

NEBRASKA LIFE AND HEALTH INSURANCE
GUARANTY ASSOCIATION

Financial Statements

December 31, 2014 and 2013

and

Independent Auditor's Report

STATEMENTS OF FINANCIAL POSITION (Notes 1 and 2)

	Dec. 31, <u>2014</u>	Dec. 31, <u>2013</u>
ASSETS:		
Cash in checking account	\$ 356,517	\$ 303,241
Cash in money market funds	961,985	331,931
Certificates of deposit at market value (Note 3)	690,290	272,681
U. S. Treasury Bills and Notes at market value (Note 4)	1,380,198	599,258
U. S. Government Agency bonds at market value (Note 5)	299,987	99,865
Corporate bonds at market value (Note 6)	401,923	202,519
Accrued interest receivable on investments	6,062	3,499
Equipment -- Cost	5,520	5,520
-- Accumulated depreciation	<u>(5,520)</u>	<u>(5,520)</u>
TOTAL ASSETS	<u>\$ 4,096,962</u>	<u>\$ 1,812,994</u>
LIABILITIES:		
Estimated claims payable (Note 7)	\$ <u>122,219,383</u>	\$ <u>2,392,807</u>
TOTAL LIABILITIES	<u>\$ 122,219,383</u>	<u>\$ 2,392,807</u>
NET ASSETS:		
UNRESTRICTED NET ASSETS:		
Class A net assets for general administration	\$ 246,196	\$ 245,459
Equipment net assets -- Class A	<u>0</u>	<u>0</u>
Total Unrestricted Net Assets	<u>\$ 246,196</u>	<u>\$ 245,459</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Classes B and C net assets for specific insurance company insolvencies (Exhibit A-1)	\$(120,753,176)	\$(21,636,747)
Contingency reserve for future obligations (Note 8)	<u>2,384,559</u>	<u>20,811,475</u>
Total Temporarily Restricted Net Assets	<u>\$(118,368,617)</u>	<u>\$ (825,272)</u>
TOTAL NET ASSETS (Note 9)	<u>\$(118,122,421)</u>	<u>\$ (579,813)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,096,962</u>	<u>\$ 1,812,994</u>

See accompanying notes to financial statements.

CLASSES B AND C NET ASSETS FOR SPECIFIC INSURANCE COMPANY INSOLVENCIES

	<u>12/31/14</u>	<u>12/31/13</u>
Class C 20 – Executive Life, California	\$ (9,797)	\$ (7,937,434)
Class C 30 – Andrew Jackson Life, Mississippi	(97)	(6,281)
Class C 38 – Consumers United, Delaware	(51)	(167,713)
Class C 55 – Universe Life, Idaho	431	(315,310)
Class C 63 – American Chambers Life, Ohio	(166)	(1,221,514)
Class B 66 – Legion & Villanova Insurance Cos., Pennsylvania	0	(6,721)
Class B 67 – London Pacific Life, North Carolina	756	(1,506,642)
Class B 69 – Benicorp Insurance, Indiana	(76,084)	(3,280,983)
Class B 70 – Lincoln Memorial Life, Texas	(114,134)	(4,354,305)
Class B 71 – Medical Saving Insurance, Indiana	(3,011)	(1,492,605)
Class B 72 – Penn Treaty Network Insurance, Pennsylvania	(237,137)	(164,330)
Class B 73 – Imerica Life & Health Insurance, Arkansas	(9,178)	(9,151)
Class B 74 – National States Insurance, Missouri	(300,861)	(620,604)
Class B 75 – Executive Life Insurance Co. of New York	458	(551,148)
Class B 76 – Standard Life Insurance Co. of Indiana	(2,018)	(2,006)
Class B 77 – CoOpportunity Health, Iowa	<u>(120,002,287)</u>	<u>0</u>
Total Classes B and C Net Assets for Specific Insurance Company Insolvencies	<u>\$(120,753,176)</u>	<u>\$(21,636,747)</u>

STATEMENTS OF ACTIVITIES (Notes 1 and 2)

	Class A	Classes B & C (Exh. B-1)	<u>Total</u>	
			<u>2014</u>	<u>2013</u>
REVENUES:				
Assessments received		\$ 2,705,982	\$ 2,705,982	\$ 0
Estate distributions		88,342	88,342	246,863
Premiums received		96,139	96,139	144,322
Investment income (loss) – Net (Note 10)	\$ <u>737</u>	<u>6,955</u>	<u>7,692</u>	<u>(514)</u>
TOTAL REVENUES	\$ <u>737</u>	\$ <u>2,897,418</u>	\$ <u>2,898,155</u>	\$ <u>390,671</u>
EXPENSES:				
Policyholder benefit claims		\$ 424,294	\$ 424,294	\$ 404,864
Assumption reinsurance		8,958	8,958	478,636
Recoveries received (Note 11)	\$ (89,080)		(89,080)	0
Administration & legal fees, & direct expenses	68,032	35,786	103,818	83,768
Assessments by NOLHGA for expenses	6,758	91,860	98,618	115,487
Dues to National (NOLHGA)	45,890		45,890	46,111
Meetings and travel expenses	6,002		6,002	2,868
Auditing and accounting fees	4,485		4,485	4,875
Assessment system software and services	4,372		4,372	0
Computer services and expenses	2,967		2,967	2,615
Bookkeeping fees	1,602		1,602	2,157
Bank service charges	1,440		1,440	1,182
Postage, printing and general supplies	821		821	77
Class A general and administration expenses allocated to Classes B and C (Note 12)	<u>(53,289)</u>	<u>53,289</u>	<u>0</u>	<u>0</u>
TOTAL EXPENSES	\$ <u>0</u>	\$ <u>614,187</u>	\$ <u>614,187</u>	\$ <u>1,142,640</u>
REVENUES OVER (UNDER) EXPENSES	\$ 737	\$ 2,283,231	\$ 2,283,968	\$ (751,969)
(Increase) decrease in estimated claims payable		<u>(119,826,576)</u>	<u>(119,826,576)</u>	<u>1,623,638</u>
INCREASE (DECREASE) IN NET ASSETS	\$ 737	\$(117,543,345)	\$(117,542,608)	\$ 871,669
NET ASSETS – BEGINNING OF YEAR	<u>245,459</u>	<u>(825,272)</u>	<u>(579,813)</u>	<u>(1,451,482)</u>
NET ASSETS – END OF YEAR	\$ <u>246,196</u>	\$ <u>(118,368,617)</u>	\$ <u>(118,122,421)</u>	\$ <u>(579,813)</u>

See accompanying notes to financial statements.

CLASSES B AND C NET ASSETS – STATEMENTS OF ACTIVITIES

	Balance <u>12/31/13</u>	<u>1/1 – 12/31/14</u>		Balance <u>12/31/14</u>
		<u>Revenues</u>	<u>Expenses</u>	
Class C 20 – Executive Life, CA	\$(7,937,434)			
Transferred from contingency reserve – Life			\$(4,762,460)	
Transferred from contingency reserve – Annuity			(3,174,974)	
Interest expense		\$ (16)		
Assumption reinsurance			8,958	
Assessments by NOLHGA for expenses			240	
Administration & legal fees, & direct expenses			234	
Allocated general & administration expenses			349 \$	(9,797)
Class C30 – Andrew Jackson Life, MS	(6,281)			
Transferred from contingency reserve – Life			(6,281)	
Administration & legal fees, & direct expenses			39	
Allocated general & administration expenses			58	(97)
Class C38 - Consumers United, Delaware	(167,713)			
Transferred from contingency reserve – Life			(6,709)	
Transferred from contingency reserve – Annuity			(161,004)	
Assessments by NOLHGA for expenses			51	(51)
Class C55 – Universe Life – ID	(315,310)			
Transferred from contingency reserve – Health			(315,310)	
Investment income		1		
Estate distributions		546		
Assessments by NOLHGA for expenses			67	
Administration & legal fees, & direct expenses			20	
Allocated general & administration expenses			29	431
Class C63 – American Chambers Life, OH	(1,221,514)			
Transferred from contingency reserve – Health			(1,221,514)	
Assessments by NOLHGA for expenses			166	(166)
Class B66 – Legion & Villanova Insurance Cos., PA	(6,721)			
Transferred from contingency reserve – Health			(6,721)	0
Class B67 – London Pacific Life, NC	(1,506,642)			
Transferred from contingency reserve – Annuity			(1,506,642)	
Investment income		1		
Estate distributions		755		756

(Continued)

CLASSES B AND C NET ASSETS – STATEMENTS OF ACTIVITIES

	Balance <u>12/31/13</u>	<u>1/1 – 12/31/14</u>		Balance <u>12/31/14</u>
		<u>Revenues</u>	<u>Expenses</u>	
Class B69 – Benicorp Insurance, IN	\$(3,280,983)			
Transferred from contingency reserve – Health			\$(2,231,859)	
Assessments received		\$ 976,362		
Interest expense		(2,106)		
Assessments by NOLHGA for expenses			1,216	\$ (76,084)
Class B70 - Lincoln Memorial Life, TX	(4,354,305)			
Transferred from contingency reserve – Life			(4,354,305)	
Estate distributions		87,041		
Premiums received		5,719		
Investment income		6,054		
Policyholder benefit claims			275,000	
Assessments by NOLHGA for expenses			73,680	
Administration & legal fees, & direct expenses			15,143	
Allocated general & administration expenses			22,549	
Estimated claims payable decrease			(173,424)	(114,134)
Class B71 - Medical Savings Insurance, IN	(1,492,605)			
Assessments received		1,455,341		
Interest expense		(2,773)		
Assessments by NOLHGA for expenses (refund)			(48,042)	
Administration & legal fees, & direct expenses			4,427	
Allocated general & administration expenses			6,589	(3,011)
Class B72 – Penn Treaty Network Insurance, PA	(164,330)			
Interest expense		(595)		
Assessments by NOLHGA for expenses			41,148	
Administration & legal fees, & direct expenses			12,480	
Allocated general & administration expenses			18,584	(237,137)
Class B73 – Imerica Life & Health Insurance, AR	(9,151)			
Interest expense		(27)		(9,178)
Class B74 – National States Insurance, MO	(620,604)			
Transferred from contingency reserve – Life			(409,559)	
Premiums received		90,420		
Interest expense		(182)		
Policyholder benefit claims			149,294	
Assessments by NOLHGA for expenses			25,929	
Administration & legal fees, & direct expenses			1,941	
Allocated general & administration expenses			2,890	(300,861)

(Continued)

CLASSES B AND C NET ASSETS – STATEMENTS OF ACTIVITIES

	<u>Balance</u> <u>12/31/13</u>	<u>1/1 – 12/31/14</u>		<u>Balance</u> <u>12/31/14</u>
		<u>Revenues</u>	<u>Expenses</u>	
Class B75 – Executive Life Insurance of New York	\$ (551,148)			
Transferred from contingency reserve – Annuity			\$ (276,720)	
Assessments received		\$ 274,279		
Interest expense		(538)		
Assessments by NOLHGA for expenses (refund)			(2,601)	
Administration & legal fees, & direct expenses			585	
Allocated general & administration expenses			871	\$ 458
Class B76 – Standard Life Insurance Co. of Indiana	(2,006)			
Interest expense		(6)		
Assessments by NOLHGA for expenses			6	(2,018)
Class B77 - CoOpportunity Health - Iowa	0			
Administration & legal fees, & direct expenses			919	
Allocated general & administration expenses			1,368	
Estimated claims payable increase			120,000,000	(120,002,287)
Class B Contingency Reserve - Life	11,916,731			
Investment income		7,142		
Transferred to Class C20			4,762,460	
Transferred to Class C30			6,281	
Transferred to Class C38			6,709	
Transferred to Class B70			4,354,305	
Transferred to Class B74			409,559	2,384,559
Class B Contingency Reserve – Annuities	5,119,340			
Transferred to Class C20			3,174,974	
Transferred to Class C38			161,004	
Transferred to Class B67			1,506,642	
Transferred to Class B75			276,720	0
Class B Contingency Reserve – Health	3,775,404			
Transferred to Class C55			315,310	
Transferred to Class C63			1,221,514	
Transferred to Class C66			6,721	
Transferred to Class B69			2,231,859	0
TOTAL TEMPORARILY RESTRICTED NET ASSETS	<u>\$ (825,272)</u>	<u>\$2,897,418</u>	<u>\$120,440,763</u>	<u>\$(118,368,617)</u>
Per Exhibit B – Total expenses			\$ 614,187	
Increase in estimated claims payable			<u>119,826,576</u>	
			<u>\$120,440,763</u>	

STATEMENTS OF CASH FLOWS (Notes 1 and 2)

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM (USED FOR) OPERATING ACTIVITIES:		
Increase (decrease) in net assets per Exhibit B	\$(117,542,608)	\$ 871,669
Adjustments to reconcile increase (decrease) in net assets with net cash from (used for) operating activities:		
Realized net (gain) loss from sale of investments	3,403	(42)
Unrealized market loss on investments	3,098	18,175
Increase in accrued interest receivable	(2,563)	(161)
Increase (decrease) in estimated claims payable	<u>119,826,576</u>	<u>(1,623,638)</u>
NET CASH FROM (USED FOR) OPERATING ACTIVITIES	\$ <u>2,287,906</u>	\$ <u>(733,997)</u>
CASH FLOWS FROM (USED FOR) INVESTING ACTIVITIES:		
Proceeds from sale of investments	\$ 380,000	\$ 290,000
Purchase of investments	<u>(1,984,576)</u>	<u>(396,895)</u>
NET CASH FROM (USED FOR) INVESTING ACTIVITIES	\$ <u>(1,604,576)</u>	\$ <u>(106,895)</u>
CASH AND MONEY MARKET FUND:		
Increase (decrease) during year	\$ 683,330	\$ (840,892)
Balance at beginning of year	<u>635,172</u>	<u>1,476,064</u>
Balance at end of year	<u>\$ 1,318,502</u>	<u>\$ 635,172</u>
Balance at end of year:	<u>12/31/14</u>	<u>12/31/13</u>
Cash in checking account	\$ 356,517	\$ 303,241
Cash in money market funds	<u>961,985</u>	<u>331,931</u>
	<u>\$ 1,318,502</u>	<u>\$ 635,172</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, 2014:

<u>Date Purchased</u>	<u>Quantity</u>	<u>Purchase Cost</u>	<u>Market Value</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
American Express Federal Savings Bank:					
12/18/14	\$150,000	\$149,970	\$150,037	2/17/15	0.300%
Discover Bank:					
12/31/14	150,000	149,992	149,991	1/30/15	0.450%
Everbank Jacksonville, FL:					
12/19/14	150,000	149,985	149,994	1/20/15	0.350%
GE Capital Retail Bank, Draper, UT:					
9/29/11	90,000	89,100	91,256	8/12/16	1.850%
Stearns Bank NA St Cloud, MN:					
12/31/14	<u>150,000</u>	<u>149,850</u>	<u>149,012</u>	3/31/17	1.000%
	<u>\$690,000</u>	<u>\$688,897</u>	<u>\$690,290</u>		

NOTE 4 – U. S. TREASURY BILLS AND NOTES OWNED AS OF DECEMBER 31, 2014:

<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 Bills:					
12/31/14	\$280,000	\$279,996	\$279,972	4/02/15	
U. S. Treasury Notes:					
10/01/10	100,000	99,922	100,711	8/31/15	1.250%
12/01/14	100,000	102,102	101,781	1/31/16	2.000%
9/30/11	100,000	100,109	100,750	8/31/16	1.000%
9/30/17	100,000	99,191	99,625	6/30/17	.750%
12/01/14	100,000	99,691	99,203	10/31/17	.750%
9/30/13	100,000	98,680	99,195	1/31/18	.875%
12/01/14	100,000	101,230	100,484	8/31/18	1.500%
12/03/13	100,000	99,180	99,297	11/30/18	1.250%
12/30/14	100,000	99,894	100,039	1/31/19	1.500%
12/01/14	100,000	100,469	99,750	5/31/19	1.500%
12/01/14	<u>100,000</u>	<u>100,094</u>	<u>99,391</u>	10/31/19	1.500%
	<u>\$1,380,000</u>	<u>\$1,380,558</u>	<u>\$1,380,198</u>		

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - U. S. GOVERNMENT AGENCY BONDS OWNED AS OF DECEMBER 31, 2014:

<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:					
12/03/13	\$100,000	\$ 99,845	\$100,128	3/01/16	0.410%
12/31/14	100,000	100,180	100,008	9/22/17	1.125%
Federal Home Loan Banks:					
12/31/14	<u>100,000</u>	<u>99,878</u>	<u>99,851</u>	11/25/15	0.125%
	<u>\$300,000</u>	<u>\$299,903</u>	<u>\$299,987</u>		

NOTE 6 - CORPORATE BONDS OWNED AS OF DECEMBER 31, 2014:

<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	\$101,135	5/06/19	2.100%
Colgate-Palmolive Co. Notes:					
12/14/10	100,000	95,822	100,704	11/01/15	1.375%
International Business Machines:					
3/19/14	50,000	50,117	50,184	2/12/19	1.950%
Johnson & Johnson Bond:					
4/03/14	50,000	49,865	50,130	12/05/18	1.650%
Wal-Mart Stores, Inc. Bond:					
12/17/14	<u>100,000</u>	<u>100,396</u>	<u>99,770</u>	4/21/07	1.000%
	<u>\$400,000</u>	<u>\$397,066</u>	<u>\$401,923</u>		

NOTE 7 - ESTIMATED CLAIMS PAYABLE AS OF DECEMBER 31, 2014 AND 2013:

<u>Insolvency</u>	<u>12/31/14</u>	<u>12/31/13</u>
Class B70 - Lincoln Memorial Life, TX	\$ 1,999,383	\$2,172,807
Class B71 - Medical Savings Insurance, IN	20,000	20,000
Class B74 - National States Insurance, MO	200,000	200,000
CoOpportunity Health, IA	<u>120,000,000</u>	<u>0</u>
	<u>\$122,219,383</u>	<u>\$2,392,807</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 8 – 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. Exhibit B-1 (Page 7) presents an accounting of the Class B contingency reserves for the year 2014. The net asset balances of the contingency reserves were as follows:

	<u>12/31/14</u>	<u>12/31/13</u>
Contingency reserve for future obligations – Life	\$2,384,559	\$11,916,731
Contingency reserve for future obligations – Annuities	0	5,119,340
Contingency reserve for future obligations – Health	<u>0</u>	<u>3,775,404</u>
	<u>\$2,384,559</u>	<u>\$20,811,475</u>

NOTE 9 – TOTAL NET ASSETS

As shown on Exhibit A as of December 31, 2014, total assets were \$4,096,962 and total liabilities were \$122,219,383 which resulted in total net assets of a negative \$118,122,421. The excess of 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. In January 2015, an assessment of \$46,800,000 was made.

NOTE 10 – INVESTMENT INCOME (LOSS) – NET

	<u>2014</u>	<u>2013</u>
Income received on money market funds	\$ 83	\$ 69
Interest earned on debt securities	16,001	19,395
Realized net gain (loss) from sale of debt securities	(3,403)	41
Unrealized market gain (loss)	(3,098)	(18,175)
Investment management fees	<u>(1,891)</u>	<u>(1,844)</u>
	<u>\$ 7,692</u>	<u>\$ (514)</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 11 - RECOVERIES RECEIVED - CLASS A

Distributions as follows were received from the NOLHGA Insolvency Clearing Account during 2014:

Distribution regarding American Community Mutual Insurance	\$14,291
Early access distribution regarding Thunor Trust	<u>74,789</u>
	<u>\$89,080</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.