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I.S.B. No. 3873

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**JUN 13 2019**  
Department of Insurance  
State of Idaho

*Attorneys for the Department of Insurance*

**BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE**

**STATE OF IDAHO**

In the Matter of:

UNITED HERITAGE PROPERTY &  
CASUALTY COMPANY

Certificate of Authority No. 1919  
NAIC No. 18939

Docket No. 18-3662-19

**ORDER ADOPTING REPORT  
OF EXAMINATION AS OF  
DECEMBER 31, 2017**

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, 2017 ("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 May 17, 2019. 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 June 5, 2019, and a copy of such verified Report was transmitted to UHP&C on June 6, 2019. A copy of the verified Report is attached hereto as Exhibit A.

4. On or about June 6, 2019, the Department received a Waiver signed by Marjorie A. Hopkins, President and CEO 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.

### **CONCLUSIONS OF LAW**

5. 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.

6. Having fully considered the Report, the Director concludes that UHP&C meets the minimum capital and deposit requirements set forth in Idaho Code §§ 41-313(1) and 41-316A.

**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, 2017 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 1, title 74, 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 and EFFECTIVE this 11 day of June, 2019.

STATE OF IDAHO  
DEPARTMENT OF INSURANCE



DEAN L. CAMERON  
Director

### **NOTIFICATION OF RIGHTS**

This Order constitutes a final order of the Director. Any party may file a motion for reconsideration of this final order within fourteen (14) days of the service date of this order. The Director will dispose of the petition for reconsideration within twenty-one (21) days of its receipt, or the petition will be considered denied by operation of law. *See*, Idaho Code § 67-5246(4).

Pursuant to Idaho Code §§ 67-5270 and 67-5272, any party aggrieved by this final order may appeal it by filing a petition for judicial review in the district court of the county in which: (1) the hearing was held; or (2) the final agency action was taken; or (3) the aggrieved party resides or operates its principal place of business in Idaho; or (4) the real property or personal property that was the subject of the agency decision is located. An appeal must be filed within twenty-eight (28) days of: (a) the service date of this final order; or (b) an order denying a petition for reconsideration; or (c) the failure within twenty-one (21) days to grant or deny a petition for reconsideration, whichever is later. *See*, Idaho Code § 67-5273. The filing of a petition for judicial review does not itself stay the effectiveness or enforcement of the order under appeal.

### CERTIFICATE OF SERVICE

I HEREBY CERTIFY that, on this 13<sup>th</sup> day of June, 2019, I caused a true and correct copy of the foregoing ORDER ADOPTING REPORT OF EXAMINATION AS OF DECEMBER 31, 2017 to be served upon the following by the designated means:

United Heritage Property & Casualty Company  
707 E. United Heritage Court  
Meridian, ID 83642  
[mmcdonald@unitedheritage.com](mailto:mmcdonald@unitedheritage.com)

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

Nathan Faragher  
Chief Examiner, Company Activities Bureau Chief  
Idaho Department of Insurance  
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DEPARTMENT OF INSURANCE

STATE OF IDAHO



REPORT OF EXAMINATION

Of

UNITED HERITAGE PROPERTY AND CASUALTY COMPANY

(Property & Casualty Insurer)

(NAIC Company Code: 18939)

As of

December 31, 2017



## TABLE OF CONTENTS

SALUTATIONS .....	3
SCOPE OF EXAMINATION.....	4
<i>Period Covered</i> .....	4
<i>Examination Procedures Employed</i> .....	4
<i>Status of Prior Examination Findings</i> .....	5
SUMMARY OF SIGNIFICANT FINDINGS .....	5
SUBSEQUENT EVENTS .....	5
COMPANY HISTORY .....	5
<i>General</i> .....	5
<i>Dividends and Capital Contributions</i> .....	6
<i>Mergers and Acquisitions</i> .....	8
<i>Surplus Debentures</i> .....	8
CORPORATE RECORDS .....	8
MANAGEMENT AND CORPORATE GOVERNANCE.....	9
FIDELITY BONDS AND OTHER INSURANCE .....	13
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS .....	13
TERRITORY AND PLAN OF OPERATION .....	14
GROWTH OF THE COMPANY .....	14
LOSS EXPERIENCE .....	14
REINSURANCE.....	15
<i>Assumed</i> .....	15
<i>Ceded</i> .....	15
ACCOUNTS AND RECORDS .....	15
STATUTORY DEPOSITS .....	16
FINANCIAL STATEMENTS .....	17
NOTES TO FINANCIAL STATEMENTS.....	20
SUMMARY OF RECOMMENDATIONS .....	20
ACKNOWLEDGEMENT .....	21
AFFIDAVIT OF EXAMINER .....	22

May 17, 2019

The Honorable Dean L. Cameron  
Director of Insurance  
State of Idaho  
700 West State Street  
P.O. Box 83720  
Boise, Idaho 83720-0043

Dear Director:

Pursuant to your instructions, in compliance with Idaho Code § 41-219(1), 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, 2017, of the financial condition and corporate affairs of:

United Heritage Property and Casualty Company  
707 E. United Heritage Court,  
Meridian, ID 83642

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



## SCOPE OF EXAMINATION

### *Period Covered*

We have performed our full-scope, risk-focused multi-state examination of United Heritage Property and Casualty Company. The last exam was completed as of December 31, 2013. This examination covers the period of January 1, 2014, through December 31, 2017.

### *Examination Procedures Employed*

Our examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook* (“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 current and 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, and management’s compliance with Statutory Accounting Principles (SSAPs and Annual Statement Instructions when applicable to domestic state regulations).

The Company retained the services of Ernst & Young, LLP, for all the years under examination except as of December 31, 2017, when the Company enlisted the services of JLK Rosenberger, to audit its financial records. The examiner did not find material exceptions in the Company’s decision to change external auditors. JLK Rosenberger allowed the examiners access to requested workpapers prepared in connection with its audits. The external audit work was relied upon where deemed appropriate.

All 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.

The examination determined the risks associated with identified key functional areas 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 to verify pricing and reserves.

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 single exception condition commented upon in our preceding Report of Examination, dated January 27, 2015, which covered the period from January 1, 2011, to December 31, 2013. We determined that the Company had satisfactorily addressed the noted exception condition.

### **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**

There were no material subsequent events affecting the Company significantly.

### **COMPANY HISTORY**

#### *General*

The Company was organized and incorporated on June 10, 1907, as a domestic county mutual fire insurance company, 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. ("UHFG").

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

#### *Dividends and Capital Contributions*

As of the examination date, the Company had 20,000,000 shares of capital stock authorized, with 3,963,775 shares issued and outstanding with a par value of \$1 per share for a total capital of \$3,963,775. The Company's total capital and paid in and contributed surplus at December 31, 2017, was \$8,508,256.

The following exhibit reflects the activity in the capital structure of the Company through December 31, 2017:

Date	Shares Issued/ (Redeemed)	Common Capital Stock	Gross Paid In & Contribut- ed Surplus	Total Capital and Paid in & Contributed
12/31/02	551	\$ 1,377,500	\$ 1,377,500	\$ 2,755,000
11/12/03 (1)	(9)	(22,500)	(22,500)	2,710,000
11/21/03 (2)	60	150,000	-	2,860,000
9/16/04 (3)	68	170,000	327,692	3,357,692
3/31/05 (4)	176	440,000	1,060,567	4,858,259
5/31/06 (5)	(846)	(2,115,000)	(2,743,259)	0
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
3/27/14 (9)	185,357	185,357	564,642	7,508,257
9/23/15 (10)	123,996	123,996	376,002	8,008,255
12/16/15 (11)	127,036	127,036	372,965	8,508,256
Totals	3,963,775	\$ 3,963,775	\$ 4,544,481	\$ 8,508,256

(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 Idaho Code § 41-3807; 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 Idaho Code Section 41-3807, 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.

(9) 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.

(10) The Executive Committee of the Board of Directors approved a resolution on September 14, 2015, to sell up to \$1,000,000 of the Company's common stock to United Heritage Financial Group, Inc., of which approximately \$500,000 was sold.

(11) Due to increased loss experiences, United Heritage Financial Group, Inc., purchased the remaining approximately \$500,000 of stock that was approved by the Executive Committee in December 2015.

The following ordinary dividends were issued in accordance with Idaho Code §41-3812(2) to the parent company, United Heritage Financial Group, Inc., during the examination period:

Year	Amount
2014	\$ 565,000
2015	\$ 540,000
2016	\$ 396,000
2017	\$ 540,000
Total	\$ 2,041,000

#### *Mergers and Acquisitions*

There were no mergers or acquisitions during the examination period.

#### *Surplus Debentures*

There were no 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 Idaho Code § 41-704.

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 prior examination report as of December 31, 2013, was distributed to the Board on February 23, 2015, and reviewed at the Board of Directors meeting on March 25, 2015, in accordance with Idaho Code §41-227(6)(a).

## MANAGEMENT AND CORPORATE GOVERNANCE

The bylaws of the Company indicated the number of directors may be no less than five and no more than fifteen.

The following persons served as directors of the Company as of December 31, 2017:

<u>Name and Location</u>	<u>Principal Occupation</u>
Mickey L. Ware Meridian, ID	President & Chief Executive Officer United Heritage Property & Casualty Company
Robert J. McCarvel Meridian, ID	Senior Vice President & Chief Marketing Officer United Heritage Financial Group
Marjorie A. Hopkins Boise, ID	Executive Vice President United Heritage Property & Casualty Company
Nancy K. Napier Boise, ID	Professor Boise State University
Linda P. Smith Boise, ID	Vice President Marketing & Community Development Saint Alphonsus Health System
Joseph P. Shirts Boise, ID	Certified Public Accountant Shirtz & Motz
Richard L. Stuppy Meridian, ID	Chief Operating Officer Kount, Inc.

The Company's bylaws authorize the Board of Directors to establish Executive, Audit, Compensation, Investment, and other committees it may determine to serve at the pleasure of the full Board of Directors. As of December 31, 2017, the Company's Board of Directors had established an Executive Committee comprised of the following members:

### Executive Committee

Mickey L. Ware, President & CEO  
Nancy K. Napier, Chairman

Joseph P. Shirts, Vice Chairman

In addition to the aforementioned, UHFG has established the following committees on behalf of the holding company:

Audit Committee

Jerome C. Fischer  
Michael M. Brem  
Steven D. Hauschild  
Michael M. Mooney

Governance/Nominating Committee

Steven D. Hauschild  
Dennis L. Johnson  
Richard C. Waitley

Investment Committee

Dennis L. Johnson  
Jack J. Winderl  
Michael M. Brem  
Todd H. Gill  
Deborah K. Sloan

Compensation Committee

Steven D. Hauschild  
Diane L. Polsker  
Richard C. Waitley  
Jerome C. Fischer  
John W. Holleran

Marketing Committee

Dennis L. Johnson  
Michael M. Brem  
Steven D. Hauschild  
Diane L. Polsker  
Richard C. Waitley  
Michael M. Mooney

Enterprise Risk & Return Committee

Steven D. Hauschild  
Dennis L. Johnson  
Mickey L. Ware  
Andrew L. Trower  
Todd H. Gill  
Jack J. Winderl  
Stephen G. Haney  
Jeffrey D. Neumeyer

The Company's bylaws provide for principal officers to consist of Chairman of the Board, Vice Chairman of the Board, President, Secretary and Treasurer. Other officers may be appointed at the discretion of the Board of Directors.

The following persons served as officers of the Company as of December 31, 2017:

Mickey L. Ware	President, Chief Executive Officer
Nancy K. Napier	Chairman of the Board
Joseph P. Shirts	Vice Chairman of the Board
Todd H. Gill	Vice President and Chief Financial Officer
Marjorie A. Hopkins	Executive Vice President

Jack J. Windlerl	Treasurer and Vice President, Investments
Stefanie A. Thiel	Vice President, Human Resources
Robin J. Robertson	Vice President, Operations and Secretary
Dean D. Sandros	Vice President, Investments
Debbie Etcheson-Frisby	Vice President, Marketing
Stephen G. Haney	Vice President, Chief Technology Officer
Steven Browning	Vice President, Claims
Jeffrey D. Neumeyer	Vice President, General Counsel

The following changes to officers occurred subsequent to the exam period: Mickey L. Ware retired and replaced by Marjorie A. Hopkins as President, but remained on as Chief Executive Officer; Marcus S. McDonald joined the Company as Vice President and Chief Financial Officer.

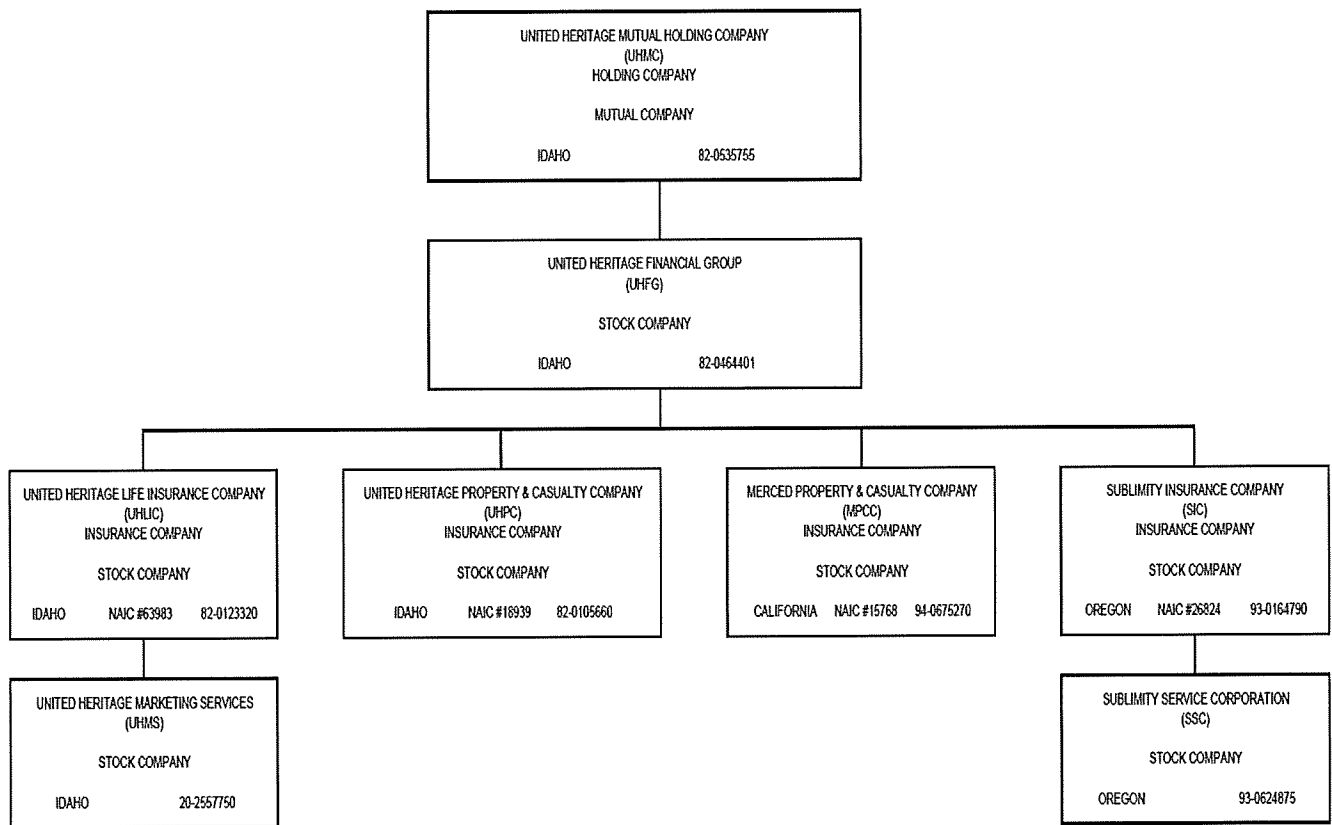
#### Related Parties

United Heritage Mutual Holding Company, Inc., was incorporated on August 23, 2001, pursuant to Idaho Code § 41-3821. On August 28, 2001, the Company's parent, United Heritage Financial Group, Inc., became a 100 percent wholly owned subsidiary of United Heritage Mutual Holding Company, Inc. United Heritage Financial Group, Inc., acquired Sublimity Insurance Company of Sublimity, Oregon in 2003.

On April 1, 2013, United Heritage Financial Group, Inc., acquired approximately 95 percent of Merced Property & Casualty Company (formerly Merced Mutual Insurance Company), of Atwater, California. Merced's former policyholders own the remaining 5 percent. On December 17, 2014, following a reverse split of Merced Property & Casualty Company's outstanding common stock, United Heritage Financial Group, Inc., became the sole shareholder. Merced Property & Casualty Company was placed into liquidation effective December 3, 2018.

The following organizational chart depicts the holding company as of December 31, 2017:





The Company was party to the following related party agreements at December 31, 2017:

#### Cost Sharing Agreement

Effective October 4, 2013, the Company was party to a Cost Sharing Agreement with UHPC, UHMS, MPCC, SIC, SSC and UHFG. The following services and expenses were shared by the holding company: employee benefit plans, building rent, investment management, human resource management, information technology and services, regulatory and statutory compliance. The agreement is effective continuously until amended or terminated by the parties.

#### Tax Allocation Agreement

Effective December 31, 2013, the Company was party to a Tax Allocation Agreement with affiliates under which each entity computes and accrues its own tax liability. The consolidated quarterly taxes are filed and paid by UHFG, and payments or credits are settled by members of the holding company within 30 days. The agreement is effective continuously until amended or terminated by the parties.

### Intercompany Loans and Revolving Lines of Credit

The Company is party to revolving lines of credit with its parent company, UHFG, under which the Company may borrow up to \$1,000,000 from UHFG and UHFG may borrow up to \$1,000,000 from the Company. These agreements were effective from 2014 – 2018 and were subsequently replaced with agreements that are effective until 2023.

### Lease Agreements

On October 11, 2013, the Company entered into a lease agreement with UHLIC whereby the Company is the lessee as part of the cost sharing agreement. This agreement was renewed effective January 1, 2015.

## **FIDELITY BONDS AND OTHER INSURANCE**

The minimum fidelity coverage suggested by the National Association of Insurance Commissioners (NAIC) for an insurer of the Company's size and premium volume is not less than \$1,250,000. As of December 31, 2017, the Company had sufficient fidelity bond coverage subject to a loss limit of \$5,000,000.

The Company also had additional insurance protection against Directors and Officers Liability, Employment Practices Liability, and Cyber Coverage Liability.

## **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

### 401(k) and Profit Sharing

The Company was a participating employer in the UHFG 401(k) Plan, in which all employees employed for a minimum of one month were eligible to participate. Participating employees may elect to contribute up to the Internal Revenue Service limitations to available investment funds. The Company matches employee contributions up to a maximum of 4% of their salaries. In addition, the Company provides discretionary profit-sharing contributions. The Company incurred \$139,951 in expenses under the plan in 2017.

### Deferred Compensation Plan

The Company established a supplemental executive retirement plan to provide incentives to certain executives and officers to remain employed with the Company until retirement. This plan included a component for excess 401(k) and profit sharing for officers who qualify. This plan was canceled effective July 31, 2014, and replaced by policies outside the Company.

#### Postretirement Benefit Plan

The Company provided health care benefits for a limited group of retired employees under an unfunded postretirement benefit plan, which provides for the payment of the retired employees' medical insurance premiums. The estimated postretirement benefit obligation for this plan was \$0 at December 31, 2017.

### **TERRITORY AND PLAN OF OPERATION**

As of December 31, 2017, the Company was licensed to sell property and casualty insurance in Idaho, Arizona, Oregon, Utah and Washington. The Company's key lines of business are homeowners, automobile liability and physical damage, farm owners, and commercial lines multiple peril. The Company distributes its products through independent individual and agency producers.

### **GROWTH OF THE COMPANY**

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

	2017	2016	2015	2014
Gross Written Premium	\$ 38,049,634	\$ 34,171,689	\$ 32,091,566	\$ 31,015,420
Policyholder Surplus	\$ 15,581,106	\$ 17,022,237	\$ 15,860,415	\$ 15,876,025
Gross Written Premium to Policyholder Surplus Ratio	244%	201%	202%	195%

### **LOSS EXPERIENCE**

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

	2017	2016	2015	2014
Loss Incurred	\$ 19,708,782	\$ 14,602,430	\$ 19,884,849	\$ 15,077,634
Loss Adjustment Expenses (LAE) Incurred	\$ 2,270,456	\$ 1,945,299	\$ 1,831,663	\$ 2,067,987
Total Loss and LAE Incurred	\$ 21,979,238	\$ 16,547,729	\$ 21,716,512	\$ 17,145,621
Net Premium Earned	\$ 26,749,674	\$ 22,805,527	\$ 26,504,083	\$ 25,621,718
Total Loss and LAE Incurred to Net Premium (Loss Ratio)	82%	73%	82%	67%

## REINSURANCE

### *Assumed*

The Company did not assume any reinsurance business during or subsequent to the period under examination.

### *Ceded*

The Company maintained reinsurance with Swiss Reinsurance Corporation of America throughout the examination period. At December 31, 2017, the reinsurance included three layers of excess of loss, 10-20% quota share and catastrophe coverages with limits of \$1,000,000 per occurrence and \$4,000,000 aggregate. The Company's retentions under the multi-line quota share coverage ranged from \$100,000 to \$1,000,000 per occurrence.

The reinsurance agreement contained acceptable provisions for inspection of records, arbitration, termination and insolvency clauses. All reinsurers were authorized pursuant to Idaho Code § 41-511. Agreements provided for transfer of risk and no apparent surplus relief treaties existed at December 31, 2017.

## ACCOUNTS AND RECORDS

The annual independent audits of the Company for the years 2014 through 2016 were performed by Ernst & Young, LLP. JLK Rosenberger performed the annual independent audit for 2017. Audit reports and workpapers were made available for the examination.

## STATUTORY DEPOSITS

Pursuant to Idaho Code § 41-316A, the Company was required to maintain a deposit in an amount equal to \$1,000,000. The Company's minimum capital requirement was \$2,000,000 at December 31, 2017. The examination confirmed the following statutory deposit, which was held for the benefit of all policyholders and adequate to cover the required deposit as of December 31, 2017:

<u>State</u>	<u>Description</u>	<u>Statement Value</u>	<u>Fair Value</u>
Idaho	Municipal Bonds	\$1,091,498	\$1,245,676

## FINANCIAL STATEMENTS

### Balance Sheet as of December 31, 2017

#### ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds (Schedule D)	\$ 34,057,667	\$ -	\$ 34,057,667
Preferred stocks	312,279	-	312,279
Common stocks	996,619	-	996,619
Cash (\$582,174), cash equivalents (\$239,994) and short-term investments	822,168	-	822,168
Total Cash and Invested Assets	\$ 36,188,733	\$ -	\$ 36,188,733
Investment income due and accrued	315,807	-	315,807
Uncollected premiums and agents' balances in the course of collection	1,972,502	-	1,972,502
and not yet due (including \$0 earned but unbilled premiums)	2,912,671	-	2,912,671
Amounts recoverable from reinsurers	612,714	-	612,714
Current federal and foreign income tax recoverable and interest thereon	187,900	-	187,900
Net deferred tax asset	923,809	-	923,809
Electronic data processing equipment and software	45,906	-	45,906
Furniture and equipment, including health care delivery assets (\$0)	56,688	-	56,688
Total (Lines 26 and 27)	\$ 43,216,730	\$ -	\$ 43,216,730

**Balance Sheet as of December 31, 2017, continued**

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	\$	6,777,844
Loss adjustment expenses		931,508
Commissions payable, contingent commissions and other similar charges		401,799
Other expenses (excluding taxes, licenses and fees)		230,098
Taxes, licenses and fees (excluding federal and foreign income taxes)		112,988
Unearned premiums		16,480,697
Advance premium		670,685
Ceded reinsurance premiums payable (net of ceding commissions)		1,745,175
Remittances and items not allocated		148,920
Payable to parent, subsidiaries and affiliates		127,330
Aggregate write-ins for liabilities		8,581
Total liabilities	\$	27,635,625
Common capital stock		3,963,775
Gross paid in and contributed surplus		4,544,481
Unassigned funds (surplus)		7,072,850
Surplus as regards policyholders	\$	15,581,106
Total Liabilities and Policyholders Surplus	\$	43,216,731

## STATEMENT OF INCOME

For the Year Ended December 31, 2017

Premiums earned		\$	26,749,674
Losses incurred	\$	19,708,782	
Loss adjustment expenses incurred		2,270,456	
Other underwriting expenses incurred		8,073,171	
Aggregate write-ins for underwriting deductions		32,509	
Total underwriting deductions			30,084,919
Net underwriting gain (loss)		\$	(3,335,245)
Net investment income earned	\$	1,657,318	
Net realized capital gains (losses) less capital gains tax of \$0 Capital Gains		524,712	
Net investment gain (loss)			2,182,031
Finance and service charges not included in premiums	\$	106,729	
Aggregate write-ins for miscellaneous income		11,427	
Total other income			118,156
Net income before federal and foreign income tax and foreign income taxes		\$	(1,035,058)
Federal and foreign income taxes incurred			(222,093)
Net income		\$	(812,965)

## RECONCILIATION OF CAPITAL AND SURPLUS ACCOUNT

December 31, 2014 through December 31, 2017

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Surplus as regards policyholders, December 31 prior year	\$ 13,864,090	\$ 15,876,025	\$ 15,860,415	\$ 17,022,237
Net income	1,818,534	(385,683)	1,443,305	(812,966)
Change in net unrealized capital gains (losses)	14,026	(88,168)	83,923	15,443
Change in net deferred income tax	(5,624)	(1,757)	30,594	(103,609)
Capital changes:				
Paid in	185,357	251,032	(251,032)	
Surplus adjustments:				
Paid in	564,642	748,967	(748,967)	
Dividends to stockholders	(565,000)	(540,000)	(396,000)	(540,000)
Net change in capital and surplus for the year	\$ 2,011,935	\$ (15,609)	\$ 161,823	\$ (1,441,132)
Capital and surplus, December 31, current year	\$ 15,876,025	\$ 15,860,415	\$ 16,022,237	\$ 15,581,106



### Analysis of Changes in Financial Statements Resulting From Examination

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

## **NOTES TO FINANCIAL STATEMENTS**

No changes were made to the financial statements as a result of this examination.

Kemi Akinyemi, FSA, MAAA, of Risk & Regulatory Consulting, LLC, was retained by the Department to perform the actuarial portion of the examination. Risk & Regulatory Consulting, LLC examined the actuarial assumptions and actuarial methods used in determining policy reserves and related actuarial items listed above and as reported in the 2017 Statement of Actuarial Opinion. Based upon their review, Risk & Regulatory Consulting, LLC concluded the year-end 2017 reserves reported by the Company were adequate.

## **SUMMARY OF RECOMMENDATIONS**

### Related Party Transactions

Subsequent to the examination period, it was noted that the Company loaned \$500,000 to affiliate United Heritage Life Insurance Company without a formal written intercompany loan agreement or promissory note in place. Insurers are required to establish and follow a formal loan approval process pursuant to Idaho Code § 41-704 and §41-705.

The examiners recommend that the Companies establish and follow a process to obtain a formal written intercompany loan agreement or promissory note before all transfers of loan funds occur. This process should include proper authorization and loan documentation to meet the standards under Idaho Code §§ 41-704 and 41-705.

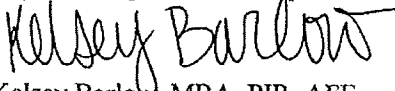
## ACKNOWLEDGEMENT

David Heppen, FCAS, MAAA, and Andrew Chandler, ACAS, MAAA, of Risk & Regulatory Consulting, LLC, performed the actuarial phases of the examination. Jenny Jeffers and Joanna Latham of Jennan Enterprises, LLC, performed the Information Systems review. In addition to the undersigned, Jessie Adamson, Financial Examiner, Idaho Department of Insurance, assisted in 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,



Clarissa Crisp, CFE  
Examiner-in-Charge  
Risk & Regulatory Consulting, LLC  
Representing the Idaho Department of Insurance



Kelsey Barlow, MBA, PIR, AFE  
Participating Examiner  
Idaho Department of Insurance



Hermeliva Abejar, CFE  
Supervising Examiner  
Idaho Department of Insurance

## AFFIDAVIT OF EXAMINER

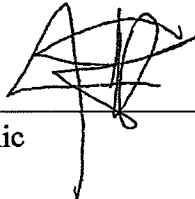
State: Utah  
County: Salt Lake

Clarissa Crisp, CFE, 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 and Casualty Company for the period January 1, 2014, through December 31, 2017, 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 information.

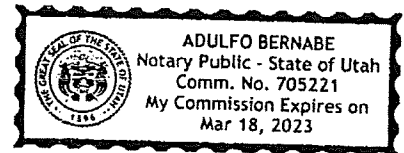


Examiner-in-Charge  
Risk & Regulatory Consulting, LLC  
On behalf of Idaho Department of Insurance

Subscribe and sworn to before me the 5 day of June, 2019, at Herriman, Utah  
(City) (State)



Notary Public



My Commission Expires: March, 18, 2023

BRAD LITTLE  
Governor

State of Idaho  
**DEPARTMENT OF INSURANCE**

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

DEAN L. CAMERON  
Director

**WAIVER**

In the matter of the Report of Examination as of December 31, 2017, of the:

**United Heritage Property and Casualty Company  
707 E. United Heritage Court  
Meridian, ID 83642**

By executing this Waiver, the Company hereby acknowledges receipt of the above-described examination report, verified as of the 17th day of May 2019, 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, 2019

**United Heritage Property and Casualty Company**

Marjorie A. Hopkins

Name (print)

Marjorie A. Hopkins

Name (signature)

President and CEO

Title

