

**REPORT ON EXAMINATION**  
**OF**  
**CONTINENTAL HERITAGE INSURANCE**  
**COMPANY**  
**BOCA RATON, FLORIDA**

**AS OF**  
**DECEMBER 31, 2009**

**BY THE**  
**OFFICE OF INSURANCE REGULATION**

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Tallahassee, Florida

March 11, 2011

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Dear Sirs and Madam:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination of December 31, 2009, of the financial condition and corporate affairs of:

**CONTINENTAL HERITAGE INSURANCE COMPANY  
7200 WEST CAMINO REAL, SUITE 302  
BOCA RATON, FLORIDA 33333**

Hereinafter referred to as, the "Company". Such report of examination is herewith respectfully submitted.

## **SCOPE OF EXAMINATION**

This examination covered the period of November 20, 2008, through December 31, 2009. The Company was redomesticated to Florida from Ohio in 2008; therefore, this is the first examination performed by representatives of the Florida Office of Insurance Regulation (Office). This examination commenced with planning at the Office on November 29, 2010, to December 3, 2010. The fieldwork commenced on December 6, 2010, and concluded as of March 11, 2011.

This financial examination was an association zone statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

The Financial Condition Examiners Handbook requires that the examination be planned and performed 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 and management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

This report of examination is confined to significant adverse findings, a material change in the financial statements or other information of regulatory significance or requiring regulatory action. The report comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

## **SUMMARY OF SIGNIFICANT FINDINGS**

### **Current Exam Findings**

There were no findings, exceptions or corrective action to be taken by the company for the examination as of December 31, 2009.

### **Prior Exam Findings**

Since this is the first examination conducted by the Office, there were no prior Office findings, exceptions or corrective action to be taken by the Company.

## **SUBSEQUENT EVENTS**

The parent company, Evergreen National Indemnity Company, has expressed its intent to sell the Company. The sale is expected to be finalized by the end of 2011.

## **HISTORY**

### **General**

The Company was incorporated on March 11, 1980 and commenced business on May 12, 1980 as Continental Heritage Insurance Company.

The Company was party to Consent Order 66081-03-CO, filed March 27, 2003, with the Office regarding the application for redomestication to the State of Florida. On July 8, 2003, the Company notified the Office that it had not met the requirements of Consent Order 66081-03-CO and requested that the application for redomestication to the State of Florida be withdrawn. On September 4, 2003, the Office filed Consent Order 70049-03-CO withdrawing that approval. On October 25, 2007, the Company once again applied for redomestication to Florida. The Office approved this application on November 20, 2008 in Consent Order 10016-08-CO.

The Company was authorized to transact the following insurance coverages in Florida on December 31, 2009.

Fidelity          Surety          Bailbonds

### **Dividends to Stockholders**

In accordance with Section 628.371, Florida Statutes, the Company declared and paid dividends to its stockholder in 2008 in the amount of \$600,000.

### **Capital Stock and Capital Contributions**

As of December 31, 2009, the Company's capitalization was as follows:

Number of authorized common capital shares	1,000,000
Number of shares issued and outstanding	221,786
Total common capital stock	\$1,552,502
Par value per share	\$7.00

Control of the Company was maintained by its parent, Evergreen National Indemnity Company (Evergreen), who owned 100% of the stock issued by the Company, who in turn was owned 65.06% by ProAlliance Corporation, an Ohio corporation.

## **CORPORATE RECORDS**

The recorded minutes of the shareholder, Board of Directors (Board), and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

### **Conflict of Interest**

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

## **MANAGEMENT AND CONTROL**

### **Management**

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2009, were:

## Directors

<b>Name and Location</b>	<b>Principal Occupation</b>
Charles D. Hamm, Jr. Mayfield Heights, OH	Chief Executive Officer and President, Evergreen National Indemnity Company and the Company
Craig L. Stout Shaker Heights, OH	Chairman, COP, Inc.; Vice President, Evergreen National Indemnity Company and the Company
Edward F. Feighan Mayfield Heights, OH	Chief Operating Officer, Evergreen National Indemnity Company and the Company
David A. Canzone Mayfield Heights, OH	Treasurer and Chief Financial Officer, Evergreen National Indemnity Company and the Company
Roswell P. Ellis Westerville, OH	Retired

The Board in accordance with the Company's Bylaws appointed the following senior officers:

### Senior Officers

<b>Name</b>	<b>Title</b>
Charles D. Hamm, Jr.	President
David A. Canzone	Chief Financial Officer and Treasurer
Wan C. Collier	Secretary
Edward Farrell Feighan	Chief Operating Officer

### Executive Committee

Roswell Ellis<sup>1</sup>  
Charles Hamm  
David Canzone

### Audit Committee

Gregory J. Skoda<sup>1</sup>  
William R. Baker  
Jeffrey E. Smith  
Robert F. Fix

### Investment Committee

Charles Hamm<sup>1</sup>  
David Canzone  
Otto Lombardo

<sup>1</sup> Chairman

### Affiliated Companies

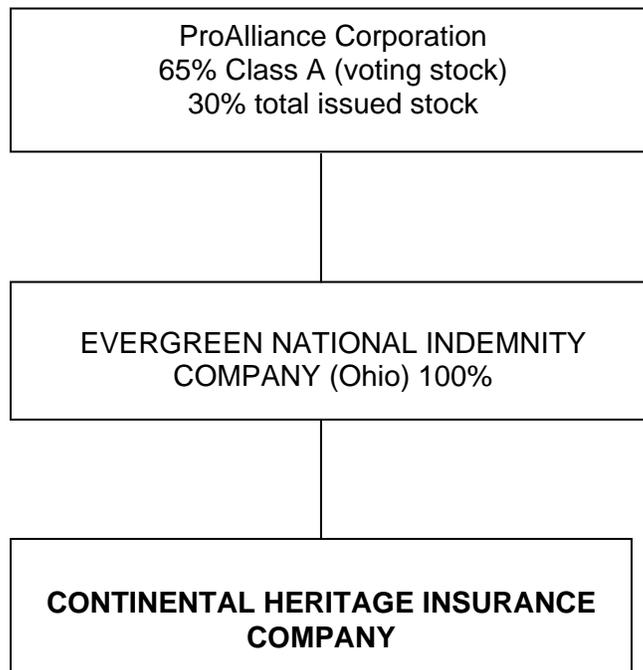
The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration

statement was filed with the State of Florida on April 6, 2010, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2009, reflecting the holding company system, is shown below. Schedule Y of the Company's 2009 annual statement provided a list of all related companies of the holding company group.

**CONTINENTAL HERITAGE INSURANCE COMPANY  
ORGANIZATIONAL CHART**

**DECEMBER 31, 2009**



The following agreements were in effect between the Company and its affiliates:

### **Tax Allocation Agreement**

The Company, along with its parent, filed a consolidated federal income tax return. On December 31, 2009, the method of allocation between the Company and its parent was on a separate entity basis. Each member of the group recorded an inter-company income tax receivable or payable with Evergreen.

### **Cost Allocation Agreement**

The Company is a party to a Cost Sharing Agreement with Evergreen, whereby Evergreen will provide certain management and administrative services to the Company. These services were allocated to the Company based on actual costs incurred.

### **Operating Agreement**

The Company is a party to an Operating Agreement with Williams National Surety Corporation (Williams) and C.E. Parish General Agency (Parish) whereby commissions for bail bonds were paid. Certain officers of Williams and Parish are officers of the Company.

Effective March 28, 2005, the Company entered into a supplemental commission agreement with Williams and Parish. In 2008, the agreement was modified and the Company was released from any supplemental commission liability earned by Williams and Parish after January 1, 2008. As of December 31, 2009, the Company had \$796,615 in supplemental commission payable under this agreement.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company maintained fidelity bond coverage up to \$5,000,000 with a deductible of \$100,000, which met the suggested minimum as recommended by the NAIC.

The Company also maintained Directors and Officers liability insurance coverage with limits of \$5,000,000 and a deductible of \$250,000 as well as other property and general liability coverage with various limits and deductibles.

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

The Company's parent sponsors a 401(k) tax deferred retirement savings plan for eligible employees. Employee eligibility complies with current Federal legislation. Company contributions are discretionary and subject to certain limitations as imposed by law. There are no other deferred compensation, retirement plans or postretirement benefit plans.

## **TERRITORY AND PLAN OF OPERATIONS**

The Company was authorized to transact insurance in the following states:

Arizona	Iowa	Nevada	Tennessee
California	Louisiana	North Dakota	Texas
Florida	Maryland	Ohio	Utah
Georgia	Minnesota	Pennsylvania	Virginia
Illinois	Mississippi	South Carolina	
Indiana			

## **COMPANY GROWTH**

The Company has maintained profitable business during the period under examination with an outlook for very slow growth. There have been no new products or distribution channels.

## Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of examination, as reported in the filed annual statements. The Company redomesticated to Florida in 2008 and therefore this is a one year exam, however the profitability for the last five years was depicted in the table below.

	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Premiums Earned	1,514,447	1,508,579	2,043,252	1,967,336	1,805,671
Net Underwriting Gain/(Loss)	47,299	429,848	450,542	398,439	79,917
Net Income	270,866	473,889	538,283	462,040	203,817
Total Assets	7,628,011	8,236,060	8,163,924	9,064,504	7,755,977
Total Liabilities	1,448,195	2,326,567	2,122,943	2,248,654	1,428,534
Surplus As Regards Policyholders	6,179,816	5,909,493	6,040,981	6,815,850	6,327,443

## REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

## **Assumed**

The Company did not assume any business during the examination period.

## **Ceded**

The Company ceded risk on an excess of loss basis to its parent, Evergreen. According to the agreement, the Company shall pay to Evergreen the pro rata portion of the Gross Net Premium developed on the covered business.

## **ACCOUNTS AND RECORDS**

The Company maintained its principal operational offices in Mayfield Heights, OH, where this examination was conducted.

An independent Certified Public Accountant (CPA) audited the Company's statutory basis financial statements for 2009, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

The Company used Microsoft Dynamics GP/Great Plains (Dynamics) as their general ledger application supported by Skoda Minotti and administered by the Manager of Accounting and Reinsurance. Entries into Dynamics were manual with an interface to FRX, which mapped data from the general ledger to The Complete Package (TCP) statement application. Investment management was outsourced to General Re-New England Asset Management Inc. (GR-NEAM), with investment journal entries and trade activity reports downloaded via a secured website. Activity was reconciled between the GR-NEAM reports and the custodial bank statements. Reinsurance was tracked using an Access database using data pulled from

EZBond. Monthly analysis was performed on the database to ensure that proper contract terms were included.

The Company and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company maintained a custodial agreement with Huntington National Bank. The Company was in compliance with Rule 69O-143.042, Florida Administrative Code which stipulates the requirements of a custodial agreement.

### **Independent Auditor Agreement**

The Company contracted with an external independent CPA firm to perform the annual audit of its financial statements as required by Rule 690-137.002 (7) (c), Florida Administrative Code.

### **Information Technology Report**

Jeff Ferris, Ohio Information Technology (IT) Examiner, performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

## STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes, and with various state officials as required or permitted by law:

STATE	Description	Par Value	Market Value
FL	CD, 0.95%	\$ 150,000	\$ 150,000
FL	CD, 3.26%	150,000	150,000
FL	HUNTERDON, 4.95%, 05/01/2013	250,000	268,890
FL	MAUI CITY, 5.0%, 09/01/2014	460,000	507,946
FL	RUTHERFORD, 5.0%, 04/01/2012	250,000	272,883
FL	SHREVEPORT, 5.0%, 05/01/2015	<u>230,000</u>	<u>243,283</u>
TOTAL FLORIDA DEPOSITS		\$1,490,000	\$ 1,593,002
GA	USTNDS, 3.5%, 05/13/13	\$ 35,000	\$ 34,965
IN	CD, 4.16%, 01/27/10	75,000	78,104
LA	LA BOND, 5.0%, 05/01/19	70,000	72,990
PA	CD, 0.65%	50,000	50,000
PA	CD, 0.2%	25,000	25,012
SC	USTN, 4.0%, 03/15/10	250,000	250,029
VA	WI SER A, 5.0%, 05/01/19	170,000	184,446
VA	LA REF-SERA, 5.0%, 05/01/19	<u>230,000</u>	<u>243,473</u>
TOTAL OTHER DEPOSITS		<u>\$ 905,000</u>	<u>\$ 930,019</u>
TOTAL SPECIAL DEPOSITS		<u>\$2,395,000</u>	<u>\$2,532,021</u>

## FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2009, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

**CONTINENTAL HERITAGE INSURANCE COMPANY**  
**Assets**

**DECEMBER 31, 2009**

	Per Company	Examination Adjustments	Per Examination
Bonds	\$4,901,693		\$4,901,693
Cash & S/T Investments	2,661,829		2,661,829
Investment Income due and accrued	49,201		49,201
Agents' Balances:			
Uncollected premium	4,538		4,538
Reinsurance recoverable	458		458
Current Federal and Foreign Tax recoverable and Interest Thereon	6,141		6,141
Net Deferred Tax Asset	3,761		3,761
EDP Equipment	390		390
Totals	\$7,628,011	\$0	\$7,628,011

**CONTINENTAL HERITAGE INSURANCE COMPANY**  
**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2009**

	Per Company	Examination Adjustments	Per Examination
Losses	\$17,679		\$17,679
Loss adjustment expenses	16,569		16,569
Commissions payable, contingent commissions and other similar charges	891,486		891,486
Other expenses	122,257		122,257
Taxes, licenses and fees	98,222		98,222
Unearned premium	129,805		129,805
Ceded reinsurance premiums payable	6,027		6,027
Payable to parent, subsidiaries and affiliates	166,150		166,150
Total Liabilities	\$1,448,195	\$0	\$1,448,195
Common capital stock	\$1,552,502		\$1,552,502
Gross paid in and contributed surplus	2,347,500		2,347,500
Unassigned funds (surplus)	2,279,814	0	2,279,814
Surplus as regards policyholders	\$6,179,816	\$0	\$6,179,816
Total liabilities, surplus and other funds	\$7,628,011	\$0	\$7,628,011

**CONTINENTAL HERITAGE INSURANCE COMPANY**  
**Statement of Income**

**DECEMBER 31, 2009**

**Underwriting Income**

Premiums earned		\$1,514,447
	<b>Deductions:</b>	
Losses incurred		(\$1,819)
Loss expenses incurred		(3,202)
Other underwriting expenses incurred		1,472,169
Total underwriting deductions		\$1,467,148
Net underwriting gain or (loss)		\$47,299

**Investment Income**

Net investment income earned		\$226,716
Net realized capital gains or (losses)		70,552
Net investment gain or (loss)		\$297,268

**Other Income**

Net gain or (loss) from agents' or premium balances charged off		\$12
Aggregate write-ins for miscellaneous income		3,504
Total other income		\$3,516

Net income before dividends to policyholders and before federal & foreign income taxes		\$348,083
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$348,083
Federal & foreign income taxes		77,217
Net Income		\$270,866

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year		\$5,909,493
Net Income		\$270,866
Net unrealized capital gains or losses		0
Change in net deferred income tax		(53,333)
Change in non-admitted assets		52,790
Change in provision for reinsurance		0
Change in excess statutory over statement reserves		0
Surplus adjustments: Paid in		0
Aggregate write-ins for gains and losses in surplus		0
Examination Adjustment		0
Change in surplus as regards policyholders for the year		\$270,323
Surplus as regards policyholders, December 31 current year		\$6,179,816

A comparative analysis of changes in surplus is shown below.

**CONTINENTAL HERITAGE INSURANCE COMPANY**  
**Comparative Analysis of Changes In Surplus**

**DECEMBER 31, 2009**

Surplus as Regards Policyholders  
December 31, 2009, per Annual Statement \$6,179,816

	<u>PER</u> <u>COMPANY</u>	<u>PER</u> <u>EXAM</u>	<u>INCREASE</u> <u>(DECREASE)</u> <u>IN SURPLUS</u>
ASSETS:			
No Adjustment			
LIABILITIES:			
No Adjustment			
Net Change in Surplus:			<u>0</u>
Surplus as Regards Policyholders December 31, 2009, Per Examination			<u><u>\$6,179,816</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

#### Losses and Loss Adjustment Expenses \$34,248

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2009, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office engaged an independent actuarial firm, Taylor-Walker, to review the Statutory Premium Reserve carried in the Company's balance sheet as of December 31, 2009 and was in concurrence with this opinion.

#### Capital and Surplus

The amount reported by the Company of \$6,179,816, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Continental Heritage Insurance Company** as of December 31, 2009, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$6,179,816, which exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Rachelle Gowins, CFE, Examiner-In-Charge of Examination Resources, LLC, Randall Ross, FCAS MAAA, consulting actuary of Taylor-Walker, Floyd Meeks, CPA, AES, CISA, IT Manager with the Ohio Department of Insurance and Jeffrey Ferris, CFE, AES, IT Examiner with the Ohio Department of Insurance participated in the examination.

Respectfully submitted,

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Mary M. James, CFE, CPM  
Chief Examiner  
Florida Office of Insurance Regulation