

STATEMENTS OF FINANCIAL POSITION (Notes 1 and 2)

	Dec. 31, <u>2011</u>	Dec. 31, <u>2010</u>
ASSETS:		
Cash in checking account	\$ 238,992	\$ 43,464
Cash in money market fund	236,573	524,183
Certificates of deposit at market value (Note 3)	962,218	662,139
U. S. Treasury Notes at market value (Note 4)	1,216,450	604,659
U. S. Government Agency bonds at market value (Note 5)	2,174,734	2,041,828
Corporate bonds at market value (Note 6)	516,828	402,910
Accrued interest receivable on investments	17,439	27,951
Equipment – Cost	5,520	5,520
– Accumulated depreciation	<u>(5,520)</u>	<u>(5,520)</u>
 TOTAL ASSETS	 <u>\$ 5,363,234</u>	 <u>\$ 4,307,134</u>
 LIABILITIES:		
Estimated claims payable (Note 7)	\$ <u>6,690,541</u>	\$ <u>8,301,811</u>
TOTAL LIABILITIES	<u>\$ 6,690,541</u>	<u>\$ 8,301,811</u>
 NET ASSETS:		
UNRESTRICTED NET ASSETS:		
Class A net assets for general administration	\$ 243,075	\$ 238,877
Equipment net assets – Class A	<u>0</u>	<u>0</u>
Total Unrestricted Net Assets	<u>\$ 243,075</u>	<u>\$ 238,877</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Classes B and C net assets for specific insurance company insolvencies (Exhibit A-1)	\$(18,419,341)	\$(20,904,953)
Contingency reserve for future obligations (Note 8)	<u>16,848,959</u>	<u>16,671,399</u>
Total Temporarily Restricted Net Assets	<u>\$ (1,570,382)</u>	<u>\$ (4,233,554)</u>
 TOTAL NET ASSETS (Note 9)	 <u>\$ (1,327,307)</u>	 <u>\$ (3,994,677)</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 5,363,234</u>	 <u>\$ 4,307,134</u>

See accompanying notes to financial statements.

CLASSES B AND C NET ASSETS FOR SPECIFIC INSURANCE COMPANY INSOLVENCIES

	<u>12/31/11</u>	<u>12/31/10</u>
Class C 20 – Executive Life, California	\$ (7,718,282)	\$ (7,464,247) —
Class C 25 – Midwest Life, Louisiana	873,189	858,480
Class C 30 – Andrew Jackson Life, Mississippi	(6,014)	(5,910)
Class C 37 – Kentucky Central Life, Kentucky	1,683,871	1,654,859
Class C 38 – Consumers United, Delaware	(165,705)	(161,325)
Class C 40 – American Integrity, Pennsylvania	2,238,938	1,146,922
Class C 41 – National Heritage Life, Delaware	36,950	(39,561)
Class C 43 – Confederation Life, Michigan	0	(8,714)
Class C 52 – American Standard Life, Oklahoma	0	(105,317)
Class C 54 – Centennial Life, Kansas	(113,143)	(111,189)
Class C 55 – Universe Life, Idaho	(317,076)	(311,464)
Class C 56 – Fidelity Bankers Life, Virginia	(652,403)	(641,135)
Class C 60 – First National Life Ins. Co. of America, MS (Thunor)	(230,381)	(225,826)
Class C 61 – International Financial Services Life, MO (Thunor)	(12,285)	(13,781)
Class C 63 – American Chambers Life, Ohio	(1,376,494)	(1,525,873) —
Class C 65 – Reliance Insurance Co., Pennsylvania	(21,776)	(21,400)
Class B 66 – Legion & Villanova Insurance Cos., Pennsylvania	(6,297)	(6,189)
Class B 67 – London Pacific Life, North Carolina	(1,506,680)	(1,953,214) —
Class B 68 – States General Life, Texas	(42,472)	(41,734)
Class B 69 – Benicorp Insurance, Indiana	(3,657,717)	(3,596,971) —
Class B 70 – Lincoln Memorial Life, Texas	(4,606,121)	(4,666,364) —
Class B 71 – Medical Saving Insurance, Indiana	(1,386,909)	(1,779,962) —
Class B 72 – Penn Treaty Network Insurance, Pennsylvania	(101,765)	(60,915)
Class B 73 – Imerica Life & Health Insurance, Arkansas	(8,940)	(3,501)
Class B 74 – National States Insurance, Missouri	(390,279)	(1,820,622) —
Class B 75 – Executive Life Insurance Co. of New York	<u>(931,550)</u>	<u>0</u>
Total Classes B and C Net Assets for Specific Insurance Company Insolvencies	<u>\$(18,419,341)</u>	<u>\$(20,904,953)</u>

STATEMENTS OF ACTIVITIES (Notes 1 and 2)

	Class A	Classes B & C (Exh. B-1)	<u>Total</u>	
			<u>2011</u>	<u>2010</u>
REVENUES:				
Estate distributions		\$ 2,042,719	\$ 2,042,719	\$ 1,392,073
Premiums received		1,004,143	1,004,143	19,589
Investment income – Net (Note 10)	\$ 4,198	76,374	80,572	58,693
TOTAL REVENUES	\$ 4,198	\$ 3,123,236	\$ 3,127,434	\$ 1,470,355
EXPENSES:				
Policyholder benefit claims		\$ 1,387,497	\$ 1,387,497	\$ 950,262
Assumption reinsurance		295,846	295,846	305,625
Assessments by NOLHGA for expenses	\$ 9,248	247,212	256,460	169,871
Administration & legal fees, & direct expenses	65,804	15,746	81,550	79,586
Dues to National (NOLHGA)	38,294		38,294	38,113
Meetings and travel expenses	5,004		5,004	6,046
Auditing and accounting fees	3,690		3,690	3,750
Bank service charges	1,262		1,262	557
Assessment system services	750		750	8,000
Bookkeeping fees	576		576	894
Computer services and expenses	335		335	603
Printing	70		70	0
Miscellaneous	0		0	217
Class A general and administration expenses allocated to Classes B and C (Note 11)	(125,033)	125,033	0	0
TOTAL EXPENSES	\$ 0	\$ 2,071,334	\$ 2,071,334	\$ 1,563,524
REVENUES OVER (UNDER) EXPENSES	\$ 4,198	\$ 1,051,902	\$ 1,056,100	\$ (93,169)
Decrease (increase) in estimated claims payable		1,611,270	1,611,270	(545,382)
INCREASE (DECREASE) IN NET ASSETS	\$ 4,198	\$ 2,663,172	\$ 2,667,370	\$ (638,551)
NET ASSETS – BEGINNING OF YEAR	238,877	(4,233,554)	(3,994,677)	(3,356,126)
NET ASSETS – END OF YEAR	\$ 243,075	\$(1,570,382)	\$(1,327,307)	\$(3,994,677)

See accompanying notes to financial statements.

CLASSES B AND C NET ASSETS – STATEMENTS OF ACTIVITIES

	<u>Balance</u> <u>12/31/10</u>	<u>1/1 – 12/31/11</u>		<u>Balance</u> <u>12/31/11</u>
		<u>Revenues</u>	<u>Expenses</u>	
Class C 20 – Executive Life, CA	\$(7,464,247)			
Estate distributions		\$ 4,156		
Interest expense		(85,417)		
Assumption reinsurance			\$ 295,846	
Administration & legal fees, & direct expenses			653 ✓	
Allocated general & administration expenses			5,180	
Estimated claims payable decrease			(128,905)	\$(7,718,282)
Class C25 – Midwest Life, LA	858,480			
Investment income		15,084		
Administration & legal fees, & direct expenses			42	
Allocated general & administration expenses			333	873,189
Class C30 – Andrew Jackson Life, MS	(5,910)			
Interest expense		(104)		(6,014)
Class C37 - Kentucky Central Life	1,654,859			
Investment income		29,083		
Assessments by NOLHGA for expenses			71	1,683,871
Class C38 - Consumers United, Delaware	(161,325)			
Estate distributions		397		
Interest expense		(2,849)		
Assessments by NOLHGA for expenses			10	
Administration & legal fees, & direct expenses			215	
Allocated general & administration expenses			1,703	(165,705)
Class C40 – American Integrity, PA	1,146,922			
Estate distributions		1,064,877		
Investment income		27,640		
Assessments by NOLHGA for expenses			58	
Administration & legal fees, & direct expenses			50	
Allocated general & administration expenses			393	2,238,938
Class C41 – National Heritage, DE	(39,561)			
Estate distributions		77,538		
Interest expense		(426)		
Assessments by NOLHGA for expenses			158	
Administration & legal fees, & direct expenses			50	
Allocated general & administration expenses			393	36,950

CLASSES B AND C NET ASSETS – STATEMENTS OF ACTIVITIES

	<u>Balance</u> <u>12/31/10</u>	<u>1/1 – 12/31/11</u>		<u>Balance</u> <u>12/31/11</u>
		<u>Revenues</u>	<u>Expenses</u>	
Class C43 – Confederation Life, MI	\$ (8,714)			
Closed to contingency reserve - Life			\$ (8,426)	
Closed to contingency reserve - Health			(288)	0
Class C52 – American Standard Life, OK	(105,317)			
Closed to contingency reserve - Life			(59,293)	
Closed to contingency reserve - Health			(46,024)	0
Class C54 – Centennial Life, KS	(111,189)			
Interest expense		\$ (1,954)		(113,143)
Class C55 – Universe Life – ID	(311,464)			
Interest expense		(5,476)		
Assessments by NOLHGA for expenses			136	(317,076)
Class C56 – Fidelity Bankers Life, VA	(641,135)			
Interest expense		(11,268)		(652,403)
Class C60 – First National Life Ins. Co. of America, MS (Thunor)	(225,826)			
Interest expense		(3,976)		
Assessments by NOLHGA for expenses			176	
Administration & legal fees, & direct expenses			45	
Allocated general & administration expenses			358	(230,381)
Class C61 – International Financial Services Life, MO (Thunor)	(13,781)			
Estate distributions		1,713		
Interest expense		(217)		(12,285)
Class C63 – American Chambers Life, OH	(1,525,873)			
Estate distributions		176,793		
Interest expense		(25,591)		
Assessments by NOLHGA for expenses			1,381	
Administration & legal fees, & direct expenses			49	
Allocated general & administration expenses			393	(1,376,494)
Class C65 – Reliance Insurance Co., PA	(21,400)			
Interest expense		(376)		(21,776)

(Continued)

CLASSES B AND C NET ASSETS – STATEMENTS OF ACTIVITIES

	<u>Balance</u> <u>12/31/10</u>	<u>1/1 – 12/31/11</u>		<u>Balance</u> <u>12/31/11</u>
		<u>Revenues</u>	<u>Expenses</u>	
Class B66 – Legion & Villanova Insurance Cos., PA	\$ (6,189)			
Interest expense		\$ (108)		\$ (6,297)
Class B67 – London Pacific Life, NC	(1,953,214)			
Estate distributions		478,444		
Interest expense		(30,971)		
Administration & legal fees, & direct expenses			\$ 105	
Allocated general & administration expenses			834	(1,506,680)
Class B68 – States General Life, TX	(41,734)			
Interest expense		(733)		
Assessments by NOLHGA for expenses			5	(42,472)
Class B69 – Benicorp Insurance, IN	(3,596,971)			
Estate distributions		4,457		
Interest expense		(63,198)		
Assessments by NOLHGA for expenses			1,858	
Administration & legal fees, & direct expenses			16	
Allocated general & administration expenses			131	(3,657,717)
Class B70 – Lincoln Memorial Life, TX	(4,666,364)			
Estate distributions		176,267		
Premiums received		14,148		
Interest expense		(26,968)		
Policyholder benefit claims			393,000 ✓	
Assessments by NOLHGA for expenses			43,192	
Administration & legal fees, & direct expenses			3,303 ✓	
Allocated general & administration expenses			26,224	
Estimated claims payable decrease			(362,515)	(4,606,121)
Class B71 – Medical Savings Insurance, IN	(1,779,962)			
Estate distributions		2,828		
Interest expense		(22,321)		
Policyholder benefit claims			2,102 ✓	
Assessments by NOLHGA for expenses			65,597	
Administration & legal fees, & direct expenses			2,765 ✓	
Allocated general & administration expenses			21,953	
Estimated claims payable decrease			(504,963)	(1,386,909)

(Continued)

CLASSES B AND C NET ASSETS – STATEMENTS OF ACTIVITIES

	<u>Balance</u> <u>12/31/10</u>	<u>1/1 – 12/31/11</u>		<u>Balance</u> <u>12/31/11</u>
		<u>Revenues</u>	<u>Expenses</u>	
Class B72 – Penn Treaty Network Insurance, PA	\$ (60,915)			
Interest expense		\$ (1,452)		
Assessments by NOLHGA for expenses			\$ 21,478	
Administration & legal fees, & direct expenses			2,004 ✓	
Allocated general & administration expenses			15,916	\$ (101,765)
Class B73 – Imerica Life & Health Insurance, AR	(3,501)			
Interest expense		(114)		
Administration & legal fees, & direct expenses			596 ✓	
Allocated general & administration expenses			4,729	(8,940)
Class B74 – National States Insurance, MO	(1,820,622)			
Premiums received		989,995		
Estate distributions		55,059		
Interest expense		(3,107)		
Policyholder benefit claims			992,394	
Assessments by NOLHGA for expenses			102,389	
Administration & legal fees, & direct expenses			3,547 ✓	
Allocated general & administration expenses			28,161	
Estimated claims payable decrease			(1,514,887)	(390,279)
Class B75 – Executive Life Insurance of New York	0			
Interest expense		(208)		
Assessments by NOLHGA for expenses			10,703	
Administration & legal fees, & direct expenses			2,308	
Allocated general & administration expenses			18,331	
Estimated claims payable increase			900,000	(931,550)

(Continued)

CLASSES B AND C NET ASSETS – STATEMENTS OF ACTIVITIES

	<u>Balance</u> <u>12/31/10</u>	<u>1/1 – 12/31/11</u>		<u>Balance</u> <u>12/31/11</u>
		<u>Revenues</u>	<u>Expenses</u>	
Class B Contingency Reserve – Life	\$14,992,479			
Investment income		\$ 262,545		
Closed from Classes C43, C52			\$ 67,719	
Estate distribution - Closed insolvency C43		189		\$15,187,494
Class B Contingency Reserve – Health	1,678,920			
Investment income		28,857		
Closed from Classes C43, C52	<u> </u>	<u> </u>	<u>46,312</u>	<u>1,661,465</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	<u>\$ (4,233,554)</u>	<u>\$3,123,236</u>	<u>\$ 460,064</u>	<u>\$ (1,570,382)</u>
Per Exhibit B:				
Total expenses			\$2,071,334	
Decrease in estimated claims payable			(1,611,270)	
			<u>\$ 460,064</u>	

STATEMENTS OF CASH FLOWS (Notes 1 and 2)

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM (USED FOR) OPERATING ACTIVITIES:		
Increase (decrease) in net assets per Exhibit B	\$ 2,667,370	\$ (638,551)
Adjustments to reconcile increase (decrease) in net assets with net cash from (used for) operating activities:		
Realized net loss from sale of investments	24,856	31,628
Unrealized market (gain) loss on investments	(18,062)	36,915
Decrease in accrued interest receivable	10,512	9,326
Increase (decrease) in estimated claims payable	<u>(1,611,270)</u>	<u>545,382</u>
NET CASH FROM (USED FOR) OPERATING ACTIVITIES	<u>\$ 1,073,406</u>	<u>\$ (15,300)</u>
CASH FLOWS FROM (USED FOR) INVESTING ACTIVITIES:		
Proceeds from sale of investments	\$ 1,290,000	\$ 1,790,000
Purchase of investments	<u>(2,455,488)</u>	<u>(1,976,185)</u>
NET CASH USED FOR INVESTING ACTIVITIES	<u>\$(1,165,488)</u>	<u>\$ (186,185)</u>
CASH AND MONEY MARKET FUND:		
Decrease during year	\$ (92,082)	\$ (201,485)
Balance at beginning of year	<u>567,647</u>	<u>769,132</u>
Balance at end of year	<u>\$ 475,565</u>	<u>\$ 567,647</u>
Balance at end of year:	<u>12/31/11</u>	<u>12/31/10</u>
Cash in checking account	\$ 238,992	\$ 43,464
Cash in money market fund	<u>236,573</u>	<u>524,183</u>
	<u>\$ 475,565</u>	<u>\$ 567,647</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.

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, 2011:

<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 Centurion Bank, Salt Lake City, UT:					
12/16/09	\$100,000	\$ 99,850	\$101,553	11/26/12	2.400%
Beal Bank SSB Plano, TX:					
9/15/11	200,000	199,950	199,918	9/5/12	.450%
BMW North America, Salt Lake City, UT:					
4/01/10	90,000	89,991	91,362	12/11/12	2.300%
GE Money Bank, Draper, UT:					
12/16/09	100,000	99,700	101,556	11/27/12	2.400%
GE Money Bank, Draper, UT:					
9/29/11	90,000	89,100	90,976	8/12/16	1.850%
Johnson Bank, Racine, WI:					
10/05/10	90,000	89,235	91,427	9/24/14	1.500%
Key Bank National Association Ohio:					
7/22/11	100,000	99,989	99,934	5/4/12	.300%
Parkway Bank & Trust, Harwood Heights, IL:					
10/05/10	90,000	89,910	91,101	9/9/13	1.500%
Sallie Mae Bank, Murray, UT:					
4/03/09	<u>90,000</u>	<u>89,550</u>	<u>94,391</u>	3/25/14	3.550%
	<u>\$950,000</u>	<u>\$947,275</u>	<u>\$962,218</u>		

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – U. S. TREASURY NOTES OWNED AS OF DECEMBER 31, 2011:

Date <u>Purchased</u>	<u>Quantity</u>	Purchase <u>Cost</u>	Market <u>Value</u>	Maturity <u>Date</u>	Interest <u>Rate</u>
U. S. Treasury Notes:					
9/30/11	\$400,000	\$402,766	\$401,516	4/15/12	1.375%
12/01/11	200,000	201,946	201,632	6/15/12	1.875%
10/01/10	200,000	200,836	200,618	7/31/12	.625%
4/01/10	100,000	100,234	103,301	11/30/13	2.000%
4/01/10	100,000	99,930	105,633	10/31/14	2.375%
10/01/10	100,000	99,922	102,656	8/31/15	1.250%
9/30/11	<u>100,000</u>	<u>100,109</u>	<u>101,094</u>	8/31/16	1.000%
	<u>\$1,200,000</u>	<u>\$1,205,743</u>	<u>\$1,216,450</u>		

NOTE 5 – U. S. GOVERNMENT AGENCY BONDS OWNED AS OF DECEMBER 31, 2011:

Date <u>Purchased</u>	<u>Quantity</u>	Purchase <u>Cost</u>	Market <u>Value</u>	Maturity <u>Date</u>	Interest <u>Rate</u>
Federal Farm Credit Banks:					
9/13/11	\$ 250,000	\$ 254,905	\$ 253,733	12/7/12	1.875%
12/31/10	200,000	204,048	203,064	2/21/13	1.750%
9/30/11	250,000	253,529	252,635	12/1/14	1.200%
Federal Home Loan Banks.:					
10/01/10	200,000	201,549	202,972	9/29/14	1.400%
12/06/10	200,000	198,965	202,950	12/12/14	1.250%
9/13/11	250,000	254,262	254,415	12/11/15	1.375%
Federal National Mortgage Association:					
2/22/07	300,000	300,703	301,743	2/16/12	5.000%
9/30/11	250,000	249,521	251,015	9/28/16	1.250%
12/12/11	<u>250,000</u>	<u>251,668</u>	<u>252,207</u>	11/15/16	1.375%
	<u>\$2,150,000</u>	<u>\$2,169,150</u>	<u>\$2,174,734</u>		

NOTES TO FINANCIAL STATEMENTS

NOTE 6 – CORPORATE BONDS OWNED AS OF DECEMBER 31, 2011:

	<u>Date Purchased</u>	<u>Quantity</u>	<u>Purchase Cost</u>	<u>Market Value</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
Berkshire Hathaway, Inc.:	4/6/10	\$100,000	\$101,403	\$106,016	2/11/15	3.200%
Colgate-Palmolive Co.:	12/14/10	100,000	95,822	101,072	11/01/15	1.375%
Microsoft Corp.:	12/8/10	100,000	99,814	100,868	9/27/13	.875%
Procter & Gamble Co.:	1/4/11	100,000	97,744	103,263	11/15/15	1.800%
Wal Mart Stores, Inc.:	5/26/10	<u>100,000</u>	<u>104,687</u>	<u>105,609</u>	5/15/14	3.200%
		<u>\$500,000</u>	<u>\$499,470</u>	<u>\$516,828</u>		

NOTE 7 – ESTIMATED CLAIMS PAYABLE AS OF DECEMBER 31, 2011 AND 2010:

<u>Insolvency</u>	<u>12/31/11</u>	<u>12/31/10</u>
Class C20 – Executive Life, CA	\$2,653,439	\$2,782,344
Class B70 – Lincoln Memorial Life, TX	2,887,102	3,249,617
Class B71 – Medical Savings Insurance, IN	50,000	554,963
Class B74 – National States Insurance, MO	200,000	1,714,887
Class B75 - Executive Life Insurance Co. of New York	<u>900,000</u>	<u>0</u>
	<u>\$6,690,541</u>	<u>\$8,301,811</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 9) presents an accounting of the Class B contingency reserves for the year 2011. The net asset balances of the contingency reserves were as follows:

	<u>12/31/11</u>	<u>12/31/10</u>
Contingency reserve for future obligations – Life	\$15,187,494	\$14,992,479
Contingency reserve for future obligations – Health	<u>1,661,465</u>	<u>1,678,920</u>
	<u>\$16,848,959</u>	<u>\$16,671,399</u>

NOTE 9 – TOTAL NET ASSETS

As shown on Exhibit A as of December 31, 2011, total assets were \$5,363,234 and total liabilities were \$6,690,541 which resulted in total net assets of a negative \$1,327,307. 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 – NET

	<u>2011</u>	<u>2010</u>
Income received on money market funds	\$ 45	\$ 93
Interest earned on debt securities	91,499	131,246
Realized net loss from sale of debt securities	(24,856)	(31,628)
Unrealized market gain (loss)	18,062	(36,915)
Investment management fees	<u>(4,178)</u>	<u>(4,103)</u>
	<u>\$ 80,572</u>	<u>\$ 58,693</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.