact of realized investment gains and losses. In the event actual experience differs significantly from assumptions or assumptions are significantly revised, the Company is required to record a charge or credit to amortization expense for the period in which an adjustment is made.

As of December 31, 2019 and 2018, there was $3,848,430 and $3,554,008, respectively, of accumulated amortization of the value of insurance business acquired due to the purchases of FLAC and FBLIC. The Company expects to amortize the value of insurance business acquired by the following amounts over the next five years: $275,501 in 2020, $257,083 in 2021, $237,034 in 2022, $226,150 in 2023 and $216,735 in 2024.

Other Assets and Other Liabilities

Other assets consist primarily of advances to mortgage loan originator, receivable for securities sold, federal and state income taxes recoverable, accrual of mortgage loan and long-term investment payments due, guaranty funds, notes receivable, prepaid assets, deposits, other receivables and property and equipment.

Other liabilities consist primarily of accrued expenses payable, accounts payable, remittance and suspense items not allocated, payable for securities purchased, guaranty fund assessments, unclaimed funds, deferred revenue, unearned investment income, withholdings, escrows and other payables.

1. Organization and Significant Accounting Policies (continued)

Policyholders' Account Balances

The Company's liability for policyholders' account balances represents the contract value that has accrued to the benefit of the policyholder as of the financial statement date. This liability is generally equal to the accumulated account deposits plus interest credited less policyholders' withdrawals and other charges assessed against the account balance. Interest crediting rates for individual annuities range from 2.25% to 4.50%. Interest crediting rates for deposit-type liabilities range from 2.50% to 4.00%.

Future Policy Benefits

The Company's liability for future policy benefits is primarily comprised of the present value of estimated future payments to or on behalf of policyholders, where the timing and amount of payment depends on policyholder mortality or morbidity, less the present value of future net premiums. For life insurance and annuity products, expected mortality and morbidity is generally based on the Company's historical experience or standard industry tables including a provision for the risk of adverse deviation. Interest rate assumptions are based on factors such as market conditions and expected investment returns. Although mortality, morbidity and interest rate assumptions are "locked-in" upon the issuance of new insurance with fixed and guaranteed terms, significant changes in experience or assumptions may require the Company to provide for expected future losses by establishing premium deficiency reserves.

Policy Claims

Policy claim liabilities represent the estimated liabilities for claims reported plus estimated incurred but not yet reported claims developed from trends of historical market data applied to current exposure.

Federal Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Deferred income taxes are provided for cumulative temporary differences between balances of assets and liabilities determined under U.S. GAAP and balances determined using tax bases. A valuation allowance is established for the amount of the deferred tax asset that exceeds the amount of the estimated future taxable income needed to utilize the future tax benefits.

Common Stock

Common stock is fully paid, non-assessable and has a par value of $.01 per share.

Treasury Stock

Treasury stock, representing shares of the Company's common stock that have been reacquired after having been issued and fully paid, is recorded at the reacquisition cost and the shares are no longer outstanding.

Accumulated Other Comprehensive Income (Loss)

FASB guidance requires the inclusion of unrealized gains or losses on available-for-sale securities, net of tax, as a component of other comprehensive income (loss). Unrealized gains and losses recognized in accumulated other comprehensive income (loss) that are later recognized in net income through a reclassification adjustment are identified on the specific identification method. In addition, deferred acquisition costs related to limited-payment long-duration insurance and annuity contracts are also adjusted, net of tax, for the change in amortization that would have been recorded if the unrealized gains (losses) from available-for-sale securities had actually been realized. This adjustment is included in the change in net unrealized appreciation (depreciation) on available-for-sale securities, a component of "Accumulated Other Comprehensive Income (Loss)" in the shareholders' equity section of the statement of financial position.

1. Organization and Significant Accounting Policies (continued)

Revenues and Expenses

Revenues on traditional life insurance products consist of direct premiums reported as earned when due. Liabilities for future policy benefits are provided and acquisition costs are amortized in a systematic manner based on the related contract revenues or gross profits as appropriate.

Acquisition costs for traditional life insurance contracts are deferred to the extent deemed recoverable and are amortized over the premium paying period of the related policies using assumptions consistent with those used in computing future policy benefit liabilities. Traditional life insurance products are treated as long-duration contracts since they generally remain in force for the lifetime of the insured.

Deferred acquisition costs related to insurance and annuity products that subject the Company to mortality or morbidity risk over a period that extends beyond the period or periods in which premiums are collected and that have terms that are fixed and guaranteed are deferred to the extent deemed recoverable and amortized in relation to the present value of actual and expected gross profits on the policies. These types of insurance and annuity contracts are treated as long-duration insurance contracts since they generally remain in force for an extended period.

Net Income per Common Share

Net income per common share basic and diluted is calculated using the weighted average number of common shares outstanding and subscribed during the year. The weighted average outstanding and subscribed common shares basic and diluted were 7,802,593 for both of the years ended December 31, 2019 and 2018.

Subsequent Events

Effective January 1, 2020, the Company acquired 100% of the outstanding common stock of K-TENN Insurance Company ("K-TENN") from its sole shareholder in exchange for 168,866 shares of FTFC's common stock. The acquisition of K-TENN was accounted for as a purchase. The aggregate purchase price of K-TENN was $1,837,469. Immediately subsequent to this acquisition, the $1,837,469 of net assets and liabilities of K-TENN along with the related life insurance business operations was contributed to TLIC.

Since regulatory approval has recently been granted by the OID and Missouri Department of Insurance ("MDOI") and approved at the Company's October 2, 2019 Annual Shareholders' Meeting (pending formal adoption by the Company's Board of Directors in March 2020), the Company's Certificate of Incorporation will be amended and restated to authorize a.) 50,000,000 shares of common stock to be divided into 40,000,000 shares of Class A common stock and 10,000,000 shares of Class B common stock and will establish the relative rights, preferences and privileges of, and the restrictions and limitations on, the Class A common stock and the Class B common stock and b.) there will be an automatic reclassification of each existing share of common stock into one (1) share of Class A common stock or, at the shareholder's election, into one (1) share of Class B common stock.

Upon full implementation after formal adoption by the Company's Board of Directors in March 2020, Class B shareholders will elect a majority of our Board of Directors (one-half plus one) but will only receive, compared to Class A shareholders, 85% of cash dividends, stock dividends or amounts due upon any Company merger, sale or liquidation event. Class B shareholders may also convert one share of Class B common stock for a .85 share of Class A common stock. Class A shareholders will elect the remaining Board of Directors members and will receive 100% of cash dividends, stock dividends or amounts due upon any Company merger, sale or liquidation event.

Upon full implementation after formal adoption by the Company's Board of Directors in March 2020, Class A shareholders will receive a $0.05 per share cash dividend followed by a 10% stock dividend. The Class B shareholders will not receive these cash and stock dividends.

1. Organization and Significant Accounting Policies (continued)

Management has evaluated all other events subsequent to December 31, 2019 through the date that these financial statements have been issued.

Recent Accounting Pronouncements

Leases

In February 2016, the FASB issued updated guidance (Accounting Standards Update 2016-02) to require lessees to recognize a right-of-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-of-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-of-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.

In July 2018, the FASB amended the updated guidance on leases that was issued in February 2016 (Accounting Standards Update 2018-11) and provided an additional transition method with which to adopt the updated guidance. Under the additional transition method, entities may elect to recognize a cumulative-effect adjustment to the opening balance of retained earnings in the year of adoption

Consequently, if this transition method is elected, an entity's reporting for the comparative periods prior to adoption presented in the financial statements would continue to be in accordance with current lease guidance. The amendments also provide lessors with a practical expedient to combine non-lease components (e.g., a fee for common area maintenance when leasing office space) with the associated lease component rather than accounting for those components separately if certain criteria are met. The updated guidance requires entities to recognize a right-of-use asset and lease liability equal to the present value of lease payments for all leases other than those that are less than one year. The updated guidance, as amended, is effective for reporting periods beginning after December 15, 2018.

In December 2018, the FASB issued additional guidance (Accounting Standards Update 2018-20) that permits an accounting policy election for lessors to not evaluate whether certain sales taxes and other similar taxes are lessor costs or lessee costs. A lessor making this election will exclude from the consideration in the contract and from variable payments not included in the consideration of the contract all collections from lessees of certain sales taxes and other similar taxes and to provide certain disclosures.

The Company adopted this guidance in first quarter 2019. The adoption of this guidance in 2019 did not have a material effect on the Company's results of operations, financial position or liquidity.

Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued updated guidance (Accounting Standards Update 2016-13) 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, including structured settlements that are recorded as part of 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.

1. Organization and Significant Accounting Policies (continued)

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 was effective for reporting periods beginning after December 15, 2019. As a Smaller Reporting Company, the effective date was recently changed and the delayed effective date is now for reporting periods beginning after December 15, 2022. Early adoption is permitted for reporting periods beginning after December 15, 2018. Based on the financial instruments currently held by the Company, there would not be a material effect on the Company's results of operations, financial position or liquidity if the new guidance had been adopted in the current accounting period. The impact on the Company's results of operations, financial position or liquidity at the date of adoption of the updated guidance will be determined by the financial instruments held by the Company and the economic conditions at that time.

Intangibles - Goodwill and Other

In January 2017, the FASB issued updated guidance (Accounting Standards Update 2017-04) that eliminates the requirement to calculate the implied fair value of goodwill (i.e., Step 2 of the current goodwill impairment test) to measure a goodwill impairment charge. Instead, entities will record an impairment charge by comparing a reporting unit's fair value with its carrying amount and recognizing an impairment charge for the excess of the carrying amount over estimated fair value (i.e., Step 1 of current guidance).

The implied fair value of goodwill is currently determined in Step 2 by deducting the fair value of all assets and liabilities of the reporting unit (determined in the same manner as a business combination) from the reporting unit's fair value as determined in Step 1 (including any corporate-level assets or liabilities that were included in the determination of the carrying amount and fair value of the reporting unit in Step 1). The updated guidance requires an entity to perform its annual, or interim, impairment test by either: (1) an initial qualitative assessment of factors (such as changes in management, key personnel, strategy, key technology or customers) that may impact a reporting unit's fair value and lead to the determination that it is more likely than not that the reporting unit's fair value is less than its carrying value, including goodwill (consistent with current guidance), or (2) applying Step 1.

The updated guidance is effective for reporting periods beginning after December 15, 2019 and is to be applied prospectively. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of this guidance is not expected to 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 updated guidance (Accounting Standards Update 2018-12) to the existing recognition, measurement, presentation and disclosure requirements for long-duration contracts issued by an insurance entity. This update improves the timeliness of recognizing changes in the liability for future policy benefits, modifies the rate used to discount future cash flows, simplifies and improves accounting for certain market-based options or guarantees associated with deposit (i.e., account balance) contracts, simplifies the amortization of deferred acquisitions costs and expands required disclosures. The expanded disclosure requires an insurance entity to provide disaggregated roll forwards of beginning to ending balances of the following: liability for future policy benefits, policyholder account balances, market risk benefits, separate account liabilities and deferred acquisition costs including disclosure about, changes to and effect of changes for significant inputs, judgments, assumptions and methods used in measurements.

The updated guidance was effective for reporting periods beginning after December 15, 2020. As a Smaller Reporting Company, the effective date was recently changed and the delayed effective date is now for reporting periods beginning after December 15, 2023. Early adoption is permitted. With respect to the liability for future policyholder benefits for traditional and limited-payment contracts and deferred acquisition costs, an insurance entity may elect to apply the amendments retrospectively as of the beginning of the earliest period presented.

1. Organization and Significant Accounting Policies (continued)

With respect to the market risk benefits, an insurance entity should apply the amendments retrospectively as of the beginning of the earliest period presented. The Company expects that the impact on the Company's results of operations, financial position and liquidity at the date of adoption of the updated guidance in 2024 will be determined by the long-duration contracts then held by the Company and the economic conditions at that time.

Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement

In August 2018, the FASB issued amendments (Accounting Standards Update 2018-13) to modify the disclosure requirements related to fair value measurements including the consideration of costs and benefits of producing the modified disclosures. The updated guidance is effective for reporting periods beginning after December 15, 2019. Early adoption is permitted and an entity is permitted to early adopt any removed or modified disclosures upon issuance and delay adoption of the additional disclosures until their effective date. The adoption of this guidance in 2020 is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

Income Taxes - Simplifying the Accounting for Income Taxes

In December 2019, the FASB issued updated guidance (Accounting Standards Update 2019-12) for the accounting for income taxes. The updated guidance is intended to simplify the accounting for income taxes by removing several exceptions contained in existing guidance and amending other existing guidance to simplify several other income tax accounting matters. The updated guidance is effective for the quarter ending March 31, 2021. Early adoption is permitted. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

2. Investments

Fixed Maturity, Preferred Stock and Equity Securities

Investments in fixed maturity, preferred stock and equity securities as of December 31, 2019 and 2018 are summarized as follows:

	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	December 31, 2019			
Fixed maturity securities				
U.S. government and U.S. government agencies	$ 1,679,731	$ 431	$ 11,129	$ 1,669,033
States and political subdivisions	9,536,120	617,063	2,252	10,150,931
Residential mortgage-backed securities	20,289	22,167	-	42,456
Corporate bonds	121,143,923	9,528,168	144,337	130,527,754
Asset-backed	2,116,056	68,395	-	2,184,451
Exchange traded securities	500,000	48,400	-	548,400
Foreign bonds	31,764,329	2,427,523	363,553	33,828,299
Total fixed maturity securities	166,760,448	12,712,147	521,271	178,951,324
Preferred stock	49,945	1,955	-	51,900
Equity securities				
Mutual funds	91,981	-	2,629	89,352
Corporate common stock	88,213	23,459	-	111,672
Total equity securities	180,194	23,459	2,629	201,024
Total fixed maturity, preferred stock and equity securities	$166,990,587	$12,737,561	$ 523,900	$179,204,248
	December 31, 2018			
Fixed maturity securities				
U.S. government and U.S. government agencies	$ 2,793,681	$ 2,769	$ 91,739	$ 2,704,711
States and political subdivisions	9,295,973	215,000	32,941	9,478,032
Residential mortgage-backed securities	23,694	27,461	-	51,155
Corporate bonds	100,360,468	823,991	3,220,268	97,964,191
Asset-backed	253,598	7,820	-	261,418
Foreign bonds	21,687,103	75,525	1,069,936	20,692,692
Total fixed maturity securities	134,414,517	1,152,566	4,414,884	131,152,199
Preferred stock	99,945	-	9,365	90,580
Equity securities				
Mutual funds	91,981	-	17,082	74,899
Corporate common stock	95,141	28,628	-	123,769
Total equity securities	187,122	28,628	17,082	198,668
Total fixed maturity, preferred stock and equity securities	$134,701,584	$ 1,181,194	$ 4,441,331	$131,441,447

2. Investments (continued)

All securities in an unrealized loss position as of the financial statement dates, the estimated fair value, pre-tax gross unrealized loss and number of securities by length of time that those securities have been continuously in an unrealized loss position as of December 31, 2019 and 2018 are summarized as follows:

	Fair Value	Unrealized Loss	Number of Securities
	December 31, 2019		
Fixed maturity securities			
Less than 12 months in an unrealized loss position			
U.S. government and U.S. government agencies	$ 1,097,626	$ 6,841	3
States and political subdivisions	103,007	2,252	1
Corporate bonds	3,049,765	59,915	7
Foreign bonds	345,243	7,857	1
Total less than 12 months in an unrealized loss position	4,595,641	76,865	12
More than 12 months in an unrealized loss position			
U.S. government and U.S. government agencies	445,943	4,288	2
Corporate bonds	1,245,410	84,422	6
Foreign bonds	1,070,459	355,696	4
Total more than 12 months in an unrealized loss position	2,761,812	444,406	12
Total fixed maturity securities in an unrealized loss position	7,357,453	521,271	24
Equity securities (mutual funds), greater than 12 months in an unrealized loss position	89,352	2,629	1
Total fixed maturity, preferred stock and equity securities in an unrealized loss position	$ 7,446,805	$ 523,900	$ 25
	December 31, 2018		
Fixed maturity securities			
Less than 12 months in an unrealized loss position			
U.S. government and U.S. government agencies	$ 991,660	$ 2,419	1
States and political subdivisions	1,066,743	7,948	6
Corporate bonds	58,506,980	2,154,898	215
Foreign bonds	14,554,291	852,120	50
Total less than 12 months in an unrealized loss position	75,119,674	3,017,385	272
More than 12 months in an unrealized loss position			
U.S. government and U.S. government agencies	1,590,655	89,320	6
States and political subdivisions	518,969	24,993	4
Corporate bonds	7,107,831	1,065,370	30
Foreign bonds	1,376,680	217,816	5
Total more than 12 months in an unrealized loss position	10,594,135	1,397,499	45
Total fixed maturity securities in an unrealized loss position	85,713,809	4,414,884	317
Preferred stock, less than 12 months in an unrealized loss position	90,580	9,365	2
Equity securities (mutual funds), less than 12 months in an unrealized loss position	74,899	17,082	1
Total fixed maturity, preferred stock and equity securities in an unrealized loss position	$ 85,879,288	$ 4,441,331	$ 320

As of December 31, 2019, the Company held 24 available-for-sale fixed maturity securities with an unrealized loss of $521,271, fair value of $7,357,453 and amortized cost of $7,878,724. These unrealized losses were primarily due to market interest rate movements in the bond market as of December 31, 2019. The ratio of the fair value to the amortized cost of these 24 securities is 93%.

2. Investments (continued)

As of December 31, 2018, the Company held 317 available-for-sale fixed maturity securities with an unrealized loss of $4,414,884, fair value of $85,713,809 and amortized cost of $90,128,693. These unrealized losses were primarily due to market interest rate movements in the bond market as of December 31, 2018. The ratio of the fair value to the amortized cost of these 317 securities is 95%.

As of December 31, 2018, the Company held two preferred stocks with an unrealized loss of $9,365, fair value of $90,580 and cost of $99,945. The ratio of fair value to cost of these two preferred stocks is 91%.

As of December 31, 2019, the Company held one equity security with an unrealized loss of $2,629, fair value of $89,352 and cost of $91,981. The ratio of fair value to cost of this security is 97%.

As of December 31, 2018, the Company held one equity security with an unrealized loss of $17,082, fair value of $74,899 and cost of $91,981. The ratio of fair value to cost of this security is 81%.

Fixed maturity securities were 97% and 96% investment grade as rated by Standard & Poor's as of December 31, 2019 and December 31, 2018, respectively.

The Company's decision to record an impairment loss is primarily based on whether the security's fair value is likely to remain significantly below its book value based on all of the factors considered. Factors that are considered include the length of time the security's fair value has been below its carrying amount, the severity of the decline in value, the credit worthiness of the issuer, and the coupon and/or dividend payment history of the issuer. The Company also assesses whether it intends to sell or whether it is more likely than not that it may be required to sell the security prior to its recovery in value.

For any fixed maturity securities that are other-than-temporarily impaired, the Company determines the portion of the other-than-temporary impairment that is credit-related and the portion that is related to other factors. The credit-related portion is the difference between the expected future cash flows and the amortized cost basis of the fixed maturity security, and that difference is charged to earnings. The non-credit-related portion representing the remaining difference to fair value is recognized in other comprehensive income (loss). Only in the case of a credit-related impairment where management has the intent to sell the security, or it is more likely than not that it will be required to sell the security before recovery of its cost basis, is a fixed maturity security adjusted to fair value and the resulting losses recognized in realized gains (losses) in the consolidated statements of operations. Any other-than-temporary impairments on preferred stocks are recorded in the consolidated statements of operations in the periods incurred as the difference between fair value and cost.

There were no other-than-temporary impairments on fixed maturity available-for-sale securities for the years ended December 31, 2019 and 2018.

Management believes that the Company will fully recover its cost basis in the securities held as of December 31, 2019, and management does not have the intent to sell nor is it more likely than not that the Company will be required to sell such securities until they recover or mature. The remaining temporary impairments shown herein are primarily the result of the current interest rate environment rather than credit factors that would imply other-than-temporary impairment.

2. Investments (continued)

Net unrealized gains (losses) included in other comprehensive income (loss) for investments classified as available-for-sale, net of the effect of deferred income taxes and deferred acquisition costs assuming that the appreciation (depreciation) had been realized as of December 31, 2019 and 2018 are summarized as follows:

	December 31, 2019	December 31, 2018
Unrealized appreciation (depreciation) on available-for-sale securities	$ 12,192,831	$ (3,271,683)
Adjustment to deferred acquisition costs	(19,844)	10,124
Deferred income taxes	(2,556,327)	684,928
Net unrealized appreciation (depreciation) on available-for-sale securities	$ 9,616,660	$ (2,576,631)

The amortized cost and fair value of fixed maturity available-for-sale securities as of December 31, 2019, by contractual maturity, are summarized as follows:

	December 31, 2019	
	Amortized Cost	Fair Value
Due in one year or less	$ 2,321,142	$ 2,341,352
Due in one year through five years	26,961,169	27,696,544
Due after five years through ten years	57,121,030	60,901,680
Due after ten years	80,336,818	87,969,292
Due at multiple maturity dates	20,289	42,456
	$ 166,760,448	$ 178,951,324

Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

2. Investments (continued)

Proceeds and gross realized gains (losses) from the sales, calls and maturities of fixed maturity securities available-for-sale, equity securities, investment real estate and preferred stock available-for-sale for the years ended December 31, 2019 and 2018 are summarized as follows:

	Years Ended December 31,					
	Fixed Maturity Securities		Equity Securities		Investment Real Estate	
	2019	2018	2019	2018	2019	2018
Proceeds	$33,700,106	$22,037,796	$ 19,371	$ 361,947	$ 350,817	$ 364,689
Gross realized gains	1,289,675	391,895	12,372	25,791	5,158	52,971
Gross realized losses	(300,168)	(145,817)	-	(58)	(48,343)	(1,322)
Loss on other-than- temporary impairment	-	-	-	-	-	-

	Years Ended December 31, Preferred Stock	
	2019	2018
Proceeds	$ 50,000	$ -
Gross realized gains	-	-
Gross realized losses	-	-
Loss on other-than- temporary impairment	-	-

The accumulated change in net unrealized investment gains (losses) for fixed maturity and preferred stock available-for-sale for the years ended December 31, 2019 and 2018 and the amount of net realized investment gains (losses) on fixed maturity securities available-for-sale, equity securities and investment real estate for the years ended December 31, 2019 and 2018 are summarized as follows:

	Years Ended December 31,	
	2019	2018
Change in unrealized investment gains (losses):		
Available-for-sale securities:		
Fixed maturity securities	$ 15,453,194	$ (9,323,510)
Preferred stock	11,320	(10,140)
Net realized investment gains (losses):		
Available-for-sale securities:		
Fixed maturity securities	989,507	246,078
Equity securities, sale of securities	12,372	25,733
Equity securities, changes in fair value	9,284	(56,962)
Investment real estate	(43,185)	51,649

2. Investments (continued)

Mortgage Loans on Real Estate

The Company's mortgage loans by property type as of December 31, 2019 and 2018 are summarized as follows:

	December 31, 2019	December 31, 2018
Residential mortgage loans	$ 150,002,865	$ 120,108,297
Commercial mortgage loans by property type		
Apartment	1,604,934	1,816,870
Industrial	1,619,250	1,156,157
Lodging	729,603	112,494
Office building	3,676,396	2,348,639
Retail	4,771,592	4,507,153
Total commercial mortgage loans by property type	12,401,775	9,941,313
Total mortgage loans	$ 162,404,640	$ 130,049,610

The Company utilizes the ratio of the carrying value of individual mortgage loans compared to the individual appraisal value to evaluate the credit quality of its mortgage loans on real estate (commonly referred to as the loan-to-value ratio). The Company's residential and commercial (includes apartment, industrial, lodging, office building and retail) mortgage loans on real estate by credit quality using this ratio as of December 31, 2019 and 2018 are summarized as follows:

	December 31,					
	Residential Mortgage Loans		Commercial Mortgage Loans		Total Mortgage Loans	
Loan-To-Value Ratio	2019	2018	2019	2018	2019	2018
Over 70% to 80%	$ 42,607,615	$ 23,205,637	$ 274,954	$ 280,020	$ 42,882,569	$ 23,485,657
Over 60% to 70%	50,158,843	43,631,465	2,320,734	2,216,436	52,479,577	45,847,901
Over 50% to 60%	28,939,576	24,890,831	1,318,536	752,181	30,258,112	25,643,012
Over 40% to 50%	13,160,306	16,055,231	2,142,354	1,670,263	15,302,660	17,725,494
Over 30% to 40%	8,023,690	5,984,097	1,800,952	3,341,616	9,824,642	9,325,713
Over 20% to 30%	3,806,361	3,249,410	1,235,799	1,429,085	5,042,160	4,678,495
Over 10% to 20%	2,677,037	2,233,102	3,308,446	251,712	5,985,483	2,484,814
10% or less	629,437	858,524	-	-	629,437	858,524
Total	$ 150,002,865	$120,108,297	$ 12,401,775	$ 9,941,313	$162,404,640	$130,049,610

2. Investments (continued)

The outstanding principal balance of mortgage loans, by the most significant states, as of December 31, 2019 and 2018 are summarized as follows:

	December 31, 2019		December 31, 2018	
	Amount	Percentage	Amount	Percentage
Alabama	$ 1,150,160	0.71%	$ 783,866	0.60%
Arizona	1,709,789	1.05%	2,103,627	1.62%
Arkansas	697,748	0.43%	71,854	0.06%
California	7,010,828	4.32%	9,489,106	7.30%
Colorado	57,431	0.04%	200,174	0.15%
Connecticut	901,101	0.55%	1,511,981	1.16%
Delaware	458,587	0.28%	458,587	0.35%
District of Columbia	720,000	0.44%	-	0.00%
Florida	29,921,779	18.42%	24,622,340	18.93%
Georgia	10,459,089	6.44%	8,353,781	6.42%
Hawaii	229,865	0.14%	233,170	0.18%
Idaho	638,967	0.39%	635,114	0.49%
Illinois	6,659,219	4.10%	8,317,183	6.40%
Indiana	1,181,493	0.73%	996,756	0.77%
Kansas	548,138	0.34%	389,239	0.30%
Kentucky	94,619	0.06%	97,872	0.08%
Louisiana	241,748	0.15%	248,360	0.19%
Maine	128,112	0.08%	129,456	0.10%
Maryland	757,860	0.47%	767,325	0.59%
Massachusetts	2,174,988	1.34%	778,303	0.60%
Michigan	192,050	0.12%	195,838	0.15%
Minnesota	32,286	0.02%	135,241	0.10%
Mississippi	81,653	0.05%	136,306	0.10%
Missouri	3,130,470	1.93%	3,909,254	3.01%
Nevada	165,092	0.10%	487,365	0.37%
New Hampshire	132,040	0.08%	285,077	0.22%
New Jersey	7,470,226	4.60%	1,463,390	1.13%
New Mexico	81,497	0.05%	341,769	0.26%
New York	3,864,479	2.38%	3,485,062	2.68%
North Carolina	3,926,787	2.42%	1,877,753	1.44%
Ohio	2,438,541	1.50%	3,318,414	2.55%
Oklahoma	612,075	0.38%	450,297	0.35%
Oregon	1,647,107	1.01%	2,929,557	2.25%
Pennsylvania	67,195	0.04%	81,435	0.06%
South Carolina	183,078	0.11%	420,629	0.32%
Tennessee	4,024,710	2.48%	2,130,400	1.64%
Texas	65,639,490	40.42%	45,200,527	34.76%
Utah	2,000,000	1.23%	2,000,000	1.54%
Vermont	241,470	0.15%	102,968	0.08%
Virginia	486,846	0.30%	494,462	0.38%
Washington	345,986	0.21%	361,716	0.28%
Wisconsin	328,573	0.20%	375,657	0.29%
Mortgage loan allowance and unamortized origination fees	(428,532)	-0.26%	(321,601)	-0.25%
	$ 162,404,640	100%	$ 130,049,610	100%

There were 23 loans with a remaining principal balance of $4,427,317 that were more than 90 days past due as of December 31, 2019. There were 11 loans with a remaining principal balance of $2,233,575 that were more than 90 days past due as of December 31, 2018.

2. Investments (continued)

There were $1,691,980 mortgage loans in default and foreclosure as of December 31, 2019 and the Company estimates that it will not incur losses on these foreclosures due to the anticipated sales prices less disposal costs exceeding the carrying values of these foreclosed mortgage loans. There were no mortgage loans in default and foreclosure as of December 31, 2018.

During 2019 the Company foreclosed on residential mortgage loans of real estate totaling $99,218 and transferred those properties to investment real estate held for sale. During 2018 the Company foreclosed on residential mortgage loans of real estate totaling $467,593 and transferred those properties to investment real estate held for sale.

The principal balances of the 1,211 residential mortgage loans owned by the Company as of December 31, 2019 that aggregated to $150,002,865 ranged from a low of $262 to a high of $1,000,000 and the interest rates ranged from 3.43% to 26.18%. The principal balances of the 30 commercial (includes apartment, industrial, lodging, office building and retail) mortgage loans owned by the Company as of December 31, 2019 that aggregated to $12,401,775 ranged from a low of $53,066 to a high of $2,000,000 and the interest rates ranged from 5.75% to 20.60%.

The principal balances of the 1,051 residential mortgage loans owned by the Company as of December 31, 2018 that aggregated to $120,108,297 ranged from a low of $796 to a high of $994,500 and the interest rates ranged from 3.43% to 58.04%. The principal balances of the 29 commercial (includes apartment, industrial, lodging, office building and retail) mortgage loans owned by the Company as of December 31, 2018 that aggregated to $9,941,313 ranged from a low of $113,059 to a high of $1,000,000 and the interest rates ranged from 5.75% to 12.90%.

There are allowances for losses on mortgage loans of $505,378 and $424,166 as of December 31, 2019 and 2018, respectively. As of December 31, 2019, $798,753 of independent mortgage loan balances are held in escrow by a third party for the benefit of the Company related to its investment in mortgage loans on real estate with one loan originator. As of December 31, 2018, $823,645 of independent mortgage loan balances are held in escrow by a third party for the benefit of the Company related to its investment in mortgage loans on real estate with one loan originator.

In 2019 and 2018 the Company did not experience any impairment on mortgage loan investments.

Investment real estate

During 2019 the Company foreclosed on residential mortgage loans of real estate totaling $99,218 and transferred those properties to investment real estate held for sale. During 2019, the Company sold investment real estate property with an aggregate carrying value of $394,002. The Company recorded a gross realized investment loss on sale of $43,185 based on an aggregate sales price of $350,817.

During 2018 the Company foreclosed on residential mortgage loans of real estate totaling $467,593 and transferred those properties to investment real estate held for sale. During 2018, the Company sold investment real estate property with an aggregate carrying value of $313,040. The Company recorded a gross realized investment gain on sale of $51,649 based on an aggregate sales price of $364,689.

TLIC owns approximately six and one-half acres of land located in Topeka, Kansas that includes a 20,000 square foot office building on approximately one-fourth of this land. This building and land on one of the four lots is held for the production of income. The other three lots of land owned in Topeka, Kansas are held for investment. In addition, FBLIC owns one-half acre of undeveloped land located in Jefferson City, Missouri.

2. Investments (continued)

The Company's investment real estate as of December 31, 2019 and 2018 is summarized as follows:

	December 31, 2019	December 31, 2018
Land - held for the production of income	$ 213,160	$ 213,160
Land - held for investment	745,155	745,155
Total land	958,315	958,315
Building - held for the production of income	2,267,557	2,267,557
Less - accumulated depreciation	(1,486,159)	(1,340,671)
Buildings net of accumulated depreciation	781,398	926,886
Residential real estate - held for sale	212,046	506,830
Total residential real estate	212,046	506,830
Investment real estate, net of accumulated depreciation	$ 1,951,759	$ 2,392,031

Other Long-Term Investments

The Company's investment in lottery prize cash flows was $71,824,480 and $59,255,477 as of December 31, 2019 and 2018, respectively. The lottery prize cash flows are assignments of the future rights from lottery winners purchased at a discounted price. Payments on these investments are made by state run lotteries.

The amortized cost and estimated fair value of lottery prize cash flows, by contractual maturity, as of December 31, 2019 are summarized as follows:

	December 31, 2019	
	Amortized Cost	Fair Value
Due in one year or less	$ 10,803,287	$ 11,016,206
Due in one year through five years	33,620,272	37,653,046
Due after five years through ten years	19,714,267	25,799,501
Due after ten years	7,686,654	13,766,266
	$ 71,824,480	$ 88,235,019

2. Investments (continued)

The outstanding balance of lottery prize cash flows, by state lottery, as of December 31, 2019 and 2018 are summarized as follows:

	December 31, 2019		December 31, 2018	
	Amount	Percentage	Amount	Percentage
Arizona	$ 450,573	0.63%	$ 360,333	0.61%
California	7,772,309	10.82%	4,656,712	7.86%
Colorado	41,000	0.06%	75,706	0.13%
Connecticut	2,670,153	3.72%	2,406,581	4.06%
Florida	92,145	0.13%	128,960	0.22%
Georgia	4,003,717	5.57%	3,263,364	5.51%
Illinois	458,280	0.64%	486,477	0.82%
Indiana	5,398,417	7.52%	1,259,879	2.13%
Maine	146,290	0.20%	176,637	0.30%
Massachusetts	15,481,300	21.55%	12,953,938	21.86%
Michigan	264,403	0.37%	279,911	0.47%
Missouri	100,406	0.14%	108,404	0.18%
New Jersey	175,493	0.24%	-	0.00%
New York	24,807,063	34.54%	23,762,905	40.09%
Ohio	4,775,235	6.65%	4,748,535	8.01%
Oregon	144,013	0.20%	172,902	0.29%
Pennsylvania	1,753,190	2.44%	1,534,181	2.59%
Texas	2,673,036	3.72%	2,314,597	3.91%
Virginia	70,671	0.10%	-	0.00%
Vermont	259,677	0.36%	271,609	0.46%
Washington	287,109	0.40%	293,846	0.50%
	$ 71,824,480	100.00%	$ 59,255,477	100.00%

Major categories of net investment income for the years ended December 31, 2019 and 2018 are summarized as follows:

	Years Ended December 31,	
	2019	2018
Fixed maturity securities	$ 7,419,650	$ 6,278,105
Preferred stock and equity securities	131,823	83,263
Other long-term investments	4,860,323	3,992,882
Mortgage loans	13,544,895	11,079,802
Policy loans	137,492	122,587
Real estate	269,123	376,599
Short-term and other investments	637,999	233,366
Gross investment income	27,001,305	22,166,604
Investment expenses	(2,631,265)	(2,557,218)
Net investment income	$ 24,370,040	$ 19,609,386

3. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) on the measurement date. The Company also considers the impact on fair value of a significant decrease in volume and level of activity for an asset or liability when compared with normal activity.

The Company holds fixed maturity, preferred stock and equity securities that are measured and reported at fair market value on the statement of financial position. The Company determines the fair market values of its financial instruments based on the fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value, as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities. The Company's Level 1 assets include equity securities that are traded in an active exchange market.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Company's Level 2 assets and liabilities include fixed maturity securities with quoted prices that are traded less frequently than exchange-traded instruments or assets and liabilities whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes U.S. Government and agency, mortgage-backed debt securities, state and political subdivision securities, corporate debt securities, asset-backed and foreign debt securities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. The Company's Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments where independent pricing information was not able to be obtained for a significant portion of the underlying assets.

The Company has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into the three-level fair value hierarchy. If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in the valuation inputs, or their ability to be observed, may result in a reclassification for certain financial assets or liabilities. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in and out of the Level 3 category as of the beginning of the period in which the reclassifications occur.

3. Fair Value Measurements (continued)

The Company's fair value hierarchy for those financial instruments measured at fair value on a recurring basis as of December 31, 2019 and 2018 is summarized as follows:

	Level 1	Level 2	Level 3	Total
	December 31, 2019			
Fixed maturity securities, available-for-sale				
U.S. government and U.S. government agencies	$ -	$ 1,669,033	$ -	$ 1,669,033
States and political subdivisions	-	10,150,931	-	10,150,931
Residential mortgage-backed securities	-	42,456	-	42,456
Corporate bonds	-	130,527,754	-	130,527,754
Asset-backed	-	2,184,451	-	2,184,451
Exchange traded securities	-	548,400	-	548,400
Foreign bonds	-	33,828,299	-	33,828,299
Total fixed maturity securities	$ -	$178,951,324	$ -	$178,951,324
Preferred stock, available-for-sale	$ 51,900	$ -	$ -	$ 51,900
Equity securities				
Mutual funds	$ -	$ 89,352	$ -	$ 89,352
Corporate common stock	47,565	-	64,107	111,672
Total equity securities	$ 47,565	$ 89,352	$ 64,107	$ 201,024
	December 31, 2018			
Fixed maturity securities, available-for-sale				
U.S. government and U.S. government agencies	$ -	$ 2,704,711	$ -	$ 2,704,711
States and political subdivisions	-	9,478,032	-	9,478,032
Residential mortgage-backed securities	-	51,155	-	51,155
Corporate bonds	-	97,964,191	-	97,964,191
Asset-backed	-	261,418	-	261,418
Foreign bonds	-	20,692,692	-	20,692,692
Total fixed maturity securities	$ -	$131,152,199	$ -	$131,152,199
Preferred stock, available-for-sale	$ 90,580	$ -	$ -	$ 90,580
Equity securities				
Mutual funds	$ -	$ 74,899	$ -	$ 74,899
Corporate common stock	59,733	-	64,036	123,769
Total equity securities	$ 59,733	$ 74,899	$ 64,036	$ 198,668

As of December 31, 2019 and 2018, Level 3 financial instruments consisted of two private placement common stocks that have no active trading and a joint venture investment with a mortgage loan originator.

These private placement common stocks represent investments in small insurance holding companies. The fair value for these securities was determined through the use of unobservable assumptions about market participants. The Company has assumed a willing market participant would purchase the securities for the same price as the Company paid until such time as these small insurance holding companies commence significant operations. The joint venture investment with a mortgage loan originator is accounted for under the equity method of accounting.

3. Fair Value Measurements (continued)

Fair values for Level 1 and Level 2 assets for the Company's fixed maturity and preferred stock available-for-sale and equity securities are primarily based on prices supplied by a third party investment service. The third party investment service provides quoted prices in the market which use observable inputs in developing such rates.

The Company analyzes market valuations received to verify reasonableness and to understand the key assumptions used and the sources. Since the fixed maturity securities owned by the Company do not trade on a daily basis, the third party investment service prepares estimates of fair value measurements using relevant market data, benchmark curves, sector groupings and matrix pricing. As the fair value estimates of the Company's fixed maturity securities are based on observable market information rather than market quotes, the estimates of fair value on these fixed maturity securities are included in Level 2 of the hierarchy. The Company's Level 2 investments include obligations of U.S. government, U.S. government agencies, state and political subdivisions, mortgage-backed securities, corporate bonds, asset-backed, exchange traded securities and foreign bonds.

The Company's preferred stock is included in Level 1 and equity securities are included in Level 1 and Level 2 and the private placement common stocks and joint venture investment are included in Level 3. Level 1 for the preferred stock and those equity securities classified as such is appropriate since they trade on a daily basis, are based on quoted market prices in active markets and are based upon unadjusted prices. Level 2 for those equity securities classified as such is appropriate since they are not actively traded.

The Company's fixed maturity and preferred stock available-for-sale securities and equity securities are highly liquid and allows for a high percentage of the portfolio to be priced through pricing services.

The change in the fair value of the Company's Level 3 equity securities available-for-sale for the years ended December 31, 2019 and 2018 is summarized as follows:

	December 31, 2019	December 31, 2018
Beginning balance	$ 64,036	$ 61,500
Joint venture investment	-	10,200
Joint venture net income	115,357	63,046
Joint venture distribution	(115,286)	(55,710)
Equity security sale	-	(15,000)
Ending balance	$ 64,107	$ 64,036

3. Fair Value Measurements (continued)

Fair Value of Financial Instruments

The carrying amount and fair value of the Company's financial assets and financial liabilities disclosed, but not carried, at fair value as of December 31, 2019 and 2018, and the level within the fair value hierarchy at which such assets and liabilities are measured on a recurring basis are summarized as follows:

	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
	December 31, 2019				
Financial assets					
Mortgage loans on real estate					
Commercial	$ 12,401,775	$ 12,280,704	$ -	$ -	$ 12,280,704
Residential	150,002,865	152,443,349	-	-	152,443,349
Policy loans	2,026,301	2,026,301	-	-	2,026,301
Short-term investments	1,831,087	1,831,087	1,831,087	-	-
Other long-term investments	71,824,480	88,235,019	-	-	88,235,019
Cash and cash equivalents	23,212,170	23,212,170	23,212,170	-	-
Accrued investment income	5,207,823	5,207,823	-	-	5,207,823
Total financial assets	$266,506,501	$285,236,453	$25,043,257	$ -	$260,193,196
Financial liabilities					
Policyholders' account balances	$363,083,838	$355,557,123	$ -	$ -	$355,557,123
Policy claims	1,399,393	1,399,393	-	-	1,399,393
Total financial liabilities	$364,483,231	$356,956,516	$ -	$ -	$356,956,516
	December 31, 2018				
Financial assets					
Mortgage loans on real estate					
Commercial	$ 9,941,313	$ 9,698,226	$ -	$ -	$ 9,698,226
Residential	120,108,297	115,788,967	-	-	115,788,967
Policy loans	1,809,339	1,809,339	-	-	1,809,339
Short-term investments	896,371	896,371	896,371	-	-
Other long-term investments	59,255,477	69,641,358	-	-	69,641,358
Cash and cash equivalents	29,665,605	29,665,605	29,665,605	-	-
Accrued investment income	2,672,978	2,672,978	-	-	2,672,978
Total financial assets	$224,349,380	$230,172,844	$30,561,976	$ -	$199,610,868
Financial liabilities					
Policyholders' account balances	$297,168,411	$259,247,412	$ -	$ -	$259,247,412
Policy claims	1,102,257	1,102,257	-	-	1,102,257
Total financial liabilities	$298,270,668	$260,349,669	$ -	$ -	$260,349,669

3. Fair Value Measurements (continued)

The estimated fair value amounts have been determined using available market information and appropriate valuation methodologies. However, considerable judgment was required to interpret market data to develop these estimates. Accordingly, the estimates are not necessarily indicative of the amounts which could be realized in a current market exchange. The use of different market assumptions or estimation methodologies may have a material effect on the fair value amounts.

The following methods and assumptions were used in estimating the fair value disclosures for financial instruments in the accompanying financial statements and notes thereto:

Fixed Maturity Securities, Preferred Stock and Equity Securities

The fair value of fixed maturity securities and equity securities are based on the principles previously discussed as Level 1, Level 2 and Level 3.

Mortgage Loans on Real Estate

The fair values for mortgage loans are estimated using discounted cash flow analyses. For residential mortgage loans, the discount rate used was indexed to the LIBOR yield curve adjusted for an appropriate credit spread. For commercial (includes apartment, industrial, lodging, office building and retail) mortgage loans, the discount rate used was assumed to be the interest rate on the last commercial mortgage acquired by the Company.

Cash and Cash Equivalents, Short-Term Investments, Accrued Investment Income and Policy Loans

The carrying value of these financial instruments approximates their fair values. Cash and cash equivalents and short-term investments are included in Level 1 of the fair value hierarchy due to their highly liquid nature.

Other Long-Term Investments

Other long-term investments are comprised of lottery prize receivables and fair value is derived by using a discounted cash flow approach. Projected cash flows are discounted using the average FTSE Pension Liability Index in effect at the end of each period.

Investment Contracts – Policyholders' Account Balances

The fair value for liabilities under investment-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 fair values for insurance contracts other than investment-type contracts are not required to be disclosed.

Policy Claims

The carrying amounts reported for these liabilities approximate their fair value.

4. Special Deposits

TLIC and FBLIC are required to hold assets on deposit for the benefit of policyholders and other special deposits in accordance with statutory rules and regulations. As of December 31, 2019 and 2018, these required deposits had amortized costs that totaled $4,434,662 and $4,376,463, respectively. As of December 31, 2019 and 2018, these required deposits had fair values that totaled $4,468,783 and $4,292,657, respectively.

5. Allowance for Loan Losses from Mortgage Loans on Real Estate

As of December 31, 2019, $798,753 of independent residential mortgage loans on real estate are held in escrow by a third party for the benefit of the Company. As of December 31, 2019, $489,965 of that escrow amount is available to the Company as additional collateral on $4,436,787 of advances to the loan originator. The remaining December 31, 2019 escrow amount of $308,788 is available to the Company as additional collateral on its investment of $61,757,602 in residential mortgage loans on real estate. In addition, the Company has an additional $505,378 allowance for possible loan losses in the remaining $100,647,038 of investments in mortgage loans on real estate as of December 31, 2019.

As of December 31, 2018, $823,645 of independent residential mortgage loans on real estate are held in escrow by a third party for the benefit of the Company. As of December 31, 2018, $598,803 of that escrow amount is available to the Company as additional collateral on $4,942,870 of advances to the loan originator. The remaining December 31, 2018 escrow amount of $224,842 is available to the Company as additional collateral on its investment of $44,968,471 in residential mortgage loans on real estate. In addition, the Company has an additional $424,166 allowance for possible loan losses in the remaining $85,081,139 of investments in mortgage loans on real estate as of December 31, 2018.

The balances of and changes in the Company's credit losses related to residential and commercial (includes apartment, industrial, lodging, office building and retail) mortgage loans on real estate as of and for the years ended December 31, 2019 and 2018 are summarized as follows (excluding $61,757,602 and $44,968,471 of mortgage loans on real estate as of December 31, 2019 and 2018, respectively, with one loan originator where independent mortgage loan balances are held in escrow by a third party for the benefit of the Company):

	Years Ended December 31,					
	Residential Mortgage Loans		Commercial Mortgage Loans		Total	
	2019	2018	2019	2018	2019	2018
Allowance, beginning	$ 374,209	$ 333,789	$ 49,957	$ 9,026	$ 424,166	$ 342,815
Charge offs	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-
Provision	68,848	40,420	12,364	40,931	81,212	81,351
Allowance, ending	$ 443,057	$ 374,209	$ 62,321	$ 49,957	$ 505,378	$ 424,166
Allowance, ending:						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	$ 443,057	$ 374,209	$ 62,321	$ 49,957	$ 505,378	$ 424,166
Carrying Values:						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	$88,245,263	$75,139,826	$12,401,775	$ 9,941,313	$100,647,038	$85,081,139

6. Deferred Policy Acquisition Costs

The balances of and changes in deferred acquisition costs as of and for the years ended December 31, 2019 and 2018 are summarized as follows:

	2019	2018
Balance, beginning of year	$ 29,681,737	$ 24,555,902
Capitalization of commissions, sales and issue expenses	12,369,350	8,527,380
Amortization	(4,015,480)	(3,515,624)
Deferred acquisition costs allocated to investments	(29,968)	114,079
Balance, end of year	$ 38,005,639	$ 29,681,737

7. Federal Income Taxes

FTFC filed 2018 and 2017 consolidated federal income tax returns that included TLIC, FBLIC, FTFC and FTCC since all companies had been members of a consolidated group for five years.

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:

	Years Ended December 31,	
	2019	2018
Expected tax expense	$ 1,726,119	$ 1,386,896
Future policy benefits	208,197	27,253
Net operating losses	207,580	(66,779)
Alternative minimum taxes	164,432	15,401
Capital gain taxes	14,536	(55,464)
Difference in book versus tax basis of available-for-sale securities	9,721	60,083
Adjustment of prior years' taxes	(54,793)	(128,764)
Reinsurance recoverable	(205,559)	197,009
Other	49,663	26,486
Total income tax expense	$ 2,119,896	$ 1,462,121

7. Federal Income Taxes (continued)

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:

	December 31, 2019	December 31, 2018
Deferred tax liabilities:		
Net unrealized investment gains	$ 2,556,327	$ -
Deferred policy acquisition costs	6,463,579	5,161,165
Value of insurance business acquired	1,027,204	1,089,032
Reinsurance recoverable	241,362	446,921
Available-for-sale fixed maturity securities	78,207	80,409
Investment real estate	40,627	39,663
Due premiums	30,800	22,975
Other	13,544	435
Total deferred tax liabilities	10,451,650	6,840,600
Deferred tax assets:		
Net unrealized investment losses	-	684,928
Policyholders' account balances and future policy benefits	3,181,433	2,342,777
Net operating loss carryforward	774,003	1,106,769
Alternative minimum tax carryforward	-	190,153
Mortgage loans	89,992	67,536
Available-for-sale equity securities	21,056	36,565
Policy claims	16,366	13,258
Unearned investment income	13,105	14,811
Dividend liability	9,777	10,325
Total deferred tax assets	4,105,732	4,467,122
Net deferred tax liabilities	$ 6,345,918	$ 2,373,478

FTFC has net operating loss carryforwards of $3,685,729 expiring in 2027 through 2033. During 2019, FTFC utilized $596,123 of the net operating loss carryforward existing as of January 1, 2019 to offset 2019 federal taxable income. During 2018, FTFC utilized $753,915 of the net operating loss carryforward existing as of January 1, 2018 to offset 2018 federal taxable income.

The Company has no known uncertain tax benefits within its provision for income taxes. In addition, the Company does not believe it would be subject to any penalties or interest relative to any open tax years and, therefore, have not accrued any such amounts. The Company files U.S. federal income tax returns and income tax returns in various state jurisdictions. The 2016 through 2019 U.S. federal tax years are subject to income tax examination by tax authorities. The Company classifies any interest and penalties (if applicable) as income tax expense in the financial statements.

8. Reinsurance

TLIC participates in ceded and assumed reinsurance in order to provide risk diversification, additional capacity for future growth and limit the maximum net loss potential arising from large risks. TLIC reinsures all amounts of risk on any one life in excess of $100,000 for individual life insurance with Investors Heritage Life Insurance Company, Optimum Re Insurance Company ("Optimum Re"), RGA Reinsurance Company and Wilton Reassurance Company ("Wilton Re").

8. Reinsurance (continued)

TLIC is a party to an Automatic Retrocession Pool Agreement (the "Reinsurance Pool") with Optimum Re, Catholic Order of Foresters, American Home Life Insurance Company and Woodmen of the World. The agreement provides for automatic retrocession of coverage in excess of Optimum Re's retention on business ceded to Optimum Re by the other parties to the Reinsurance Pool. TLIC's maximum exposure on any one insured under the Reinsurance Pool is $100,000. As of January 1, 2008, the Reinsurance Pool stopped accepting new cessions.

Effective September 29, 2005, FLAC and Wilton Re executed a binding letter of intent whereby both parties agreed that FLAC would cede the simplified issue version of its Golden Eagle Whole Life (Final Expense) product to Wilton Re on a 50/50 quota share original term coinsurance basis. The letter of intent was executed on a retroactive basis to cover all applicable business issued by FLAC subsequent to January 1, 2005. Wilton Re agreed to provide various commission and expense allowances to FLAC in exchange for FLAC ceding 50% of the applicable premiums to Wilton Re as they were collected. As of June 24, 2006, Wilton Re terminated the reinsurance agreement for new business issued after the termination date.

FBLIC also participates in reinsurance in order to provide risk diversification, additional capacity for future growth and limit the maximum net loss potential arising from large risks. FBLIC reinsures initial amounts of risk on any one life in excess of $100,000 for individual life insurance with Optimum Re. TLIC and FBLIC also reinsure the accidental death benefit portion of their life policies under a bulk agreement with Optimum Re.

To the extent that the reinsurance companies are unable to meet their obligations under the reinsurance agreements, TLIC and FBLIC remain primarily liable for the entire amount at risk.

Statutory reinsurance assumed and ceded amounts for TLIC and FBLIC for 2019 and 2018 are summarized as follows:

	2019	2018
Premiums assumed	$ 1,777,449	$ 457,512
Commissions and expense allowances assumed	1,413,057	194,908
Benefits assumed	8,001	33,694
Reserve credits assumed	1,279,582	343,140
In force amount assumed	41,056,032	17,863,123
Premiums ceded	71,936,037	30,445,152
Commissions and expense allowances ceded	2,670,202	1,051,766
Benefits ceded	1,208,109	356,806
Reserve credits ceded	103,142,179	30,686,404
In force amount ceded	43,641,121	77,653,688

Effective January 1, 2018, TLIC entered into an annuity coinsurance agreement with an offshore annuity and life insurance company whereby 90% of TLIC's annuity considerations originated after December 31, 2017 were ceded to the assuming company. The assuming company contractually reimburses TLIC for the related commissions, withdrawals, settlements, interest credited, submission costs, maintenance costs, marketing costs, excise taxes and other costs plus a placement fee.

In accordance with this annuity coinsurance agreement, TLIC holds assets and recognizes a funds withheld liability for the benefit of the assuming company in an amount at least equal to the annuity reserves in accordance with U.S. statutory accounting principles generated by this ceded business. In addition, the assuming company maintains a trust related to this ceded business amounting to at least an additional 4% of assets above the annuity reserve required under U.S. statutory accounting principles. This coinsurance agreement may be terminated for new business by either party at any time upon 30 days prior written notice to the other party.

In 2019, TLIC entered into a life insurance coinsurance agreement with TAI, effective October 1, 2018, whereby 100% of TAI's life insurance policies and annuity contracts issued after September 30, 2018 were ceded to TLIC. TLIC contractually reimburses TAI for the related commissions, submission costs, maintenance costs, marketing costs and other costs related to the production of life insurance policies and annuity contracts.

9. Leases

The Company leases 6,769 square feet of office space pursuant to an original five-year lease that began October 1, 2010 and was amended on October 1, 2015 for another five-year term. Under the terms of the original home office lease, the monthly rent was $7,897 from October 1, 2010 through September 30, 2015. Under the terms of the amended home office lease, the monthly rent is $8,461 from October 1, 2015 through September 30, 2016, $8,630 from October 1, 2016 through September 30, 2017, $8,805 from October 1, 2017 through September 30, 2018, $8,920 from October 1, 2018 through September 30, 2019 and $9,161 from October 1, 2019 through September 30, 2020. The Company incurred rent expense (including charges for the lessor's building operating expenses above those specified in the lease agreement less monthly amortization of the leasehold improvement allowance received from the lessor) of $97,489 and $97,063 for the years ended December 31, 2019 and 2018, respectively, under this lease.

On January 1, 2011, the Company received a $120,000 leasehold improvement allowance from the lessor related to the original lease that was fully amortized by September 30, 2015. In accordance with the amended lease on October 1, 2015, the Company was provided an allowance of $54,152 for leasehold improvements. The leasehold improvement allowance is amortized over the remaining amended non-cancellable lease term and reduced rent expense by $10,830 for both the years ended December 31, 2019 and 2018. The future minimum lease payments to be paid under the amended non-cancellable lease agreement is $82,446 for the year 2020.

TLIC owns approximately six and one-half acres of land located in Topeka, Kansas. A 20,000 square foot office building has been constructed on approximately one-fourth of this land. TLIC executed a two year lease agreement effective January 1, 2015, for 7,500 square feet of its building in Topeka, Kansas. Effective January 1, 2017, this lease was renewed for two years. The terms of the lease leave TLIC responsible for paying real estate taxes, building insurance and building and ground maintenance. The monthly lease payments were $8,696 for 2015, 2016, 2017 and 2018. Effective December 31, 2018, the lease agreement expired without renewal. TLIC renewed a five year lease agreement effective June 1, 2011, for 10,000 square feet in the Topeka, Kansas office building. Beginning June 1, 2014, the lessee can terminate the lease with a 180 day written notice. The terms of the lease leave TLIC responsible for paying real estate taxes, building insurance and building and ground maintenance with partial reimbursement from the lessee. The lease agreement calls for minimum monthly base lease payments of $17,750.

This 10,000 square feet lease was renewed for five years to be effective from June 1, 2016 through May 31, 2021, with an option for an additional five years from June 1, 2021 through May 31, 2026. Beginning June 1, 2021, the lessee can terminate the lease with a 120 day written notice. The terms of the lease leave TLIC responsible for paying real estate taxes, building insurance and building and ground maintenance with partial reimbursement from the lessee. The lease agreement calls for a monthly lease payment of $16,598 from June 1, 2016 through June 30, 2016. Starting July 1, 2016, the lease agreement includes an $88,833 tenant improvement allowance that is amortized over 59 months with interest at 5.00%. The monthly lease payments were $18,299 from July 1, 2016 through May 31, 2017, $18,376 from June 1, 2017 through May 31, 2018, $18,508 from June 1, 2018 through May 31, 2019 and $18,584 from June 1, 2019 through May 31, 2021.

A five year lease agreement effective September 1, 2010 automatically renewed on 2,500 square feet of the Topeka, Kansas office building with a 90 day notice by the lessee to terminate the lease. This lease was renewed on September 1, 2015 to run through August 31, 2017 with an option for an additional three years through August 31, 2020. Beginning September 1, 2017, the lessee can terminate the lease with a 120 day written notice. The terms of the lease leave TLIC responsible for paying real estate taxes, building insurance and building and ground maintenance with partial reimbursement from the lessee. The lease payments are $4,236 per month from September 1, 2015 through August 31, 2016, $4,242 from September 1, 2016 through August 31, 2017, $4,263 from September 1, 2017 through August 31, 2018, $4,293 from September 1, 2018 through August 31, 2019 and $4,310 from September 1, 2019 through December 31, 2019.

The future minimum lease payments to be received under the non-cancellable lease agreements are $223,008 and $92,920 for the years 2020 and 2021, respectively.

10. Shareholders' Equity and Statutory Accounting Practices

TLIC is domiciled in Oklahoma and prepares its statutory financial statements in accordance with statutory accounting practices prescribed or permitted by the OID. FBLIC is domiciled in Missouri and prepares its statutory financial statements in accordance with statutory accounting practices prescribed or permitted by the MDOI. Prescribed statutory accounting practices include publications of the National Association of Insurance Commissioners, state laws, regulations, and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed. Statutory accounting practices primarily differ from U.S. GAAP by charging policy acquisition costs to expense as incurred, establishing future policy benefit liabilities using different actuarial assumptions and valuing investments, deferred taxes, and certain assets on a different basis.

The statutory net income for TLIC amounted to $652,807 and $2,098,488 for the years ended December 31, 2019 and 2018, respectively. The statutory capital and surplus of TLIC was $12,451,837 and $12,686,538 as of December 31, 2019 and 2018, respectively. The statutory net income (loss) for FBLIC amounted to ($2,150,286) and $1,001,594 for the years ended December 31, 2019 and 2018, respectively. The statutory capital and surplus of FBLIC was $9,185,113 and $7,400,476 as of December 31, 2019 and 2018, respectively.

TLIC is subject to Oklahoma laws and FBLIC is subject to Missouri laws that limit the amount of dividends insurance companies can pay to stockholders without approval of the respective Departments of Insurance. The maximum dividend, which may be paid in any twelve-month period without notification or approval, is limited to the greater of 10% of statutory surplus as of December 31 of the preceding year or the net gain from operations of the preceding calendar year. Cash dividends may only be paid out of surplus derived from realized net profits. Based on these limitations, there is capacity for TLIC to pay a dividend up to $1,245,184 in 2020 without prior approval. In addition, based on those limitations, there is the capacity for FBLIC to pay a dividend up to $918,511 in 2020 without prior approval. FBLIC paid dividends of $760,347 to TLIC in 2018. These dividends are eliminated in consolidation. TLIC has paid no dividends to FTFC.

11. Segment Data

The Company has a life insurance segment, consisting of the life insurance operations of TLIC and FBLIC, an annuity segment, consisting of the annuity operations of TLIC and FBLIC and a corporate segment. Results for the parent company and the operations of FTCC, after elimination of intercompany amounts, are allocated to the corporate segment.

These segments as of and for the years ended December 31, 2019 and 2018 are summarized as follows:

	Year Ended December 31,	
	2019	2018
Revenues:		
Life insurance operations	$ 27,170,994	$ 21,985,441
Annuity operations	21,931,249	16,739,274
Corporate operations	674,452	516,380
Total	$ 49,776,695	$ 39,241,095
Income before income taxes:		
Life insurance operations	$ 621,436	$ 780,362
Annuity operations	7,109,199	5,369,900
Corporate operations	488,981	454,005
Total	$ 8,219,616	$ 6,604,267
Depreciation and amortization expense:		
Life insurance operations	$ 3,663,864	$ 3,738,531
Annuity operations	817,243	302,772
Total	$ 4,481,107	$ 4,041,303

	December 31,	
	2019	2018
Assets:		
Life insurance operations	$ 99,612,420	$ 69,756,013
Annuity operations	500,738,949	357,797,728
Corporate operations	4,585,005	5,953,109
Total	$ 604,936,374	$ 433,506,850

12. Concentrations of Credit Risk

Credit risk is limited by diversifying the Company's investments. The Company maintains cash and cash equivalents at multiple institutions. The Federal Deposit Insurance Corporation insures accounts up to $250,000. Uninsured balances aggregate $18,089,331 as of December 31, 2019. Other funds are invested in mutual funds that invest in U.S. government securities. The Company monitors the solvency of all financial institutions in which it has funds to minimize the exposure for loss. The Company has not experienced any losses in such accounts.

The Company's lottery prize receivables due from various states and the geographical distribution of the Company's mortgage loans by state are summarized in Note 2.

13. Contingent Liabilities

A lawsuit filed by the Company and Chairman, President and Chief Executive Officer, Gregg E. Zahn, in 2013 against former Company Board of Directors member Wayne Pettigrew and Mr. Pettigrew's company, Group & Pension Planners, Inc. (the "Defendants"), concluded on February 17, 2017. The lawsuit was filed in the District Court of Tulsa County, Oklahoma (Case No. CJ-2013-03385). In the lawsuit, the Company alleged that Mr. Pettigrew had defamed the Company by making untrue statements to certain shareholders of the Company, to the press and to regulators of the state of Oklahoma and had breached his fiduciary duties. Mr. Pettigrew denied the allegations.

The jury concluded that Mr. Pettigrew, while still a member of the Company's Board of Directors, did, in fact, make untrue statements regarding the Company and Mr. Zahn and committed breaches of his fiduciary duties to the Company and the jury awarded the Company $800,000 of damages against Mr. Pettigrew. In addition, the jury found that Mr. Pettigrew had defamed Mr. Zahn and intentionally inflicted emotional distress on Mr. Zahn and awarded Mr. Zahn $3,500,000 of damages against Mr. Pettigrew. In addition to the damages awarded by the jury, the Company and Mr. Zahn have initiated steps to aggressively communicate the correction of the untrue statements to outside parties.

Mr. Pettigrew appealed this decision. The appeal challenged two trial court judgments based on separate verdicts against him in the jury trial. On February 28, 2020, the Court of Civil Appeals of the state of Oklahoma reversed the judgments entered by the trial court and remanded the case for a new trial. The Court of Appeals reversal, however, is not final. The Company will request that the Court of Appeals grant a rehearing and reverse its decision. Should it not do so, the Company will petition the Oklahoma Supreme Court to reverse the Court of Appeals decision.

In 2013, the Company's Board of Directors, represented by independent counsel, concluded that there was no action to be taken against Mr. Zahn and that the allegations by Mr. Pettigrew were without substance. The Company was also informed back in 2013 by the Oklahoma Insurance Department that it would take no action and was also informed in 2013 that the Oklahoma Department of Securities, after its investigation of the allegations, concluded that no proceedings were needed with respect to the alleged matters. It remains the Company's intention to again vigorously prosecute this action against the Defendants for damages and for correction of the defamatory statements. In the opinion of the Company's management, the ultimate resolution of any contingencies that may arise from this litigation is not considered material in relation to the financial position or results of operations of the Company.

Prior to being acquired by TLIC, FBLIC developed, marketed, and sold life insurance products known as "Decreasing Term to 95" policies. On January 17, 2013, FBLIC's Board of Directors voted that, effective March 1, 2013, it was not approving, and therefore was not providing, a non-guaranteed dividend for the Decreasing Term to 95 policies since that group of policies was not producing a positive divisible surplus to allow the payment of a non-guaranteed dividend.

On November 22, 2013, a lawsuit was filed in the Circuit Court of Greene County, Missouri asserting claims by two individuals and a class of Missouri residents against FBLIC relating to this decision to not pay a non-guaranteed dividend. A trial was held November 27, 2017 through December 1, 2017 regarding those class and individual claims. During 2018, a settlement was reached by the parties and the Court approved the settlement agreement on June 11, 2018. FBLIC paid $1.85 million to resolve all class and individual claims and all active Decreasing Term to 95 policies for individuals in the class were cancelled.

Guaranty fund assessments, brought about by the insolvency of life and health insurers, are levied at the discretion of the various state guaranty fund associations to cover association obligations. In most states, guaranty fund assessments may be taken as a credit against premium taxes, typically over a five-year period.

14. Related Party Transactions

On April 15, 2019, the Company renewed its previous one-year loan of $400,000 to its former Chairman. The renewed loan has a term of one year and a contractual interest rate of 5.00%. The loan is collateralized by 100,000 shares of the Company's Class A Common stock owned by the former Chairman. This loan is included in other assets in the consolidated statements of financial position.

15. Other Comprehensive Income (Loss) and Accumulated Other Comprehensive Income (Loss)

The changes in the components of the Company's accumulated other comprehensive income (loss) for the years ended December 31, 2019 and 2018 are summarized as follows:

	Unrealized Appreciation (Depreciation) on Available-For-Sale Securities	Adjustment to Deferred Acquisition Costs	Accumulated Other Comprehensive Income (Loss)
	Year Ended December 31, 2019		
Balance as of January 1, 2019	$ (2,584,643)	$ 8,012	$ (2,576,631)
Other comprehensive income before reclassifications, net of tax	12,998,677	(23,675)	12,975,002
Less amounts reclassified from accumulated other comprehensive income having no credit losses, net of tax	781,711	-	781,711
Other comprehensive income	12,216,966	(23,675)	12,193,291
Balance as of December 31, 2019	$ 9,632,323	$ (15,663)	$ 9,616,660
	Year Ended December 31, 2018		
Balance as of January 1, 2018	$ 4,843,061	$ (82,110)	$ 4,760,951
Other comprehensive loss before reclassifications, net of tax	(7,233,303)	90,122	(7,143,181)
Less amounts reclassified from accumulated other comprehensive loss having no credit losses, net of tax	194,401	-	194,401
Other comprehensive loss	(7,427,704)	90,122	(7,337,582)
Balance as of December 31, 2018	$ (2,584,643)	$ 8,012	$ (2,576,631)

The pretax components of the Company's other comprehensive income (loss) and the related income tax expense (benefit) for each component for the years ended December 31, 2019 and 2018 are summarized as follows:

	Pretax	Income Tax Expense (Benefit)	Net of Tax
	Year Ended December 31, 2019		
Other comprehensive income:			
Change in net unrealized gains on available-for-sale securities:			
Unrealized holding gains arising during the period	$ 16,454,021	$ 3,455,344	$ 12,998,677
Reclassification adjustment for net gains included in operation having no credit losses	989,507	207,796	781,711
Net unrealized gains on investments	15,464,514	3,247,548	12,216,966
Adjustment to deferred acquisition costs	(29,968)	(6,293)	(23,675)
Total other comprehensive income	$ 15,434,546	$ 3,241,255	$ 12,193,291
	Year Ended December 31, 2018		
Other comprehensive loss:			
Change in net unrealized losses on available-for-sale securities:			
Unrealized holding losses arising during the period	$ (9,156,080)	$ (1,922,777)	$ (7,233,303)
Reclassification adjustment for net gains included in operation having no credit losses	246,078	51,677	194,401
Net unrealized losses on investments	(9,402,158)	(1,974,454)	(7,427,704)
Adjustment to deferred acquisition costs	114,079	23,957	90,122
Total other comprehensive loss	$ (9,288,079)	$ (1,950,497)	$ (7,337,582)

15. Other Comprehensive Income (Loss) and Accumulated Other Comprehensive Income (Loss) (continued)

Realized gains and losses on the sales of investments are determined based upon the specific identification method and include provisions for other-than-temporary impairments where appropriate.

The pretax and the related income tax components of the amounts reclassified from the Company's accumulated other comprehensive income (loss) to the Company's consolidated statements of operations for the years ended December 31, 2019 and 2018 are summarized as follows:

	Years Ended December 31,	
Reclassification Adjustments	2019	2018
Realized gains on sales of securities (a)	$ 989,507	$ 246,078
Income tax expense (b)	207,796	51,677
Total reclassification adjustments	$ 781,711	$ 194,401

(a) These items appear within net realized investment gains in the consolidated statements of operations.

(b) These items appear within federal income taxes in the consolidated statements of operations.

16. Line of Credit

On November 8, 2019, the Company renewed its $1.5 million line of credit with a bank to provide working capital and funds for expansion. The terms of the line of credit allows for advances, repayments and re-borrowings through a maturity date of September 15, 2020. Any outstanding advances will incur interest at a variable interest rate of the prime rate set forth in the Wall Street Journal plus 1% per annum adjusting monthly based on a 360 day year with a minimum interest rate floor of 5%.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures. (This report shall not be deemed to be filed for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities of that section).

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer ("Certifying Officers"), has evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities and Exchange Act of 1934 as amended ("Exchange Act") as of the end of the fiscal period covered by this Annual Report on Form 10-K. Based upon such evaluation, the Certifying Officers have concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is made known to management, including our Certifying Officers, as appropriate, to allow timely decisions regarding disclosure and that such information is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

In designing and evaluating our disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operating, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Management's Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. As of the end of the period covered by this annual report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Certifying Officers, of the effectiveness of the design and operation of the Company's internal controls over financial reporting as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. The standard measures adopted by management in making its evaluation are the measures in the *Internal-Control Integrated Framework (2013)* published by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon such evaluation, management has determined that internal control over financial reporting was effective as of December 31, 2019.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to the attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Limitations on the Effectiveness of Controls

The Company's management, including the Certifying Officers, does not expect that the disclosure controls and internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs.

Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management or board override of the control.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Changes to Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the twelve months ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None

Part III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item is incorporated by reference from the Company's proxy statement for the 2020 annual meeting of shareholders to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934.

Item 11. Executive Compensation

The information required by this Item is incorporated by reference from the Company's proxy statement for the 2020 annual meeting of shareholders to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item is incorporated by reference from the Company's proxy statement for the 2020 annual meeting of shareholders to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated by reference from the Company's proxy statement for the 2020 annual meeting of shareholders to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934.

Item 14. Principal Accounting Fees and Services

The information required by this Item is incorporated by reference from the Company's proxy statement for the 2020 annual meeting of shareholders to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934.

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