

**NEBRASKA PROPERTY AND LIABILITY  
INSURANCE GUARANTY ASSOCIATION**

Statements of Assets and Fund Balance  
Arising from Cash Transactions

December 31, 2011 and 2010

	<b>Assets</b>	<u>2011</u>	<u>2010</u>
Cash and cash equivalents		\$ 429,442	1,574,356
U.S. Treasury notes		27,932,985	28,553,628
Deposit		<u>775</u>	<u>775</u>
Total assets		<u>\$ 28,363,202</u>	<u>30,128,759</u>
	<b>Fund Balance</b>		
Fund balance		<u>\$ 28,363,202</u>	<u>30,128,759</u>

See accompanying notes to financial statements.

**NEBRASKA PROPERTY AND LIABILITY  
INSURANCE GUARANTY ASSOCIATION**

Statements of Revenue Collected,  
Expenses Paid, and Change in Fund Balance  
Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Revenue collected:		
Assessments	\$ 506,975	2,108,241
Liquidation proceeds and other	447,749	5,063,525
Interest income	167,755	79,519
Total revenue collected	<u>1,122,479</u>	<u>7,251,285</u>
Expenses paid:		
Losses	1,188,046	716,071
Loss adjustment expenses	—	66
Refund of assessments	1,450,261	1,033,530
General and administrative	249,729	280,505
Total expenses paid	<u>2,888,036</u>	<u>2,030,172</u>
Revenue collected (under) over expenses paid	(1,765,557)	5,221,113
Fund balance, beginning of year	<u>30,128,759</u>	<u>24,907,646</u>
Fund balance, end of year	<u>\$ 28,363,202</u>	<u>30,128,759</u>

See accompanying notes to financial statements.

**NEBRASKA PROPERTY AND LIABILITY  
INSURANCE GUARANTY ASSOCIATION**

Notes to Financial Statements

December 31, 2011 and 2010

**(1) Organization and Summary of Significant Accounting Policies**

**(a) Organization**

The Nebraska Property and Liability Insurance Guaranty Association (the Association) was created in May 1971 by Nebraska state statute as a nonprofit, unincorporated legal entity. The purpose of the Association is to provide a method of payment for certain claims against insolvent insurance companies to avoid financial loss to claimants or to policyholders in the state of Nebraska, to assist in the detection and prevention of insurer insolvencies, and to provide an association of insurers against which the cost of such protection may be assessed in an equitable manner. A majority of the Association's revenues are derived from Nebraska-based insurers.

**(b) Basis of Accounting**

The Association's policy is to prepare its financial statements on the basis of cash receipts and disbursements. Under this basis, revenues are recognized when collected rather than when earned and certain expenditures are recognized when paid rather than when incurred. Consequently, assessments receivable from insurers and amounts due for supplies received, services rendered, or estimated unpaid claims are not included in the financial statements.

**(c) Allocation of Revenue Collected and Expenses Paid**

The Association attempts to specifically identify, to the degree allowable, all revenue collected and expenses paid. Thus, each liquidation receives its share of the related revenue and expense. The following items are, for the most part, specifically identifiable: assessments collected, losses paid, loss adjustment expenses paid, refund of assessments, and certain general and administrative expenses.

**(d) Cash and Cash Equivalents**

The Association classifies all highly liquid investments with an original maturity of three months or less when purchased as cash equivalents. At December 31, 2011 and 2010, cash equivalents consisted of a repurchase agreement.

**(e) Investments**

The Association carries its investments at cost. While the Association intends to hold its investments in debt securities to maturity, its ability to do so may be affected by the timing and amount of claims presented as a result of insurer insolvencies. A disposition of investment in debt securities may result in a realized gain or loss using a cash-basis method of accounting for the difference between fair value and cost of the security at the date of sale. The fair market value of U.S. Treasury notes was \$27,791,797 and \$28,305,707 at December 31, 2011 and 2010, respectively. Premiums paid and discounts received in connection with these investments are not amortized or accrued into interest expense or income over the life of the investment. Rather, they are recorded as a component of interest income at the maturity date.

(Continued)

**NEBRASKA PROPERTY AND LIABILITY  
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Notes to Financial Statements

December 31, 2011 and 2010

The U.S. Treasury notes held as of December 31, 2011 mature as follows:

		<u>Cost</u>		<u>Fair market value</u>
2012	\$	11,188,557		11,074,218
2013		12,649,106		12,641,329
2014		4,095,322		4,076,250
	\$	<u>27,932,985</u>		<u>27,791,797</u>

Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by the length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2011 and 2010 are as follows:

		<u>Less than 12 months</u>		<u>12 months or more</u>		<u>Total</u>	
		<u>Unrealized losses</u>	<u>Fair value</u>	<u>Unrealized losses</u>	<u>Fair value</u>	<u>Unrealized losses</u>	<u>Fair value</u>
2011:							
U.S. Treasury notes	\$	114,652	10,072,812	57,257	10,668,321	171,909	20,741,133
2010:							
U.S. Treasury notes	\$	93,158	15,205,278	172,838	6,556,894	265,996	21,762,172

The unrealized losses on investments in U.S. Treasury notes were caused by interest rate increases.

**(f) Income Taxes**

The Association is an instrumentality of the state of Nebraska and is a tax-exempt organization as described in Section 115 of the Internal Revenue Code.

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740, *Income Taxes*, prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, disclosure, and transition. Management believes that no such uncertain tax positions exist at December 31, 2011 and 2010.

(Continued)

**NEBRASKA PROPERTY AND LIABILITY  
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Notes to Financial Statements

December 31, 2011 and 2010

**(g) Fair Value Measurements**

The Association applies FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, in relation to fair value measurements of financial assets disclosed at fair value in the financial statements. FASB ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 – inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Association has the ability to access at the measurement date.
- Level 2 – inputs are inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.
- Level 3 – inputs are unobservable inputs for the assets or liabilities.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Association's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and their placement within the fair value hierarchy levels. As of December 31, 2011 and 2010, the fair value of the Association's cash equivalents, as disclosed in note 1(d), have been derived using Level 1 inputs. As of December 31, 2011 and 2010, the fair value of the Association's investments, as disclosed in note 1(e), have been derived using Level 2 inputs.

**(h) Subsequent Events**

The Association has performed an evaluation of subsequent events through May 3, 2012, the date at which the financial statements were available to be issued, and determined that there are no other items to disclose.

**(2) Assessments**

The Association collects assessments from each member insurer (qualifying entities licensed to write insurance in the state of Nebraska) in proportion to the net direct written premiums of the member insurer in relation to the net direct written premiums of all member insurers. In addition, the Association may make an assessment for the purpose of meeting administrative costs and other general expenses not related to a particular impaired insurer. The member insurer may deduct one-fifth of the assessment each year over a five-year period from its state premium tax liability. Should the Association recover any sum representing amounts previously written off by member insurers and offset against taxes, this recovered amount is paid by the Association to the director of insurance for the state of Nebraska. If the recovery is before the end of the year in which the assessment was made, the Association reimburses this amount directly to the member insurer and no premium tax offset is allowed.

(Continued)

**NEBRASKA PROPERTY AND LIABILITY  
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Notes to Financial Statements

December 31, 2011 and 2010

**(3) Claims**

The Association is obligated only to the extent of the covered claims existing prior to the date that a member insurer becomes an insolvent insurer or arising within 30 days after the member insurer has been deemed insolvent. For a claim to be covered, it must arise out of and within the coverage of an insurance policy issued by the member insurer, and the claimant or insured must be a resident of the state of Nebraska or the property from which the claim arises must be permanently located in the state.

**(4) Estimated Unpaid Claims (Unaudited)**

As of December 31, 2011, the Association estimates unpaid claims to be as follows:

Insolvency:

Iowa National Mutual Insurance Company	\$ 157,223
Integrity Insurance	51,417
American Mutual Insurance Company	151,878
Imperial Casualty and Indemnity	27,747
Rockwood Insurance Company	344,226
Centennial Insurance	71,541
Atlantic Mutual Insurance	216,060
Home Insurance Company	725,064
Commercial Compensation Casualty Company	21,451
Credit General Insurance Company	626,000
Reliance Insurance Company	3,500,302
Phico Insurance Company	1,112,453
Legion Insurance Company	2,448,486
Fremont Indemnity Insurance Company	479,016
Casualty Reciprocal Exchange	229,845

These amounts are estimates, and the ultimate settlement of losses may vary from the amounts above. No representation is made by the Association that the ultimate liability may not be in excess of the above figures. Certain insolvencies have not had assessments levied as of December 31, 2011 to cover the estimated claims.

**(5) Lease Commitments**

The Association leases office space under a noncancelable operating lease that expires on November 30, 2012. Total lease expense for office space was approximately \$13,500 for each of the years ended December 31, 2011 and 2010. Future annual lease payments under the terms of the lease are approximately \$12,375 in 2012. The Company plans to renew this office space lease upon expiration in November 2012.

(Continued)

**NEBRASKA PROPERTY AND LIABILITY  
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Notes to Financial Statements

December 31, 2011 and 2010

**(6) Refund of Assessments**

The Association assesses member insurers for insolvencies based on cash reserves estimated at the time of insolvency. The member insurers then offset the assessments against their respective premium tax liabilities. If such funds, including earned interest, are sufficient to cover the claim payments related to the insolvency, the Association's board of directors will authorize and pay a refund of assessment as reflected in the accompanying statements of revenue collected, expenses paid, and change in fund balance.

**(7) Line of Credit**

The Association has entered into a revolving line of credit with a financial institution that provides for borrowings up to \$5,000,000. The line of credit expires in September 2012. Borrowings under the line of credit bear interest at the U.S. Bank prime rate. The Association had \$5,000,000 available for borrowings with no outstanding balances on this line of credit at December 31, 2011 and 2010. The Company plans to renew this line of credit upon expiration in September 2012.

**NEBRASKA PROPERTY AND LIABILITY  
INSURANCE GUARANTY ASSOCIATION**

Combining Schedule - Revenue Collected,  
Expenses Paid, and Change in Fund Balance

Year ended December 31, 2011

Date of liquidation	Union Indemnity	Iowa National Mutual	Transit Casualty	Carriers	Integrity	Midland	American Mutual	Carried forward
	7/17/1989	10/10/1985	12/04/1985	1/16/1986	3/24/1987	4/04/1992	3/09/1989	
Revenue collected:								
Assessments	—	—	—	—	—	—	—	—
Liquidation proceeds and other	—	—	—	—	—	—	17,757	17,757
Interest income	—	9,676	—	5,193	—	—	1,299	16,168
Total revenue collected	—	9,676	—	5,193	—	—	19,056	33,925
Expenses paid:								
Losses	—	6,933	—	—	—	—	6,281	13,214
Loss adjustment expenses	—	—	—	—	—	—	—	—
Refund of assessments	—	—	—	1,450,261	—	—	—	1,450,261
General and administrative	—	5,140	—	—	—	—	4,410	9,550
Total expenses paid	—	12,073	—	1,450,261	—	—	10,691	1,473,025
Revenue collected over (under) expenses paid	—	(2,397)	—	(1,445,068)	—	—	8,365	(1,439,100)
Fund balance, beginning of year	689	1,682,623	3,384	1,445,068	(15,793)	10,677	223,049	3,349,697
Fund balance, end of year	689	1,680,226	3,384	—	(15,793)	10,677	231,414	1,910,597

**NEBRASKA PROPERTY AND LIABILITY  
INSURANCE GUARANTY ASSOCIATION**

Combining Schedule – Revenue Collected,  
Expenses Paid, and Change in Fund Balance

Year ended December 31, 2011

Date of liquidation	Brought forward	American Mutual Liability	Rockwood	Centennial Insurance	Atlantic Mutual	Commercial Compensation Casualty Co	United Community Insurance Co	Carried forward
		3/09/1989	8/26/1991	4/27/2011	4/27/2011	9/27/2004	11/11/1999	
Revenue collected:								
Assessments	\$ 17,757	100,621	—	—	—	—	—	—
Liquidation proceeds and other	16,168	—	2,131	—	—	102,039	603	221,020
Interest income	33,925	—	—	—	—	2,698	—	20,997
Total revenue collected	13,214	100,621	2,131	—	—	104,737	603	242,017
Expenses paid:								
Losses	13,214	—	16,944	4,600	3,940	5,144	—	43,842
Loss adjustment expenses	—	—	—	—	—	—	—	—
Refund of assessments	1,450,261	—	—	—	—	—	—	1,450,261
General and administrative	9,550	—	7,970	1,524	2,125	1,189	—	22,358
Total expenses paid	1,473,025	—	24,914	6,124	6,065	6,333	—	1,516,461
Revenue collected over (under) expenses paid	(1,439,100)	100,621	(22,783)	(6,124)	(6,065)	98,404	603	(1,274,444)
Fund balance, beginning of year	3,349,697	—	379,751	—	—	431,956	—	4,161,404
Fund balance, end of year	\$ 1,910,597	100,621	356,968	(6,124)	(6,065)	530,360	603	2,886,960

**NEBRASKA PROPERTY AND LIABILITY  
INSURANCE GUARANTY ASSOCIATION**

Combining Schedule – Revenue Collected,  
Expenses Paid, and Change in Fund Balance

Year ended December 31, 2011

Date of liquidation	Brought forward	American Eagle Insurance Company 12/23/2001	Credit General Insurance Company 1/06/2005	Acceleration Natl Insurance Company 3/01/2005	HHH America Comp & Liab Ins Co 5/09/2005	Reliance Insurance Co 10/04/2005	Phico Insurance Company 2/02/2006	Home Ins Co 6/14/2007	Carried forward
<b>Revenue collected:</b>									
Assessments	\$ —	—	—	—	40,466	—	—	—	40,466
Liquidation proceeds and other	221,020	764	—	—	—	—	—	—	221,784
Interest income	20,997	—	10,962	478	—	75,738	7,679	3,869	119,723
<b>Total revenue collected</b>	<b>242,017</b>	<b>764</b>	<b>10,962</b>	<b>478</b>	<b>40,466</b>	<b>75,738</b>	<b>7,679</b>	<b>3,869</b>	<b>381,973</b>
<b>Expenses paid:</b>									
Losses	43,842	—	23,081	—	—	445,654	89,987	147,887	750,451
Loss adjustment expenses	—	—	—	—	—	—	—	—	—
Refund of assessments	1,450,261	—	—	—	—	—	—	—	1,450,261
General and administrative	22,358	—	14,207	—	—	87,922	26,225	16,858	167,570
<b>Total expenses paid</b>	<b>1,516,461</b>	<b>—</b>	<b>37,288</b>	<b>—</b>	<b>—</b>	<b>533,576</b>	<b>116,212</b>	<b>164,745</b>	<b>2,368,282</b>
<b>Revenue collected over (under) expenses paid</b>	<b>(1,274,444)</b>	<b>764</b>	<b>(26,326)</b>	<b>478</b>	<b>40,466</b>	<b>(457,838)</b>	<b>(108,533)</b>	<b>(160,876)</b>	<b>(1,986,309)</b>
Fund balance, beginning of year	4,161,404	—	1,915,115	82,759	(27,215)	13,476,229	1,361,454	849,006	21,818,752
Fund balance, end of year	\$ 2,886,960	764	1,888,789	83,237	13,251	13,018,391	1,252,921	688,130	19,832,443

**NEBRASKA PROPERTY AND LIABILITY  
INSURANCE GUARANTY ASSOCIATION**

Combining Schedule - Revenue Collected,  
Expenses Paid, and Change in Fund Balance

Year ended December 31, 2011

	Brought forward	Fremont Indemnity Insurance Company 7/03/2007	Legion Insurance Co 7/29/2007	Villanova Insurance Company 7/29/2007	Casualty Reciprocal Exchange 8/19/2008	Imperial Cas & Ind 5/12/2010	Admin	Total
Date of liquidation								
Revenue collected:								
Assessments	\$ 40,466	—	—	5,068	421,825	—	39,616	506,975
Liquidation proceeds and other	221,784	—	256,333	228	28,356	—	(58,952)	447,749
Interest income	119,723	7,787	37,882	—	973	—	1,390	167,755
Total revenue collected	381,973	7,787	294,215	5,296	451,154	—	(17,946)	1,122,479
Expenses paid:								
Losses	750,451	186,085	242,768	—	—	—	8,742	1,188,046
Loss adjustment expenses	—	—	—	—	—	—	—	—
Refund of assessments	1,450,261	—	—	—	—	—	—	1,450,261
General and administrative	167,570	12,701	62,688	—	5,552	1,218	—	249,729
Total expenses paid	2,368,282	198,786	305,456	—	5,552	1,218	8,742	2,888,036
Revenue collected over (under) expenses paid	(1,986,309)	(190,999)	(11,241)	5,296	445,602	(1,218)	(26,688)	(1,765,557)
Fund balance, beginning of year	21,818,752	1,427,904	6,692,244	(3,184)	(79,280)	(2,718)	275,041	30,128,759
Fund balance, end of year	\$ 19,832,443	1,236,905	6,681,003	2,112	366,322	(3,936)	248,353	28,363,202

See accompanying independent auditors' report.

**NEBRASKA PROPERTY AND LIABILITY  
INSURANCE GUARANTY ASSOCIATION**

Combining Schedule – Revenue Collected,  
Expenses Paid, and Change in Fund Balance

From inception to December 31, 2011

	Closed insolvencies	Union Indemnity	Iowa National Mutual	Transit Casualty	Integrity	Midland	American Mutual	Carried forward
Revenue collected:								
Assessments	\$ 11,557,462	6,462	4,083,823	1,606,359	74,497	215,529	1,199,966	18,744,098
Liquidation proceeds and other	8,850,120	2,151	2,786,063	145,619	78,715	44,827	75,433	11,982,928
Interest income	3,528,003	—	1,627,197	127,293	17,592	863	84,621	5,385,569
Total revenue collected	23,935,585	8,613	8,497,083	1,879,271	170,804	261,219	1,360,020	36,112,595
Expenses paid:								
Losses	11,112,884	6,313	2,486,003	163,726	24,733	168,254	810,555	14,772,468
Loss adjustment expenses	107,887	—	84,464	7,327	—	256	30,635	230,569
Refund of assessments	11,877,227	1,034	4,083,823	1,648,292	82,488	32,723	—	17,725,587
General and administrative	837,587	577	162,567	56,542	79,376	49,309	287,416	1,473,374
Total expenses paid	23,935,585	7,924	6,816,857	1,875,887	186,597	250,542	1,128,606	34,201,998
Fund balance (deficit) at December 31, 2011	—	689	1,680,226	3,384	(15,793)	10,677	231,414	1,910,597

**NEBRASKA PROPERTY AND LIABILITY  
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Combining Schedule – Revenue Collected,  
Expenses Paid, and Change in Fund Balance

From inception to December 31, 2011

	Brought forward	American Mutual Liability	Rockwood	Centennial Insurance	Atlantic Mutual	Commercial Compensation Casualty Co	United Community Insurance Co	Carried forward
<b>Revenue collected:</b>								
Assessments	\$ 18,744,098	74,949	1,100,000	—	—	496,561	219,303	20,634,911
Liquidation proceeds and other	11,982,928	409,799	304,931	—	—	242,181	31,358	12,971,197
Interest income	5,385,569	66,010	287,043	—	—	79,879	31,878	5,850,379
Total revenue collected	36,112,595	550,758	1,691,974	—	—	818,621	282,539	39,456,487
<b>Expenses paid:</b>								
Losses	14,772,468	10,585	1,092,577	4,600	3,940	220,826	67,326	16,172,322
Loss adjustment expenses	230,569	—	14,946	—	—	8,106	4,051	257,672
Refund of assessments	17,725,587	396,825	—	—	—	—	177,696	18,300,108
General and administrative	1,473,374	42,727	227,483	1,524	2,125	59,329	32,863	1,839,425
Total expenses paid	34,201,998	450,137	1,335,006	6,124	6,065	288,261	281,936	36,569,527
Fund balance (deficit), at December 31, 2011	\$ 1,910,597	100,621	356,968	(6,124)	(6,065)	530,360	603	2,886,960

**NEBRASKA PROPERTY AND LIABILITY  
INSURANCE GUARANTY ASSOCIATION**

Combining Schedule – Revenue Collected,  
Expenses Paid, and Change in Fund Balance

From inception to December 31, 2011

	Brought forward	American Eagle Insurance Company	Credit General Insurance Company	Acceleration Natl Insurance Company	HIH America Comp & Liab Ins Co	Reliance Insurance Co	Phico Insurance Company	Home Ins Co	Carried forward
Revenue collected:									
Assessments	\$ 20,634,911	478,970	2,938,217	75,000	40,465	12,816,161	2,349,945	930,585	40,264,254
Liquidation proceeds and other	12,971,197	71,139	1,164,423	11,220	97,776	7,036,574	2,233,167	764,480	23,301,976
Interest income	5,850,379	83,153	371,773	13,314	—	1,706,141	118,327	148,089	8,291,176
Total revenue collected	39,456,487	633,262	3,426,413	99,534	138,241	21,538,876	4,701,439	1,843,154	71,857,406
Expenses paid:									
Losses	16,172,322	62,636	1,366,582	11,734	118,497	7,775,476	3,175,222	1,037,618	29,720,087
Loss adjustment expenses	257,672	3,861	26,611	—	1,254	110,251	60,129	16,322	476,100
Refund of assessments	18,300,108	535,610	—	—	—	—	—	—	18,835,718
General and administrative	1,839,425	30,391	144,431	4,563	5,239	654,758	213,167	101,084	2,993,058
Total expenses paid	36,569,527	632,498	1,537,624	16,297	124,990	8,540,485	3,448,518	1,155,024	52,024,963
Fund balance (deficit) at December 31, 2011	\$ 2,886,960	764	1,888,789	83,237	13,251	13,018,391	1,252,921	688,130	19,832,443

**NEBRASKA PROPERTY AND LIABILITY  
INSURANCE GUARANTY ASSOCIATION**

Combining Schedule – Revenue Collected,  
Expenses Paid, and Change in Fund Balance

From inception to December 31, 2011

	Brought forward	Fremont Insurance Company	Legion Insurance Co	Villanova Insurance Company	Casualty Reciprocal Exchange	Imperial Cas & Ind	Admin	Total
Revenue collected:								
Assessments	\$ 40,264,254	2,073,658	6,653,383	5,068	421,825	—	1,061,365	50,479,553
Liquidation proceeds and other	23,301,976	1,674,155	2,889,452	1,223	50,131	—	119,554	28,036,491
Interest income	8,291,176	10,926	357,855	—	973	—	242,956	8,903,886
Total revenue collected	71,857,406	3,758,739	9,900,690	6,291	472,929	—	1,423,875	87,419,930
Expenses paid:								
Losses	29,720,087	2,356,263	2,893,194	3,874	89,885	2,253	77,277	35,142,833
Loss adjustment expenses	476,100	78,173	42,991	—	—	—	—	597,264
Refund of assessments	18,835,718	—	—	—	—	—	5,876	18,841,594
General and administrative	2,993,058	87,398	283,502	305	16,722	1,683	1,092,369	4,475,037
Total expenses paid	52,024,963	2,521,834	3,219,687	4,179	106,607	3,936	1,175,522	59,056,728
Fund balance (deficit), at December 31, 2011	\$ 19,832,443	1,236,905	6,681,003	2,112	366,322	(3,936)	248,353	28,363,202

See accompanying independent auditors' report.