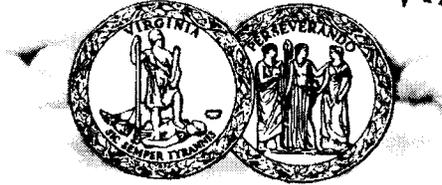


EXAMINATION REPORT
of
PATRICK COUNTY FARMERS MUTUAL
INSURANCE COMPANY
OF VIRGINIA, INCORPORATED
Meadows of Dan, Virginia
as of
December 31, 2013

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA

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



P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
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<http://www.scc.virginia.gov/division/boi>

I, Jacqueline K. Cunningham, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Patrick County Farmers Mutual Insurance Company of Virginia, Incorporated 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 5th day of September, 2014

A handwritten signature in cursive script that reads "Jacqueline K. Cunningham".

Jacqueline K. Cunningham
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
June 26, 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 the affairs and financial condition of the

**PATRICK COUNTY FARMERS MUTUAL INSURANCE COMPANY
OF VIRGINIA, INCORPORATED**
Meadows of Dan, 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 pursuant to Chapter 25 of Title 38.2 of the Code of Virginia. It was last examined by representatives of the State Corporation Commission's Bureau of Insurance (Bureau) as of December 31, 2010. This examination covers the period January 1, 2011 through December 31, 2013.

HISTORY

The Company was granted a charter by the State Corporation Commission on November 3, 1911. The purposes for which it was formed, according to the charter, are as follows:

...to do a fire insurance business on the mutual and assessment plan, and to do any and all things incidental thereto and necessary to carry out the purposes of this incorporation, with all the powers and privileges conferred by and subject to all the conditions and restrictions imposed by the laws of Virginia.

MANAGEMENT AND CONTROL

According to the bylaws, the management of the Company is vested in a board of nine directors, three of whom are elected annually for terms of three years by a majority vote at the meeting of members. The bylaws provide that the board shall elect a president, a secretary and treasurer, an agent or agents, and such additional officers as are deemed necessary. Officers elected must be members of the board of directors and shall serve terms of one year.

Any vacancy on the board of directors may be filled for the unexpired term by the remaining directors. The annual meeting of the board of directors shall be held immediately following the annual meeting of the members.

At December 31, 2013, the directors and officers of the Company were as follows:

<u>Director</u>	<u>Principal Occupation</u>
Margaret S. Barkley	Bookkeeper
Reggie C. Brown	VDOT Worker
Margaret R. Helms	School Teacher
Gurney H. Royall, II	VDOT Worker
Pamela B. Royall	Secretary/Treasurer
Wilson G. Royall, II	President
R. Blaine Stowe	Transportation
Steven W. Wood	Vice President
Dale W. Yeatts	Retired

<u>Officers</u>	<u>Title</u>
Wilson G. Royall II	President
Steven W. Wood	Vice President
Pamela B. Royall	Secretary/Treasurer

FIDELITY BOND AND OTHER INSURANCE

The Company had a fidelity bond in force for \$50,000 providing coverage against dishonest acts of the officers as of December 31, 2013. The Company also had content and liability insurance coverage.

TERRITORY AND PLAN OF OPERATION

The Company is licensed as a mutual assessment property and casualty insurer and operates in the counties of Carroll, Floyd, Franklin, Henry and Patrick and also in the city of Martinsville, Virginia.

Applications for insurance are solicited by the secretary-treasurer of the Company, who also functions as the sole general agent. If approved after review by two directors, a perpetual policy is issued covering the hazards of fire, lightning and wind. An annual premium ranging from \$0.49 to \$1.11 per \$100 of insurance is charged, according to its risk classification. Each policy issued is subject to a minimum annual premium of \$10.00 for maintaining the insurance in force. The maximum risk accepted is the lesser of \$25,000 or three-fourths of the actual cash value. Except for livestock, the Company is not liable for the first \$200 of damage on the insured property.

Insured property is classified in one of nine categories and assessments are levied annually beginning in January of each year. If a policy is issued subsequent to January, the assessment is prorated to the end of the year.

Losses are investigated by one or more directors who report their findings to the secretary-treasurer. The president and the secretary-treasurer, after reviewing the investigation, will then authorize a claims disbursement. Minor claims may be settled by the president and secretary-treasurer in the absence of an investigation by other directors. Directors are compensated \$50, plus a mileage allowance, for each loss investigated.

GROWTH OF THE COMPANY

The following data, obtained from the Company's Annual Statements filed with the Bureau and from examination reports, indicate the growth of the Company during the ten year period ending December 31, 2013:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus</u>			
2004	\$383,571	\$1,671	\$381,900			
2005	404,112	21,084	383,028			
2006	411,284	1,913	409,371			
2007	394,478	14,598	379,880			
2008	399,940	2,256	397,684			
2009	408,647	1,760	406,887			
2010	388,904	1,681	387,223			
2011	394,835	2,323	392,512			
2012	390,137	3,354	386,783			
2013	387,287	2,160	385,127			

<u>Year</u>	<u>Net Assessments Received</u>	<u>Investment Income</u>	<u>Net Losses Paid</u>	<u>Number of Policies</u>	<u>Insurance In-force</u>
2004	\$41,075	\$9,324	\$1,769	329	\$5,181,050
2005	38,478	12,694	455	314	4,850,650
2006	36,814	15,122	19,800	287	5,045,974
2007	33,039	16,500	35,472	268	4,619,798
2008	31,574	17,213	13,724	256	4,363,275
2009	30,535	8,742	1,450	248	4,301,275
2010	29,048	6,767	26,600	239	4,090,375
2011	30,083	5,074	379	212	4,364,355
2012	32,431	4,820	11,388	227	4,104,875
2013	29,887	3,200	5,100	207	3,813,875

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. A review of income and disbursements for the period was made to the extent deemed necessary.

This examination was conducted in accordance with the NAIC Financial Condition *Examiners' Handbook* (Handbook). The Handbook allows flexibility in the conduct of the examination based upon the nature and size of the entity being examined. This flexibility allows the examiners the ability to structure the examination in the manner best suited for each entity.

For this examination, all accounts and activities of the Company were considered in accordance with the risk-focused examination process.

FINANCIAL STATEMENTS

There follows a statement of income and disbursements for the period under review and a statement of financial condition as of December 31, 2013.

INCOME FOR PERIOD UNDER REVIEW

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Net assessments received	\$30,083	\$32,431	\$29,887
Interest on cash deposits	5,074	4,820	3,200
Reconciling amounts	2,891	2,729	2,934
Other income	79	167	44
	<u> </u>	<u> </u>	<u> </u>
Total income	\$38,127	\$40,147	\$36,065
	<u> </u>	<u> </u>	<u> </u>
Deduct total disbursements	33,423	44,258	37,786
	<u> </u>	<u> </u>	<u> </u>
Net income	\$4,704	(\$4,111)	(\$1,721)
	<u> </u>	<u> </u>	<u> </u>
Add ledger assets December 31, previous year	386,898	391,602	387,491
	<u> </u>	<u> </u>	<u> </u>
Ledger assets December 31, current year	<u>\$391,602</u>	<u>\$387,491</u>	<u>\$385,770</u>

DISBURSEMENTS FOR PERIOD UNDER REVIEW

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Net losses paid	\$379	\$11,388	\$5,100
Commissions and brokerage	1,302	560	385
Gross salaries	20,000	20,000	20,000
Directors' fees	550	300	300
Travel and travel items		100	28
Boards, bureaus and associations	200	261	200
Legal and auditing, not in connection with losses	50	75	
Rent, office and equipment maintenance	2,500	2,500	2,500
Advertising	50	50	25
Printing and stationery	136	150	130
Postage, telephone and express	1,603	1,672	1,798
Insurance and fidelity bonds	402	1,025	402
Miscellaneous	350	557	150
Taxes, licenses and fees	1,140	1,172	1,244
Payroll items	4,761	4,448	3,682
Federal corporate income tax			1,756
Decrease by adjustment in book value of ledger assets			86
	<u> </u>	<u> </u>	<u> </u>
Total disbursements	<u>\$33,423</u>	<u>\$44,258</u>	<u>\$37,786</u>

ASSETS

	Ledger Assets	Non- Ledger Assets	Assets Not Admitted	Net Admitted Assets
Bonds	\$385,120			\$385,120
Cash in office	198			198
Cash on deposit	452			452
Interest due and accrued on bonds		1,517		1,517
Total assets	<u>\$385,770</u>	<u>\$1,517</u>	<u>\$0</u>	<u>\$387,287</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Payroll items due or accrued	\$532
Other expenses	452
Taxes, licenses and fees	<u>1,176</u>
Total liabilities	\$2,160
Excess of admitted assets over liabilities (surplus)	<u>385,127</u>
Total liabilities and surplus	<u>\$387,287</u>

RECOMMENDATIONS FOR CORRECTIVE ACTION

Accounts and Records

1. During a review of the 2013 Annual Statement, the Examiners noted that the amount of the Company's insurance in force and the number of members was incorrectly reported in the General Interrogatories. The Examiners recommend that the Company ensure that future filings with the Bureau are reported correctly. This is the fourth consecutive examination in which this recommendation appears.
2. During a review of the Company's financial records, the Examiners noted that the financial statements filed with the Bureau did not reconcile for each year under review. The Company's ledgers did not properly support the amounts reported. The information in the ledgers provided by the Company revealed inaccuracies and inadequate attention to detail. The Examiners could not put sufficient reliance on the financials based on these findings. The Examiners therefore had to spend an inordinate amount of time in verifying the transactions during the period of the examination. The financial statements produced by the Examiners are reflected within the examination report. The Examiners recommend that the Company ensure that accounting records support future filings with the Bureau.

CONCLUSION

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

In addition to the undersigned, Allison L. Bohrer of the Bureau participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink that reads "Jennifer K. Blizzard". The signature is written in a cursive style with a large initial "J".

Jennifer K. Blizzard, CFE
Senior Insurance Examiner

Steven W. Wood, Vice President
Meadows of Dan, VA 24120
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Secretary/Treasurer
Meadows of Dan, VA 24120
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**THE PATRICK COUNTY FARMERS
MUTUAL INSURANCE COMPANY
OF VIRGINIA, INCORPORATED**

General Office
Telephone: (276) 952-2055
P.O. Box 798
Meadows of Dan, VA 24120-0798



August 8, 2014

State Corporation Commission
Bureau of Insurance
Attn: Jennifer Blizzard
P.O. Box 1157
Richmond, VA 23218

Dear Ms. Blizzard:

The company does not wish to request a hearing before the commission.

Please send ten (10) copies of the report for the directors and the company for records. We are going to mail out an information form with the assessments for the insured to fill out to make sure to report the numbers correctly and to also list the amount of insurance for an correct amount.

The officers will also be helping one another more with the ledgers to assure proper and ledgable records are kept.

Thank-you for you help again.

Sincerely,

A handwritten signature in black ink, appearing to read "W. Gurney Royall II".

W. Gurney Royall, II , President
Patrick County Farmers Mutual Ins. Co of VA Inc.