

STATEMENTS OF FINANCIAL POSITION (Notes 1 and 2)

	Dec. 31, <u>2013</u>	Dec. 31, <u>2012</u>
<b>ASSETS:</b>		
Cash in checking account	\$ 303,241	\$ 604,696
Cash in money market fund	331,931	871,368
Certificates of deposit at market value (Note 3)	272,681	369,242
U. S. Treasury Notes at market value (Note 4)	599,258	409,836
U. S. Government Agency bonds at market value (Note 5)	99,865	0
Corporate bonds at market value (Note 6)	202,519	306,483
Accrued interest receivable on investments	3,499	3,338
Equipment – Cost	5,520	5,520
– Accumulated depreciation	<u>(5,520)</u>	<u>(5,520)</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 1,812,994</u></b>	<b><u>\$ 2,564,963</u></b>
<b>LIABILITIES:</b>		
Estimated claims payable (Note 7)	<u>\$ 2,392,807</u>	<u>\$ 4,016,445</u>
<b>TOTAL LIABILITIES</b>	<b><u>\$ 2,392,807</u></b>	<b><u>\$ 4,016,445</u></b>
<b>NET ASSETS:</b>		
<b>UNRESTRICTED NET ASSETS:</b>		
Class A net assets for general administration	\$ 245,459	\$ 245,515
Equipment net assets – Class A	<u>0</u>	<u>0</u>
Total Unrestricted Net Assets	<u>\$ 245,459</u>	<u>\$ 245,515</u>
<b>TEMPORARILY RESTRICTED NET ASSETS:</b>		
Classes B and C net assets for specific insurance company insolvencies (Exhibit A-1)	\$(21,636,747)	\$(22,627,662)
Contingency reserve for future obligations (Note 8)	<u>20,811,475</u>	<u>20,930,665</u>
Total Temporarily Restricted Net Assets	<u>\$ (825,272)</u>	<u>\$ (1,696,997)</u>
<b>TOTAL NET ASSETS (Note 9)</b>	<b><u>\$ (579,813)</u></b>	<b><u>\$ (1,451,482)</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 1,812,994</u></b>	<b><u>\$ 2,564,963</u></b>

See accompanying notes to financial statements.

CLASSES B AND C NET ASSETS FOR SPECIFIC INSURANCE COMPANY INSOLVENCIES

	<u>12/31/13</u>	<u>12/31/12</u>
Class C 20 – Executive Life, California	\$ (7,937,434)	\$ (7,927,100)
Class C 30 – Andrew Jackson Life, Mississippi	(6,281)	(6,074)
Class C 38 – Consumers United, Delaware	(167,713)	(167,361)
Class C 54 – Centennial Life, Kansas	0	(114,394)
Class C 55 – Universe Life, Idaho	(315,310)	(320,466)
Class C 63 – American Chambers Life, Ohio	(1,221,514)	(1,358,879)
Class B 66 – Legion & Villanova Insurance Cos., Pennsylvania	(6,721)	(6,475)
Class B 67 – London Pacific Life, North Carolina	(1,506,642)	(1,521,860)
Class B 69 – Benicorp Insurance, Indiana	(3,280,983)	(3,279,725)
Class B 70 – Lincoln Memorial Life, Texas	(4,354,305)	(4,413,154)
Class B 71 – Medical Saving Insurance, Indiana	(1,492,605)	(1,455,205)
Class B 72 – Penn Treaty Network Insurance, Pennsylvania	(164,330)	(132,543)
Class B 73 – Imerica Life & Health Insurance, Arkansas	(9,151)	(9,029)
Class B 74 – National States Insurance, Missouri	(620,604)	(572,965)
Class B 75 – Executive Life Insurance Co. of New York	(551,148)	(968,677)
Class B 76 – Standard Life Insurance Co. of Indiana	<u>(2,006)</u>	<u>(373,755)</u>
Total Classes B and C Net Assets for Specific Insurance Company Insolvencies	<u>\$ (21,636,747)</u>	<u>\$ (22,627,662)</u>

STATEMENTS OF ACTIVITIES (Notes 1 and 2)

	<u>Class A</u>	<u>Classes B &amp; C (Exh. B-1)</u>	<u>Total</u>	
			<u>2013</u>	<u>2012</u>
<b>REVENUES:</b>				
Estate distributions		\$ 246,863	\$ 246,863	\$ 771,121
Premiums received		144,322	144,322	472,920
Investment income (loss) – Net (Note 10)	\$ (56)	(458)	(514)	36,025
<b>TOTAL REVENUES</b>	<b>\$ (56)</b>	<b>\$ 390,727</b>	<b>\$ 390,671</b>	<b>\$ 1,280,066</b>
<b>EXPENSES:</b>				
Policyholder benefit claims		\$ 404,864	\$ 404,864	\$ 745,244
Assumption reinsurance		478,636	478,636	2,994,852
Assessments by NOLHGA for expenses	\$ 8,111	107,376	115,487	206,135
Administration & legal fees, & direct expenses	59,793	23,975	83,768	75,402
Dues to National (NOLHGA)	46,111		46,111	42,128
Meetings and travel expenses	2,868		2,868	4,978
Auditing and accounting fees	4,875		4,875	3,990
Computer services and expenses	2,615		2,615	2,428
Bookkeeping fees	2,157		2,157	1,926
Bank service charges	1,182		1,182	1,254
Printing	77		77	0
Class A general and administration expenses allocated to Classes B and C (Note 11)	<u>(127,789)</u>	<u>127,789</u>	<u>0</u>	<u>0</u>
<b>TOTAL EXPENSES</b>	<b>\$ 0</b>	<b>\$ 1,142,640</b>	<b>\$ 1,142,640</b>	<b>\$ 4,078,337</b>
<b>REVENUES OVER (UNDER) EXPENSES</b>	<b>\$ (56)</b>	<b>\$ (751,913)</b>	<b>\$ (751,969)</b>	<b>\$ (2,798,271)</b>
Decrease in estimated claims payable		<u>1,623,638</u>	<u>1,623,638</u>	<u>2,674,096</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>\$ (56)</b>	<b>\$ 871,725</b>	<b>\$ 871,669</b>	<b>\$ (124,175)</b>
<b>NET ASSETS – BEGINNING OF YEAR</b>	<b><u>245,515</u></b>	<b><u>(1,696,997)</u></b>	<b><u>(1,451,482)</u></b>	<b><u>(1,327,307)</u></b>
<b>NET ASSETS – END OF YEAR</b>	<b><u>\$ 245,459</u></b>	<b><u>\$ (825,272)</u></b>	<b><u>\$ (579,813)</u></b>	<b><u>\$ (1,451,482)</u></b>

See accompanying notes to financial statements.

CLASSES B AND C NET ASSETS – STATEMENTS OF ACTIVITIES

	<u>Balance</u> <u>12/31/12</u>	<u>1/1 – 12/31/13</u>		<u>Balance</u> <u>12/31/13</u>
		<u>Revenues</u>	<u>Expenses</u>	
Class C 20 – Executive Life, CA	\$(7,927,100)			
Investment income		\$ 1,826		
Assumption reinsurance			\$ 7,737	
Administration & legal fees, & direct expenses			699	
Allocated general & administration expenses			3,724	\$(7,937,434)
Class C30 – Andrew Jackson Life, MS	(6,074)			
Investment income		2		
Administration & legal fees, & direct expenses			33	
Allocated general & administration expenses			176	(6,281)
Class C38 - Consumers United, Delaware	(167,361)			
Investment income		39		
Assessments by NOLHGA for expenses			20	
Administration & legal fees, & direct expenses			59	
Allocated general & administration expenses			312	(167,713)
Class C54 – Centennial Life, KS	(114,394)			
Closed to contingency reserve - Life			(16,015)	
Closed to contingency reserve - Health			(98,379)	0
Class C55 – Universe Life – ID	(320,466)			
Premiums received		5,946		
Investment income		74		
Administration & legal fees, & direct expenses			136	
Allocated general & administration expenses			728	(315,310)
Class C63 – American Chambers Life, OH	(1,358,879)			
Estate distributions		138,483		
Investment income		307		
Assessments by NOLHGA for expenses			808	
Administration & legal fees, & direct expenses			97	
Allocated general & administration expenses			520	(1,221,514)
Class B66 – Legion & Villanova Insurance Cos., PA	(6,475)			
Investment income		1		
Administration & legal fees, & direct expenses			39	
Allocated general & administration expenses			208	(6,721)

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CLASSES B AND C NET ASSETS – STATEMENTS OF ACTIVITIES

	<u>Balance</u> <u>12/31/12</u>	<u>1/1 – 12/31/13</u>		<u>Balance</u> <u>12/31/13</u>
		<u>Revenues</u>	<u>Expenses</u>	
Class B67 – London Pacific Life, NC	\$(1,521,860)			
Estate distributions		\$ 14,889		
Investment income		348		
Assessments by NOLHGA for expenses			\$ 19	\$(1,506,642)
Class B69 – Benicorp Insurance, IN	(3,279,725)			
Investment income		756		
Assessments by NOLHGA for expenses			2,014	(3,280,983)
Class B70 - Lincoln Memorial Life, TX	(4,413,154)			
Estate distributions		93,491		
Premiums received		7,461		
Investment income		464		
Policyholder benefit claims			275,000	
Assessments by NOLHGA for expenses			31,133	
Administration & legal fees, & direct expenses			11,102	
Allocated general & administration expenses			59,176	
Estimated claims payable decrease			(333,844)	(4,354,305)
Class B71 - Medical Savings Insurance, IN	(1,455,205)			
Investment income		333		
Assessments by NOLHGA for expenses			24,542	
Administration & legal fees, & direct expenses			4,928	
Allocated general & administration expenses			26,263	
Estimated claims payable decrease			(18,000)	(1,492,605)
Class B72 – Penn Treaty Network Insurance, PA	(132,543)			
Investment income		34		
Assessments by NOLHGA for expenses			19,278	
Administration & legal fees, & direct expenses			1,982	
Allocated general & administration expenses			10,561	(164,330)
Class B73 – Imerica Life & Health Insurance, AR	(9,029)			
Investment income		2		
Administration & legal fees, & direct expenses			20	
Allocated general & administration expenses			104	(9,151)

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CLASSES B AND C NET ASSETS – STATEMENTS OF ACTIVITIES

	<u>Balance</u> <u>12/31/12</u>	<u>1/1 – 12/31/13</u>		<u>Balance</u> <u>12/31/13</u>
		<u>Revenues</u>	<u>Expenses</u>	
Class B74 – National States Insurance, MO	\$ (572,965)			
Premiums received		\$ 130,915		
Investment income		90		
Policyholder benefit claims			\$ 129,865	
Assessments by NOLHGA for expenses			32,352	
Administration & legal fees, & direct expenses			2,595	
Allocated general & administration expenses			13,832	\$ (620,604)
Class B75 – Executive Life Insurance of New York	(968,677)			
Investment income		61		
Assumption reinsurance			470,899	
Assessments by NOLHGA for expenses			(2,837)	
Administration & legal fees, & direct expenses			2,286	
Allocated general & administration expenses			12,184	
Estimated claims payable decrease			(900,000)	(551,148)
Class B76 – Standard Life Insurance Co. of Indiana	(373,755)			
Investment income		1		
Assessments by NOLHGA for expenses			46	
Estimated claims payable decrease			(371,794)	(2,006)
Class B Contingency Reserve - Life	11,935,492			
Interest expense		(2,746)		
Closed from Class C54			16,015	11,916,731
Class B Contingency Reserve – Annuities	5,120,520			
Interest expense		(1,180)		5,119,340
Class B Contingency Reserve – Health	3,874,653			
Interest expense		(870)		
Closed from Class C54			98,379	<u>3,775,404</u>
<b>TOTAL TEMPORARILY RESTRICTED NET ASSETS</b>	<b>\$ (1,696,997)</b>	<b>\$ 390,727</b>	<b>\$ (480,998)</b>	<b>\$ (825,272)</b>
Per Exhibit B:				
Total expenses			\$1,142,640	
Decrease in estimated claims payable			(1,623,638)	
			<u>\$ (480,998)</u>	

STATEMENTS OF CASH FLOWS (Notes 1 and 2)

	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM (USED FOR) OPERATING ACTIVITIES:</b>		
Increase (decrease) in net assets per Exhibit B	\$ 871,669	\$ (124,175)
Adjustments to reconcile increase (decrease) in net assets with net cash from (used for) operating activities:		
Realized net (gain) loss from sale of investments	(42)	(15,259)
Unrealized market (gain) loss on investments	18,175	21,345
(Increase) decrease in accrued interest receivable	(161)	14,102
Decrease in estimated claims payable	<u>(1,623,638)</u>	<u>(2,674,096)</u>
<b>NET CASH FROM (USED FOR) OPERATING ACTIVITIES</b>	<b><u>\$ (733,997)</u></b>	<b><u>\$ (2,778,083)</u></b>
<b>CASH FLOWS FROM (USED FOR) INVESTING ACTIVITIES:</b>		
Proceeds from sale of investments	\$ 290,000	\$ 4,030,960
Purchase of investments	<u>(396,895)</u>	<u>(252,378)</u>
<b>NET CASH FROM (USED FOR) INVESTING ACTIVITIES</b>	<b><u>\$ (106,895)</u></b>	<b><u>\$ 3,778,582</u></b>
<b>CASH AND MONEY MARKET FUND:</b>		
Increase (decrease) during year	\$ (840,892)	\$ 1,000,499
Balance at beginning of year	<u>1,476,064</u>	<u>475,565</u>
Balance at end of year	<u><u>\$ 635,172</u></u>	<u><u>\$ 1,476,064</u></u>
Balance at end of year:	<u>12/31/13</u>	<u>12/31/12</u>
Cash in checking account	\$ 303,241	\$ 604,696
Cash in money market fund	<u>331,931</u>	<u>871,368</u>
	<u><u>\$ 635,172</u></u>	<u><u>\$ 1,476,064</u></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 fund 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 fund.

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, 2013:

<u>Date Purchased</u>	<u>Quantity</u>	<u>Purchase Cost</u>	<u>Market Value</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
GE Capital Retail Bank, Draper, UT:					
9/29/11	\$ 90,000	\$ 89,100	\$ 91,503	8/12/16	1.850%
Johnson Bank, Racine, WI:					
10/05/10	90,000	89,235	90,578	9/24/14	1.500%
Sallie Mae Bank, Salt Lake City, UT:					
4/03/09	<u>90,000</u>	<u>89,550</u>	<u>90,600</u>	3/25/14	3.550%
	<u>\$270,000</u>	<u>\$267,885</u>	<u>\$272,681</u>		

NOTE 4 – U. S. TREASURY NOTES OWNED AS OF DECEMBER 31, 2013:

<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:					
4/01/10	\$100,000	\$ 99,930	\$101,832	10/31/14	2.375%
10/01/10	100,000	99,922	101,590	8/31/15	1.250%
9/30/11	100,000	100,109	100,938	8/31/16	1.000%
9/30/13	100,000	99,191	98,945	6/30/17	.750%
9/30/13	100,000	98,680	98,094	1/31/18	.875%
12/03/13	<u>100,000</u>	<u>99,180</u>	<u>97,859</u>	11/30/18	1.250%
	<u>\$600,000</u>	<u>\$597,012</u>	<u>\$599,258</u>		

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - U. S. GOVERNMENT AGENCY BOND AS OF DECEMBER 31, 2013:

<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:					
12/3/13	<u>\$100,000</u>	<u>\$ 99,845</u>	<u>\$ 99,865</u>	3/01/16	.41%

NOTE 6 – CORPORATE BONDS OWNED AS OF DECEMBER 31, 2013:

<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>
Colgate-Palmolive Co.:					
12/14/10	\$100,000	\$ 95,822	\$101,436	11/01/15	1.375%
Wal Mart Stores, Inc.:					
5/26/10	<u>100,000</u>	<u>104,687</u>	<u>101,083</u>	5/15/14	3.200%
	<u>\$200,000</u>	<u>\$200,509</u>	<u>\$202,519</u>		

NOTE 7 – ESTIMATED CLAIMS PAYABLE AS OF DECEMBER 31, 2013 AND 2012:

<u>Insolvency</u>	<u>12/31/13</u>	<u>12/31/12</u>
Class B70 – Lincoln Memorial Life, TX	\$2,172,807	\$2,506,651
Class B71 – Medical Savings Insurance, IN	20,000	38,000
Class B74 – National States Insurance, MO	200,000	200,000
Class B75 - Executive Life Insurance Co. of New York	0	900,000
Class B76 - Standard Life Insurance Co. of Indiana	<u>0</u>	<u>371,794</u>
	<u>\$2,392,807</u>	<u>\$4,016,445</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.

Exhibit B-1 (Page 7) presents an accounting of the Class B contingency reserves for the year 2013. The net asset balances of the contingency reserves were as follows:

	<u>12/31/13</u>	<u>12/31/12</u>
Contingency reserve for future obligations – Life	\$11,916,731	\$11,935,492
Contingency reserve for future obligations – Annuities	5,119,340	5,120,520
Contingency reserve for future obligations – Health	<u>3,775,404</u>	<u>3,874,653</u>
	<u>\$20,811,475</u>	<u>\$20,930,665</u>

NOTE 9 – TOTAL NET ASSETS

As shown on Exhibit A as of December 31, 2013, total assets were \$1,812,994 and total liabilities were \$2,392,807 which resulted in total net assets of a negative \$579,813. The excess of liabilities over assets will be covered by Class B assessments of member insurers licensed in the State of Nebraska.

NOTE 10 – INVESTMENT INCOME (LOSS) – NET

	<u>2013</u>	<u>2012</u>
Income received on money market funds	\$ 69	\$ 40
Interest earned on debt securities	19,395	45,544
Realized net gain from sale of debt securities	41	15,259
Unrealized market gain (loss)	(18,175)	(21,344)
Investment management fees	<u>(1,844)</u>	<u>(3,474)</u>
	<u>\$ (514)</u>	<u>\$ 36,025</u>

NOTES TO FINANCIAL STATEMENTS

**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.