

**NEBRASKA LIFE AND HEALTH INSURANCE
GUARANTY ASSOCIATION**

Financial Statements

December 31, 2015 and 2014

and

Independent Auditor's Report

STATEMENTS OF FINANCIAL POSITION (Notes 1 and 2)

	Dec. 31, <u>2015</u>	Dec. 31, <u>2014</u>
ASSETS:		
Cash in checking account	\$ 622,830	\$ 356,517
Cash in money market funds	2,215,043	961,985
Certificates of deposit at market value (Note 3)	1,644,548	690,290
U. S. Treasury Bills and Notes at market value (Note 4)	3,748,847	1,380,198
U. S. Government Agency bonds at market value (Note 5)	300,087	299,987
Corporate bonds at market value (Note 6)	503,654	401,923
Accrued interest receivable on investments	<u>9,778</u>	<u>6,062</u>
TOTAL ASSETS	<u>\$ 9,044,787</u>	<u>\$ 4,096,962</u>
 LIABILITIES:		
Estimated claims payable (Note 7)	\$ 6,992,030	\$ 122,219,383
Loan payable (Note 8)	<u>0</u>	<u>0</u>
TOTAL LIABILITIES	<u>\$ 6,992,030</u>	<u>\$ 122,219,383</u>
 NET ASSETS:		
UNRESTRICTED NET ASSETS:		
Class A net assets for general administration	\$ <u>245,652</u>	\$ <u>246,196</u>
Total Unrestricted Net Assets	<u>\$ 245,652</u>	<u>\$ 246,196</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Classes B and C net assets for specific insurance company insolvencies (Exhibit A-1)	\$ (565,292)	\$(120,753,176)
Contingency reserve for future obligations (Note 9)	<u>2,372,397</u>	<u>2,384,559</u>
Total Temporarily Restricted Net Assets	<u>\$ 1,807,105</u>	<u>\$(118,368,617)</u>
TOTAL NET ASSETS	<u>\$ 2,052,757</u>	<u>\$(118,122,421)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 9,044,787</u>	<u>\$ 4,096,962</u>

See accompanying notes to financial statements.

CLASSES B AND C NET ASSETS FOR SPECIFIC INSURANCE COMPANY INSOLVENCIES

	<u>12/31/15</u>	<u>12/31/14</u>
Class B 67 – London Pacific Life, North Carolina	\$ 0	\$ 756
Class B 69 – Benicorp Insurance, Indiana	(71,136)	(76,084)
Class B 70 – Lincoln Memorial Life, Texas	466,141	(114,134)
Class B 71 – Medical Saving Insurance, Indiana	8,190	(3,011)
Class B 72 – Penn Treaty Network Insurance, Pennsylvania	(291,993)	(237,137)
Class B 73 – Imerica Life & Health Insurance, Arkansas	0	(9,178)
Class B 74 – National States Insurance, Missouri	(370,285)	(300,861)
Class B 75 – Executive Life Insurance Co. of New York	627	458
Class B 76 – Standard Life Insurance Co. of Indiana	(2,035)	(2,018)
Class B 77 – CoOpportunity Health, Iowa	(280,214)	(120,002,287)
Class B 78 – SeeChange Health Insurance, California	(4,760)	0
Class C 20 – Executive Life, California	(19,827)	(9,797)
Class C 30 – Andrew Jackson Life, Mississippi	0	(97)
Class C 38 – Consumers United, Delaware	0	(51)
Class C 55 – Universe Life, Idaho	0	431
Class C 63 – American Chambers Life, Ohio	<u>0</u>	<u>(166)</u>
Total Classes B and C Net Assets for Specific Insurance Company Insolvencies	<u>\$(565,292)</u>	<u>\$(120,753,176)</u>

STATEMENTS OF ACTIVITIES (Notes 1 and 2)

	Class A	Classes B & C (Exh. B-1)	<u>Total</u>	
			2015	2014
REVENUES:				
Assessments received		\$ 46,807,814	\$ 46,807,814	\$2,705,982
Recoveries received		41,426,860	41,426,860	88,342
Premiums received		63,269	63,269	96,139
Investment income – Net (Note 10)	\$ (544)	27,856	27,312	7,692
TOTAL REVENUES	\$ (544)	\$ 88,325,799	\$ 88,325,255	\$2,898,155
EXPENSES:				
Benefit claims		\$ 81,352,023	\$ 81,352,023	\$ 424,294
Interest paid on loan		901,813	901,813	0
Assumption reinsurance		8,766	8,766	8,958
Recoveries received			0	(89,080)
Administration, legal fees, direct expenses	\$ 86,943	150,372	237,315	103,818
Assessments by NOLHGA for expenses	9,005	801,373	810,378	98,618
Dues to National (NOLHGA)	44,529		44,529	45,890
Meetings and travel expenses	3,351		3,351	6,002
Auditing and accounting fees	5,200		5,200	4,485
Assessment system software and services	6,072		6,072	4,372
Computer services and expenses	4,450		4,450	2,967
Bookkeeping fees	1,482		1,482	1,602
Bank service charges	2,051		2,051	1,440
Postage, printing and general supplies			0	821
Class A general and administration expenses allocated to Classes B and C (Note 11)	(163,083)	163,083	0	0
TOTAL EXPENSES	\$ 0	\$83,377,430	\$83,377,430	\$ 614,187
REVENUES OVER (UNDER) EXPENSES	\$ (544)	\$ 4,948,369	\$ 4,947,825	\$ 2,283,968
(Increase) decrease in claims payable		115,227,353	115,227,353	(119,826,576)
INCREASE (DECREASE) IN NET ASSETS	\$ (544)	\$120,175,722	120,175,178	(117,542,608)
NET ASSETS – BEGINNING OF YEAR	246,196	(118,368,617)	(118,122,421)	(579,813)
NET ASSETS – END OF YEAR	\$ 245,652	\$ 1,807,105	\$ 2,052,757	\$(118,122,421)

See accompanying notes to financial statements.

CLASSES B AND C NET ASSETS – STATEMENTS OF ACTIVITIES

	<u>Balance</u> <u>12/31/14</u>	<u>1/1 – 12/31/15</u>		<u>Balance</u> <u>12/31/15</u>
		<u>Revenues</u>	<u>Expenses</u>	
Class B67 – London Pacific Life, NC	\$ 756			
Transferred to contingency reserve			\$ 756	\$ 0
Class B69 – Benicorp Insurance, IN	(76,084)			
Assessments received		\$ 6,097		
Investment income		159		
Assessments by NOLHGA for expenses			1,308	(71,136)
Class B70 - Lincoln Memorial Life, TX	(114,134)			
Recoveries received		669,463		
Premiums received		2,719		
Interest expense		(5,086)		
Benefit claims			220,000	
Assessments by NOLHGA for expenses			75,876	
Administration & legal fees, & direct expenses			3,798	
Allocated general & administration expenses			4,500	
Estimated claims payable decrease			(217,353)	466,141
Class B71 - Medical Savings Insurance, IN	(3,011)			
Assessments received		23,854		
Interest expense		(55)		
Assessments by NOLHGA for expenses			11,095	
Administration & legal fees, & direct expenses			5,265	
Allocated general & administration expenses			6,238	
Estimated claims payable decrease			(10,000)	8,190
Class B72 – Penn Treaty Network Insurance, PA	(237,137)			
Investment income		574		
Assessments by NOLHGA for expenses			34,310	
Administration & legal fees, & direct expenses			9,667	
Allocated general & administration expenses			11,453	(291,993)
Class B73 – Imerica Life & Health Insurance, AR	(9,178)			
Transferred from contingency reserve			(9,178)	0
Class B74 – National States Insurance, MO	(300,861)			
Premiums received		60,550		
Investment income		290		
Benefit claims			100,287	
Assessments by NOLHGA for expenses			24,238	
Administration & legal fees, & direct expenses			2,627	
Allocated general & administration expenses			3,112	(370,285)

(Continued)

CLASSES B AND C NET ASSETS – STATEMENTS OF ACTIVITIES

	<u>Balance</u> <u>12/31/14</u>	<u>1/1 – 12/31/15</u>		<u>Balance</u> <u>12/31/15</u>
		<u>Revenues</u>	<u>Expenses</u>	
Class B75 – Executive Life Insurance of New York \$	458			
Assessments received		\$ 699		
Interest expense		(2)		
Assessments by NOLHGA for expenses			\$ 17	
Administration & legal fees, & direct expenses			234	
Allocated general & administration expenses			277	\$ 627
Class B76 – Standard Life Insurance Co. of Indiana	(2,018)			
Investment income		4		
Assessments by NOLHGA for expenses			21	(2,035)
Class B77 – CoOpportunity Health – Iowa	(120,002,287)			
Assessments received		46,777,164		
Recoveries received – Federal reinsurance		40,756,000		
Investment income		37,184		
Benefit claims			81,030,902	
Interest paid on loan			901,813	
Assessments by NOLHGA for expenses			654,063	
Administration & legal fees & direct expenses			126,592	
Allocated general & administration expenses			134,905	
Estimated claims payable decrease		(115,000,000)		(280,214)
Class B78 – SeeChange Health Insurance – CA	0			
Benefit claims			834	
Investment income		7		
Assessments by NOLHGA for expenses			57	
Administration & legal fees & direct expenses			1,774	
Allocated general & administration expenses			2,102	(4,760)
Class C 20 – Executive Life, CA	(9,797)			
Investment income		35		
Assumption reinsurance			8,766	
Assessments by NOLHGA for expenses			388	
Administration & legal fees, & direct expenses			417	
Allocated general & administration expenses			494	(19,827)
Class C30 – Andrew Jackson Life, MS	(97)			
Transferred from contingency reserve			(97)	0
Class C38 - Consumers United, Delaware	(51)			
Transferred from contingency reserve			(51)	0

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CLASSES B AND C NET ASSETS – STATEMENTS OF ACTIVITIES

	<u>Balance</u> <u>12/31/14</u>	<u>1/1 – 12/31/15</u>		<u>Balance</u> <u>12/31/15</u>
		<u>Revenues</u>	<u>Expenses</u>	
Class C55 – Universe Life – ID	\$ 431			
Transferred to contingency reserve			\$ 431	\$ 0
Class C63 – American Chambers Life, OH	(166)			
Transferred from contingency reserve			(166)	0
Class B Contingency Reserve - Life	2,384,559			
Recovery received – Class C65		\$ 1,397		
Interest expense		(5,254)		
Transferred from Class B67			(756)	
Transferred to Class B73			9,178	
Transferred to Class C30			97	
Transferred to Class C38			51	
Transferred from Class C55			(431)	
Transferred to Class C63			166	2,372,397
TOTAL TEMPORARILY RESTRICTED NET ASSETS		<u>\$ (118,368,617)</u>	<u>\$ 88,325,799</u>	<u>\$ (31,849,923)</u>
				<u>\$ 1,807,105</u>

Per Exhibit B:

Total expenses	\$ 83,377,430
Decrease in estimated claims payable	<u>(115,227,353)</u>
	<u>\$ (31,849,923)</u>

STATEMENTS OF CASH FLOWS (Notes 1 and 2)

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM (USED FOR) OPERATING ACTIVITIES:		
Increase (decrease) in net assets per Exhibit B	\$ 120,175,178	\$(117,542,608)
Adjustments to reconcile increase (decrease) in net assets with net cash from (used for) operating activities:		
Realized net (gain) loss from sale of investments	(6,696)	3,403
Unrealized market loss on investments	8,452	3,098
Increase in accrued interest receivable	(3,716)	(2,563)
Increase (decrease) in estimated claims payable	<u>(115,227,353)</u>	<u>119,826,576</u>
NET CASH FROM (USED FOR) OPERATING ACTIVITIES	<u>\$ 4,945,865</u>	<u>\$ 2,287,906</u>
CASH FLOWS FROM (USED FOR) INVESTING ACTIVITIES:		
Proceeds from sale of investments	\$ 2,130,983	\$ 380,000
Purchase of investments	<u>(5,557,477)</u>	<u>(1,984,576)</u>
NET CASH FROM (USED FOR) INVESTING ACTIVITIES	<u>\$ (3,426,494)</u>	<u>\$ (1,604,576)</u>
CASH FLOWS FROM (USED FOR) FINANCING ACTIVITIES:		
Borrowed on line of credit from bank	\$ 33,851,801	\$ 0
Repayment of loan from bank	<u>(33,851,801)</u>	<u>0</u>
NET CASH FROM (USED FOR) FINANCING ACTIVITIES	<u>\$ 0</u>	<u>\$ 0</u>
CASH AND MONEY MARKET FUNDS:		
Increase during year	\$ 1,519,371	\$ 683,330
Balance at beginning of year	<u>1,318,502</u>	<u>635,172</u>
Balance at end of year	<u>\$ 2,837,873</u>	<u>\$ 1,318,502</u>
Balance at end of year:	<u>12/31/15</u>	<u>12/31/14</u>
Cash in checking account	\$ 622,830	\$ 356,517
Cash in money market funds	<u>2,215,043</u>	<u>961,985</u>
	<u>\$ 2,837,873</u>	<u>\$ 1,318,502</u>
 Interest paid on loan	 <u>\$ 901,813</u>	 <u>\$ 0</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 cost of equipment is capitalized and depreciated over five to seven years by the straight-line method.

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, 2015:

<u>Date</u> <u>Purchased</u>	<u>Quantity</u>	<u>Purchase</u> <u>Cost</u>	<u>Market</u> <u>Value</u>	<u>Maturity</u> <u>Date</u>	<u>Interest</u> <u>Rate</u>
Ally Bank Midvale, UT:					
5/28/15	\$150,000	\$149,325	\$148,518	5/29/18	1.350%
American Express Centrn:					
5/06/15	150,000	149,258	148,806	4/30/15	1.250%
Apple Bank for Savings, NY:					
5/28/15	150,000	149,648	149,877	10/24/16	0.400%
Beal Bank USA Las Vegas, NV:					
12/23/15	150,000	149,985	149,838	5/25/16	0.600%
BMW Bank North Amer Salt Lake:					
5/06/15	150,000	149,145	149,714	4/24/17	0.700%
Capital One Bank USA NA:					
9/30/15	100,000	99,700	99,721	10/2/17	1.150%
Compass Bank Birmingham, AL:					
12/31/15	100,000	99,967	99,966	6/20/16	0.500%
Discover Bank:					
5/08/15	100,000	99,265	98,990	4/1/20	1.850%
Homestreet Bank Washington:					
12/31/15	150,000	149,929	149,814	6/16/16	0.500%
Stearns Bank NA St Cloud, MN:					
12/31/14	150,000	149,850	149,910	3/31/17	1.000%
Synchrony Bank:					
1/02/15	150,000	149,863	149,412	12/12/19	2.000%
Western Alliance Bancorp:					
12/31/15	<u>150,000</u>	<u>149,977</u>	<u>149,982</u>	1/29/16	0.300%
	<u>\$1,650,000</u>	<u>\$1,645,912</u>	<u>\$1,644,548</u>		

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – U. S. TREASURY BILLS AND NOTES OWNED AS OF DECEMBER 31, 2015:

<u>Date</u> <u>Purchased</u>	<u>Quantity</u>	<u>Purchase</u> <u>Cost</u>	<u>Market</u> <u>Value</u>	<u>Maturity</u> <u>Date</u>	<u>Interest</u> <u>Rate</u>
U. S. Treasury Bills:					
12/30/15	\$500,000	\$499,985	\$499,955	2/04/16	
12/31/15	750,000	749,983	749,895	2/18/16	
12/30/15	500,000	499,921	499,910	3/03/16	
U. S. Treasury Notes:					
12/01/14	100,000	102,102	100,122	1/31/16	2.000%
12/22/15	500,000	499,988	499,805	5/31/16	0.375%
12/30/15	500,000	499,891	499,670	7/31/16	0.500%
9/30/11	100,000	100,109	100,203	8/31/16	1.000%
9/30/13	100,000	99,191	99,688	6/30/17	.750%
12/01/14	100,000	99,691	99,469	10/31/17	.750%
9/30/13	100,000	98,680	99,500	1/31/18	.875%
12/01/14	100,000	101,230	100,664	8/31/18	1.500%
12/03/13	100,000	99,180	99,832	11/30/18	1.250%
12/30/14	100,000	99,894	100,352	1/31/19	1.500%
12/01/14	100,000	100,469	100,094	5/31/19	1.500%
12/01/14	<u>100,000</u>	<u>100,094</u>	<u>99,688</u>	10/31/19	1.500%
	<u>\$3,750,000</u>	<u>\$3,750,408</u>	<u>\$3,748,847</u>		

NOTE 5 - U. S. GOVERNMENT AGENCY BONDS OWNED AS OF DECEMBER 31, 2015:

<u>Date</u> <u>Purchased</u>	<u>Quantity</u>	<u>Purchase</u> <u>Cost</u>	<u>Market</u> <u>Value</u>	<u>Maturity</u> <u>Date</u>	<u>Interest</u> <u>Rate</u>
Federal Farm Credit Banks:					
12/03/13	\$100,000	\$ 99,845	\$100,004	3/01/16	0.410%
11/03/15	100,000	100,262	100,074	7/19/16	0.750%
12/31/14	<u>100,000</u>	<u>100,180</u>	<u>100,009</u>	9/22/17	1.125%
	<u>\$300,000</u>	<u>\$300,287</u>	<u>\$300,087</u>		

NOTE 6 – CORPORATE BONDS OWNED AS OF DECEMBER 31, 2015:

<u>Date Purchased</u>	<u>Quantity</u>	<u>Purchase Cost</u>	<u>Market Value</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
Apple Inc. Senior Global Note: 10/10/14	\$100,000	\$100,866	\$101,169	5/06/19	2.100%
Berkshire Hathaway, Inc. Note: 12/24/15	200,000	201,764	201,700	8/15/16	2.200%
International Business Machines: 3/19/14	50,000	50,117	50,235	2/12/19	1.950%
Johnson & Johnson Bond: 4/03/14	50,000	49,865	50,477	12/05/18	1.650%
Wal-Mart Stores, Inc. Bond: 12/17/14	<u>100,000</u>	<u>100,396</u>	<u>100,073</u>	4/21/17	1.000%
	<u>\$500,000</u>	<u>\$503,008</u>	<u>\$503,654</u>		

NOTE 7 – ESTIMATED CLAIMS PAYABLE AS OF DECEMBER 31, 2015 AND 2014:

<u>Insolvency</u>	<u>12/31/15</u>	<u>12/31/14</u>
Class B70 – Lincoln Memorial Life, TX	\$ 1,782,030	\$ 1,999,383
Class B71 – Medical Savings Insurance, IN	10,000	20,000
Class B74 – National States Insurance, MO	200,000	200,000
Class B77 – CoOpportunity Health, IA	<u>5,000,000</u>	<u>120,000,000</u>
	<u>\$6,992,030</u>	<u>\$122,219,383</u>

NOTE 8 – LOAN PAYABLE

\$69,500,000 Line of credit note with First National Bank of Omaha, Nebraska, dated March 11, 2015, maturing March 31, 2017, with interest payable monthly. The initial variable interest rate is 3.25% and may change daily based on the prime rate as published in the Wall Street Journal. As of December 31, 2015, the interest rate was 3.50% calculated on a 365/360 day basis. Collateral to secure this indebtedness is a security agreement involving all business assets of Nebraska Life and Health Insurance Guaranty Association. Also, six member insurers are guarantors for this loan. 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.

Unpaid principal balance December 31, 2015

\$0

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 8) presents an accounting of the contingency reserves for the year 2015. The net asset balances of the contingency reserves were as follows:

	<u>12/31/15</u>	<u>12/31/14</u>
Contingency reserve for future obligations	<u>\$2,372,397</u>	<u>\$2,384,559</u>

NOTE 10 – INVESTMENT INCOME – NET

	<u>2015</u>	<u>2014</u>
Interest income earned	\$32,970	\$16,084
Realized net gain (loss) from sale of securities	6,696	(3,403)
Unrealized market gain (loss)	(8,452)	(3,098)
Investment management fees	<u>(3,902)</u>	<u>(1,891)</u>
	<u>\$ 27,312</u>	<u>\$ 7,692</u>

NOTE 11 – 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.