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FILED

JUN 29 2012

Department of Insurance
State of Idaho

BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE

STATE OF IDAHO

In the Matter of: UNITED HERITAGE PROPERTY & CASUALTY COMPANY Idaho Certificate of Authority No. 1919 NAIC Company Code: 18939	Docket No. 18-2775-12 **ORDER ADOPTING REPORT OF EXAMINATION AS OF DECEMBER 31, 2010**

The Report of Examination as of December 31, 2010 (Report) of UNITED HERITAGE PROPERTY & CASUALTY COMPANY (UHPC) was completed by examiners of the Idaho Department of Insurance (Department) and signed the 31st day of May 2012 by the Examiner-in-Charge, Lois Haley, CFE. The verified, or attested, copy of the Report was filed with the Department effective May 31, 2012. The verified Report was transmitted electronically to UHPC on May 31, 2012. The final Report, attached hereto as Exhibit A and incorporated herein in full, is identical to the verified Report.

Pursuant to Idaho Code § 41-227(4), UHPC was afforded a reasonable opportunity to review the verified examination Report and to make written submissions regarding relevant matters contained within the Report. No written submissions or rebuttals were received from UHPC regarding the verified Report.

WAIVER

Attached hereto as Exhibit B and incorporated herein is a Waiver signed by UHPC's President and CEO, Mr. Brian Henman. The Waiver was executed on June 6, 2012, with an electronic copy being received by the Department the same day. Based upon the Waiver/Exhibit B, this is a final order, and UHPC has waived its rights to seek reconsideration and judicial review of this order.

ORDER

NOW THEREFORE, after carefully reviewing the above-described Report of Examination, attached hereto as Exhibit A, 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 28TH day of June, 2012.

IDAHO DEPARTMENT OF INSURANCE

by William Deal
WILLIAM W. DEAL
Director

CERTIFICATE OF SERVICE

I hereby certify that on this 29th day of June 2012, I caused the foregoing document to be served 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. Mick Ware, Chief Operating Officer		certified mail
United Heritage Property & Casualty Company		first class mail
707 East United Heritage Court		hand delivery
Meridian, Idaho 83642		Facsimile
mware@unitedheritage.com	X	e-mail

Georgia Siehl, CPA, CFE		
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
Deputy Chief Examiner
IDAHO DEPARTMENT OF INSURANCE

EXHIBIT A

DEPARTMENT OF INSURANCE

STATE OF IDAHO

REPORT OF EXAMINATION

of

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

as of

December 31, 2010

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State of Idaho
DEPARTMENT OF INSURANCE
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Phone (208)334-4250
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WILLIAM W. DEAL
Director

Meridian, Idaho
May 31, 2012

The Honorable William W. Deal
Director of Insurance
State of Idaho
700 West State Street
P. O. Box 83720
Boise, Idaho 83720-0043

Joseph Torti III
Deputy Director and Superintendent of Insurance and Banking
Chair – NAIC Financial Condition Committee
Division of Insurance
Department of Business Regulation
State of Rhode Island
1511 Pontiac Avenue, Building #69-2
Cranston, Rhode Island 02920

Dear Director & 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, 2010, 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, 2008, through December 31, 2010. The examination was conducted at the Meridian, Idaho office of the Company by examiners from the State of Idaho. The examination was conducted in accordance with Section 41-219(1), Idaho Code, the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* and the NAIC *Accounting Practices and Procedures Manual.*

All accounts and activities of the Company were considered in accordance with the NAIC's risk-focused examination process. The NAIC *Financial Condition Examiners 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. An 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 and NAIC *Annual Statement Instructions* as governed and prescribed by Idaho law.

A Letter of Representation was signed by the Company attesting to its ownership of all assets and to the nonexistence of unrecorded liabilities or contingent liabilities.

The actuarial review of reserves, related liabilities, and other actuarial items was performed by Taylor-Walker & Associates, Inc., consulting actuaries, for the Idaho Department of Insurance. A risk assessment review of the Company's information technology systems and controls was performed by Examination Resources, LLC. There was some reliance placed on the 2010 Certified Public Accountants' statutory audit report and workpapers during the examination of the Company.

In addition to the Report of Examination, a Management Letter was issued to the Company by the Department which covered items that were not included in the Report, due to the materiality threshold, items that were related to proprietary/operational issues, as well as minor accounting and/or annual statement reporting corrections.

PRIOR EXAMINATION

The prior financial examination was conducted by the Idaho Department of Insurance covering the period January 1, 2003 through December 31, 2007.

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 3,176,704 shares of capital stock issued and outstanding with a par value of $1.00 per share for a total capital of $3,176,704. The issued and outstanding shares were reconciled to the Company's capital stock records without exception. The Company's paid in and contributed surplus at December 31, 2010 was $5,458,258.

The following exhibit reflects the activity in the capital structure of the Company since the previous examination up through December 31, 2010:

Year	Shares Issued/ (Redeemed)	Common Capital Stock	Gross Paid In & Contributed Surplus	Total Capital & Paid In and Contributed
12/31/2007	3,000,000	$3,000,000	$1,858,259	$4,858,259
7/28/2010 (1)	176,704	176,704	423,295	599,999
Totals	3,176,704	$3,176,704	$2,281,554	$5,458,258

(1) 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. The amount of the transaction was below the materiality threshold set forth by Section 41-3807, Idaho Code; therefore, a Form D filing was not required.

Subsequent to the examination date, the Board of Directors approved a resolution to authorize the Company to sell a certain number of shares of its common stock to United Heritage Financial Group, Inc. at a per share price to be determined by the book value of such stock as of June 30, 2011, at a total sales price up to $800,000. This transaction occurred on August 9, 2011 whereby 222,562 shares of stock were sold to United Heritage Financial Group, Inc. for approximately $3.5945 per share. This transaction resulted in additional common stock of $222,562 and gross paid in and contributed capital of $577,438. The Company notified the Department of this transaction.

Dividends to Shareholders

During the period January 1, 2008 through December 31, 2010, the Board of Directors declared and the following dividends were paid to the shareholder of the Company, United Heritage Financial Group, Inc.

Date Declared	Notification Date	Date Paid	Cash Distribution	Non-Cash Distribution	Total
2/19/2008	3/19/2008	4/2/2008	$ 62,500	$ 0	$62,500
5/19/2008	5/20/2008	5/27/2008	62,500	0	62,500
8/19/2008	8/27/2008	9/5/2008	62,500	0	62,500
11/18/2008	12/4/2008	12/11/2008	62,500	0	62,500
2/17/2009	2/18/2009	4/8/2009	62,500	0	62,500
5/18/2009	5/20/2009	5/27/2009	62,500	0	62,500
8/20/2009	8/24/2009	8/31/2009	62,500	0	62,500
11/17/2009	11/19/2009	12/3/2009	62,500	0	62,500
2/16/2010	2/18/2010	3/2/2010	62,500	0	62,500
5/17/2010	5/18/2010	5/28/2010	62,500	0	62,500
8/24/2010	8/25/2010	9/7/2010	90,000	0	90,000
11/16/2010	11/19/2010	12/7/2010	90,000	0	90,000
		Total	$805,000	$ 0	$805,000

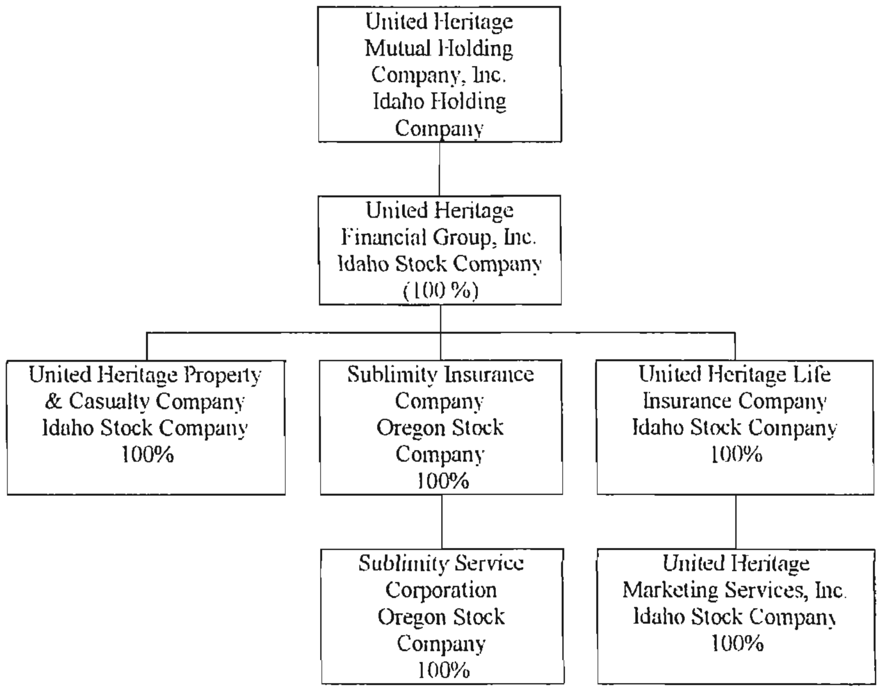
Subsequent to the examination date, dividends totaling $450,000 were declared and paid to United Heritage Financial Group, Inc.

An analysis of dividends declared and paid during the examination period indicated that the Department was not notified of the dividend declared on May 19, 2008 in 5 business days. Dividend payments were made before the timelines set forth in Section 41-3809, Idaho Code for dividends paid on May 27, 2008; December 11, 2008; May 27, 2009; and August 31, 2009. Therefore, it is recommended the Company review the provisions of Section 41-3809(2), Idaho Code and IDAPA 18.01.23.024.02 and establish controls to ensure future compliance with respect to dividend notifications and payments.

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 2010.

Affiliated Arrangements:

An inter-company cost sharing and allocation arrangement between and among the subsidiary companies of United Heritage Financial Group, Inc. (UFG), 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 later 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 (UHFS) 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 (SIC) 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.

On June 29, 2010, a Form D filing was submitted to the Department of Insurance for a new Inter-Company Cost Sharing Arrangement. This arrangement replaced the one dated September 7, 2008 and included a new section related to Investment Management expenses. This section was required to be added by the Oregon Department of Consumer and Business Services. The new agreement was effective August 1, 2010 and the term *continuous until such time as amended or terminated in writing*. 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. No formal rental agreement exists and the occupancy is month-to-month.

- UHLIC pays various operating expenses, including salaries, 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.

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

- 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.

- UHPC and SIC share expenses related to certain software including, but not limited to the PACS administration system and upload/download capability for their respective agents. Each company pays its share of development, maintenance, and other expenses related to these platforms.

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

The Idaho Department of Insurance acknowledged receipt of the new intercompany cost sharing arrangement on July 7, 2010. This agreement was constructively approved by operation of law on or near August 6, 2010.

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. The agreement was effective for the tax year starting January 1, 2006. The consolidated tax returns were prepared on the separate return method and the tax attributes of each company were allocated accordingly.

In a letter to the Company dated August 15, 2008, the Department reviewed the agreement under Section 41-3807, Idaho Code, and IDAPA 18.01.23.023 and had no objections to the proposed transaction.

During prior examination periods, the Company purchased participation interests in mortgage loans from 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 agreement. The Company did not acquire any participation interests in mortgage loans during the current examination period.

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. The line of credit remained in force during the years under examination with zero balances at years ending 2008, 2009, and 2010.

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 19, 2011, and appeared to be current and valid.

Directors

The following persons were the duly elected members of the Board of Directors at December 31, 2010:

Name and Business Address	Principal Occupation
Brian Edward Henman 707 United Heritage Court, Meridian, Idaho	President and Chief Executive Officer, United Heritage Property & Casualty Company
James Russell Nall, Jr.	Agent/Owner, W. W. Deal Agency
Nancy Knox Napier	Boise State University
Glenn Sylvester Osborn	Retired – City of Wilder Fire Chief
Mickey L. Ware 707 United Heritage Court, Meridian, Idaho	Senior Vice President & Chief Operating Officer, United Heritage Property & Casualty Company
Jack Jay Winderl 707 United Heritage Court, Meridian, Idaho	Executive Vice President, Investments & Treasurer, United Heritage Life Insurance Company

Subsequent to the examination date, Mr. Osborn retired as Director and Chairman of the Board of Directors. Joe Shirts was elected to fill Mr. Osborn's unexpired term as Director effective May 16, 2011.

Officers:

The following persons were serving as officers of the Company at December 31, 2010:

Glenn Sylvester Osborn	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
Mickey L Ware	Senior Vice President & Chief Operating Officer
Geoff Baker	Vice President and General Counsel
Kent M. Delana	Vice President, Mortgage Lending
Debra Kae Etcheson-Frisby	Vice President, Underwriting
Marjorie Hopkins	Vice President Human Resources & Assistant Corporate Secretary
Robin Robertson	Vice President, Operations
Jack J. Winderl	Vice President & Treasurer

As previously noted, Mr. Osborn retired as Director and Chairman of the Board effective May 16, 2011. James Russell Nall, Jr. was named Chairman and Nancy Knox Napier was named Vice Chair effective May 16, 2011. On November 15, 2011 the Board of Directors appointed Steven Haney as Vice President and Chief Technology Officer of the Company effective January 1, 2012.

Committees

The following persons were appointed to special or standing committees at December 31, 2010:

Executive Committee

Glenn Sylvester Osborn	Chairman of the Board
James Russell Nall, Jr.	Vice Chairman of the Board
Brian Edward Henman	President & Chief Executive Officer

Claims Committee	Underwriting Committee
No assignments at year-end 2010	James Russell Nall, Jr.

Marketing Committee
Brian Edward Henman

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.

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, 2008 through December 31, 2010 and subsequent thereto appeared to appropriately disclose any possible conflicts of interest.

Contracts and Agreements

The Company had the following agreements in effect at December 31, 2010:

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 Contingent Bonus Agreements. The bonuses are calculated on premiums paid and commission schedules contained within the agreements. In addition, to qualify for profitability and contingent 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. Programming services were provided at the rates set forth in the agreement. Additional hours were billed at the same rate. Subsequent to the examination date, the letter of agreement was updated for the years 2011 and 2012 under the same rate and 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 is set forth in the agreement, with total amounts paid not to exceed an annual limit. The agreement may be terminated by either party upon written notice.

Inspection Agreements

The Company also entered into consulting agreements with various independent adjustors for inspection services. The agreements had various effective dates and may be terminated by either party upon written notice.

The cost sharing and allocation agreement and the tax allocation agreements are discussed under the caption, *MANAGEMENT AND CONTROL*.

CORPORATE RECORDS

Articles of Incorporation and Bylaws

The Company's records indicated that the Articles of Incorporation and Bylaws were not amended during the period under examination.

Minutes of Meetings

A review of the minutes of the meetings of the Shareholders and the Board of Directors, for the period January 1, 2008 through December 31, 2010 and subsequent thereto, indicated compliance with the Articles of Incorporation and Bylaws with respect to the election of the Board of Directors and Officers. This review of the minutes also indicated that a quorum was present at all Board of Directors' meetings held during the examination period.

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. Other significant transactions and activities were properly authorized by the Company's Board of Directors and/or UHFG's Board of Directors or UHFG Executive Committee.

Affidavits of Director were executed by all Directors certifying receipt of the Company's December 31, 2007 Report of Examination and February 18, 2009 Order Adopting the Report of Examination.

FIDELITY BOND AND OTHER INSURANCE

Insurance coverage for the protection of the Company was maintained throughout the period under examination. Coverages in effect as of December 31, 2010 included 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.

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/or United Heritage Mutual Holding Company were licensed or otherwise authorized in the state of Idaho.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company is a participating employer in a 401(k) plan 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 4 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 2010 was $44,412. The profit sharing contribution allocated in 2010 for plan year 2009 was $136,518. The profit-sharing accrual for year-end 2010 was reported in the balance sheet under *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, 2010, the estimated liability for future pension payments of $4,728 was reported in the balance sheet under *Other Expenses*.

The Company has established a Supplemental Executive Retirement Plan for the Company's President and Chief Executive Officer. 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. The estimated benefit values at age 65 are approximately $18,019 based on current assumptions regarding interest rates.

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. The Certificates of Authority issued by the respective states were inspected and verified with nothing exceptional noted. Subsequent to the examination date, the State of Arizona issued an amended Certificate of Authority adding vehicle to the Company's authorized lines of business effective October 31, 2011.

The Company's key lines of business included standard fire, homeowners, farmowners, landlord, commercial lines multiple peril, automobile liability and physical damage, and starting in 2010, personal umbrella, as well as identity fraud expense reimbursement protection. The Company began writing automobile liability and physical damage in 2009. Coverage was offered as a packaged product for certain products. Subsequent to the examination date, the Company began marketing monoline auto coverage.

Insurance products were marketed through independent agencies primarily on a general agency basis. Currently, the Company utilizes a field force of approximately 290 agencies, sub-agencies, and/or individual agents to solicit business on its behalf.

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

STATUTORY AND SPECIAL DEPOSITS

As of December 31, 2010, the examination confirmed with the Idaho Department of Insurance that the Company had made provision for the following deposits to be held in trust for the protection of all its policyholders and/or creditors through said office of the Director of Insurance, State of Idaho, 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	$ 101,468	$ 63,942
Chicago ILL Brd Ed, Due 12/1/2031	100,000	27,879	25,795
Eugene Ore Elec Util Rev, Due 8/1/2027	300,000	107,227	101,385
Federal Home Ln Mtg., Due 11/15/2021	2,526	2,527	2,901
New Brunswick NJ Pension, Due 10/15/2025	160,000	62,079	50,802
New Jersey Economic Dev Auth St, Due 2/15/2018	46,000	31,689	30,483
Oregon Sch Brds Assn, Due 6/30/2023	400,000	184,885	203,900
US Treasury Sec Stripped, Due 11/15/2011	284,000	268,421	283,270
US Treasury Sec Stripped, Due 11/15/2012	300,000	266,738	296,775
University N Mex Ctfs Partn, Due 6/30/2020	220,000	220,630	224,011
Totals	$2,132,526	$1,273,543	$1,283,264

Subsequent to the examination date, one of the securities comprising the statutory deposit matured. In a letter to Wells Fargo Bank dated December 2, 2011, the Idaho Department of Insurance approved the removal of this security as a statutory deposit. Wells Fargo was further advised that the Department would not require a replacement for this security. This is because the Company's deposit is still above the $1,000,000 market value required under Section 41-316A, Idaho Code.

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)
2006	$18,777,091	$ 9,449,464	$ 9,327,627	$ 980,770
2007*	20,419,969	10,610,217	9,809,752	1,049,804
2008	19,557,114	11,248,639	8,308,475	(1,137,397)
2009	21,987,954	12,354,659	9,633,295	852,842
2010*	26,549,803	16,027,674	10,522,129	582,248

*As determined by examination.

Admitted assets decreased in 2008 because of higher claims costs. In 2009 and 2010, admitted assets increased due to premium growth and a capital contribution in 2010. Liabilities also increased due to premium growth and development in claims activity. Surplus and net income decreased in 2008 due to realized capital losses as a result of significant liquidity issues in the credit markets and distress in the equity markets.

Surplus and net income increased in 2009 and 2010 due to premium growth and a capital contribution, offset by dividends paid in 2008, 2009 and 2010 totaling $805,000.

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
2006	$10,629,999	$5,307,488	$3,882,958	86.46%
2007*	12,048,241	6,034,184	4,628,986	88.51%
2008	11,475,178	7,405,343	5,225,484	110.07%
2009	12,911,000	6,925,370	5,118,389	93.29%
2010*	15,948,348	7,421,694	5,410,235	80.46%

*As determined by Examination.

Premium writings decreased initially during the exam period due to implementation of a claims free discount to homeowners in 2008. Premiums increased again in 2009 and 2010 due to continued growth in the auto damage, property damage and liability lines of business along with increases in loss constant rates. Losses increased in 2008 due to multiple wind losses and significant weight of ice and snow losses; with fewer storms in 2009. Losses were up again in 2009 due to increased net claim losses and claim severity. Underwriting expenses remained somewhat stable throughout the period under exam.

REINSURANCE

Assumed

The Company did not assume any reinsurance business during the period January 1, 2008 through December 31, 2010 and subsequent thereto.

Ceded

During the examination period, the Company maintained multiple lines excess of loss reinsurance for property and casualty risks; catastrophe coverages; property facultative reinsurance; and personal lines umbrella quota share and excess of loss coverage. The catastrophe coverage was shared with affiliate, Sublimity Insurance Company. 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 consulting actuary, Taylor-Walker &

Associates, Inc. determined that the reinsurance agreements in-force at year-end 2010 transferred risk.

The reinsurance agreements in-force at year-end 2010 are summarized below.

Multiple Line Excess of Loss: During the prior examination period, a Multiple Line Excess and Property Excess of Loss Reinsurance contract with General Reinsurance Corporation, Stamford, Connecticut was in force. The agreement was effective January 1, 2008 and remained in force until terminated effective January 1, 2011. Automobile coverage was added to the agreement in 2009. A subsequent multiple line excess of loss agreement was executed with Swiss Reinsurance America Corporation, Armonk, New York effective January 1, 2011. This agreement was amended by Addendum No. 1 also effective January 1, 2011. The agreement is continuous until terminated.

The retentions for all years under examination were $125,000 for property/casualty and $100,000 for auto. Coverages were $1,500,000 for property and $1,000,000 for casualty during the examination period.

Property Catastrophe: The catastrophe coverage was provided through an agreement with Swiss Reinsurance America Corporation effective January 1, 2008. Coverage under this agreement is shared with affiliate, Sublimity Insurance Company. Retention for this agreement was $1,000,000, with limits of $4,750,000 (95 percent of $5,000,000) total coverage.

Property Facultative: Coverage during the examination period was provided through an agreement with General Reinsurance Corporation effective January 1, 2005. The agreement was renewed up through 2010 by endorsements. Retention was $1,200,000 with limits of $2,500,000. The property facultative agreement was terminated January 1, 2011 and replaced with a new agreement effective the same date with General Reinsurance Corporation. Retention under this agreement was $1,600,000 with limits of $5,000,000.

Personal Lines Umbrella Quota Share and Excess of Loss: Coverage was provided by General Reinsurance Corporation effective October 1, 2009. The agreement was terminated January 1, 2011 and replaced by an agreement with Swiss Reinsurance America Corporation. The retention is $50,000 with a coverage limit of $2,000,000.

ACCOUNTS AND RECORDS

General Accounting

During previous examination periods, the Company utilized SunGard's Enterprise Portfolio System (EPA) for its investment accounting software. The Investment Accounting system was converted to Clearwater Analytics, LLC, an Internet based statutory investment accounting system, on September 30, 2010. The Company also utilized the PACS system for policy administration, billing, and claims; which was developed and is owned by affiliate, Sublimity Insurance Company. PACS is a Windows-based system using a Microsoft SQL Server 2005 database. The Company also utilized SunGard's Enterprise Accounting System (EAS), a Microsoft Windows based system for its general ledger and accounting functions.

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

The Company has two current practices prescribed by the Idaho Department of Insurance that differ from NAIC Statutory Accounting Principles. The Department allows electronic and mechanical machines (EDP equipment) to be amortized over a period that does not exceed ten calendar years. Under statutory accounting, these assets are amortized over the lesser of the assets' useful life or three years.

Additionally, the Department permits the inclusion of office equipment, furniture and private passenger automobiles deemed necessary for conduct of insurance business as admitted assets providing such assets do not exceed 1 percent of all other assets. Under NAIC Statutory Accounting Principles, fixed assets are not admitted assets.

Independent Accountants

The annual independent audits of the Company for the years 2008 through 2010 were performed by Ernst & Young, LLP, Seattle, Washington. Previous to that the Company's independent auditors were Jones, France, Basterrechea & Brush, Chtd., Gooding, Idaho. The Company properly notified the Department of the change in auditors pursuant to IDAPA 18.01.62.013.03.

The financial statements in each report were on a statutory basis. There was some reliance on the 2010 audit reports and workpapers in this examination of the Company.

Actuarial Opinion

The 2010 policy reserves and related actuarial items were calculated by the Company and reviewed by Glenn A. Tobleman, FCAS, FSA, MAAA, of Lewis & Ellis, Inc. The Company's 2008 and 2009 policy reserves and related actuarial items were reviewed by Joseph L. Petrelli, ACAS, MAAA, FCA, of Demotech, Inc.

The December 31, 2010 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 Idaho; (b) are consistent with those computed in accordance with accepted actuarial standards and principles; (c) make a reasonable provision, in the aggregate, for all unpaid loss and loss adjustment expense obligations under the terms of its contracts and agreements.

The identified actuarial items in the 2010 Annual Statement were as follows:

Reserve for unpaid losses (Page 3, Line 1)	$3,507,901
Reserve for unpaid loss adjustment expenses (Page, 3 Line 2)	924,326
Reserve for unpaid losses - direct and assumed (Schedule P, Part 1, totals from columns 13 and 15)	6,193,000
Reserve for unpaid loss adjustment expenses - direct and assumed (Schedule P, Part 1, totals from columns 17, 19, and 21)	1,623,000

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.

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

INFORMATION SYSTEMS REVIEW

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 Technology (IT) contained in the NAIC *Financial Condition Examiners Handbook*. In summary, the functional areas reviewed by the Information System Specialist included the following:

- Management and Organizational Controls
- Logistical and Physical Security
- Disaster Recovery and Contingency Planning
- E-Commerce Controls

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

FINANCIAL STATEMENTS

The financial section of this report contains the following statements:

Balance Sheet as of December 31, 2010

Statement of Income, for the Year Ending December 31, 2010

Capital and Surplus Account, for the Year Ending December 31, 2010

Reconciliation of Capital and Surplus Account, December 31, 2007, through December 31, 2010.

Balance Sheet
As of December 31, 2010

ASSETS

	Assets	Nonadmitted Assets	Net Admitted
Bonds	$20,157,873	$ 0	$20,157,873
Stocks			
Preferred stocks	181,330	0	181,330
Common stocks	354,022	0	354,022
Mortgage loans on real estate, First liens	1,903,813	0	1,903,813
Cash, cash equivalents and short-term investments	408,270	0	408,270
Investment income due and accrued	233,627	0	233,627
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	1,107,731	0	1,107,731
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,119,061	0	1,119,061
Amounts recoverable from reinsurers	138,902	0	138,902
Current federal and foreign income tax recoverable and interest thereon	167,159	0	167,159
Net deferred tax asset	698,795	0	698,795
Electronic data processing equipment and software (Note 1)	41,720	0	41,720
Furniture and equipment, including health care delivery assets	37,501	0	37,501
Rounding	(1)	0	(1)
Totals	$26,549,803	$ 0	$26,549,803

LIABILITIES, CAPITAL AND SURPLUS

Losses (Note 2)	$ 3,507,901
Loss adjustment expenses (Note 2)	924,326
Commissions payable, contingent commissions and other similar charges	345,262
Other expenses	251,491
Taxes, licenses and fees	87,828
Current federal and foreign income taxes	(166,811)
Unearned premiums	9,783,450
Advance premium	440,809
Ceded reinsurance premiums payable	585,004
Payable to parent, subsidiaries and affiliates	28,228
Aggregate write-ins for liabilities:	
Escheatable payable	18,912
Unclaimed	1,769
Deferred revenue	219,504
Rounding	1
Total liabilities	$16,027,674
Common capital stock	$ 3,176,704
Gross paid in and contributed surplus	2,281,554
Unassigned funds (surplus)	5,063,872
Rounding	(1)
Total surplus as regards policyholders	$10,522,129
Total liabilities, capital and surplus	$26,549,803

STATEMENT OF INCOME

For the Year Ending December 31, 2010

	Per Examination and Per Company
Premiums earned	$14,430,972
Losses incurred	8,955,389
Loss adjustment expenses incurred	1,135,827
Other underwriting expenses incurred	5,164,828
Depreciation on equipment and vehicle	20,271
Rounding	1
Total underwriting deductions	$15,276,316
Net underwriting loss	($ 845,344)
Net investment income earned	$ 1,338,572
Net realized capital gains less capital gains tax	209,058
Net investment gain	$ 1,547,630
Miscellaneous income	$ 3,032
Total other income	$ 3,032
Rounding	$ 1
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	$ 705,319
Federal and foreign income taxes incurred	123,071
Net income	$ 582,248

CAPITAL AND SURPLUS ACCOUNT

For the Year Ending December 31, 2010

	Per Company	Examination Changes	Per Examination
Capital and surplus, December 31, 2009	$ 9,633,295	$ 0	$ 9,633,295
GAINS AND (LOSSES) IN SURPLUS			
Net income	$ 582,248	$ 0	$ 582,248
Change in net unrealized capital gains	42,531	0	42,531
Change in net deferred income tax	(30,943)	0	(30,943)
Capital changes: Paid in	176,704	0	176,704
Surplus adjustments: Paid in	423,295	0	423,295
Dividends to stockholders	(305,000)	0	(305,000)
Rounding	(1)	0	(1)
Change in surplus as regards policyholders for the year	$ 888,834	$ 0	$ 888,834
Surplus as regards policyholders, December 31, 2010	$10,522,129	$ 0	$10,522,129

RECONCILIATION OF CAPITAL AND SURPLUS ACCOUNT

December 31, 2007 Through December 31, 2010

	2008	2009	2010
Capital and surplus, December 31, previous year	$ 9.809.752	$8.308.475	$ 9.633.295
Net income	(1,137,397)	852,842	$ 582.248
Change in net unrealized capital gains	(132,331)	588.544	42.531
Change in net deferred income tax	226,808	(280.578)	(30,943)
Change in nonadmitted assets	(208.357)	364,147	0
Capital changes: Paid in	0	0	176.704
Surplus adjustments: Paid in	0	0	423,295
Dividends to stockholders	(250.000)	(250.000)	(305.000)
Change in admitted deferred income tax	0	49.865	0
Rounding	0	0	(1)
Change in surplus as regards policyholders for the year	($ 1.501.277)	$1.324.820	$ 888.834
Surplus as regards policyholders, December 31, 2010	$ 8,308.475	$9.633.295	$10.522.129

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NOTES TO THE FINANCIAL STATEMENTS

Note (1)

Electronic data processing equipment and software	$ 41,720

In the prior two examination reports (as of December 31, 2002 and December 31, 2007), it was 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.

The December 31, 2007 exam finding stated:

> *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.*

According to management, it appears that when all fixed assets were converted over to a new system (FAS), new categories for tracking were created, but the non-operating software did not get reclassified in the Annual Statement. Therefore, it is again recommended that in future Annual Statement reporting, non-operating software be reclassified as either a nonadmitted asset, or reported as part of furniture and equipment.

Note (2)

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

Glenn Taylor, ACAS, MAAA, of Taylor-Walker and Associates, Inc., was retained by the Department to perform the actuarial portion of the examination. The scope of Taylor-Walker's duties included issuing an opinion as to the adequacy of certain amounts reported by the Company as of December 31, 2010 as noted above. Taylor-Walker also reviewed the reinsurance agreements between the Company and its reinsurance carriers for transfer of risk. See *REINSURANCE* for further discussion.

Based on their examination review, Taylor-Walker concluded that the gross and net loss and loss adjustment expense reserves estimated by the Company's opining actuary, Lewis & Ellis, Inc., were reasonable. Given that the reserves booked by the Company fall within the opining actuary's range of reserve estimates, Taylor-Walker accepted the reserves reported in the Company's 2010 Annual Statement as reasonable.

Taylor-Walker also examined the Company's potential need for premium deficiency reserves as of December 31, 2010. 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, 2010.

Recommendations resulting from Taylor-Walker's examination were presented to the Company in the Management Letter.

SUMMARY, COMMENTS AND RECOMMENDATIONS

Summary

The results of this examination disclosed that as of December 31, 2010, the Company had admitted assets of $26,549,803, liabilities of $16,027,674, and unassigned funds of $5,063,872. 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

4 It is recommended the Company review the provisions of Section 41-3809(2), Idaho Code and IDAPA 18.01.23.024.02 and establish controls to ensure future compliance with respect to dividend notifications and payments.

22 It is again recommended that in future Annual Statement reporting, non-operating software be reclassified as either a nonadmitted asset, or reported as part of furniture and equipment.

CONCLUSION

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

In addition to the undersigned, Glenn Taylor, ACAS, MAAA, of Taylor-Walker and Associates, Inc. conducted the actuarial portion of the examination. The Company's information systems were reviewed by Information System Specialist, Jenny L. Jeffers, CISA, AES, on behalf of Examination Resources, LLC.

Respectfully submitted,

Lois Haley

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

AFFIDAVIT OF EXAMINER

State of Idaho
County of Bannock

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, 2008, through December 31, 2010, 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, CFE
Senior Insurance Examiner
Department of Insurance
State of Idaho

Subscribed and sworn to before me the 31 day of MAY, 2012 at Pocatello, Idaho.

Notary Public

My Commission Expires: 5-29-2018

EXHIBIT B

UNITED HERITAGE
Insurance

WAIVER

In the matter of the Report of Examination as of December 31, 2010, 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 31st day of May 2012, 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 6th day of June, 2012

United Heritage Property & Casualty Co.
Name of Company

Brian E Heuman
Signature

President/CEO
Title