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Department of Insurance
State of Idaho

Attorneys for the Department of Insurance

**BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE
OF THE STATE OF IDAHO**

In the Matter of:

UNITED HERITAGE PROPERTY &
CASUALTY COMPANY

Certificate of Authority No. 1919
NAIC No. 18939

Docket No. 18-3019-15

**ORDER ADOPTING REPORT
OF EXAMINATION AS OF
DECEMBER 31, 2013**

The State of Idaho, Department of Insurance (Department), having conducted an examination of the affairs, transactions, accounts, records, and assets of United Heritage Property & Casualty Company (UHP&C), pursuant to Idaho Code § 41-219(1), hereby alleges the following facts that constitute a basis for issuance of an order, pursuant to Idaho Code § 41-227(5)(a), adopting the Report of Examination of United Heritage Property & Casualty Company as of December 31, 2013 (Report), as filed.

FINDINGS OF FACT

1. UHP&C is an Idaho-domiciled insurance company licensed to transact property insurance and casualty insurance, excluding workers' compensation, in Idaho under Certificate of Authority No. 1919.

2. The Department completed an examination of UHP&C pursuant to Idaho Code § 41-219(1) on or about January 27, 2015. The Department's findings are set forth in the Report.

3. Pursuant to Idaho Code § 41-227(4), a copy of the Report, verified under oath by the Department's examiner-in-charge, was filed with the Department on January 27, 2015, and a copy of such verified Report was transmitted to UHP&C on the same date. A copy of the verified Report is attached hereto as Exhibit A.

4. On or about January 28, 2015, the Department received a Waiver signed by Mickey Lynn Ware, President and Chief Executive Officer of UHP&C. By execution of such Waiver, a copy of which is attached hereto as Exhibit B, UHP&C consented to the immediate entry of a final order by the Director of the Department (Director) adopting the Report without any modifications; waived its right to make a written submission or rebuttal to the Report; and waived its right to request a hearing and to seek reconsideration or appeal from the Director's final order.

5. No written submissions or rebuttals with respect to any matters contained in the Report were received by the Department from UHP&C.

CONCLUSIONS OF LAW

6. Idaho Code § 41-227(5)(a) provides that "[w]ithin thirty (30) days of the end of the period allowed for the receipt of written submissions or rebuttals, the director shall fully consider and review the report, together with any written submissions or rebuttals and relevant

portions of the examiner's work papers" and shall enter an order adopting the report of examination as filed or with modifications or corrections.

7. Having fully considered the Report, the Director concludes that UHP&C meets the minimum capital and surplus requirements set forth in Idaho Code § 41-313(1).

ORDER

NOW, THEREFORE, based on the foregoing, IT IS HEREBY ORDERED that the Report of Examination of United Heritage Property & Casualty Company as of December 31, 2013, is hereby ADOPTED as filed, pursuant to Idaho Code § 41-227(5)(a).

IT IS FURTHER ORDERED, pursuant to Idaho Code § 41-227(8), that the adopted Report is a public record and shall not be subject to the exemptions from disclosure provided in chapter 3, title 9, Idaho Code.

IT IS FURTHER ORDERED, pursuant to Idaho Code § 41-227(6)(a), that, within thirty (30) days of the issuance of the adopted Report, UHP&C shall file with the Department's Deputy Chief Examiner affidavits executed by each of its directors stating under oath that they have received a copy of the adopted Report and related orders.

IT IS SO ORDERED.

DATED this 17th day of February, 2015.

STATE OF IDAHO
DEPARTMENT OF INSURANCE



THOMAS A. DONOVAN
Acting Director

CERTIFICATE OF SERVICE

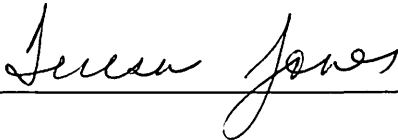
I HEREBY CERTIFY that, on this 17th day of February, 2015, I caused a true and correct copy of the foregoing ORDER ADOPTING REPORT OF EXAMINATION AS OF DECEMBER 31, 2013 to be served upon the following by the designated means:

United Heritage Property & Casualty Company
Attn: Mickey Lynn Ware, President & CEO
707 East United Heritage Court
Meridian, ID 83642
mware@unitedheritage.com

☐ first class mail
☒ certified mail
☐ hand delivery
☒ email

Georgia Siehl, CPA, CFE
Bureau Chief / Chief Examiner
Idaho Department of Insurance
700 W. State Street, 3rd Floor
Boise, ID 83720-0043
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☐ certified mail
☐ hand delivery
☒ email



DEPARTMENT OF INSURANCE

STATE OF IDAHO



REPORT OF EXAMINATION

Of

UNITED HERITAGE PROPERTY & CASUALTY COMPANY

(Property & Casualty Insurer)

(NAIC Company Code: 18939)

As of

December 31, 2013



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Meridian, Idaho
January 27, 2015

The Honorable Thomas Donovan
Deputy Director of Insurance
State of Idaho
700 West State Street
P.O. Box 83720
Boise, Idaho 83720-0043

Dear Deputy Director:

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, 2013, of the financial condition and corporate affairs of:

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

Hereinafter referred to as the "Company", at its offices in Meridian, Idaho. The following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

We have performed our full scope, risk-focused coordinated examination of United Heritage Property & Casualty Company. The examination was conducted on a coordinated basis in conjunction with and concurrently with the examinations of United Heritage Life Insurance Company, Meridian, Idaho by the Idaho Department of Insurance and Sublimity Insurance Company, Sublimity, Oregon, by the Oregon Department of Consumer & Business Services. The last exam was completed as of December 31, 2010. This examination covers the period of January 1, 2011 through December 31, 2013.

Examination Procedures Employed

Our examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* to determine compliance with accounting practices and procedures in conformity with the applicable laws of the State of Idaho, and insurance rules promulgated by the Idaho Department of Insurance (Department). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles (SSAPs and Annual Statement instructions when applicable to domestic state regulations).

The Company retained the services of a certified public accounting firm, Ernst & Young LLP, Seattle Washington, to audit its financial records for the years under examination. The firm allowed the examiners access to requested work papers prepared in connection with its audits. The external audit work was relied upon where deemed appropriate.

All material accounts and activities of the Company were considered in accordance with the risk-focused examination process. The initial phase of the examination focused on evaluating the Company's corporate governance and control environment, as well as business approach, in order to develop an examination plan tailored to the Company's individual operating profile. A risk-focused approach was determined appropriate.

The examination determined the risks associated with identified key functional activities of the Company's operation and considered mitigating factors. Interviews were held with the senior management of the Company to gain an understanding of the entity's operating profile and control environment.

The examination relied on the findings of the actuarial firm contracted by the Department, Taylor-Walker & Associates, Inc., to review the actuarial items.

A letter of representation certifying that management disclosed all significant matters and records was obtained from management and included in the examination working papers.

Status of Prior Examination Findings

Our examination included a review to determine the current status of the two exception conditions commented upon in our preceding Report of Examination, dated December 31, 2010, which covered the period from January 1, 2008 to December 31, 2010. We determined that the Company had not satisfactorily addressed one of those exception conditions.

The prior exam report recommended that non-operating software be either non-admitted or included within *Furniture and equipment, including health care delivery assets*. The current exam determined that non-operating software was again not included as part *Furniture and equipment* or non-admitted. See Note 1 to the Financial Statements for further discussion.

SUMMARY OF SIGNIFICANT FINDINGS

Our examination did not disclose any material adverse findings or any adjustments that impacted the Company's reported capital and surplus.

SUBSEQUENT EVENTS

Subsequent to the examination period, the Company restructured and increased their catastrophe reinsurance program with Swiss Reinsurance America Corporation. Effective January 1, 2014, the Company's reinsurance coverage shared with their affiliate, Sublimity Insurance Company, will have 95% of \$1,000,000 excess of \$2,000,000 for the first layer and 95% of \$8,000,000 excess of \$3,000,000 for the second layer.

COMPANY HISTORY

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.

Dividends and Capital Contributions

As of the examination date, the Company had 3,527,386 shares of capital stock issued and outstanding with a par value of \$1.00 per share for a total capital of \$3,527,386. The Company's paid in and contributed surplus at December 31, 2013 was \$6,758,258.

The following exhibit reflects the activity in the capital structure of the Company since the previous examination through December 31, 2013:

Year	Shares Issued/ (Redeemed)	Common Capital Stock	Gross Paid In & Contributed Surplus	Total Capital & Paid In and Contributed
12/31/2002	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
7/28/10 (6)	176,704	176,704	423,295	5,458,258
8/09/11 (7)	222,562	222,562	577,437	6,258,257
6/26/13 (8)	128,120	128,120	371,881	6,758,258
Totals	3,527,386	\$3,527,386	\$3,230,872	\$6,758,258

(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. Nine 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.

(6) The Board of Directors approved a resolution dated June 15, 2010 to sell 176,704 shares of common stock to United Heritage Financial Group, Inc. for \$3.3955 per share. The stock certificate was issued on July 28, 2010.

(7) The Board of Directors approved a resolution dated May 16 2011 to authorize the Company to sell 222,562 shares of its common stock to United Heritage Financial Group, Inc. for \$3.5945 per share. The stock certificate was issued on August 9, 2011.

(8) The Executive Committee of the Board of Directors approved a resolution dated June 25, 2013 to authorize the Company to sell 128,120 shares of its common stock to United Heritage Financial Group, Inc. for \$3.5945 per share. The stock certificate was issued on June 27, 2013.

Subsequent to the examination date, the Executive Committee of the Board of Directors approved a resolution on March 14, 2014 to sell approximately \$750,000 of the Company's common stock to United Heritage Financial Group, Inc.

Mergers and Acquisitions

There were no mergers and acquisitions during the examination period. The Company's parent, United Heritage Financial Group, Inc., acquired Merced Property & Casualty Company, Merced, California, effective April 1, 2013.

Surplus Debentures

The Company did not issue or own any surplus debentures during the examination period.

CORPORATE RECORDS

The meetings of the Board of Directors and shareholders were conducted on a quarterly and an annual basis, respectively, for all the years under examination.

Investment transactions were approved by the Board of Directors or the Executive Committee, as required by Section 41-704, Idaho Code. Furthermore, the Company maintained records of its investments in conformity with Section 41-705, Idaho Code.

The external auditors presented the audited financial statements and required communications to the Company's Audit Committee as required under IDAPA 18.01.62.021.06.

The order adopting the report of examination as of December 31, 2010 was issued on June 29, 2012. Affidavits of Director were executed by all Directors certifying receipt of the Company's report of examination in accordance with Idaho Code §41-227 (6) (a) by July 17, 2012.

MANAGEMENT AND CORPORATE GOVERNANCE

The bylaws of the Company indicated the number of Directors shall be not less than five (5) persons nor more than fifteen (15) persons.

The following persons served as Directors of the Company as of December 31, 2013:

<u>Name and Business Address</u>	<u>Principal Occupation</u>
Mickey Lynn Ware 707 United Heritage Court, Meridian, Idaho	President and Chief Executive Officer, United Heritage Property & Casualty Company
James Russell Nall, Jr. Boise, Idaho	Retired, Agent/Owner, W. W. Deal Agency
Nancy Knox Napier Boise, Idaho	Professor, Boise State University
Joseph P. Shirts Boise, Idaho	Shirts & Motz
Linda Payne Smith Boise, Idaho	Vice President Marketing & Community Development, Saint Alphonsus Health System
Jack Jay Winderl 707 United Heritage Court, Meridian, Idaho	Executive Vice President, Investments & Treasurer, United Heritage Life Insurance Company

Subsequent to the examination date, James R. Nall, Jr. retired as Director and Chairman of the Board on May 19, 2014. Richard L. Stuppy was elected as a Director on August 21, 2014 to replace Mr. Nall's Board position.

The Company's bylaws authorize the Board of Directors to appoint an Audit Committee, a Compensation Committee, and Investment Committee, and such other committees as he may determine from time to time, to serve at the pleasure of the full Board of Directors. As of December 31, 2013, the Company's Board of Directors had appointed the following committees:

Executive Committee

James Russell Nall, Jr.
Nancy Knox Napier
Mickey Lynn Ware

Chairman of the Board
Vice Chair of the Board
President & Chief Executive Officer

Nominating Committee

Nancy Knox Napier
Joseph P. Shirts
Linda Payne Smith

Committee Chairperson

The Company maintains Claims, Underwriting, and Marketing Committees. There were no committee assignments at year-end 2013; also no meetings were held during the examination period.

United Heritage Life Insurance Company's Investment Committee and United Heritage Financial Group, Inc.'s Audit; Enterprise Risk & Return Management; Compensation, and Retirement Committees served as respective committees for the Company. The Company's transactions and activities are also reviewed by United Heritage Financial Group Inc.'s Board of Directors and Executive Committee. Those committee members are shown below:

UHFG Audit Committee

Ned Eugene Clark, Chairman
Steven Donald Hauschild
Todd Hunter Gill, Advisor

Rodney LeRoy Smith
Jerome C. Fischer

UHFG Compensation Committee

Julie Elizabeth Prafke, Chairwoman
Richard Edgar Hall
Dennis Lane Johnson

Richard Clinton Waitley
Marjorie Ann Hopkins, Advisor

UHLIC Investment Committee

Jack Jay Winderl, Chairman
Steven Donald Hauschild
Dennis Lane Johnson

Deborah Kay Sloan
Kent Michael Delana, Advisor
Todd Hunter Gill, Advisor

UHFG Enterprise Risk & Return Management Committee

Richard Edgar Hall, Chairman
Geoffrey Morgan Baker

Todd Hunter Gill
Dennis Lane Johnson

UHFG Retirement

Jack Jay Winderl, Chairman
Richard Edgar Hall
Dennis Lane Johnson
Mickey Lynn Ware
Andrew L. Trower

Donald R. Duran
Todd Hunter Gill
Marjorie Ann Hopkins
Karen Barlow, Advisor

The Company's bylaws provide for principal officers to consist of a Chairman of the Board, a Chief Executive Officer and President, a Secretary, a Treasurer, and may include a Vice-Chairman of the Board and other officers such as additional Vice-Presidents, Assistant Secretaries, and Assistant Treasurers. The following persons served as officers of the Company as of December 31, 2013:

James Russell Nall, Jr.
Nancy Knox Napier
Mickey Lynn Ware
Sharon Lee Locke

Todd Hunter Gill
Stephen Gene Haney
Geoffrey Morgan Baker
Kent Michael Delana

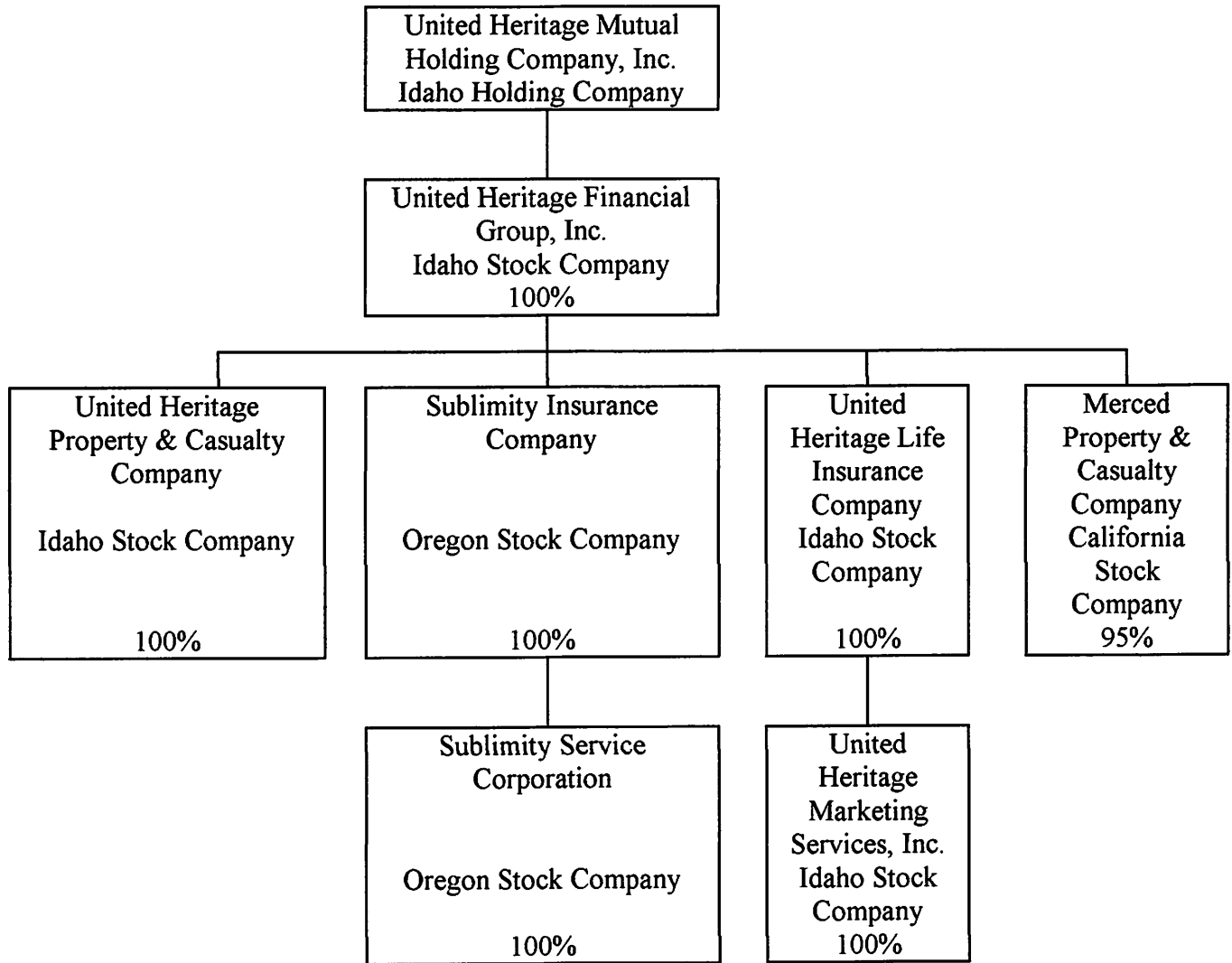
Debra Kae Etcheson-Frisby
Steve Austin Browning
Marjorie Ann Hopkins
Robin Robertson

Jack Jay Winderl

Chair of the Board
Vice Chair of the Board
President & Chief Executive Officer
Senior Vice President, Marketing & Corporate
Secretary
Vice President & Chief Financial Officer
Vice President & Chief Technology Officer
Vice President and General Counsel
Vice President, Real Estate & Mortgage
Lending
Vice President, Marketing
Vice President, Claims
Vice President Human Resources
Vice President, Operations & Assistant
Corporate Secretary
Vice President, Investments & Treasurer

Subsequent to the examination date, Sharon Lee Locke retired as Senior Vice President, Marketing & Corporate Secretary. Effective July 1, 2013, Debra Kae Etcheson-Frisby was named Vice President, Marketing. Robin Robertson was elected Corporate Secretary effective January 1, 2014.

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:



Affiliated Arrangements:

An inter-company cost sharing and allocation arrangement between and among the subsidiary companies of UHFG, was executed by the Company. 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 arrangement, effective January 1, 2002 through January 1, 2003, was amended effective August 15, 2003 until terminated. In a letter to the Company dated January 31, 2003, the Department stated it did not express any objections to the proposed agreement. The arrangement was amended effective August 15, 2003 until terminated. In a letter to the Company dated July 17, 2003, the Department indicated that the submission was reviewed and the Department had no objection to the proposed agreement. In 2007, United Heritage Financial Services was merged with UHFG. Therefore, terms related to UHFS were deleted from the amended agreement, which was effective September 7, 2008. A provision for software sharing between the Company and Sublimity Insurance Company was included at that time. All other terms were substantially similar. In a letter to the Company dated August 15, 2008, the Department reviewed the

agreement under IDAPA 18.01.23.023 and had no objections to the proposed transaction. The agreement was again amended effective August 1, 2010 and again January 1, 2013.

On May 23, 2014, a Form B Holding Company System Registration filing was submitted to the Department of Insurance for a new Inter-Company Cost Sharing Arrangement. This arrangement replaced the one dated January 1, 2013. The new agreement was effective retroactively to October 4, 2013 and the term continuous until such time as amended or terminated in writing. Additionally, during 2013, the IT, investment and human resource departments were moved to the UHFG level and personnel working in those departments became UHFG employees. Terms of the agreement are summarized below:

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 Life Insurance Company (UHLIC) is the owner of the corporate headquarters building located in Meridian, Idaho. The Company rents space from UHLIC. A formal rental agreement exists and the occupancy is month-to-month.

UHFG pays various operating expenses, including salaries, legal fees, audit and tax fees, actuarial consultant and software consultant fees, telephone, postage, and computer network services, among other things, for the Company. These expenses are charged to the Company based upon its share of usage.

The Investment Department at UHFG performs investment management for the Company, UHFG, UHLIC, MPCC and SIC. The operating expenses of the Investment Department are shared by the Company, UHFG, UHLIC, MPCC and SIC. UHFG is reimbursed for such based on each company's share of total invested assets. No mark-up, profit, or overhead charge is earned by UHFG.

UHFG 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.

The agreement provides for an intercompany loan between UHLIC and UHFG. Interest charged to UHFG is consistent with current interest rates.

The Company entered into an income tax allocation agreement with United Heritage Mutual Holding Company, United Heritage Financial Group, Inc., United Heritage Marketing Services, Inc., Sublimity Insurance Company, and Sublimity Services Corporation prior to the examination date. The agreement was effective for the tax year starting January 1, 2006. In 2011, the Company submitted with the Form B filing the United Heritage Income Tax Allocation Agreement and the First Amendment to include UHLIC. The consolidated tax returns were prepared on the separate return method and the tax attributes of each company were allocated accordingly. On May 23, 2014, the Company submitted the United Heritage Income Tax Allocation Agreement to include Merced Property & Casualty Company (MPCC), acquired on April 1, 2013 by UHFG.

The Company entered into a lease agreement with United Heritage Life Insurance Company for the use of the corporate office building located at 707 E. Heritage Court, Meridian, Idaho 83642. The agreement was executed October 11, 2013 and has a month-to-month lease term. The agreement was submitted to the Idaho Department of Insurance pursuant to Section 41-3809, Idaho Code.

The Cost Sharing and Allocation arrangement, the income tax allocation agreement, and the lease agreement were submitted to the Idaho Department of Insurance pursuant to Section 41-3809, Idaho Code.

FIDELITY BONDS AND OTHER INSURANCE

The minimum fidelity coverage suggested by the NAIC for an insurer of the Company's size and premium volume is not less than \$300,000. As of December 31, 2013, the Company had sufficient fidelity bond coverage subject to a loss limit of \$5,000,000.

The Company also had additional insurance protection for directors' and officers' liability; business owners' property, general liability, commercial automobile and commercial umbrella; workers' compensation and employers' liability; key man life insurance, and financial institution bond insurance.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company is a participating employer in a 401(k) plan, maintained by UHFG, in which substantially all employees who have been with the Company for three months or more can participate. Through salary reduction elections, participating employees may contribute the maximum allowable to available investment funds. Salary reduction amounts may not exceed the limits of Internal Revenue Code Sections 401(k), 401(g) and 415. The Company matches employee contributions up to a maximum of four percent employee base pay. Additionally, the 401(k) plan has a discretionary profit-sharing component in which all employees who are actively employed on the last day of the year will share.

The Company's matching contribution allocated to plan participants for plan year 2013 was \$59,422. The profit sharing contribution allocated in 2013 for plan year 2012 was \$131,000. The profit-sharing accrual for year-end 2013 was established in the balance sheet under the caption, *Other expenses*.

One former employee of the Company received pension benefits under a non-qualified retirement plan. Reserves for pension benefits under this plan were based on annuity factors provided by the Idaho Department of Insurance. At December 31, 2013, the estimated liability for future pension payments was \$3,915 and reported in the balance sheet under the caption, *Other expenses*.

The Company has established a Supplemental Executive Retirement Plan for the Company President. The Company's funding policy is to accrue an amount equal to the cash surrender values and loan values of the key man life insurance policy issued on the life of the participant and owned by the Company providing life insurance coverage on the participant's life with estimated benefit values at age 65 of approximately \$26,284 based on current assumptions regarding interest rates.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2013, the Company was licensed in Arizona, Idaho, Oregon, Washington, and Utah. The Company's key lines of business are standard fire, homeowners, farmowners, landlord, commercial lines multiple peril, automobile liability and physical damage, personal umbrella, as well as identity fraud expense reimbursement protection.

Insurance products are marketed through independent agencies primarily on a general agency basis. Currently, the Company utilizes a field force of approximately 155 agencies and approximately 809 individual agents to solicit business on its behalf.

GROWTH OF THE COMPANY

The following represents the Company's Premium Activity and its relationship to surplus over the period of our examination:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Gross Written Premium	\$29,818,545	\$25,228,520	\$22,080,188
Policyholder Surplus	\$13,864,090	\$13,569,536	\$12,408,507
Gross Written Premium to Policyholder Surplus Ratio	215%	186%	178%

LOSS EXPERIENCE

The following represents the Company's loss experience and its relationship to net premium income over the period of our examination:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net Premium Earned	\$23,371,072	\$19,487,307	\$17,220,212
Loss Incurred	\$15,297,719	\$10,771,160	\$10,241,491
Loss Adjustment Expenses Incurred	\$ 1,562,937	\$ 1,569,966	\$ 1,203,471
Total Loss and Loss Adjustment Expenses Incurred	\$16,860,656	\$12,341,126	\$11,444,962

Total Loss and Loss Adjustment Expenses Incurred to Net Premium Earned (Loss Ratio)	73%	64%	67%
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REINSURANCE

Assumed

The Company did not assume any reinsurance business during the period January 1, 2011 through December 31, 2013 and subsequent thereto.

Ceded

During the examination period, the Company maintained multiple lines excess of loss reinsurance for property and casualty risks; catastrophe coverages; personal lines umbrella quota share and excess of loss coverage, and property facultative reinsurance.

The catastrophe coverage with Swiss Reinsurance America Corporation was shared with an affiliate, Sublimity Insurance Company. As of December 31, 2013, the first layer coverage for property catastrophe excess of loss is 95% of \$2,000,000 any one occurrence and 95% of \$4,000,000 during the term of the agreement excess of \$1,000,000. The second layer is 95% \$7,000,000 for any one occurrence and 95% of \$14,000,000 during the term of agreement excess \$3,000,000. This catastrophe coverage was later restructured effective January 1, 2014. Details are discussed under the caption SUBSEQUENT EVENTS.

The Company's multiple line excess of loss treaty with Swiss Reinsurance America Corporation has a retention of \$150,000 per occurrence for both property and liability risks. The first working layer is \$150,000 excess of \$150,000 for both property and liability. The second layer is \$700,000 excess of \$300,000 for each risk also covering both property and liability. Both property and liability has a third layer of \$1,000,000 excess of \$1,000,000.

The Company's Quota Share and Excess of Loss-Personal Umbrella Business agreement with Swiss Reinsurance America Corporation has a retention of 5% of the first \$1,000,000 each occurrence with a coverage of 95% of the first \$1,000,000 each occurrence; 100% of the difference between the policy limit (\$2,000,000) and the first \$1,000,000 each occurrence.

In addition to the above reinsurance program, the Company has a property facultative reinsurance treaty with General Reinsurance Corporation with retention of \$2,000,000 each risk and coverage of \$3,000,000 each risk with a maximum \$10,000,000 combined on all risks in one occurrence.

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 Examining Actuary, Taylor-Walker & Associates, Inc., determined that the reinsurance agreements in-force at year-end 2013 carried adequate transfer of risk in compliance with SSAP 62R.

ACCOUNTS AND RECORDS

The annual independent audits of the Company for the years 2011 through 2013 were performed by Ernst & Young LLP, Seattle Washington. Their audit reports and workpapers were made available for the examination.

Document and information requests for the examination were generally made in writing. The Company provided the requested documentation and information in a timely manner.

STATUTORY DEPOSITS

Pursuant to Section 41-316A, Idaho Code, the Company was required to maintain a deposit in an amount equal to \$1,000,000. The Company's minimum capital and surplus requirement was \$1,000,000 each for a total of \$2,000,000 at December 31, 2013. The examination confirmed the Company maintained a statutory deposit with the State of Idaho consisting of the following securities, with a total par value of \$1,702,267, which was adequate to cover the required deposit.

<u>Description</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
Statutory:			
Alameda Corridor Transn Auth Calif, Due 10/1/2030	\$ 320,000	\$ 120,826	\$ 93,680
Eugene Ore Elec Util Rev, Due 8/1/2027	300,000	129,181	131,070
Federal Home Ln Mtg., Due 11/15/2021	1,267	1,266	1,402
Idaho St Hlth Facs Auth Revenu, Due 3/1/2047	200,000	199,743	176,396
Idaho St Hlth Facs Auth Revenu, Due 3/1/2047	100,000	100,759	97,078
New Brunswick NJ Pension, Due 10/15/2025	160,000	75,234	79,062
New Jersey Economic Dev Auth St, Due 2/15/2018	46,000	37,079	40,290
Oregon Sch Brds Assn, Due 6/30/2023	400,000	222,543	248,132
University N Mex Ctfs Partn, Due 6/30/2020	175,000	175,380	176,799
Totals	<u>\$1,702,267</u>	<u>\$1,062,011</u>	<u>\$1,043,909</u>

FINANCIAL STATEMENTS

Balance Sheet
As of December 31, 2013

ASSETS

Bonds	\$ 28,349,549
Preferred stocks	74,510
Common stocks	255,311
Real Estate Mortgage Loans- First Liens	841,860
Cash \$1,034,536; cash equivalents \$0 and short-term investments \$232,608	1,267,144
Total Invested Assets	\$ 30,788,374
Investment income due and accrued	329,405
Uncollected premiums and agents' balances in the course of collection	1,837,174
Deferred premiums; agents' balances and installments booked but deferred and not yet due	1,686,211
Amounts recoverable from reinsurers	4,306
Current federal and foreign income tax recoverable and interest	216,354
Net deferred tax asset	1,004,205
Electronic data processing equipment and software (Note 1)	64,560
Furniture and equipment (Note 1)	148,884
Health care and other amounts receivable	2,773
Aggregate write-ins for other-than-invested assets*	77,950
Total Assets	\$ 36,160,196

*Details of write-ins: SERP ASSET \$11,217; Prepaid Assets \$66,733

Balance Sheet, continued
As of December 31, 2013
LIABILITIES, CAPITAL AND SURPLUS

Losses	\$	5,223,657
Loss adjustment expenses		1,004,654
Commissions payable; contingent commissions and other similar charges		485,695
Other expenses		303,924
Taxes; licenses and fees		113,132
Unearned premiums		13,601,102
Advance premium		629,942
Ceded reinsurance premiums payable		793,316
Payable to parent; subsidiaries and affiliates		107,301
Payable for securities		2
*Aggregate write-ins for liabilities		<u>33,381</u>
Total liabilities	\$	22,296,107
Common capital stock		3,527,386
Gross paid in and contributed surplus		3,230,872
Unassigned funds (surplus)		<u>7,105,832</u>
Surplus as regards policyholders	\$	<u>13,864,090</u>
Total Liabilities and Policyholders Surplus	\$	<u><u>36,160,196</u></u>

*Details of Write-Ins: Escheatable Payable \$36,373; Unclaimed Property \$3,034; Deferred Revenue \$33,381

Statement of Income

For the Year Ending December 31, 2013

Premiums earned		\$	23,271,072
Losses incurred	\$	15,297,719	
Loss adjustment expenses incurred		1,562,937	
Other underwriting expenses incurred		7,756,901	
Aggregate write-ins for underwriting deductions		<u>41,386</u>	
Total underwriting deductions			<u>24,658,943</u>
Net underwriting gain		\$	(1,387,872)
Net investment income earned	\$	1,548,711	
Net realized capital gains (losses) less capital gains tax of \$0		<u>36,609</u>	
Net investment gain (loss)			1,585,320
Finance and service charges not included in premiums	\$	120,770	
Aggregate write-ins for miscellaneous income		<u>(40,422)</u>	
Total other income			<u>80,348</u>
Net income before federal and foreign income taxes		\$	277,796
Federal and foreign income taxes incurred			<u>(74,801)</u>
Net income		\$	<u><u>352,597</u></u>

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Net income before federal and foreign income taxes		\$ 277,796
Federal and foreign income taxes incurred		<u>(74,801)</u>
Net income		<u><u>\$ 352,597</u></u>

*Details of Write-Ins: Loss on sale of assets (\$40,731.00); Miscellaneous Income \$310; rounding off difference of +\$1.

Reconciliation of Surplus

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Surplus as regards policyholders; December 31 prior year	<u>\$ 13,569,535</u>	<u>\$ 12,408,507</u>	<u>\$ 10,522,129</u>
Net income	352,597	1,644,570	1,306,502
Change in net unrealized capital gains	(39,647)	146	(7,008)
Change in net deferred income tax	121,603	106,312	77,495
Capital changes paid in		-	

	128,120		222,562
Surplus adjustments paid in	371,881	-	577,437
Dividends to stockholders	(640,000)	(590,000)	(450,000)
Aggregate write-ins for gains and losses in surplus	-	-	159,390
Change in surplus as regards policyholders for the year	<u>\$ 294,554</u>	<u>\$ 1,161,028</u>	<u>\$ 1,886,378</u>
Surplus as regards policyholders; December 31 current year	<u>\$ 13,864,089</u>	<u>\$ 13,569,535</u>	<u>\$ 12,408,507</u>

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Surplus as regards policyholders; December 31 prior year	<u>\$ 13,569,535</u>	<u>\$ 12,408,507</u>	<u>\$ 10,522,129</u>
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Surplus as regards policyholders; December 31 current year	<u>\$ 13,864,089</u>	<u>\$ 13,569,535</u>	<u>\$ 12,408,507</u>

*Rounding off difference + \$1 from what was reported by the Company in the annual statement

Analysis of Changes in Financial Statements Resulting From Examination

There were no adjustments made to surplus as a result of our examination.

NOTES TO FINANCIAL STATEMENTS

Note (1)

Electronic data processing equipment and software	\$64,560
Furniture and equipment, including health care delivery assets	148,884

The prior examination report recommended that non-operating software be non-admitted or reclassified to furniture and equipment and admitted up to the limits specified in Section 41-601 (12), Idaho Code. The current exam determined that non-operating software was again incorrectly reported as part of *Electronic data processing equipment and software*. It is again recommended that the Company either report non-operating software as part of *Furniture and equipment, including health care delivery assets* or non-admit. It should be pointed out that this was a finding and recommendation in the prior two examination periods.

Note (2)

Losses	\$3,507,901
Loss adjustment expenses	924,326

R. Glenn Taylor, ACAS, MAAA, of Taylor-Walker and Associates, Inc., was retained by the Department to perform the actuarial portion of the examination, with assistance from Brent M. Sallay, FCAS, MAAA, and Solomon Frazier, ASA, ACAS, MAAA.

Based on the examination review, it is the examining actuary's opinion that the gross and net loss and loss adjustment expense reserves estimated by the Company's opining actuary as of December 31, 2013 were reasonable based on information available at the time. However, subsequent development during 2014 related to a catastrophe incurred late in 2013 demonstrated that reserves booked by the Company as of December 31, 2013 appeared deficient for the block of business affected. However, it does not show as such when evaluating reserve adequacy for the entire book of business.

Taylor-Walker and Associates, Inc. indicated that if there have been no material changes in the actuarial assumptions and/or judgmental selection process used to determine reserves between June 30, 2014 and December 31, 2013, then the reserves booked as of June 30, 2014 are likely reasonable, as are any conclusions reached from the analysis of those reserves including the assertion that adverse development during 2014 on the 2013 Boise hail storm catastrophe was almost entirely offset by favorable development elsewhere.

The Company certified there have been no material changes in the actuarial assumptions and/or, methods, and/or judgmental selection process used to determine its unpaid loss and loss adjustment expense reserves as of June 30, 2014 from those used in determining the reserves as of December 31, 2013. Therefore an examination adjustment to reserves is not considered necessary.

Taylor-Walker also examined the Company's potential need for premium deficiency reserves as of December 31, 2013. Given the relatively low historically projected net ultimate loss and loss

adjustment expense ratios and their acceptance of the booked net reserves, Taylor-Walker concluded that it was reasonable that the Company did not book any premium deficiency reserves as of December 31, 2013.

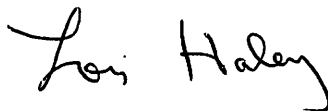
SUMMARY OF RECOMMENDATIONS

It is again recommended that the Company either report non-operating software as part of *Furniture and equipment, including health care delivery assets* or non-admit. It should be pointed out that this was a finding and recommendation in the prior two examination periods.

ACKNOWLEDGEMENT

R. Glenn Taylor, ACAS, MAAA, Brent M. Sallay, FCAS, MAAA, and Solomon Frazier, ASA, ACAS, MAAA, of Taylor-Walker & Associates, Inc. performed the actuarial phases of the examination. Jenny L. Jeffers, CISA, AES, CFE (fraud) of Jennan Enterprises, LLC performed the Information Systems review. In addition to the undersigned, Kelvin Ko, CFE, and Waheed Zafer, CFE, CPA of Risk & Regulatory Consulting, LLC, participated in the examination representing the Idaho Department of Insurance. Hermoliva B. Abejar, CFE, of the Idaho Department of Insurance supervised the examination. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company.

Respectfully submitted,

A handwritten signature in black ink that reads "Lois Haley". The signature is written in a cursive, flowing style.

Lois Haley, CFE
Examiner-in-Charge
Representing Idaho Department of Insurance

State of Idaho
DEPARTMENT OF INSURANCE

C. L. "BUTCH" OTTER
Governor

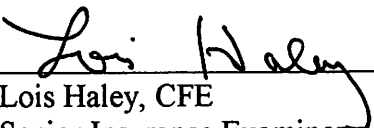
700 West State Street, 3rd Floor
P.O. Box 83720
Boise, Idaho 83720-0043
Phone (208)334-4250
FAX # (208)334-4398

THOMAS DONOVAN
Deputy Director

AFFIDAVIT OF EXAMINER

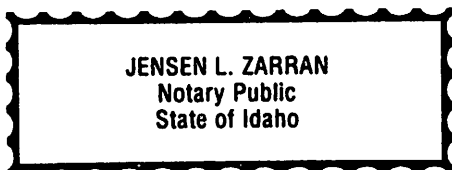
State of Idaho
County of Ada

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 Life Property & Casualty Company for the period from January 1, 2011 through December 31, 2013, including subsequent events, 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 the report are based on the facts disclosed in the examination.



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

Subscribed and sworn to before me the 27th day of JANUARY, 2015 at Boise, Idaho





Notary Public

My commission expires: 10/31/2017

NOTARY PUBLIC
JENSEN L. SARRAN
STATE OF IDAHO
COMMISSION EXPIRES 12/31/2012

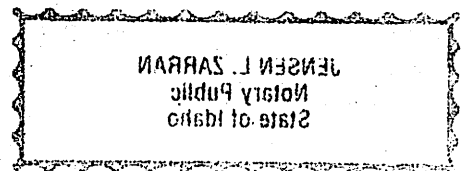
NOTARY PUBLIC

NOTARY PUBLIC
JENSEN L. SARRAN

I, the undersigned, do hereby certify that the foregoing is a true and correct copy of the original as the same appears to me. I am a Notary Public in and for the State of Idaho, and my commission expires on the 31st day of December, 2012.

Jensen L. Sarran
JENSEN L. SARRAN
NOTARY PUBLIC
STATE OF IDAHO
COMMISSION EXPIRES 12/31/2012

[Signature]
JENSEN L. SARRAN
NOTARY PUBLIC
STATE OF IDAHO
COMMISSION EXPIRES 12/31/2012



C. L. "BUTCH" OTTER
Governor

State of Idaho
DEPARTMENT OF INSURANCE

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

THOMAS DONOVAN
Deputy Director

WAIVER

In the matter of the Report of Examination as of December 31, 2013, of the:

**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 27th day of January, 2015, 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 28th day of January, 2015

**UNITED HERITAGE PROPERTY & CASUALTY
COMPANY**

Mickey Lynn Ware

Name (print)

Mickey Lynn Ware

Name (signature)

President and Chief Executive Officer

Title

