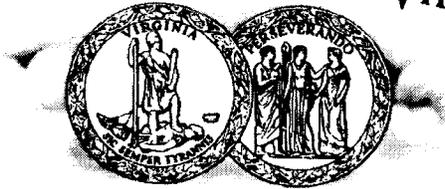


**EXAMINATION REPORT**  
**of**  
**GRAYSON-CARROLL-WYTHE MUTUAL**  
**INSURANCE COMPANY**  
**Galax, Virginia**  
**as of**  
**December 31, 2013**

**COMMONWEALTH OF VIRGINIA**  
**STATE CORPORATION COMMISSION**  
**BUREAU OF INSURANCE**

# COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE



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I, Jacqueline K. Cunningham, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Grayson-Carroll-Wythe Mutual Insurance Company as of December 31, 2013, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand  
and affixed to the original the seal of the Bureau at the City  
of Richmond, Virginia this 27<sup>th</sup> day of August, 2014

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Jacqueline K. Cunningham  
Commissioner of Insurance

(SEAL)

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Richmond, Virginia  
May 23, 2014

Honorable Jacqueline K. Cunningham  
Commissioner of Insurance  
Commonwealth of Virginia  
Richmond, Virginia

Dear Madam:

Pursuant to your instructions and by authority of § 38.2-1317 of the Code of Virginia, an examination of

**GRAYSON-CARROLL-WYTHE MUTUAL  
INSURANCE COMPANY**  
Galax, Virginia

hereinafter referred to as the Company, has been completed. The report thereon is submitted for your consideration.

**DESCRIPTION**

The Company is a mutual assessment property and casualty insurer licensed under Chapter 25 of Title 38.2 of the Code of Virginia. The Company was last examined by representatives of the State Corporation Commission's (Commission) Bureau of Insurance (Bureau) as of December 31, 2010. This examination covers the period from January 1, 2011 through December 31, 2013.

**HISTORY**

The Company was originally granted a charter by the General Assembly of Virginia on February 24, 1896, under the name "Grayson County Farmers Mutual Benevolent Fire Insurance Company." The name of the Company has been changed several times. In 1977, the Farmers' Mutual Fire Insurance Association of Wythe County, Inc., was merged into the Company and the name changed to "Grayson-Carroll-Wythe Mutual Insurance Company." The purposes for which the Company was formed, according to its amended charter, are as follows:

The Conduct of a mutual assessment fire insurance business as defined in Code Section 38.1-659 including (a) fire insurance as defined in Code Section 38.1-6 and (b) miscellaneous property insurance as defined in Code Section

38.1-7 when such insurance is issued as a supplemental or comprehensive contract in connection with a fire insurance policy.

The doing of all acts necessary and incidental to the said conduct and carrying on of the business indemnifying the members thereof for loss of, or damage to, property, by the levying of assessments based upon past or anticipated future losses, throughout this State to the widest extent allowed by the laws of Virginia, and as amended from time to time.

The power to make, enter into, perform and carry out contracts for the foregoing purposes.

The power to issue bonds, or notes, which may be secured by deeds of trust on real estate, as well as chattel mortgages on personal property and conditional sales contracts, to purchase, or otherwise acquire the stocks, bonds, or other securities of other individuals, firms, or corporations, and to establish branches for more convenient operation of its business at any place, within the State of Virginia, and in general do all things to carry out the purposes of this corporation, not inconsistent with the law.

On October 27, 1992, the Bureau approved the merger of The Mutual Fire Insurance Company of Bland County into the Company. This merger became effective March 4, 1993.

### **MANAGEMENT AND CONTROL**

According to the Company's bylaws, management is vested in a board of directors, each of whom shall be a member of the Company. Directors are elected on a rotating basis at the annual meeting of policyholders and hold office for a period of three years. The Directors shall elect, from their members, a president and a vice president; additionally they shall elect a secretary-treasurer who may or may not be a member of the board of directors. The president and vice president hold office for one year and until their successors are elected and qualified. The secretary-treasurer shall serve at the pleasure of the board.

The articles of incorporation and by-laws were last amended in December of 2010.

Directors and officers were as follows at December 31, 2013:

<u>Directors</u>	<u>Principal Occupation</u>
Patricia Belcher	CPA Meadowview, Virginia
Roger D. Burnett	Retired Galax, Virginia
Samuel H. Cassell	Retired Wytheville, Virginia
Raymond L. Hall, Jr.	Treasurer, Vaughan Furniture Galax, Virginia
Berlie Hill	Retired Independence, Virginia
Joseph R. Liddle	Secretary - Treasurer, Grayson-Carroll- Wythe Mutual Insurance Company Galax, Virginia
G. Dallas Shumate	Retired Rural Retreat, Virginia
 <u>Officers</u>	
Roger D. Burnett	President
Samuel H. Cassell	Vice President
Joseph R. Liddle	Secretary - Treasurer
Jeffery S. Reeves	Chief Financial Officer
Randall Carpenter	Executive Vice President
David Wilson	Claims Manager

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

The Company is licensed as a mutual assessment property and casualty insurer and as such may operate in any and all areas of the Commonwealth of Virginia.

The Company writes fire, inland marine and homeowners' coverages and presently retains \$70,000 on such risks. The Company's bylaws allow for a maximum retention of \$120,000 on any building and its contents, or group of buildings liable to burn from a single fire. All policies, with the exception of coverages for livestock and hay, contain deductibles ranging from \$250 up to \$2500. New business solicited by agents is underwritten by the staff with final review by the secretary-treasurer who investigates and approves applications for insurance. Claims investigations and adjustments are handled by a claims adjuster, along with a final review and approval by the secretary-treasurer.

### **FIDELITY BOND AND OTHER INSURANCE**

The Company had fidelity bond coverage in force at December 31, 2013, to insure against losses arising from dishonest acts of the secretary-treasurer and office employees. The bond provides coverage in the amount of \$250,000, subject to a \$10,000 deductible.

Additionally, the Company had professional liability and directors and officers coverage in force at December 31, 2013. The coverage limit was in the amount of \$1,000,000, with a \$25,000 deductible for each loss event. The Company also had commercial automobile coverage, workers compensation coverage, insurance agents errors and omissions coverage, and coverage on its office buildings and contents.

**REINSURANCE**

The Company had the following reinsurance agreements in force at December 31, 2013:

<u>Type of Agreement</u>	<u>Lines Covered</u>	<u>Company's Retention</u>	<u>Reinsurers' Limits</u>
Property Per Risk Excess of Loss			
<i><u>First Excess</u></i>	Property	\$70,000 each risk each loss occurrence	100% of \$130,000 in excess of \$70,000 per risk
<i><u>Second Excess</u></i>	Property	\$200,000 each risk, each loss occurrence	100% of \$300,000 excess \$200,000 per risk.
Casualty Excess of Loss	Liability	\$50,000 each risk each loss occurrence	\$500,000 in excess of \$50,000 per occurrence
Special Casualty Excess of Loss	Liability	\$500,000 combined net loss	100% of \$500,000 in excess of \$500,000 combined net loss, per occurrence, covering Bodily Injury and Property Damage Liability including Medical Payments
Aggregate Excess of Loss	Property and Casualty	10% of ultimate net loss over an amount equal to 80% of subject net premiums earned or \$2,304,000, whichever is the greater	90% of an amount of such excess up to but not exceeding an amount equal to lesser of 90% of 125% of net premiums earned during the respective calendar year, or 90% of \$5,400,000.

<u>Type of Agreement</u>	<u>Lines Covered</u>	<u>Company's Retention</u>	<u>Reinsurers' Limits</u>
Property Facultative Pro-Rata	Property	100% of the Company's surplus liability subject to a minimum retention of \$50,000	5 times Company's net retention plus amounts ceded under working reinsurance contracts subject to minimum retention of \$50,000 and maximum cession of \$750,000

All reinsurance is placed through Guy Carpenter & Company, LLC., a reinsurance intermediary. All agreements contain an insolvency clause and a guarantee of the intermediary's credit.

## GROWTH OF THE COMPANY

The following data obtained from annual statements filed with the Bureau of Insurance and from examination reports, indicates the growth of the Company for the ten-year period ending December 31, 2013:

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Surplus</u>
2004	\$9,607,128	\$1,624,745	\$7,982,383
2005	10,239,459	1,738,918	8,500,541
2006	10,751,635	1,634,779	9,116,856
2007	11,511,295	1,748,087	9,763,208
2008	11,816,309	1,760,789	10,055,520
2009	13,161,937	1,814,380	11,347,557
2010	13,878,750	1,875,221	12,003,529
2011	14,839,664	2,290,987	12,548,677
2012	15,690,586	2,760,603	12,929,983
2013	17,294,042	3,192,668	14,101,374

<u>Year</u>	<u>Net Assessments</u>	<u>Investment Income</u>	<u>Net Losses Paid</u>	<u>Number of Policies</u>	<u>Insurance Inforce</u>
2004	\$2,201,820	\$431,782	\$845,867	\$12,275	\$1,071,662,551
2005	2,333,666	426,835	926,001	12,181	1,103,433,199

<u>Year</u>	<u>Premiums Earned</u>	<u>Loss and Loss Adjustment Expenses Incurred</u>	<u>Other Underwriting Expenses Incurred</u>	<u>Net Underwriting Gains or (Losses)</u>
*2006	\$2,458,112	\$1,089,950	\$1,243,612	\$124,550
2007	2,744,662	921,431	1,486,884	336,347
2008	2,514,144	969,085	1,376,555	168,504
2009	2,533,985	849,328	1,360,508	324,149
2010	2,474,871	1,214,003	1,347,225	(86,357)
2011	2,914,759	1,415,734	1,465,861	33,164
2012	3,093,844	2,001,972	1,575,530	(483,658)
2013	3,839,631	1,704,918	1,803,557	331,156

\*The Company began filing a NAIC Property and Casualty Annual Statement as of December 31, 2006. Prior to 2006, the Company filed a Bureau-developed Mutual Assessment Property and Casualty Annual Statement.

## **SCOPE**

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period from January 1, 2011, through December 31, 2013. Assets were verified and liabilities were established at December 31, 2013.

This examination was conducted in accordance with the NAIC *Financial Condition Examiners' Handbook* (Handbook). The Handbook requires that the Bureau plan and perform the examination to evaluate the Company's financial condition and identify prospective risks of the Company, assess corporate governance, identify and assess inherent risks within the Company and evaluate 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 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.

## **FINANCIAL STATEMENTS**

There follows a statement of financial condition as of December 31, 2013, a statement of income for the period ending December 31, 2013, a reconciliation of capital and surplus for the period under review, and a statement of cash flow for the period ending December 31, 2013. The financial statements are presented in accordance with Statutory Accounting Principles.

**ASSETS**

	<u>Assets</u>	Non Admitted Assets	Net Admitted Assets
Bonds	\$10,322,829		\$10,322,829
Preferred stocks	1,902,643		1,902,643
Common stocks	3,229,099		3,229,099
Real estate	368,645		368,645
Cash and short-term investments	1,003,729		1,003,729
Investment income due and accrued	128,239		128,239
Uncollected premiums and agents' balances in the course of collection	114,382	4,802	109,580
Deferred premiums, agents' balances and installments booked but deferred	221,467		221,467
Federal income tax recoverable	7,811		7,811
Furniture and equipment	22,924	22,924	
Aggregate write-ins:			
Prepaid expenses	34,969	34,969	
Agency commissions receivable	18,868	18,868	
Totals	<u>\$17,375,605</u>	<u>\$81,563</u>	<u>\$17,294,042</u>

**LIABILITIES, SURPLUS AND OTHER FUNDS**

Losses		\$425,706
Loss adjustment expenses		(2,360)
Commissions payable, contingent commissions and other similar charges		65,170
Other expenses		104,683
Taxes, licenses and fees		51,413
Net deferred tax liability		71,017
Unearned premiums		2,426,249
Advance premium		27,394
Ceded reinsurance premiums payable		<u>23,396</u>
Total liabilities		\$3,192,668
Unassigned funds (surplus)	<u>14,101,374</u>	
Surplus as regards policyholders		<u>14,101,374</u>
Totals		<u><u>\$17,294,042</u></u>

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**STATEMENT OF INCOME**

UNDERWRITING INCOME

Premiums earned	\$3,839,631
Deductions:	
Losses incurred	\$1,534,345
Loss adjustment expenses incurred	170,573
Other underwriting expenses incurred	1,803,557
Total underwriting deductions	\$3,508,475
Net underwriting gain	\$331,156

INVESTMENT INCOME

Net investment income earned	\$541,858
Net realized capital gains	33,236
Net investment gain	\$575,094

OTHER INCOME

Aggregate write-ins for miscellaneous income:	
Finance and service charges	\$84,932
Miscellaneous income	55,009
Total other income	\$139,941
Net income before federal income taxes	\$1,046,191
Federal income taxes incurred	221,995
Net income	\$824,196

**RECONCILIATION OF CAPITAL AND SURPLUS**  
**FOR PERIOD UNDER REVIEW**

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Surplus as regards policyholders, December 31, previous year	<u>\$12,003,529</u>	<u>\$12,548,677</u>	<u>\$12,929,983</u>
Net income	\$552,458	\$332,104	\$824,196
Change in net unrealized capital gains or losses	(50,540)	50,266	491,799
Change in net deferred income tax	6,705	(12,295)	(171,049)
Change in non-admitted assets	<u>36,525</u>	<u>11,231</u>	<u>26,445</u>
Change in surplus as regards policyholders for the year	<u>\$545,148</u>	<u>\$381,306</u>	<u>\$1,171,391</u>
Surplus as regards policyholders, December 31, current year	<u><u>\$12,548,677</u></u>	<u><u>\$12,929,983</u></u>	<u><u>\$14,101,374</u></u>

**CASH FLOW****Cash From Operations**

Premiums collected net of reinsurance	\$3,951,948
Net investment income	556,294
Miscellaneous income	139,941
Total	<u>\$4,648,183</u>
Benefit and loss related payments	\$1,377,087
Commissions, expenses paid and aggregate write-ins for deductions	1,901,649
Federal income taxes paid	125,364
Total	<u>\$3,404,100</u>
Net cash from operations	<u>\$1,244,083</u>

**Cash From Investments**

Proceeds from investments sold, matured or repaid:	
Bonds	\$1,130,000
Stocks	345,877
Total investment proceeds	<u>\$1,475,877</u>
Cost of investments acquired (long-term only):	
Bonds	\$1,336,441
Stocks	1,079,056
Real estate	8,011
Total investments acquired	<u>\$2,423,508</u>
Net cash from investments	<u>(\$947,631)</u>

**Cash From Financing and Miscellaneous Sources**

Cash provided (applied):	
Other cash provided	<u>\$26,622</u>
Net cash from financing and miscellaneous sources	<u>\$26,622</u>
Net change in cash and short-term investments	<u>\$323,074</u>

**RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS**

Cash and short-term investments:	
Beginning of year	\$680,653
End of year	1,003,729
Net change in cash and short-term investments	<u>\$323,074</u>

**CONCLUSION**

The courteous cooperation extended by the Company's officers and employees during the examination is gratefully acknowledged.

In addition to the undersigned, Jennifer K. Blizzard, CFE, Chris J. Collins, CFE, and Allison L. Bohrer, of the Bureau participated in the examination.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mario A. Cuellar". The signature is fluid and cursive, with the first name "Mario" being the most prominent.

Mario A. Cuellar, CFE  
Senior Insurance Examiner



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08/06/2014

David H. Smith, CFE, CPA, CPCU  
VA Bureau of Insurance  
P.O. Box 1157  
Richmond, VA 23218



Mr. Smith,

In response to your letter dated July 23, 2014, we have received two "draft" copies of the Examination Report of Grayson-Carroll-Wythe Mutual Insurance Company. Please send the final examination report once it is completed so we can distribute to management and directors.

Thank you,

Roger D. Burnette

President