

NEBRASKA LIFE AND HEALTH INSURANCE  
GUARANTY ASSOCIATION

Financial Statements

December 31, 2016 and 2015

and

Independent Auditor's Report

STATEMENTS OF FINANCIAL POSITION (Notes 1 and 2)

	Dec. 31, <u>2016</u>	Dec. 31, <u>2015</u>
<b>ASSETS:</b>		
Cash in checking account	\$ 255,944	\$ 622,830
Cash in money market funds	1,624,148	2,215,043
Certificates of deposit at market value (Note 3)	1,653,752	1,644,548
U. S. Treasury Bills and Notes at market value (Note 4)	2,299,051	3,748,847
U. S. Government Agency bonds at market value (Note 5)	422,585	300,087
Corporate bonds at market value (Note 6)	1,171,099	503,654
Accrued interest receivable on investments	<u>11,508</u>	<u>9,778</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 7,438,087</u></b>	<b><u>\$ 9,044,787</u></b>
 <b>LIABILITIES:</b>		
Estimated claims payable (Note 7)	\$ 29,341,556	\$ 6,992,030
Loan payable (Note 8)	<u>0</u>	<u>0</u>
<b>TOTAL LIABILITIES</b>	<b><u>\$ 29,341,556</u></b>	<b><u>\$ 6,992,030</u></b>
 <b>NET ASSETS:</b>		
<b>UNRESTRICTED NET ASSETS:</b>		
Class A net assets for general administration	\$ <u>247,513</u>	\$ <u>245,652</u>
Total Unrestricted Net Assets	<u>\$ 247,513</u>	<u>\$ 245,652</u>
<b>TEMPORARILY RESTRICTED NET ASSETS:</b>		
Classes B and C net assets for specific insurance company insolvencies (Exhibit A-1)	\$ (24,564,266)	\$ (565,292)
Contingency reserve for future obligations (Note 9)	<u>2,413,284</u>	<u>2,372,397</u>
Total Temporarily Restricted Net Assets	<u>\$ (22,150,982)</u>	<u>\$ 1,807,105</u>
<b>TOTAL NET ASSETS (Note 10)</b>	<b><u>\$ (21,903,469)</u></b>	<b><u>\$ 2,052,757</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 7,438,087</u></b>	<b><u>\$ 9,044,787</u></b>

See accompanying notes to financial statements.

CLASSES B AND C NET ASSETS FOR SPECIFIC INSURANCE COMPANY INSOLVENCIES

	<u>12/31/16</u>	<u>12/31/15</u>
Class B 69 – Benicorp Insurance, Indiana	\$ (71,793)	\$ (71,136)
Class B 70 – Lincoln Memorial Life, Texas	519,267	466,141
Class B 71 – Medical Saving Insurance, Indiana	6,835	8,190
Class B 72 – Penn Treaty Insurance Co., Pennsylvania	(27,519,627)	(291,993)
Class B 74 – National States Insurance, Missouri	(420,685)	(370,285)
Class B 75 – Executive Life Insurance Co. of New York	(4,905)	627
Class B 76 – Standard Life Insurance Co. of Indiana	(2,063)	(2,035)
Class B 77 – CoOpportunity Health, Iowa	2,876,790	(280,214)
Class B 78 - SeeChange Health Insurance, California	(7,179)	(4,760)
Class C 20 – Executive Life, California	<u>59,094</u>	<u>(19,827)</u>
Total Classes B and C Net Assets for Specific Insurance Company Insolvencies	<u>\$ (24,564,266)</u>	<u>\$ (565,292)</u>

STATEMENTS OF ACTIVITIES (Notes 1 and 2)

	Class A	Classes B & C (Exh. B-1)	<u>Total</u>	
			2016	2015
<b>REVENUES:</b>				
Assessments received			\$ 0	\$46,807,814
Recoveries received		\$ 173,599	173,599	41,426,860
Premiums received		53,283	53,283	63,269
Investment income – Net (Note 11)	\$ <u>1,861</u>	<u>58,325</u>	<u>60,186</u>	<u>27,312</u>
<b>TOTAL REVENUES</b>	<b>\$ <u>1,861</u></b>	<b>\$ <u>285,207</u></b>	<b>\$ <u>287,068</u></b>	<b>\$88,325,255</b>
<b>EXPENSES:</b>				
Benefit claims		\$ 489,932	\$ 489,932	\$81,352,023
Claims processing		678,943	678,943	0
Interest paid on loan		0	0	901,813
Assumption reinsurance		9,363	9,363	8,766
Administration, legal fees, direct expenses	\$ 114,440	102,824	217,264	237,315
Assessments by NOLHGA for expenses	7,845	419,234	427,079	810,378
Dues to National (NOLHGA)	49,865		49,865	44,529
Meetings and travel expenses	6,624		6,624	3,351
Auditing and accounting fees	6,160		6,160	5,200
Assessment system software and services	3,640		3,640	6,072
Computer services and expenses	1,950		1,950	4,450
Bank service charges	1,627		1,627	2,051
Bookkeeping fees	948		948	1,482
Postage, printing and general supplies	373		373	0
Class A general and administration expenses allocated to Classes B and C (Note 12)	<u>(193,472)</u>	<u>193,472</u>	<u>0</u>	<u>0</u>
<b>TOTAL EXPENSES</b>	<b>\$ <u>0</u></b>	<b>\$ <u>1,893,768</u></b>	<b>\$ <u>1,893,768</u></b>	<b>\$83,377,430</b>
<b>REVENUES OVER (UNDER) EXPENSES</b>	<b>\$ 1,861</b>	<b>\$ (1,608,561)</b>	<b>\$ (1,606,700)</b>	<b>\$ 4,947,825</b>
(Increase) decrease in claims payable		<u>(22,349,526)</u>	<u>(22,349,526)</u>	<u>115,227,353</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>\$ 1,861</b>	<b>\$ (23,958,087)</b>	<b>\$ (23,956,226)</b>	<b>120,175,178</b>
<b>NET ASSETS – BEGINNING OF YEAR</b>	<b><u>245,652</u></b>	<b><u>1,807,105</u></b>	<b><u>2,052,757</u></b>	<b>(118,122,421)</b>
<b>NET ASSETS – END OF YEAR</b>	<b>\$ <u>247,513</u></b>	<b>\$ (22,150,982)</b>	<b>\$ (21,903,469)</b>	<b>\$ <u>2,052,757</u></b>

See accompanying notes to financial statements.

CLASSES B AND C NET ASSETS – STATEMENTS OF ACTIVITIES

	<u>Balance</u> <u>12/31/15</u>	<u>1/1 – 12/31/16</u>		<u>Balance</u> <u>12/31/16</u>
		<u>Revenues</u>	<u>Expenses</u>	
Class B69 – Benicorp Insurance, IN	\$ (71,136)			
Interest expense		\$ (540)		
Assessments by NOLHGA for expenses			\$ 117	\$ (71,793)
Class B70 - Lincoln Memorial Life, TX	466,141			
Recoveries received		52,252		
Premiums received		370		
Investment income		16,950		
Benefit claims			100,000	
Assessments by NOLHGA for expenses			16,416	
Administration & legal fees, & direct expenses			14,000	
Allocated general & administration expenses			26,504	
Estimated claims payable decrease			(140,474)	519,267
Class B71 - Medical Savings Insurance, IN	8,190			
Recoveries received		3,880		
Investment income		101		
Assessments by NOLHGA for expenses			8,397	
Administration & legal fees, & direct expenses			2,398	
Allocated general & administration expenses			4,541	
Estimated claims payable decrease			(10,000)	6,835
Class B72 – Penn Treaty Insurance Co., PA	(291,993)			
Interest expense		(2,999)		
Assessments by NOLHGA for expenses			44,622	
Administration & legal fees, & direct expenses			62,221	
Allocated general & administration expenses			117,792	
Estimated claims payable increase			27,000,000	(27,519,627)
Class B74 – National States Insurance, MO	(370,285)			
Recoveries received		4,394		
Premiums received		52,913		
Interest expense		(1,495)		
Benefit claims			78,861	
Assessments by NOLHGA for expenses			19,097	
Administration & legal fees, & direct expenses			2,853	
Allocated general & administration expenses			5,401	(420,685)

(Continued)

CLASSES B AND C NET ASSETS – STATEMENTS OF ACTIVITIES

	<u>Balance</u> <u>12/31/15</u>	<u>1/1 – 12/31/16</u>		<u>Balance</u> <u>12/31/16</u>
		<u>Revenues</u>	<u>Expenses</u>	
Class B75 – Executive Life Insurance of New York \$	627			
Interest expense		\$ (13)		
Assessments by NOLHGA for expenses			\$ 8	
Administration & legal fees, & direct expenses			1,905	
Allocated general & administration expenses			3,606	\$ (4,905)
Class B76 – Standard Life Insurance Co. of Indiana	(2,035)			
Interest expense		(15)		
Assessments by NOLHGA for expenses			13	(2,063)
Class B77 – CoOpportunity Health – Iowa	(280,214)			
Investment income		28,332		
Benefit claims			311,135	
Claims processing			678,943	
Assessments by NOLHGA for expenses			329,766	
Administration & legal fees & direct expenses			18,205	
Allocated general & administration expenses			33,279	
Estimated claims payable decrease			(4,500,000)	2,876,790
Class B78 – SeeChange Health Insurance – CA	(4,760)			
Benefit claims			(64)	
Interest expense		(43)		
Assessments by NOLHGA for expenses			13	
Administration & legal fees & direct expenses			839	
Allocated general & administration expenses			1,588	(7,179)
Class C 20 – Executive Life, CA	(19,827)			
Recoveries received		90,297		
Interest expense		(64)		
Assumption reinsurance			9,363	
Assessments by NOLHGA for expenses			785	
Administration & legal fees, & direct expenses			402	
Allocated general & administration expenses			762	59,094

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CLASSES B AND C NET ASSETS – STATEMENTS OF ACTIVITIES

	<u>Balance</u> <u>12/31/15</u>	<u>1/1 – 12/31/16</u>		<u>Balance</u> <u>12/31/16</u>
		<u>Revenues</u>	<u>Expenses</u>	
Class B Contingency Reserve - Life	\$2,372,397			
Recovery received – Class B41		\$ 22,752		
Recovery received – Class C17		25		
Investment income	<u>                    </u>	<u>18,110</u>	<u>                    </u>	\$ <u>2,413,284</u>
<b>TOTAL TEMPORARILY RESTRICTED NET ASSETS</b>	<u>\$1,807,105</u>	<u>\$285,207</u>	<u>\$24,243,294</u>	<u>\$(22,150,982)</u>
 Per Exhibit B:				
Total expenses			\$ 1,893,768	
Increase in estimated claims payable			<u>22,349,526</u>	
			<u>\$24,243,294</u>	

STATEMENTS OF CASH FLOWS (Notes 1 and 2)

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM (USED FOR) OPERATING ACTIVITIES:		
Increase (decrease) in net assets per Exhibit B	\$(23,956,226)	\$ 120,175,178
Adjustments to reconcile increase (decrease) in net assets with net cash from (used for) operating activities:		
Realized net (gain) loss from sale of investments	3,596	(6,696)
Unrealized market (gain) loss on investments	(10,029)	8,452
Increase in accrued interest receivable	(1,730)	(3,716)
Increase (decrease) in estimated claims payable	<u>22,349,526</u>	<u>(115,227,353)</u>
NET CASH FROM (USED FOR) OPERATING ACTIVITIES	<u>\$ (1,614,863)</u>	<u>\$ 4,945,865</u>
CASH FLOWS FROM (USED FOR) INVESTING ACTIVITIES:		
Proceeds from sale of investments	\$ 5,925,000	\$ 2,130,983
Purchase of investments	<u>(5,267,918)</u>	<u>(5,557,477)</u>
NET CASH FROM (USED FOR) INVESTING ACTIVITIES	<u>\$ 657,082</u>	<u>\$ (3,426,494)</u>
CASH FLOWS FROM (USED FOR) FINANCING ACTIVITIES:		
Borrowed on line of credit from bank	\$ 0	\$ 33,851,801
Repayment of loan from bank	<u>0</u>	<u>(33,851,801)</u>
NET CASH FROM (USED FOR) FINANCING ACTIVITIES	<u>\$ 0</u>	<u>\$ 0</u>
CASH AND MONEY MARKET FUNDS:		
Increase (decrease) during year	\$ (957,781)	\$ 1,519,371
Balance at beginning of year	<u>2,837,873</u>	<u>1,318,502</u>
Balance at end of year	<u>\$ 1,880,092</u>	<u>\$ 2,837,873</u>
Balance at end of year:	<u>12/31/16</u>	<u>12/31/15</u>
Cash in checking account	\$ 255,944	\$ 622,830
Cash in money market funds	<u>1,624,148</u>	<u>2,215,043</u>
	<u>\$ 1,880,092</u>	<u>\$ 2,837,873</u>
Interest paid on loan	<u>\$ 0</u>	<u>\$ 901,813</u>

See accompanying notes to financial statements.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 1 – ORGANIZATION

Nebraska Life and Health Insurance Guaranty 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.

Association members may be assessed for assessments as 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.

Effective September 1, 2001, Class C assessments were eliminated by amendment of Nebraska Revised Statute Section 44-2708. Since September 1, 2001, both domestic and foreign insolvencies are funded by Class B assessments.

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Separate accounts are maintained by type of assessments and by insurers. Investment income and gains or losses on investments are allocated to the respective accounts based on the average quarterly balances of each respective account. Accounts with average positive balances are credited with their allocable share of investment income, and accounts with average negative balances are charged with interest expense on their average deficit balance.

Class A general and administrative expenses are allocated to Class B and Class C insolvencies based on time spent by administrative personnel on the specific insolvencies.

Cash in the checking account and the cash in the money market funds are maintained at high-quality financial institutions. Management believes the Association is not exposed to any significant credit risk on the cash in the checking account and cash in the money market funds.

Investments in debt securities are measured at fair value in the statements of financial position. Unrealized gains or losses are included in the statements of activities. Fair value is based on quoted market prices.

Financial instruments that potentially expose the Association to concentrations of credit and market risk consist primarily of investments. The Association's investments do not represent significant concentrations of credit risk. Financial instruments are not held for trading purposes.

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NOTES TO FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Association is a nonprofit, unincorporated entity of the State of Nebraska, and therefore, no income tax returns or return of organization exempt from income tax are required to be filed.

NOTE 3 – CERTIFICATES OF DEPOSIT OWNED AS OF DECEMBER 31, 2016:

<u>Date Purchased</u>	<u>Quantity</u>	<u>Purchase Cost</u>	<u>Market Value</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
Ally Bank Midvale, UT:					
5/28/15	\$150,000	\$149,325	\$150,158	5/29/18	1.350%
American Express Centr:					
5/06/15	150,000	149,257	150,278	4/30/18	1.250%
BMW Bank North Amer Salt Lake:					
5/06/15	150,000	149,145	150,017	4/24/17	0.700%
Capital One Bank USA NA:					
9/30/15	100,000	99,700	100,217	10/2/17	1.150%
Cardinal Bank NA VA:					
03/09/16	150,000	149,625	150,207	9/10/18	0.950%
Discover Bank:					
5/08/15	100,000	99,265	100,689	4/1/20	1.850%
Homestreet Bank Washington:					
6/23/16	125,000	124,941	125,005	4/10/17	0.600%
Old Missouri Bank Springfield:					
5/19/16	150,000	149,745	149,788	11/5/18	0.950%
Stearns Bank NA St Cloud, MN:					
12/31/14	150,000	149,850	150,135	3/31/17	1.000%
Synchrony Bank:					
1/02/15	150,000	149,863	152,269	12/12/19	2.000%
Wells Fargo Bank NA:					
6/23/16	125,000	124,956	124,725	6/18/18	1.200%
Zion First National Bank UT:					
3/03/16	150,000	149,880	150,264	2/14/18	1.000%
	<u>\$1,650,000</u>	<u>\$1,645,552</u>	<u>\$1,653,752</u>		

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – U. S. TREASURY NOTES OWNED AS OF DECEMBER 31, 2016:

<u>Date Purchased</u>	<u>Quantity</u>	<u>Purchase Cost</u>	<u>Market Value</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
U. S. Treasury Notes:					
3/1/16	\$ 300,000	\$ 299,666	\$ 300,033	1/31/17	0.500%
3/14/16	100,000	99,932	100,024	2/15/17	0.950%
3/14/16	250,000	249,509	250,020	5/31/17	0.625%
9/30/13	100,000	99,191	100,051	6/30/17	0.750%
10/3/16	250,000	249,810	249,745	7/31/17	1.200%
6/8/16	250,000	249,783	249,805	8/31/17	0.625%
12/01/14	100,000	99,691	99,910	10/31/17	0.750%
10/3/16	100,000	99,941	99,766	11/30/17	0.625%
9/30/13	100,000	98,680	99,926	1/31/18	.875%
12/01/14	100,000	101,230	100,625	8/31/18	1.500%
12/03/13	100,000	99,180	100,145	11/30/18	1.250%
12/30/14	100,000	99,894	100,543	1/31/19	1.500%
6/8/16	250,000	249,844	247,755	4/15/19	0.875%
12/1/14	100,000	100,469	100,461	5/31/19	1.500%
12/1/14	100,000	100,093	100,242	10/31/19	1.500%
	<u>\$2,300,000</u>	<u>\$2,296,913</u>	<u>\$2,299,051</u>		

NOTE 5 - U. S. GOVERNMENT AGENCY BONDS OWNED AS OF DECEMBER 31, 2016:

<u>Date Purchased</u>	<u>Quantity</u>	<u>Purchase Cost</u>	<u>Market Value</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
Federal Farm Credit Banks:					
12/31/14	\$100,000	\$100,180	\$100,230	9/22/17	1.125%
12/30/16	125,000	124,409	124,285	5/16/18	0.750%
12/30/16	100,000	99,996	99,964	11/6/18	1.250%
Federal Home Loan Banks:					
4/18/16	100,000	100,360	98,106	2/18/21	1.375%
	<u>\$425,000</u>	<u>\$424,945</u>	<u>\$422,585</u>		

NOTE 6 – CORPORATE BONDS OWNED AS OF DECEMBER 31, 2016:

Date Purchased	Quantity	Purchase Cost	Market Value	Maturity Date	Interest Rate
Apple Inc. Note:					
1/5/16	\$ 100,000	\$ 99,271	\$ 99,625	5/3/18	1.000%
Apple Inc. Senior Global Note:					
10/10/14	100,000	100,866	100,949	5/6/19	2.100%
Coca Cola Co. Note:					
1/4/16	200,000	198,094	198,300	10/27/20	1.875%
Colgate Palmolive Co. Note:					
1/5/16	200,000	198,360	198,970	5/1/18	0.900%
International Business Machines Note:					
3/19/14	50,000	50,117	50,307	2/12/19	1.950%
International Business Machines Note:					
1/5/16	100,000	97,989	98,783	5/15/20	1.625%
Johnson & Johnson Note:					
4/03/14	50,000	49,865	50,275	12/5/18	1.650%
1/5/16	150,000	151,451	150,825	12/5/18	1.650%
3/28/16	125,000	125,118	123,052	3/2/21	1.650%
Wal-Mart Stores, Inc. Note:					
12/17/14	<u>100,000</u>	<u>100,396</u>	<u>100,013</u>	4/21/17	1.000%
	<u>\$1,175,000</u>	<u>\$1,171,527</u>	<u>\$1,171,099</u>		

NOTE 7 – ESTIMATED CLAIMS PAYABLE AS OF DECEMBER 31, 2016 AND 2015:

<u>Insolvency</u>	<u>12/31/16</u>	<u>12/31/15</u>
Class B70 – Lincoln Memorial Life Insurance Co., TX	\$ 1,641,556	\$1,782,030
Class B71 – Medical Savings Insurance Co., IN	0	10,000
Class B72 – Penn Treaty Insurance Co. PA	27,000,000	0
Class B74 – National States Insurance Co., MO	200,000	200,000
Class B77 – CoOpportunity Health, IA	<u>500,000</u>	<u>5,000,000</u>
	<u>\$29,341,556</u>	<u>\$6,992,030</u>

NOTE 8 – LOAN PAYABLE

A Mutual Termination of Loan Agreement was made and entered into as of April 20, 2016, regarding the \$69,500,000 line of credit note with First National Bank of Omaha, Nebraska, dated March 11, 2015. The line of credit served as a bridge loan solely to assist the Association to pay claims and expenses related to the CoOpportunity Health insolvency.

NOTES TO FINANCIAL STATEMENTS

NOTE 9 – CONTINGENCY RESERVE FOR FUTURE OBLIGATIONS

On April 8, 1999, the Board of Directors approved that net asset balances held for certain settled insolvencies be transferred to a contingency reserve for future Class B obligations of the Nebraska Life and Health Insurance Guaranty Association.

On July 29, 2014, the Board of Directors approved that the contingency reserves be allocated to specific open insolvencies. On April 9, 2015, the Board of Director approved that the Imerica Life & Health, AR, insolvency, B73, be closed to the contingency reserve. Exhibit B-1 (Page 7) presents an accounting of the contingency reserves for the year 2016. The net asset balances of the contingency reserves were as follows:

	<u>12/31/16</u>	<u>12/31/15</u>
Contingency reserve for future obligations	\$2,413,284	\$2,372,397

NOTE 10 – TOTAL NET ASSETS

As shown on Exhibit A as of December 31, 2016, total assets were \$7,438,087 and total liabilities were \$29,341,556 which resulted in total net assets of a negative \$21,903,469. The excess liabilities over assets, not covered by rehabilitation or liquidation of the insolvencies, will be covered by Class B assessments of member insurers licensed in the State of Nebraska.

NOTE 11 – INVESTMENT INCOME – NET

	<u>2016</u>	<u>2015</u>
Interest income earned	\$61,922	\$32,970
Realized net gain (loss) from sale of securities	(3,596)	6,696
Unrealized market gain (loss)	10,029	(8,452)
Investment management fees	<u>(8,169)</u>	<u>(3,902)</u>
	<u>\$ 60,186</u>	<u>\$ 27,312</u>

NOTE 12 – CLASS A GENERAL AND ADMINISTRATIVE EXPENSES ALLOCATED TO CLASSES B AND C

Class A general and administrative expenses were allocated to Classes B and C insolvencies 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.

Time spent was determined by the administration and legal fees paid to the Cline, Williams Law Firm, who perform the administration of the Nebraska Life and Health Insurance Guaranty Association. The Cline, Williams Law Firm submits monthly billings for their services for each insolvency.