

*Nebraska Life and Health Insurance Guaranty Association  
Lincoln, Nebraska*

*December 31, 2018 and 2017*

*Financial Statements  
and  
Independent Auditor's Report*



CPAs & Consultants | Wealth Management

Nebraska Life and Health Insurance Guaranty Association

Years ended December 31, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

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To the Board of Directors  
Nebraska Life and Health Insurance Guaranty Association  
Lincoln, Nebraska

We have audited the accompanying statements of financial position of Nebraska Life and Health Insurance Guaranty Association, which comprise the statements of financial position as of December 31, 2018, and the related statement of activities and cash flows for the year then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

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

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

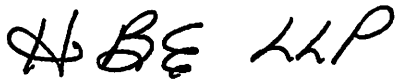


**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nebraska Life and Health Insurance Guaranty Association as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Summarized Comparative Information**

We have previously audited Nebraska Life and Health Insurance Guaranty Association's December 31, 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 12, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Handwritten signature in black ink that reads "HBE LLP". The letters are stylized and cursive.

Lincoln, Nebraska  
March 18, 2019

Nebraska Life and Health Insurance Guaranty Association

STATEMENTS OF FINANCIAL POSITION

December 31,

ASSETS

	<u>2018</u>	<u>2017</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents (note A)	\$ 4,504,145	\$ 208,859
Certificates of deposit	247,951	399,622
Accrued interest receivable on investments	<u>69,574</u>	<u>7,587</u>
Total current assets	4,821,670	616,068
<b>OTHER ASSET</b>		
Investments (notes A, B and E)	<u>14,510,362</u>	<u>1,992,421</u>
Total assets	<u>\$ 19,332,032</u>	<u>\$ 2,608,489</u>

LIABILITIES AND NET ASSETS (DEFICIT)

<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 78,653	\$ 60,387
Estimated claims payable (note C)	<u>2,761,000</u>	<u>2,881,000</u>
Total current liabilities	<u>2,839,653</u>	<u>2,941,387</u>
<b>NET ASSETS (DEFICIT) (note A)</b>		
Without donor restrictions		
Class A net assets for general administration	256,528	249,011
Classes B and C net assets (deficit) for specific insolvencies (note D)	13,741,773	(3,009,771)
Contingency reserve for future obligations (note D)	<u>2,494,078</u>	<u>2,427,862</u>
Total net assets (deficit)	<u>16,492,379</u>	<u>(332,898)</u>
Total liabilities and net assets (deficit)	<u>\$ 19,332,032</u>	<u>\$ 2,608,489</u>

See accompanying notes to financial statements.

Nebraska Life and Health Insurance Guaranty Association

STATEMENTS OF ACTIVITIES

Year ended December 31, 2018  
With comparative totals for the year ended December 31, 2017

	2018			2017
	Class A	Class B & C	Total	Total
<b>CHANGES IN NET ASSETS (DEFICIT)</b>				
<b>Revenues</b>				
Assessments received	\$ -	\$ -	\$ -	\$ 11,298,111
Recoveries received	718	17,032,031	17,032,749	7,782,368
Premiums received	-	33,804	33,804	51,898
Investment income, net	6,799	218,944	225,743	34,675
<b>Total revenues</b>	<b>7,517</b>	<b>17,284,779</b>	<b>17,292,296</b>	<b>19,167,052</b>
<b>Expenses</b>				
Benefit claims	-	69,223	69,223	23,562,440
Assumption reinsurance	-	5,318	5,318	1,656
Administration, legal fees, direct expenses	71,241	59,453	130,694	143,358
Assessments by NOLGHA for expenses	6,945	296,220	303,165	273,461
Dues to National (NOLHGA)	51,321	-	51,321	51,719
Meetings and travel expenses	9,429	-	9,429	6,834
Auditing and accounting fees	9,800	-	9,800	5,925
Assessment system software and services	5,880	-	5,880	9,152
Bank service charges	891	-	891	1,592
Bookkeeping fees	1,211	-	1,211	900
Postage, printing and general supplies	87	-	87	-
Class A general and administration expenses allocated to Classes B and C	(156,805)	156,805	-	-
<b>Total expenses</b>	<b>-</b>	<b>587,019</b>	<b>587,019</b>	<b>24,057,037</b>
<b>Revenues over (under) expenses</b>	<b>7,517</b>	<b>16,697,760</b>	<b>16,705,277</b>	<b>(4,889,985)</b>
<b>Decrease in claims payable</b>	<b>-</b>	<b>120,000</b>	<b>120,000</b>	<b>26,460,556</b>
<b>Increase in net assets</b>	<b>7,517</b>	<b>16,817,760</b>	<b>16,825,277</b>	<b>21,570,571</b>
<b>CHANGE IN NET ASSETS (DEFICIT)</b>				
Net assets (deficit) at beginning of year	249,011	(581,909)	(332,898)	(21,903,469)
Net assets (deficit) at end of year	\$ 256,528	\$ 16,235,851	\$ 16,492,379	\$ (332,898)

See accompanying notes to financial statements.

Nebraska Life and Health Insurance Guaranty Association

STATEMENTS OF CASH FLOWS

Years ended December 31,

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Cash received from assessments, recoveries, and premiums	\$ 17,058,477	\$ 19,126,290
Cash paid to suppliers and paid for claims	(568,753)	(23,996,650)
Interest received	<u>208,393</u>	<u>93,454</u>
Net cash provided (used) by operating activities	<u>16,698,117</u>	<u>(4,776,906)</u>
Cash flows from investing activities		
Proceeds from sales of investments	14,204,979	20,536,559
Purchases of investments and deposits to assets limited as to use	<u>(26,607,810)</u>	<u>(17,430,886)</u>
Net cash provided (used) by investing activities	<u>(12,402,831)</u>	<u>3,105,673</u>
Net increase (decrease) in cash	4,295,286	(1,671,233)
Cash and cash equivalents at beginning of year	<u>208,859</u>	<u>1,880,092</u>
Cash and cash equivalents at end of year	<u>\$ 4,504,145</u>	<u>\$ 208,859</u>
Reconciliation of increase in net assets to net cash provided (used) by operating activities		
Increase in net assets	<u>\$ 16,825,277</u>	<u>\$ 21,570,571</u>
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities		
Realized and unrealized losses on investments (Increase) decrease in assets	36,561	48,771
Accrued interest receivable	(61,987)	3,921
Increase (decrease) in liabilities		
Accounts payable	18,266	60,387
Estimated claims payable	<u>(120,000)</u>	<u>(26,460,556)</u>
Total adjustments to increase in net assets	<u>(127,160)</u>	<u>(26,347,477)</u>
Net cash provided (used) by operating activities	<u>\$ 16,698,117</u>	<u>\$ (4,776,906)</u>

See accompanying notes to financial statements.

Nebraska Life and Health Insurance Guaranty Association

NOTES TO FINANCIAL STATEMENTS

Nebraska Life and Health Insurance Guaranty Association (the Association), is a nonprofit, unincorporated association organized and established by the Nebraska Life and Health Insurance Guaranty Act, Sections 44-2701 through 2720, R.S. Supp. 1975, which provides for the creation of an association of member insurers to enable the guaranty of payment of benefits and the continuance of coverage of life insurance policies, health insurance policies, annuity contracts and supplemental contracts. Any insurer licensed to issue life and health insurance policies, and annuity and supplemental contracts in the State of Nebraska is required to be a member.

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Method of Accounting.** The accompanying financial statements of the Association have been prepared on the accrual basis of accounting.

**New Accounting Pronouncement.** On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Association has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

**Cash and Cash Equivalents.** For purposes of the statements of cash flows, the Association considers all unrestricted highly liquid investments with a maturity of three months or less to be cash equivalents. Restricted amounts represent unspent grant proceeds that are required to be maintained separately according to the terms of a grant agreement.

**Investments.** Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the statements of activities. Donated securities are recorded as contributions equal to the fair market value of the securities at the date of gift.

**Fair Value Measurements.** Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date. The Association utilizes a framework to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1      Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Association has the ability to access.

Level 2      Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3      Inputs to the valuation methodology are unobservable and significant to the fair value measurement.



Nebraska Life and Health Insurance Guaranty Association

NOTES TO FINANCIAL STATEMENTS

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**Fair Value Measurements - Continued.** The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Transfers between levels shall occur at the actual date of the event or change in circumstances that caused the transfer. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

**Net Asset Classification.** Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

**Without donor restrictions.** Net assets available for use in general operations and not subject to donor or grantor restrictions. Net assets whose use is contractually limited or assets set aside for specific insolvencies or to meet reserve requirements are considered without donor restrictions.

**With donor restrictions.** Net assets subject to donor- or grantor-imposed restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both, and are reported in the statements of activities as net assets released from restrictions. The Association does not have donors.

**Assessments.** Association member insurers may be assessed follows:

Class A - Assessments for administration expenses of the Association.

Class B - Assessments to cover insurance benefit claims and expenses of domestic (Nebraska) and foreign (other than Nebraska) insurance companies with policyholders in Nebraska that are declared insolvent by the State Department of Insurance.

**Income Taxes.** The Association is exempt from Federal income tax under Section 501(c)(6) of the Internal Revenue Code. As such, income earned in the performance of its exempt purpose is not subject to income tax. Any income earned through unrelated business activities is subject to income tax at normal corporate rates. For the years ended December 31, 2018 and 2017, the Association had no tax liability on unrelated business activity. The Association believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Association qualifies as an unincorporated entity of the State of Nebraska and is not required to file an annual federal return of Organization Exempt form Income Tax (Form 990).

**Use of Estimates.** The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Nebraska Life and Health Insurance Guaranty Association

NOTES TO FINANCIAL STATEMENTS

**NOTE B - INVESTMENTS**

Investments consist of:

	2018		2017	
	Cost	Market	Cost	Market
Bonds				
Corporate	\$ 473,297	\$ 470,109	\$ 375,021	\$ 372,239
U.S. government	<u>13,964,293</u>	<u>14,040,253</u>	<u>1,622,092</u>	<u>1,620,182</u>
	<u>\$ 14,437,590</u>	<u>\$ 14,510,362</u>	<u>\$ 1,997,113</u>	<u>\$ 1,992,421</u>
Gross unrealized gain (loss)		<u>\$ 72,772</u>		<u>\$ (4,692)</u>

Investment income consists of:

	2018	2017
Interest and dividend income	\$ 270,380	\$ 89,533
Net realized and unrealized losses on investments	(36,561)	(48,771)
Investment management fees	<u>(8,076)</u>	<u>(6,087)</u>
	<u>\$ 225,743</u>	<u>\$ 34,675</u>

**NOTE C - RESERVES FOR CLAIMS PAYABLE**

The Association receives claims expense estimates from the National Organization of Life and Health Insurance Guaranty Associations (NOLHGA) and other entities. Management analyzes the information received from NOLHGA and other entities, industry trends and the effects of Nebraska statute limitations on the estimates prior to arriving at the recorded estimated reserves for claims payable. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments of estimates are reflected in the accompanying statements of activities.

The total reserves for claims payable were:

Insolvency		
Class B 70 - Lincoln Memorial Life Insurance Co., TX	\$ 70,000	\$ 161,000
Class B 72 - Penn Treaty Insurance Co. PA	2,200,000	2,200,000
Class B 74 - National States Insurance Co., MO	291,000	320,000
Class B 77 - CoOpportunity Health, IA	<u>200,000</u>	<u>200,000</u>
	<u>\$ 2,761,000</u>	<u>\$ 2,881,000</u>

These reserves are based on estimates and, while management presently believes the estimate of reserves for claims payable at December 31, 2018 is adequate, the actual liability could vary considerably from the amount presented in the accompanying statement of financial position.

Nebraska Life and Health Insurance Guaranty Association

NOTES TO FINANCIAL STATEMENTS

**NOTE D – DESIGNATED NET ASSETS (DEFICIT)**

Net assets (deficit) of \$13,741,773 and (\$3,009,711) at December 31, 2018 and 2017, respectively, are reserved for specific insurance company insolvencies.

	<u>2018</u>	<u>2017</u>
Class B 69 - Benicorp Insurance, Indiana	\$ (61,947)	\$ (59,996)
Class B 70 - Lincoln Memorial Life, Texas	808,391	830,599
Class B 71 - Medical Saving Insurance, Indiana	6,637	6,686
Class B 72 - Penn Treaty Insurance Co., Pennsylvania	(14,537,682)	(14,034,443)
Class B 74 - National States Insurance, Missouri	(499,303)	(551,634)
Class B 75 - Executive Life Insurance Co. of New York	(14,481)	(9,023)
Class B 76 - Standard Life Insurance Co. of Indiana	(2,145)	(2,055)
Class B 77 - CoOpportunity Health, Iowa	28,007,071	10,759,241
Class B 78 - SeeChange Health Insurance, California	(7,371)	(6,358)
Class B 79 - AF&L/SAIC	(13,821)	-
Class C 20 - Executive Life, California	52,597	57,212
Class C 68 - Reliance	<u>3,827</u>	<u>-</u>
Total net assets (deficit) for specific insolvencies	<u>\$ 13,741,773</u>	<u>\$ (3,009,771)</u>

Net assets of \$2,494,078 and \$2,427,862 at December 31, 2018 and 2017, respectively, are reserved for future obligations.

The excess liabilities over assets, not covered by rehabilitation or liquidation of the insolvencies, will be covered by Class B assessments of member insurers.

**NOTE E - FAIR VALUE MEASUREMENTS**

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in methodologies used during the years ended December 31, 2018 and 2017.

*Corporate bonds:* Certain corporate bonds are valued at the closing price reported in the active market in which the bond is traded. Other corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings.

*U.S. government bonds:* U.S. government and agency obligations are valued at the closing price reported in the active market in which the obligation is traded. Other U.S. government and agency obligations are valued using independent pricing models.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Association believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Nebraska Life and Health Insurance Guaranty Association

NOTES TO FINANCIAL STATEMENTS

**NOTE E - FAIR VALUE MEASUREMENTS - CONTINUED**

The following table sets forth the balances of assets and liabilities measured at fair value on a recurring basis as of December 31, 2018 and 2017.

	2018			
	Fair Value	Quoted Prices in Active Markets for identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Corporate bonds	\$ 470,109	\$ -	\$ 470,109	\$ -
US government bonds	<u>14,040,253</u>	<u>-</u>	<u>14,040,253</u>	<u>-</u>
	<u>\$ 14,510,362</u>	<u>\$ -</u>	<u>\$ 14,510,362</u>	<u>\$ -</u>
	2017			
	Fair Value	Quoted Prices in Active Markets for identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Corporate bonds	\$ 372,239	\$ -	\$ 372,239	\$ -
US government bonds	<u>1,620,182</u>	<u>-</u>	<u>1,620,182</u>	<u>-</u>
	<u>\$ 1,992,421</u>	<u>\$ -</u>	<u>\$ 1,992,421</u>	<u>\$ -</u>

**NOTE F - PROGRAM EXPENSES**

The Association is statutorily required to account for general and administrative expenses in one fund (Class A) and transactions directly related to the various insolvencies in another fund (Class B). By the very nature of the fund, all expenses recorded in Class B are program expenses. Management and general expenses initially recorded in Class A are allocated to Class B based on time spent by administrative personnel on the specific insolvencies. This procedure is in accordance with accounting guidelines recommended by the National Organization of Life and Health Insurance Guaranty Associations.

**NOTE G - TRANSACTIONS WITH RELATED PARTY**

The Association employs Cline Williams Wright Johnson & Oldfather, LLP, Attorneys at Law, to manage the Association's day-to-day operations. The Association is billed monthly for time spent performing Association operations. The Administrator, an employee of Cline Williams Wright Johnson & Oldfather, LLP, is also an officer of the Association. During 2018 and 2017, the Association made payments of \$171,662 and \$168,496, respectively, to Cline Williams Wright Johnson & Oldfather, LLP.

Nebraska Life and Health Insurance Guaranty Association

NOTES TO FINANCIAL STATEMENTS

**NOTE H - CONTINGENCIES**

The Association is involved in litigation arising in the normal course of its business. In the opinion of management, the Association's recovery or liability, if any, under pending litigation or administrative proceeding would not materially affect its financial position.

**NOTE I - CONCENTRATIONS OF CREDIT RISK**

Financial instruments which potentially subject the Association to concentrations of credit risk consist principally of checking accounts and money market accounts at financial institutions. Accounts at each institution are insured by the FDIC up to \$250,000. At December 31, 2018 and 2017, the bank accounts exceeded federally insured limits by \$4,058,163 and \$-, respectively. The Association has not experienced any losses on such accounts.

**NOTE J - AVAILABLE RESOURCES AND LIQUIDITY**

The Association regularly monitors liquidity required to meet its operating needs and its insolvency-related obligations. The Association has various sources of liquidity at its disposal, including cash and cash equivalents, investment funds, and access, where available, to assets held in the estates of insolvent companies for which the Association has coverage obligations, which estates assets may include cash, saleable assets, potential litigation recoveries, and potential reinsurance recoveries. Where the assets just described are insufficient to meet the obligations of the Association, the Association is also authorized by Nebraska state statutes to assess its member insurers, subject to yearly limitations, in order to meet its financial obligations. The Association maintains its investment funds in an investment account managed by a qualified investment advisor, whose investment duties are described in an investment policy which is focused first on the preservation of principal. The work of the investment advisor is reviewed by the Association's Investment Committee, which is populated by member company representatives with investment expertise.

For purposes of analyzing resources available to meet operational expenditures over a 12-month period, the Association evaluates annual operating costs by considering all expenditures related to its ongoing administrative activities based on a rolling three-year average of actual expenditures in prior years and prepares and monitors an annual budget related to those operational expenditures. Further, the Association's coverage obligations on a going-forward basis are calculated based on estimates provided by actuaries and/or financial project managers who staff the task forces associated with each insolvency for which the Association has coverage obligations.

Nebraska Life and Health Insurance Guaranty Association

NOTES TO FINANCIAL STATEMENTS

**NOTE J - AVAILABLE RESOURCES AND LIQUIDITY - CONTINUED**

As of December 31, 2018 and 2017, the following tables show the total financial assets held by the Association:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$4,504,145	\$ 208,859
Certificates of deposit (reserves)	<u>247,951</u>	<u>399,622</u>
Total financial assets	4,752,096	608,481
Reserves with liquidity horizons greater than one year	<u>(247,951)</u>	<u>(399,622)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 4,504,145</u>	<u>\$ 208,859</u>

Further, the Association retains the statutory ability to assess member insurers as needed to meet the obligations of the Association.

**NOTE K - SUBSEQUENT EVENTS**

Subsequent events have been evaluated through the audit report date, the date the financial statements were available to be issued.