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FILED

FEB 18 2009

Department of Insurance
State of Idaho

BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE

STATE OF IDAHO

IN THE MATTER OF:	Docket No. 18-2525-09
United Heritage Property & Casualty Company	**ORDER ADOPTING REPORT OF EXAMINATION AS OF DECEMBER 31, 2007**
Idaho Certificate of Authority: 1919 NAIC Company Code: 18939	

The Report of Examination as of December 31, 2007 (Report) of United Heritage Property & Casualty Company (Company) was completed by examiners from the Idaho Department of Insurance (Department) and signed the 9th day of February 2009 by the Examiner-in-Charge, Lois Haley, CFE, CPA. The verified (attested) copy of the Report was filed with the Department effective February 9th, 2009. Previously, a draft copy of the Report was delivered to the Company on January 13, 2009, with the verified Report

being transmitted to the Company electronically (PDF file, via e-mail) on February 9th, 2009 to Mr. Brian Henman, President & CEO, and Mr. Todd Gill, Sr. Vice President and CFO. The verified Report is attached hereto and incorporated herein as Exhibit A.

WAIVER

Attached hereto and incorporated herein as Exhibit B, is a Waiver signed by Mr. Gill on February 17, 2009 and received electronically by the Department on February 17, 2009 (PDF file, via e-mail). Based upon the Waiver/Exhibit B, this is a final order, and the Company has waived its rights to seek reconsideration and judicial review of this order.

RESPONSE

The Company made a written submission (as provided for under § 41-227(5), Idaho Code) containing responses to the examination report in a letter signed by Mr. Henman dated February 10, 2009 and received electronically (PDF file, via e-mail) on February 17, 2009. Further, the Company requested that the written submission become a public record of the Department. This written submission is attached and incorporated herein as Exhibit C.

ORDER

NOW THEREFORE, after carefully reviewing the above described Report of Examination, attached hereto as Exhibit A, and fully considering the written submission attached hereto as Exhibit C, and good cause appearing therefor, it is hereby ordered that the above described report, which includes the findings, conclusions, comments and recommendations supporting this order, is hereby ADOPTED as the final examination report and as an official record of the Department under Idaho Code § 41-227(5)(a).

DATED and EFFECTIVE at Boise, Idaho this 18th day of February 2009.

Shad Priest, Deputy Director
IDAHO DEPARTMENT OF INSURANCE

CERTIFICATE OF SERVICE

I hereby certify that on this 18th day of February 2009, I caused to be served the foregoing document on the following parties in the manner set forth below:

Mr. Brian Henman, President & CEO	X	certified mail
United Heritage Property & Casualty Company		first class mail
707 East United Heritage Court		hand delivery
Meridian, Idaho 83642		Facsimile
bhenman@unitedheritage.com	X	e-mail

Mr. Todd Gill, Sr. Vice President & CEO		certified mail
United Heritage Property & Casualty Company		first class mail
707 East United Heritage Court		hand delivery
Meridian, Idaho 83642		Facsimile
tgill@unitedheritage.com	X	e-mail

Georgia Siehl, CPA, CFE		certified mail
Bureau Chief / Chief Examiner		first class mail
Idaho Department of Insurance	X	hand delivery
700 W. State St., 3rd Floor		facsimile
Boise, Idaho 83720-0043		
e-mail: Georgia.Siehl@doi.idaho.gov	X	e-mail

William R. Michels, MBA, CPA, CFE
Examination Supervisor
IDAHO DEPARTMENT OF INSURANCE

DEPARTMENT OF INSURANCE

STATE OF IDAHO

REPORT OF EXAMINATION

of

UNITED HERITAGE PROPERTY & CASUALTY COMPANY
(a stock insurance company)

as of

December 31, 2007

EXHIBIT

A

TABLE OF CONTENTS Page

State of Idaho
DEPARTMENT OF INSURANCE

C. L. "BUTCH" OTTER
Governor

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Boise, Idaho 83720-0043
Phone (208)334-4250
FAX # (208)334-4398

WILLIAM W. DEAL
Director

Meridian, Idaho
February 9, 2009

The Honorable William W. Deal
Director of Insurance
State of Idaho
700 West State Street
Boise, Idaho 83720

The Honorable Alfred W. Gross
Commissioner
Chair, NAIC Financial Condition (E) Committee
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
P. O. Box 1157
Richmond, Virginia 23218

The Honorable Morris J. Chavez
Superintendent of Insurance, Insurance Division of New Mexico
NAIC Secretary, Western Zone
Public Regulation Commission
State of New Mexico
PO Box 1269
Santa Fe, New Mexico 87504-1269

Dear Director, Commissioner and Superintendent:

Pursuant to your instructions, in compliance with Section 41-219(1), Idaho Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2007, of the financial condition and corporate affairs of:

<u>United Heritage Property & Casualty Company</u>
<u>707 East United Heritage Court</u>
<u>Meridian, Idaho 83642</u>

hereinafter referred to as the "Company," at its offices in Meridian, Idaho. The following Report of Examination is respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period January 1, 2003, through December 31, 2007, and included such prior transactions and any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination. The examination was conducted in accordance with Section 41-219(1), Idaho Code, the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*, the NAIC *Market Regulation Handbook*, and the NAIC *Accounting Practices and Procedures Manual*. We performed our testing in order to achieve a confidence level commensurate with the risk assessed through utilization of the NAIC *Financial Condition Examiners Handbook*. Verification and valuation of assets, liabilities, and surplus as regards policyholders, and an analysis and review of such other accounts and records as appropriate to the examination were also performed. There was some reliance upon the independent auditor's and the consulting actuary's work in this examination.

A letter of representation attesting to the Company's ownership of all assets and to the nonexistence of unrecorded liabilities or contingent liabilities was signed by and received from management.

PRIOR EXAMINATION

The prior financial examination was conducted by the Idaho Department of Insurance covering the period January 1, 1998 through December 31, 2002.

A review was made to ascertain what action was taken by the Company with regard to comments and recommendations made by the Department in the prior examination report. Unless otherwise mentioned in the *Comments and Recommendations* section of this report, the prior report exceptions were adequately addressed by the Company.

HISTORY AND DESCRIPTION

General

The Company was organized and incorporated as a domestic county mutual fire insurance company on June 10, 1907 under the laws of the State of Idaho. The Company commenced business on April 2, 1908 as Canyon County Farmers Mutual Fire Insurance Company.

Effective July 15, 1992, the Company was converted to a domestic mutual insurance company, and its name was changed to Idaho Mutual Insurance Company. As of July 1, 1997, Latah County Farmers' Mutual Insurance Company merged with the Company.

The Company demutualized and converted to a stock insurance company effective November 7, 2000. At that time, the Company's name was changed to United Heritage Property & Casualty Company and was acquired by United Heritage Financial Group, Inc.

Capital Stock and Paid in Surplus

As of the examination date, the Company had 3,000,000 shares of capital stock issued and outstanding with a par value of $1.00 per share for a total capital of $3,000,000. The issued and outstanding shares were reconciled to Company capital stock records without exception. The Company's paid in and contributed surplus at December 31, 2007 was $4,858,259.

The following exhibit reflects the activity in the capital structure of the Company since the previous examination through December 31, 2007:

Year	Shares Issued/ (Redeemed)	Common Capital Stock	Gross Paid In & Contributed Surplus	Total Capital & Paid in and Contributed
12/31/02	551	$1,377,500	$1,377,500	$2,755,000
11/12/03 (1)	(9)	(22,500)	(22,500)	(45,000)
11/21/03 (2)	60	150,000	0	150,000
9/16/04 (3)	68	170,000	327,692	497,692
3/31/05 (4)	176	440,000	1,060,567	1,500,567
5/31/06 (5)	(846)	(2,115,000)	(2,743,259)	(4,858,259)
5/31/06 (5)	3,000,000	3,000,000	1,858,259	$4,858,259
Totals	3,000,000	$3,000,000	$1,858,259	$4,858,259

(1) Due to a change in Idaho law, Directors were no longer required to be shareholders of a stock insurance company. In this connection, the Board of Directors signed documents to release shares of stock issued in their names. The shares were cancelled on November 12, 2003.

(2) The Board of Directors authorized the sale of 60 shares of stock to United Heritage Financial Group, Inc. on November 12, 2003 for $150,000. The amount was below the materiality threshold set forth by Section 41-3807, Idaho Code; therefore, a Form D filing was not required. The shares were subsequently cancelled on May 31, 2006.

(3) On September 9, 2004, the Board of Directors authorized the sale of 68 shares of stock to United Heritage Life Insurance Company for $170,000. A Form D filing was submitted to the Department of Insurance pursuant to Section 41-3807, Idaho Code and IDAPA 18.01.23.023. In a letter to the Company dated September 16, 2004, the Department had no objection to the proposed transaction. United Heritage Life Insurance

Company transferred the shares to United Heritage Financial Group on December 2, 2005. The shares were cancelled on May 31, 2006.

(4) The sale of 176 shares of stock to United Heritage Financial Group, Inc. was approved by the Board on March 10, 2005. The Department did not have any objections to the transaction described in the Form D filing submitted on February 25, 2005. The shares were subsequently cancelled on May 31, 2006.

(5) On May 15, 2006, the Board of Directors approved a resolution to amend the Articles of Incorporation to authorize 20,000,000 shares of $1 par value Class A common voting stock and convert 846 issued and outstanding shares of $2,500 par value common voting stock into 3,000,000 shares of $1 par value Class A common voting stock. The conversion factor was 1:3546.0992908. The change in par value was accounted for as a reclassification between paid-in capital and common capital stock. The Company made a reclassification entry of $855,000 from paid-in capital to common capital stock to reflect the conversion. This information is also disclosed in Note 3 to the Financial Statements.

Dividends to Stockholders

During the period January 1, 2003 through December 31, 2007, the Board of Directors declared and the following dividends were paid to shareholders of the Company, United Heritage Financial Group, Inc. and United Heritage Life Insurance Company:

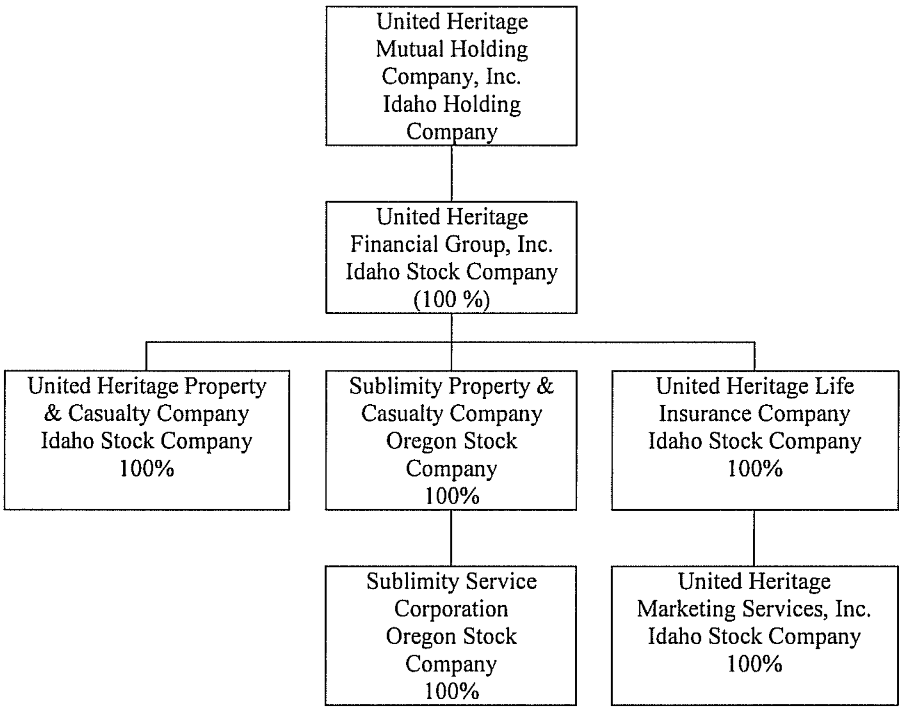
Date Declared	Notification Date	Date Paid	Cash Distribution	Non-Cash Distribution	Total
5/16/05	5/17/05	6/2/05	$ 50,000	$ 0	$ 50,000
9/13/05	9/22/05	9/27/05	50,000	0	50,000
11/22/05	11/22/05	12/7/05	50,000	0	50,000
2/28/06	3/1/06	3/22/06	50,000	0	50,000
5/15/06	5/17/06	6/1/06	50,000	0	50,000
9/12/06	9/15/06	9/29/06	50,000	0	50,000
11/14/06	11/21/06	12/13/06	50,000	0	50,000
1/9/07	1/9/07	1/31/07	50,000	0	50,000
5/21/07	5/22/07	6/7/07	50,000	0	50,000
7/10/07	7/16/07	8/2/07	50,000	0	50,000
11/27/07	11/27/07	12/26/07	50,000	0	50,000
		Total	$550,000	$ 0	$550,000

Subsequent to the examination date, dividends of $187,500 were declared and paid to United Heritage Financial Group, Inc.

MANAGEMENT AND CONTROL

Insurance Holding Company System

On November 7, 2000, the majority of the Company's stock was acquired by United Heritage Financial Group, Inc. At that time, the Company became a member of an insurance holding company system as defined in Section 41-3801, Idaho Code. The "Ultimate Controlling Person" within the holding company system was United Heritage Mutual Holding Company, Inc. as shown in the following organizational chart:



As previously reported, United Heritage Financial Group, Inc. owned 100 percent of the Company's issued and outstanding shares at year-end 2007.

Affiliated Transactions

A cost sharing and allocation arrangement between and among the subsidiary companies of UHFG, was executed by the Company in the prior exam period. In a letter dated December 11, 2001, the Department of Insurance stated that the agreement was reviewed pursuant to Section 41-3807, Idaho Code and IDAPA 18.01.23.023, and had no objections to the proposed agreement.

The original agreement, effective January 1, 2002 through January 1, 2003, was amended effective August 15, 2003 until terminated. Terms of the amended agreement provided for the following:

- Employee benefit costs are allocated to and paid by each respective company in proportion to their share of the cost of the benefit. No markup or overhead charge is earned by UHFG.

- United Heritage Financial Services, Inc. (UHFS), an NASD licensed broker-dealer of securities, provides transaction processing and clearing services to the Company. Charges are based upon usage of the services and are at rates consistent with institutional fees charged to other non-affiliated clients.

- United Heritage Life Insurance Company (UHLIC) is the owner of the corporate headquarters building located in Meridian, Idaho. The Company rents space from UHLIC. No formal rental agreement exists and the occupancy is month-to-month.

- UHLIC pays various operating expenses, including telephone and computer network services for the Company. These expenses are charged to the Company based upon its share of usage.

- UHLIC includes UHFS in its payroll processing and charges UHFS for direct employee payroll costs.

- UHLIC provides or may provide mortgage loan services, including the sale of mortgages and participations to the Company. Servicing is provided at rates consistent with institutional fees charged to other non-affiliated clients.

Subsequent to the examination date, the agreement was amended effective September 7, 2008. During 2007, UHFS was merged with UHFG; therefore, this term was deleted from the amended agreement. A provision for software sharing between the Company and Sublimity Insurance Company was also included in the amended agreement. All other terms were substantially similar.

The Company entered into an income tax allocation agreement with United Heritage Holding Company, United Heritage Financial Group, Inc, United Heritage Marketing Services, Inc., Sublimity Insurance Company, and Sublimity Services Corporation subsequent to the examination date. The agreement was effective for the tax year starting January 1, 2006. Consolidated tax returns were filed for the tax years 2006 and 2007. The consolidated tax returns were prepared on the separate return method and the tax attributes of each company were allocated accordingly.

The amended cost sharing and allocation arrangement and tax allocation agreement were submitted to the Idaho Department of Insurance under Section 41-3807, Idaho Code. In a letter to the Company dated August 15, 2008, the Department reviewed the agreements under IDAPA 18.01.23.023 and had no objections to the proposed transactions.

The Company purchased participation interests in mortgage loans from the UHLIC. In this connection, UHLIC provided mortgage loan purchasing and servicing functions

under the previously discussed cost sharing and allocation arrangement. The Company notified the Department of Insurance of the inter-affiliate sales on October 1, 2003. A letter from the Department dated October 15, 2003, indicated the submission was reviewed pursuant to Section 41-3807, Idaho Code and IDAPA 18.01.23.023. The Department had no objections to the proposed arrangement. In addition, the Company acquired and/or sold certain marketable securities with affiliated parties during the examination period. Such transactions were properly disclosed in the Notes to Financial Statements.

In 2003, UHLIC executed a guarantee for debt of the Company related to its $300,000 line of credit with Wells Fargo Bank. In 2005, the line of credit was increased to $500,000. For all years except 2004, the line of credit year-end balance was zero.

The Company participated in the 401(k) plan sponsored by United Heritage Financial Group, Inc. In addition, the Company adopted United Heritage Life Insurance Company's accident and health insurance, dental insurance, and other miscellaneous employee benefits.

Company records indicated that no one person or entity had the power to direct the management of the ultimate controlling person noted in the chart above.

A review of the latest Form B Registration Statement filed by United Heritage Life Insurance Company showed that it had been submitted to the Idaho Department of Insurance on May 29, 2008, and appeared to be current and valid.

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Directors

The following persons were the duly elected members of the Board of Directors at December 31, 2007:

Name and Business Address	Principal Occupation
George Rudolph Banta, Jr.	Retired – Chief Master Sergeant, United States Air Force
Brian Edward Henman 707 United Heritage Court Meridian, ID	President and Chief Executive Officer, United Heritage Property & Casualty Company
James Russell Nall, Jr. 917 2nd Street South, Nampa, ID	Agent/Owner, W. W. Deal Agency
Nancy Knox Napier, Ph.D. Boise State University Boise, ID	Professor, College of Business & Economics, Boise State University
Glenn Sylvester Osborn	Retired – City of Wilder Fire Chief
Mickey Lynn Ware 707 United Heritage Court Meridian, ID	Senior Technology Officer, United Heritage Life Insurance Company
Jack Jay Winderl 707 United Heritage Court Meridian, ID	Executive Vice President, Investments & Treasurer, United Heritage Life Insurance Company

Officers:

The following persons were serving as officers at December 31, 2007:

Glenn Sylvester Osborne	Chairman of the Board
James Russell Nall, Jr.	Vice-Chairman of the Board
Brian Edward Henman	President & Chief Executive Officer
Sharon Lee Locke	Senior Vice-President, Marketing & Secretary
Todd H. Gill	Senior Vice-President & Chief Financial Officer
Kent Michael Delana	Vice-President, Mortgage Lending
Jack Jay Winderl	Vice President & Treasurer
Geoff Baker	Vice-President & General Counsel
Marjorie Hopkins	Vice-President, Human Resources & Assistant Corporate Secretary

Committees

The following persons were appointed to special or standing committees at December 31, 2007:

Executive Committee	Claims Committee
Glenn Sylvester Osborne	James Russell Nall, Jr.
James Russell Nall, Jr.	George Rudolph Banta, Jr.
Brian Edward Henman	

Underwriting Committee	Marketing Committee
James Russell Nall, Jr.	Brian Edward Henman

Corporate Governance

A review of the Company's corporate governance structure was performed in compliance with the NAIC's risk-focused examination standards. This review included an evaluation of the Company's organizational structure and assessments of the Board of Directors and Company management. Overall, the Company has a sound organizational structure in place, with an open and ethical culture. The review determined that the Board of Directors utilized independent judgment and evaluation in their decision making and oversight functions and met the duty of care and loyalty standards in fulfilling their obligations. An assessment of Company management indicated that management was experienced, stable, and conservative in their business practices.

Conflict of Interest

The Company had a conflict of interest policy in place that required the directors, officers, and management employees to complete a disclosure statement of any conflicts or possible conflicts with the performance of their duties and responsibilities. The statements completed during the period January 1, 2003 through December 31, 2007 and subsequent thereto appeared to appropriately disclose any possible conflicts of interest.

The previous examination report noted that the disclosure statements were completed by directors and officers of the Company, but were not completed by management employees as specified in the policy adopted by the Board of Directors. Therefore, it is again recommended that management employees execute conflict of interest statements annually. Subsequent to the examination date, management employees completed conflict of interest statements in compliance with the policy adopted by the Board.

Contracts and Agreements

The Company had the following agreements in effect at December 31, 2007:

Agent Appointment Agreements

Independent agents and agencies produced business on behalf of the Company under terms of Agent Appointment Agreements. These agreements were effective on a continuous basis and commissions were paid in relation to territory and business written. The agreements terminate upon the death or retirement of the agent or immediately by written notice from the agent or the Company.

Agency Profitability and Contingent Bonus Agreements

Contingent commissions were paid to agents and agencies under Agent Profitability Bonus Agreements and Agent Contingency Bonus Agreements. The bonuses are calculated on premium paid and commission schedules contained within the agreements. In addition, to qualify for profitability and contingency bonuses, agents and/or agencies must meet minimum premium and loss ratio requirements.

Computer Programmer Agreement

The Company retained the services of a computer programmer for its information systems and data processing needs for the COBOL based system. Under the terms of the letter of agreement for the years 2007 and 2008, programming services were provided at the rate of $45 per hour, for a total of $40,500. Additional hours were billed at the same rate. Subsequent to the examination date, the letter of agreement was updated for the years 2009 and 2010 under the same terms.

Consulting Agreement

The Company entered into a consulting agreement with a former employee on January 22, 2007 for certain compliance, policy creation, continuing education and other projects as assigned. The contract rate was $50 per hour, not to exceed $22,500 annually. The agreement may be terminated by either party upon written notice.

Inspection Agreements

The Company also entered into consulting agreements with independent contractors for inspection services. The agreements had various effective dates and may be terminated by either party upon written notice. Fees under the contracts were generally $35 per hour.

CORPORATE RECORDS

Articles of Incorporation and Bylaws

The Company's records indicated that the Articles of Incorporation and the Bylaws were amended once during the period under examination.

The Articles of Incorporation were amended whereby the total authorized number of shares of the Company shall be 20,000,000 shares, each with a par value of one dollar ($1), which such shares shall be of one class of Class A common voting stock with uniform rights. Each share of $2,500 par value common stock issued and outstanding as

of the date of the amendment shall be converted into 3,546.0992908 shares of $1 par value Class A common voting stock. Thereafter, each shareholder shall be issued a certificate representing its ownership of $1 par value Class A common voting stock.

The Board of Directors and the sole Shareholder of the Company approved the Second Articles of Amendment to the Articles of Incorporation on May 15, 2006. The amended Articles of Incorporation were submitted to the Department of Insurance pursuant to Section 41-2826, Idaho Code. The form and content of said Articles of Incorporation were approved as of May 31, 2006, as conforming to Idaho law.

The Bylaws were amended and restated pursuant to a resolution approved by the Company's Board of Directors on May 16, 2005. The Amended and Restated Bylaws replaced the Bylaws previously adopted by the Board of Directors on November 7, 2000. The Company submitted a copy of the Amended and Restated Bylaws to the Idaho Department of Insurance on May 20, 2005. The Department acknowledged receipt of such on June 1, 2005.

Minutes of Meetings

A review of the minutes of the meetings of the Shareholders and the Board of Directors for the period January 1, 2003 through December 31, 2007, and subsequent thereto, indicated compliance with the Articles of Incorporation and Bylaws with respect to annual Shareholder and Board meeting dates, the election of the Board of Directors and Officers, and the appointment of Committee members.

This review of the minutes also indicated that a quorum was present at all Board of Directors' meetings held during the examination period and that Company transactions and events were properly authorized. Specifically, declaration of dividends; salaries, bonuses and Board compensation; and the sale of capital stock, among other things, were properly approved and documented in the minutes. In addition, investments of the Company were authorized by the Board of Directors as required by Section 41-704, Idaho Code.

The minutes of the Board of Director's meeting held July 8, 2003 indicated that the Report of Examination as of December 31, 2002, conducted by the Idaho Department of Insurance was filed and became public record on July 3, 2003. In this connection, Affidavits of Director were executed by all Directors certifying receipt of the Company's December 31, 2002 Report of Examination and July 3, 2003 Order Adopting the Report of Examination.

FIDELITY BOND AND OTHER INSURANCE

Insurance coverage for the protection of the Company was maintained through the period under examination. Coverages in effect as of December 31, 2007 included insurance company professional liability, directors' and officers' liability, business owners'

property and commercial automobile; workers' compensation and employers' liability; key man life; and, financial institution bond insurance.

For the coverage period of April 2002 through April 2003, the financial institution bond insurance was issued as a separate policy to United Heritage Mutual Holding Company. Beginning with the 2003 coverage year, the financial institution bond insurance was included in the directors' and officers' liability package issued to the United Heritage Mutual Holding Company and its subsidiaries. The protection of the financial institution bond met the suggested minimum limits recommended by the NAIC *Financial Condition Examiners Handbook.*.

The insurance companies providing coverage to the Company and to the United Heritage Mutual Holding Company were licensed or otherwise authorized in the state of Idaho. Insurance company professional liability coverage was written on a surplus lines basis.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

One former employee of the Company received pension benefits under a non-qualified retirement plan previously in use. Reserves for pension benefits under this plan were based on annuity factors provided by the Idaho Department of Insurance. At December 31, 2007, the liability associated with future pension payments was established in the balance sheet under the caption, *Other expenses.*

The Company participated in the United Heritage Financial Group 401(k) Plan. Under this Plan, the Company matched the first 4 percent of employee contributions. Additionally, a discretionary amount based on profit may be paid by the Company to the 401(k) plan. The Company's matching contribution allocated to plan participants for plan year 2007 was $35,324. The profit-sharing contribution allocated in 2007 for Plan year 2006 was $65,749. The profit-sharing accrual for year-end 2007 was established in the balance sheet under the caption, *Other expenses.*

Effective July 13, 2004, a Supplemental Executive Retirement Plan was established. The Plan is funded by a key man life insurance policy issued by affiliate, United Heritage Life Insurance Company. The Board of Directors approved the purchase of such insurance on March 9, 2004.

During the examination period, benefits offered to Company employees included health and dental insurance, as well as group accident, group life, and group long-term disability insurance coverages.

TERRITORY AND PLAN OF OPERATION

The Company was authorized to write property and casualty business, excluding workers compensation in the States of Arizona, Idaho, Oregon, Utah, and Washington. The

Company did not write any business in Arizona or Washington during the current examination period. However, in 2009 the Company plans to begin writing business in Arizona where all of its policies, rates, and forms have been approved. The Certificates of Authority issued by the respective states were inspected and verified with nothing exceptional noted.

The Company's key lines of business included standard fire, homeowners, farmowners, landlord, and commercial lines of insurance coverages. In 2005, identity fraud expense reimbursement protection was provided at no cost to the policyholder.

In 2009, the Company will begin writing automobile insurance in the State of Idaho. This coverage will be offered as a packaged product for certain products. The Company expects to offer an umbrella policy also beginning in 2009.

Insurance products were marketed through independent agencies primarily on a general agency basis. At year-end 2007, the Company utilized a field force of 76 independent agencies in Idaho comprised of 305 producers to solicit business on its behalf.

Operations of the Company were conducted from its main administrative office located in Meridian, Idaho.

A review of the Company's producer appointment and licensing practices indicated that the Company failed to properly appoint and terminate agencies pursunt to Sections 41-1018 and 41-1019, Idaho Code. Specifically, a sample of 38 active agencies was reviewed to determine compliance with Sections 41-1018(1) and 1018(2), Idaho Code, relative to the timely notification of appointments to the Department of Insurance. The findings indicated the Company did not notify the Department of seven agency appointments within the required 15 days set forth under Section 41-1018(2), Idaho Code.

A sample of 16 terminated agencies was reviewed to determine compliance with Sections 41-1018(1), 41-1018(2), 41-1019(2), and 41-1019(4), Idaho Code relative to the timely notification of producer appointments and terminations to the Department. The findings indicated the Department was not notified of the appointment of 5 agencies within the required 15 days pursuant to Section 41-1018(2), Idaho Code or notified of the termination of 7 agencies within 30 days specified by Section 41-1019(2), Idaho Code. Finally, 7 agencies were not notified of termination within 15 days set forth by Section 41-1019(4), Idaho Code.

Based on the above findings, it is recommended that the Company establish and implement procedures to ensure the timely notification of the Department and agencies relative to appointments and terminations. The Company subsequently corrected all appointment and termination errors noted by the examination.

STATUTORY AND SPECIAL DEPOSITS

As of December 31, 2007, the Company had provided the following deposits in trust for the protection of all its policyholders and/or creditors through the office of the Director of Insurance, in compliance with Section 41-316A, Idaho Code.

Description	Par Value	Statement Value	Market Value
Statutory:			
Alameda Corridor Transn Auth Calif, Due 10/1/2030	$ 320,000	$ 85,238	$ 85,501
Associates Corp North Amer Sub Deb, Due 8/1/2009	125,000	130,070	131,227
Eugene Ore Elec Util Rev, Due 8/1/2027	300,000	89,034	99,693
Federal Home Ln Mtg., Due 11/15/2021	4,236	4,248	4,470
New Brunswick NJ Pension, Due 10/15/2025	160,000	51,223	59,928
New Jersey Economic Dev, Due 2/15/2018	46,000	30,033	29,901
Oregon Sch Brds Assn, Due 6/30/2023	400,000	153,652	169,836
US Treasury Sec Stripped, Due 11/15/2011	284,000	221,143	254,135
US Treasury Sec Stripped, Due 11/15/2012	300,000	221,062	253,824
University N Mex Ctfs Partn, Due 6/30/2020	250,000	250,506	267,270
Totals	$2,189,236	$1,236,209	$1,355,785

GROWTH OF THE COMPANY

The Company's growth for the years indicated, as taken from the prior examination report and its Annual Statements, is shown in the following schedule:

Year	Admitted Assets	Liabilities	Capital & Surplus	Net Income(Loss)
2002*	$ 7,559,714	$ 4,245,711	$ 3,314,003	$ (26,368)
2003	9,453,815	5,660,712	3,793,103	123,127
2004	12,836,873	7,247,821	5,589,052	1,105,792
2005	17,120,091	8,629,541	8,490,551	1,554,762
2006	18,777,091	9,449,464	9,327,627	980,770
2007*	20,516,757	10,865,170	9,651,587	886,745

*As determined by Examination.

In general, assets and surplus increased over the examination period due to organic growth in premium and capital contributions from United Heritage Financial Group, Inc. and United Heritage Life Insurance Company. Liabilities also increased due to premium growth, increased number of adjusters and assessments and commissions. Net income increased steadily due to increased writings and investment income arising from a higher

asset base. Slower growth and higher claim costs resulted in lower net income in 2006 and 2007. Overall, the Company is in a stronger financial position than year-end 2002.

LOSS EXPERIENCE

The ratios of benefits and expenses to written premium shown in the following schedule were derived from amounts reported in the Company's Annual Statements:

Year	Net Premiums Written	Net Losses Paid	Underwriting Expenses	Ratio of Benefits and Expenses to Written Premium
2002*	$ 4,459,907	$1,884,847	$2,089,386	89.11%
2003	6,521,664	2,680,577	2,662,753	81.93%
2004	8,554,247	2,717,046	3,192,698	69.08%
2005	10,713,200	3,554,201	4,089,460	71.43%
2006	10,629,999	5,307,488	3,882,958	86.45%
2007*	12,048,241	6,034,184	4,628,986	88.50%

*As determined by Examination.

Premium writings increased significantly throughout the examination period due to organic growth and expansion into other states. Net losses paid and underwriting expenses decreased in 2003 and 2004, but began rising in 2005 to reach near 2002 levels by year-end 2007. Higher losses were due to windstorms and ice and snow claims in 2006 and 2007.

REINSURANCE

Assumed

The Company did not assume any reinsurance business during the period January 1, 2003 through December 31, 2007 and subsequent thereto.

Ceded

During the examination period, the Company maintained multiple lines excess of loss reinsurance for property and casualty risks, catastrophe coverages, and property facultative reinsurance. The reinsurance agreements contained the standard insolvency clause, right of offset, arbitration, access to records, and errors and omissions provisions. The reinsurers were authorized by the State of Idaho. The Department's contract actuary, Lewis & Ellis, determined that the reinsurance agreements in-force at year-end 2007 transferred risk.

The reinsurance agreements in-force during the examination period are summarized below.

Multiple Line Excess of Loss

During the current examination period, the Multiple Line Excess and Property Excess of Loss Reinsurance contracts that were in force at year-end 2002 were renewed for 2003 and 2004. These agreements were written and administered by reinsurance intermediary, Benfield, Inc., Minneapolis, Minnesota. Reinsurance was through Harco National (also known as IAT Reinsurance). Retentions were $60,000 for property and $50,000 for casualty. Coverages under the combined agreements were $1,000,000 on property and casualty in 2003 and $1,250,000 for property in 2004.

The multiple line and property excess of loss agreements with Harco were terminated as of December 31, 2004. A new Multiple Line Excess of Loss reinsurance agreement was executed with General Reinsurance Corporation, Stamford, Connecticut effective January 1, 2005. This agreement was renewed via endorsements for the years 2006, 2007, and 2008.

The retention for years 2005 and 2006 was $75,000 on both property and casualty business. Retentions increased to $100,000 and $125,000 in 2007 and 2008, respectively. Coverages were $1,000,000 in 2005 and 2006 for property and casualty. Property coverages were increased to $1,500,000 in 2007.

Property Facultative

Beginning in 2005, the Company maintained property facultative coverage through General Reinsurance Corporation. Retention was $800,000 with limits of $2,000,000. The agreement was renewed in 2006, 2007, and 2008. Retentions and coverages increased in 2007 to $1,200,000 and $2,500,000, respectively.

Property Catastrophe

The catastrophe coverage in force during the prior examination period extended into the current exam period. This contract was also written and administered by Benfield, Inc. Retention was $200,000, with $1,500,000 total coverage. The agreement expired at termination on December 31, 2003.

Effective January 1, 2004, a new contract was executed with General Reinsurance Corporation. The catastrophe coverage was shared with sister company, Sublimity Insurance Company. Retention under this agreement was $500,000, with $4,500,000 total coverage. The agreement was renewed in 2005, 2006, and 2007. Retentions were increased in 2006 to $750,000 and $1,000,000 in 2007. Coverages decreased to $4,250,000 in 2006 and to $4,000,000 in 2007.

Subsequent to the examination date, the Company, along with Sublimity, entered into a Property Catastrophe Excess of Loss agreement with Swiss Reinsurance America Corporation, Armonk, New York. The retention is $950,000 with coverage of $3,800,000 under this agreement.

INSURANCE PRODUCTS AND RELATED PRACTICES

A limited scope Market Conduct Examination was conducted in conjunction with the examination of the administrative affairs, books, records, and financial condition of the Company. Sample tests performed by the examiner were generally based upon guidance from the NAIC *Market Regulation Handbook*, which included sample sizes derived from a 95 percent confidence level. Additionally, samples were randomly drawn using the Audit Command Language (ACL) data analysis software.

Policy Forms and Underwriting

The Company currently markets homeowners (includes mobile homes, tenant, condo, and home and family); farmowners; and, commercial (includes business insurance and landlord). Except tenant policies, all include dwelling with replacement cost coverage, other structures, personal property, loss of use, additional property coverages, medical payments to others, additional liability coverages, and optional liability endorsements. Tenant policies exclude dwelling and other structures coverage, and condominium policies exclude other structures.

Underwriting samples were reviewed to determine compliance with respect to unfair trade practices, proper rating and use of credit scores, prompt refund of unearned premium, timely notification of cancellation/non-renewal, and policies written by licensed and appointed agents. A complete review found that the Company is in compliance in the use of credit scores, prompt refund of unearned premium, and timely notification of cancellation. It was determined that two of the policies issued in the sample were written by an agency which was not properly appointed as specified by Section 41-1018(1), Idaho Code. See the preceding portion of this report titled *TERRITORY AND PLAN OF OPERATION* for additional comments.

The Company properly filed rates during the scope of the examination pursuant to Bulletin 91-1. As required under Idaho's file and use statute, Section 41-1812, Idaho Code, the Company properly filed all forms used in the State of Idaho.

Review of the Company's practices relative to consumer privacy found that the Company is in compliance with Section 41-1334, Idaho Code and IDAPA 18.01.48.100. The Company website provides a copy of the privacy terms, applicants are supplied with a copy of the Company's privacy policy upon issue and annually upon renewal, and all producers sign an acknowledgment of consumer privacy.

Treatment of Policyholders

Claims

Samples of denied and paid claims were reviewed to determine compliance with Idaho laws. There were no compliance exceptions identified.

The Company has a fraud plan in place. The Company reported suspected fraudulent claims to the Department of Insurance in compliance with Section 41-290, Idaho Code.

Complaints
The Company did not maintain a complaint log or register pursuant to Section 41-1330, Idaho Code. Therefore, no log of written complaints received either directly or from the Department was maintained during the scope of the examination. It is recommended that the Company develop a procedure wherein a specific person receives, date stamps, and logs all complaints prior to forwarding such to the appropriate department/manager within the Company. The Company has corrected this finding, and is now in compliance with Idaho law.

Advertising and Sales Material
The Company does not advertise in the media. It does have a website which informs readers as to the type of policies available. Otherwise, the only advertising materials are those brochures provided by the agents when individuals apply for coverage. The agent agreement states that the producer/agency shall not publish or distribute any advertisements, logos, circulars or other materials referring to the Company without first securing the Company's written approval.

Information about the Company and its products is available on United Heritage Financial Group, Inc.'s website at www.unitedheritage.com.

The Company's marketing brochures and website were found to be in statutory compliance, with nothing deceptive or misleading noted.

ACCOUNTS AND RECORDS

General Accounting

During previous examination periods, the Company utilized a custom developed property and casualty administration, billings, claims and accounting system (COBOL). The accounting portion of the customized system was converted to SunGard's Enterprise Accounting System (EAS) on January 1, 2003. The Company also utilized SunGard's Enterprise Portfolio System (EPA) for its investment accounting software.

In February 2007, the policy administration, billing, and claims portions of the COBOL system were converted to the PACS system, which was developed and is owned by affiliate, Sublimity Insurance Company. PACS is a Windows-based system. As previously reported under *MANAGEMENT AND CONTROL*, a provision for software sharing between the Company and Sublimity Insurance Company is included in the cost sharing and allocation agreement.

As previously reported, information systems and data processing services for the COBOL legacy system were provided to the Company by an outside programmer. See *MANAGEMENT AND CONTROL* for additional comments in this regard.

Up to 2007, the Company utilized an outside accounting firm to compile the financial statements, among other things. Starting in 2007, the outside accountant no longer compiled the financials, but continued to prepare the NAIC annual and quarterly financial statements.

The Company's information systems were reviewed by Information System Specialist, Jenny L. Jeffers, CISA, AES, on behalf of Examination Resources, LLC. The procedures were performed in accordance with the guidelines and procedures set forth in the Exhibit C, Evaluation of Controls in Information Systems Questionnaire (ISQ) contained in the NAIC *Financial Condition Examiners Handbook.* In summary, the functional areas reviewed by the Information System Specialist included the following:

- Section A – Management Controls
- Section B – Organization Controls
- Section C – Change Management
- Section D – System Development
- Section E – Operations
- Section F – Processing
- Section G – Documentation
- Section H –Outside Service Providers
- Section I – Logical and Physical Security
- Section J – Contingency Planning
- Section K – E-Commerce
- Section L – Wide Area Network (WAN) and Internet Usage

The Information System Specialist's findings were presented to the Company in the Management Letter.

Independent Accountants

The annual independent audits of the Company for the years 2003 through 2007 were performed by Jones, France, Basterrechea & Brush, Chtd., Gooding, Idaho. The financial statements in each report were on a statutory basis. There was some reliance on the 2007 audit report and workpapers in this examination of the Company.

Actuarial Opinion

The policy reserves and related actuarial items were calculated by the Company and reviewed by Joseph L. Petrelli, ACAS, MAAA, FCA, of Demotech, Inc. The December 31, 2007 statement of actuarial opinion issued stated that the amounts carried in the balance sheet are consistent with a Determination of Reasonable Provision. It was concluded that the amounts carried: (a) meet the requirements of the insurance laws of the State of Idaho; (b) are consistent with reserves computed in accordance with accepted actuarial standards and principles; (c) make a reasonable provision for all unpaid loss and loss expense obligations of the Company as of December 31, 2007 under the terms of its contracts and agreements; and (d) do not require a provision for the unearned premium

reserves for long duration contracts of the Company under the terms of its contracts and agreements.

The identified actuarial items in the 2007 Annual Statement were as follows:

Reserve for unpaid losses (Page 3, Line 1)	$1,454,730
Reserve for unpaid loss adjustment expenses (Page, 3 Line 2)	583,317
Reserve for unpaid losses - direct and assumed (Schedule P, Part 1, totals from columns 13 and 15)	2,193,000
Reserve for unpaid loss adjustment expenses - direct and assumed (Schedule P, Part 1, totals from columns 17, 19, and 21)	829,000

Anticipated salvage and subrogation included as a reduction to loss reserves as reported in Schedule P – Analysis of Losses and Loss Expenses, Underwriting and Investment Exhibit – Part 3A and on Page 3, Line 2 were zero. There was no discount for the time value of money reflected in the above and as reported in Schedule P.

Management considered reserve exposure with respect to voluntary and involuntary underwriting pools and associations to be immaterial. Therefore, the net reserves for the Company's share of unpaid losses and loss adjustment expenses that were included in reserves were zero.

The net reserves for losses and loss adjustment expenses that the Company carried for asbestos liabilities and environmental liabilities were zero. The total reserves for losses and loss adjustment expenses that the Company carried for the extended loss and expense reserve and which were reported in the Schedule P Interrogatories were also zero.

The 2006 and 2007 statements of actuarial opinion were re-issued in December 2008 due to a discrepancy in the Company's historical Schedule P information related to Homeowners' insurance. Incremental paid losses, loss paid loss adjustment expenses, outstanding reserves for losses and loss adjustment expenses were allocated to an inappropriate accident year. As the calendar year totals were correct, the discrepancy was not discovered through a reconciliation process.

See the subsequent *NOTES TO THE FINANCIAL STATEMENT* section of this report for further discussion and comments from the Department's examining actuary.

FINANCIAL STATEMENTS

The financial section of this report contains the following statements:

Balance Sheet as of December 31, 2007

Statement of Income, for the Year Ended December 31, 2007

Reconciliation of Examination Changes to the Balance Sheet

Capital and Surplus Account, Year 2007

Reconciliation of Capital and Surplus Account, December 31, 2002, through December 31, 2007

Balance Sheet

As of December 31, 2007

ASSETS

	Per Company Assets	Per Company Nonadmitted Assets	Examination Adjustments	Per Examination Net Admitted
Bonds	$11,913,609	$ 0	$ 0	$11,913,609
Stocks:				
Preferred stocks	1,025,895	0	0	1,025,895
Common stocks	1,196,313	0	0	1,196,313
Mortgage loans on real estate – first liens	3,371,264	0	0	3,371,264
Cash, cash equivalents and short-term investments	401,269	0	0	401,269
Investment income due and accrued	156,359	0	0	156,359
Premiums and considerations:			0	
Uncollected premiums and agents' balances in the			0	
course of collection	771,900	0		771,900
Deferred premiums, agents' balances and			0	
installments booked but deferred and not yet due	606,000	0		606,000
Reinsurance: Amounts recoverable from reinsurers	148,665	0	0	148,665
Current federal and foreign income tax recoverable and interest thereon (Note 1)	105,274	0	91,894	197,168
Net deferred tax asset (Note 1)	733,648	155,790	4,894	582,752
Electronic data processing equipment and software (Note 2)	51,554	0	0	51,554
Furniture and equipment, including health care delivery assets	87,414	0	0	87,414
Receivable from parent, subsidiaries and affiliates	6,595	0	0	6,595
Totals	$20,575,759	$155,790	$96,788	$20,516,757

LIABILITIES, SURPLUS AND OTHER FUNDS

	Per Company	Examination Adjustments	Per Examination
Losses and Loss adjustment expenses (Note 3)	$ 2,038,047	$254,953	$ 2,293,000
Commissions payable, contingent commissions and other similar charges	232,211	0	232,211
Other expenses	279,018	0	279,018
Taxes, licenses and fees	37,604	0	37,604
Unearned premiums	7,298,365	0	7,298,365
Ceded reinsurance premiums payable (net of ceding commissions)	260,936	0	260,936
Amounts withheld or retained by company for account of others	332,192	0	332,192
Aggregate write-ins for liabilities:			
Escheatable payable	16,787	0	16,787
Deferred revenue	115,057	0	115,057
Total liabilities	$10,610,217	$254,953	$10,865,170
Common capital stock	$ 3,000,000	0	$ 3,000,000
Gross paid in and contributed surplus	1,858,259	0	1,858,259
Unassigned funds (surplus)	4,951,493	(158,165)	4,793,328
Surplus as regards policyholders	$ 9,809,752	(158,165)	$ 9,651,587
Totals	$20,419,969	($ 96,788)	$20,516,757

STATEMENT OF INCOME

For the Year Ending December 31, 2007

UNDERWRITING INCOME	Per Company	Examination Adjustments	Per Examination
Premiums earned	$10,973,378	$ 0	$10,973,378
Deductions:			
Losses incurred (Note 3)	$5,788,944	$254,953	$ 6,043,897
Loss expenses incurred	1,161,339	0	1,161,339
Other underwriting expenses incurred	3,603,678	0	3,603,678
Depreciation on equipment and vehicle	23,954	0	23,954
Total underwriting deductions	$10,577,915	$ 254,953	$10,832,868
Net underwriting gain	$ 395,463	($254,953)	$ 140,510
INVESTMENT INCOME			
Net investment income earned	$ 1,184,607	$ 0	$ 1,184,607
Net realized capital gains	54,782	0	54,782
Net investment gain	$ 1,239,389	$ 0	$ 1,239,389
OTHER INCOME			
Aggregate write-ins for miscellaneous income:			
Gain (loss) sale of assets	$ 2,826	$ 0	$ 2,826
Miscellaneous (expense) income	3,760	0	3,760
Total other income	$ 6,586	$ 0	$ 6,586
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	$1,641,438	$ 0	$ 1,386,485
Federal and foreign income taxes incurred (Note 1)	591,634	($ 91,894)	499,740
Net income (loss)	$1,049,804	($163,059)	$ 886,745

RECONCILIATION OF EXAMINATION CHANGES

TO THE BALANCE SHEET

As of December 31, 2007

Surplus as regards policyholders per the Company $9,809,752

Account	Per Company	Per Examination	Increase/ (Decrease) in Surplus	
Current federal and foreign income tax recoverable and interest thereon (Note 1)	$ 105,274	$ 197,168	$ 91,894	
Net deferred tax asset (Note 1)	577,858	582,752	4,894	
Losses and Loss adjustment expenses (Note 3)	2,038,047	2,293,000	(254,953)	
Net increase (decrease) in surplus			$(158,165)	
Surplus as regards policyholders per Examination				$9,651,587

CAPITAL AND SURPLUS ACCOUNT

For the Year Ending December 31, 2007

	Per Company	Examination Changes	Per Examination
Surplus as regards policyholders, December 31, 2006	$9,327,627		$9,327,627
GAINS AND (LOSSES) IN SURPLUS			
Net income	$1,049,804	($163,059)	$ 886,745
Change in net unrealized capital gains or (losses)	(481,870)	0	(481,870)
Change in net deferred income tax	224,371	4,894	229,265
Change in nonadmitted assets	(110,185)	0	(110,185)
Dividends to stockholders	(200,000)	0	(200,000)
Distribution due to mutual policyholders	5	0	5
Change in surplus as regards policyholders for the year 2007	$ 482,125	($158,165)	$ 323,960
Surplus as regards policyholders, December 31, 2007	$9,809,752	($158,165)	$9,651,587

RECONCILIATION OF CAPITAL AND SURPLUS ACCOUNT

December 31, 2002 Through December 31, 2007

	2003	2004	2005	2006	2007
Surplus as regards policyholders, December 31, previous year	$3,314,003	$3,793,103	$5,589,052	$8,490,551	$9,327,627
Net income	$ 123,127	$1,105,702	$1,554,762	$ 980,770	$ 886,745
Change in net unrealized capital gains or (losses)	107,066	87,320	(93,171)	45,954	(481,870)
Change in net deferred income tax	70,148	86,553	82,782	3,562	229,265
Change in nonadmitted assets	45,000	0	(1,582)	6,506	(110,185)
Capital changes: paid in (Note 4)	150,000	170,000	440,000	885,000	0
Surplus adjustments: Paid in (Note 4)	0	327,692	1,060,567	(885,000)	0
Dividends to stockholders	0	0	(150,000)	(200,000)	(200,000)
Aggregate write-ins for gains and losses in surplus:					
Distribution due to mutual policyholders	28,759	18,682	8,141	284	5
Cancelled stock subscription	(45,000)	0	0	0	0
Change in surplus as regards policyholders for the year	$479,100	$1,795,949	$2,901,499	$ 837,076	$ 323,960
Surplus as regards policyholders, December 31, current year	$3,793,103	$5,589,052	$8,490,551	$9,327,627	$9,651,587

NOTES TO THE FINANCIAL STATEMENTS

Note (1) – Current federal and foreign income tax recoverable and interest thereon	$197,168
Net deferred tax asset	582,752
Federal and foreign income taxes incurred	499,740

The financial statements of the examination report have been adjusted to include the tax effects of the increase in loss reserves determined by the examining actuary. See Note 3 below for further discussion.

Note (2) – Electronic data processing equipment and software	$51,554

The Company included the depreciated cost of non-operating, application software within Electronic data processing equipment in the prior examination period. Non-operating, application software, if reported within Electronic data processing equipment, is not admitted under Section 41-601(11), Idaho Code. However, application software, at the option of the insurer, may be admissible under Section 41-601(12), Idaho Code, and if so should be reported within Furniture and equipment. The total amount of application software admissible under Section 41-601(12) cannot exceed 1 percent of the other assets of the insurer. Therefore, it was recommended that application software reported as part of electronic data processing equipment be nonadmitted or reclassified to furniture and equipment admitted up to limits specified in Section 41-601(12), Idaho Code.

At year-end 2007, application software of $2,269 ($6,375 cost less $3,406 accumulated depreciation) was included within Electronic data processing equipment. Although the amount is immaterial to the financial statements as a whole, this accounting treatment does not conform to Idaho law. Therefore, it is again recommended that non-operating application software reported as part of electronic data processing equipment be nonadmitted or reclassified to furniture and equipment and admitted up to limits specified in Section 41-601(12), Idaho Code.

Under Section 41-601(11), Idaho Code, the cost of electronic data processing equipment shall be amortized in full over a period not to exceed ten calendar years. This depreciation period differs from guidance set forth in SSAP No. 79. Therefore, this prescribed practice should also be disclosed in the Notes to the Financial Statements.

Allowing application software as an admitted asset differs from guidance set forth in SSAP No. 16. If the Company opts to include non-operating, application software with furniture and equipment, this prescribed practice should be disclosed in the Notes to the Financial Statements.

Note (3) – Losses and loss adjustment expenses	$2,293,000
Losses and loss expenses incurred	6,043,897

Losses and loss adjustment expenses, as of December 31, 2007, were examined by Lewis & Ellis, Inc. (L&E), examining actuaries for the Idaho Department of Insurance. Their

initial assessment of the Company's loss and loss adjustment expense (LAE) reserves indicated a material deficiency.

Management did not agree with L&E's initial reserve findings citing the following reasons: 1) L&E selected different loss development factors, resulting in higher than carried reserves; 2) critical year 2006 windstorm loss data and analysis were not provided to L&E; and 3) actual development in 2008 had aligned with Company estimates more than L&E's reserve estimates.

Consequently, L&E performed a lag study to verify management's assertions and to refine their estimate of the Company's loss and LAE reserves using actual development through September 30, 2008. As a result of additional procedures performed, L&E's actuarial central estimate of the Company's net liabilities was approximately $255,000 more than the net loss and LAE reserves carried by the Company at December 31, 2007. It was noted that the Company had posted net adverse development of $206,000 in its September 30, 2008 quarterly financial statement.

L&E also developed a range around their actuarial central estimate. Their range was equal to 10 percent of the indicated loss and LAE reserves as of September 30, 2008, only for accident years 2007 and prior. On a net basis, the remaining reserves at September 30, 2008 (including LAE) totaled $588,000; resulting in a range of plus or minus $58,800. Direct and assumed remaining loss and LAE reserves at September 30, 2008 totaled $1.458 million; resulting in a range of plus or minus $146,000.

The reserve difference exceeded examination planning materiality and tolerable error levels. Therefore, the financial statements of the examination report have been adjusted to include the increase in reserves and the tax effects thereon. The financial statements were not adjusted for immaterial differences noted in the examination.

During L&E's review of the 2008 subsequent development, the Company discovered an error in the allocation of loss and defense and cost containment expenses in Schedule P of the 2006 Annual Statement. The total paid and reported losses and LAE were correct, but the allocation by accident year was not. This error impacted accident years 2000 through 2004. For the Homeowners/Farmowners line of business, loss and defense and cost containment expenses were not assigned to the correct accident years. This error carried over to the 2007 Annual Statement. Company management provided corrected versions of the 2006 and 2007 Schedule P. After this adjustment, the loss and LAE data supplied to L&E by the Company was materially consistent with the loss data that L&E used to estimate the loss and LAE reserves required at year-end 2007.

The Schedule P workpapers are compiled by an outside accountant based on data provided by the Company. It is recommended that in the future, the Company independently review and verify the accuracy of Schedule P and/or other exhibits and schedules prepared by the outside accountant.

Finally, subsequent to a review by the DOI's consulting actuary of loss ratios and combined loss and expense ratios, it was determined that the Company was not required to carry a premium deficiency reserve.

Note (4) – Capital changes: paid in, 2006	$885,000
Surplus adjustments: Paid in, 2006	(885,000)

On May 15, 2006, the Board of Directors approved a resolution to amend the Articles of Incorporation to authorize 20,000,000 shares of $1 par value Class A common voting stock and convert 846 issued and outstanding shares of $2,500 par value common voting stock into 3,000,000 shares of $1 par value Class A common voting stock. The conversion factor was 1:3546.0992908. The change in par value was accounted for as a reclassification between paid-in capital and common capital stock. The Company made a reclassification entry of $855,000 from paid-in capital to common capital stock to reflect the conversion.

SUMMARY, COMMENTS AND RECOMMENDATIONS

Summary

The results of this examination disclosed that as of December 31, 2007, the Company had admitted assets of $20,516,757, liabilities of $10,865,170, and surplus as regards policyholders of $9,651,587. Therefore, the Company's total capital and surplus exceeded the $2,000,000 minimum prescribed by Section 41-313, Idaho Code.

Comments and Recommendations

Page

9 It is again recommended that management employees execute conflict of interest statements annually. Subsequent to the examination date, management employees completed conflict of interest statements in compliance with the policy adopted by the Board.

13 It is recommended that the Company establish and implement procedures to ensure the timely notification of the Department and agencies relative to appointments and terminations. The Company subsequently corrected all appointment and termination errors noted by the examination.

18 It is recommended that the Company develop a procedure wherein a specific person receives, date stamps, and logs all complaints prior to forwarding such to the appropriate department/manager within the Company. The Company has corrected this finding, and is now in compliance with Idaho law.

28 It is again recommended that non-operating application software reported as part

of electronic data processing equipment be nonadmitted or reclassified to furniture and equipment and admitted up to limits specified in Section 41-601(12), Idaho Code.

29 The Schedule P workpapers are compiled by an outside accountant based on data provided by the Company. It is recommended that in the future, the Company independently review and verify the accuracy of Schedule P and/or other exhibits and schedules prepared by the outside accountant.

CONCLUSION

The undersigned acknowledges the assistance and cooperation of the Company's officers and employees in conducting the examination.

In addition to the undersigned, Ann McClain, CIE, MCM, FLMI, FLHC, AIC, CCP, AIRC, AIAA, ARA, ACS, AIS of the Idaho Department of Insurance, Jenny L. Jeffers, CISA, AES, Examination Resources, LLC, and Glenn A. Tobleman, F.C.A.S., F.S.A., M.A.A.A., Lewis & Ellis, participated in the examination.

Respectfully submitted,

Lois Haley

Lois Haley, CFE
Senior Insurance Examiner
State of Idaho
Department of Insurance

AFFIDAVIT OF EXAMINER

State of Idaho
County of Ada

Lois Haley, being duly sworn, deposes and says that she is a duly appointed Examiner for the Department of Insurance of the State of Idaho, that she has made an examination of the affairs and financial condition of United Heritage Property & Casualty Company for the period from January 1, 2003, through December 31, 2007, that the information contained in the report consisting of the foregoing pages is true and correct to the best of her knowledge and belief; and that any conclusions and recommendations contained in this report are based on the facts disclosed in the examination.

Lois Haley

Lois Haley
Senior Insurance Examiner
Department of Insurance
State of Idaho

Subscribed and sworn to before me the 9th day of February, 2009 at Boise, Idaho.

Debbi Judd

Notary Public

DEBBI JUDD NOTARY PUBLIC STATE OF IDAHO

My Commission Expires: 7/30/2010

State of Idaho
DEPARTMENT OF INSURANCE

C.L. "BUTCH" OTTER
Governor

700 West State Street, 3rd Floor
P.O. Box 83720
Boise, Idaho 83720-0043
Phone (208)334-4250
FAX # (208)334-4398

WILLIAM W. DEAL
Director

WAIVER

In the matter of the Report of Examination as of December 31, 2007, of:

United Heritage Property & Casualty Company
707 East United Heritage Court
Meridian, Idaho 83642

By executing this Waiver, the Company hereby acknowledges receipt of the above-described examination report, verified as of the 9th day of February 2009, and by this Waiver hereby consents to the immediate entry of a final order by the Director of the Department of Insurance adopting said report without any modifications.

By executing this Waiver, the Company also hereby waives:

1. its right to examine the report for up to thirty (30) days as provided in Idaho Code section 41-227(4),
2. its right to make a written submission or rebuttal to the report prior to entry of a final order as provided in Idaho Code section 41-227(4) and (5),
3. any right to request a hearing under Idaho Code sections 41-227(5) and (6), 41-232(2)(b), or elsewhere in the Idaho Code, and
4. any right to seek reconsideration and appeal from the Director's order adopting the report as provided by section 41-227(6), Idaho Code, or elsewhere in the Idaho Code.

Dated this 17 day of February, 2009

Todd Gill
Name (print)

Todd Gill
Name (signature)

Senior Vice President & Chief Financial Officer
Title

EXHIBIT
B

UNITED HERITAGE
Property & Casualty Company

February 10, 2009

Brian Henman
President & CEO

The Honorable William W. Deal
State of Idaho
Department of Insurance
700 West State Street
Boise, Idaho 83720-0043

Re: United Heritage Property & Casualty Company
Management Responses to Examination Reporting Recommendations

Dear Sir:

We received the verified Report of Examination for December 31, 2007, prepared by Lois Haley on February 9, 2010. As part of that report, certain recommendations were made for improving procedures, documentation, or reporting. This letter is the Company's response to those recommendations and includes our outline for complying with the State's recommendations.

The summary comments and recommendations from the verified report are included on page 30 and 31 of such report. We will repeat each recommendation (in italics) and then include our response for each comment.

1. *It is recommended that management employees execute conflict of interest statements annually. Subsequent to the examination date, management employees completed conflict of interest statements in compliance with the policy adopted by the Board.*

   Management's Response: All management employees now have executed conflict of interest statements and we have instituted an annual procedure to ensure these remain up to date.

2. *It is recommended that the Company establish and implement procedures to ensure the timely notification of the Department and agencies relative to appointments and terminations. The company subsequently corrected all appointment and termination errors noted by the examination.*

   Management's Response: Company personnel corrected all errors noted and the Company has instituted policies and procedures that track appointments and terminations by date designates personnel to monitor the required notifications to the State within the time limits.

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3. *It is recommended that the Company develop a procedure wherein a specific person receives, date stamps, and logs all complaints prior to forwarding such to the appropriate department/manager within the Company. The Company has corrected this finding, and is now in compliance with Idaho law.*

   Management's Response: After correction of the complaint logging noted, management has created a tracking and log sheet that is updated each time a compliant is received and ensures designated personnel are responsible for keeping the log sheet current.

4. *It is again recommended that non-operating application software reported as part of electronic data processing equipment be nonadmitted or reclassified to furniture and equipment and admitted up to the limits specified in Section 41-601(12), Idaho Code.*

   Management's Response: In prior years management has opted to admit non-operating application software, however, we have created the necessary tracking to properly report these amounts as part of furniture and equipment.

5. *The Schedule P workpapers are compiled by an outside accountant based on data provided by the Company. It is recommended that in the future, the Company independently review and verify the accuracy of Schedule P and/or other exhibits and schedules prepared by the outside accountant.*

   Management's Response: The Company has added an additional actuarial staff resource to assist in many aspects of the Company's loss reporting and reserving. This position internally compiles and independently checks the Schedule P data prepared by the outside accountant.

If you have any questions or comments regarding this letter and our responses to the verified Report of Examination please contact me.

We appreciate this opportunity to have worked with the Department and to conclude your examination of our Company and our records. Thank you for your cooperation with our people during the examination process. We look forward to working with you and your staff in the future.

Best regards.

Sincerely,

Brian E. Henman

Brian E. Henman
President & CEO