

**EXAMINATION REPORT
ON
BLUE RIDGE MUTUAL ASSOCIATION, INC.
GALAX VIRGINIA
AS OF
DECEMBER 31, 2012**

**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
TDD/VOICE: (804) 371-9206
<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 Blue Ridge Mutual Association, Inc. as of December 31, 2012, 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 20th day of December, 2013

Jacqueline K. Cunningham
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
September 27, 2013

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

Dear Madam:

Pursuant to your instructions and in accordance with § 38.2-1317 of the Code of Virginia, an examination of the records and affairs of

BLUE RIDGE MUTUAL ASSOCIATION, INC.
Galax, Virginia

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

DESCRIPTION

The Association is a mutual assessment burial association and presently operates pursuant to Chapter 40 of Title 38.2 of the Code of Virginia. It was last examined by representatives of the State Corporation Commission's (Commission) Bureau of Insurance (Bureau) as of December 31, 2009. This examination covers the three-year period from January 1, 2010, through December 31, 2012.

HISTORY

The Association was organized in 1936 and was issued a license on October 24, 1936 to operate in Virginia as a mutual burial association. On March 26, 1991, the Association was incorporated and operates as provided in its bylaws.

MANAGEMENT AND CONTROL

The bylaws provide that the Association shall be managed by a board of five directors who are elected at the annual meeting of the Board of Directors. Officers are elected by the Board of Directors exclusively from the membership of the Board of Directors and include a president, a first vice-president, a second-vice president, and a secretary-treasurer. Additionally, the Board of Directors may appoint such other officers, as it may deem necessary. The bylaws further state that the Board of Directors shall retain a competent practicing attorney for the Association.

At December 31, 2012, the Board of Directors and officers were as follows:

| <u>Directors</u> | <u>Principal Business Affiliation</u> |
|----------------------|---|
| Harold L. Williams | Vice President, Guynn Furniture Company, Inc. Employee, Guynn Insurance and Bookkeeping Agency, Inc. Fries, Virginia |
| Jacquelin G. McGrady | Employee, Guynn Insurance and Bookkeeping Agency, Inc. Galax, Virginia |
| Marie P. Lawson | Employee, Guynn Insurance and Bookkeeping Agency, Inc. Galax, Virginia |
| G. Carolyn Underwood | Employee, Vaughan Guynn Funeral Home Fries, Virginia |
| Harold N. Hanks | Retired, Vaughan Guynn Funeral Home Woodlawn, Virginia |

Officers

| | |
|----------------------|-----------------------|
| Harold L. Williams | President |
| Jacquelin G. McGrady | First Vice-President |
| Marie P. Lawson | Second Vice-President |
| G. Carolyn Underwood | Secretary-Treasurer |

TERRITORY AND PLAN OF OPERATION

Due to a decline in surplus below its required minimum amount of \$1,200,000, as outlined in the Required Surplus to Policyholders section of this report, the Association's license was suspended by order dated January 28, 2009. From January 1, 2007 through January 28, 2009, the Association confined its operations to the Commonwealth of Virginia and wrote whole life coverage according to class. There are eleven classes of

coverage, designated A through K. Classes A through F provide maximum coverage of \$10,000, class G provides a maximum coverage of \$3,000, classes H and J provide a maximum coverage of \$15,000, and classes I and K provide a maximum coverage of \$6,000.

Assessments are levied on classes A through G in proportion to the amount of death claims, expenses, and other costs that are incurred by the Association. All such assessments are made semi-annually, with the exception of classes E, F, and G, which are made monthly. Classes H, I, J and K are legal reserve policies, which may be paid in full initially or by monthly installments over a three or five year period.

Claims, which are reviewed by the Board of Directors, are adjusted and settled by the First Vice-President. Bookkeeping and clerical functions are performed by Guynn Insurance and Bookkeeping Agency, Inc. (GIBA).

SERVICE AGREEMENT

The Association has a service agreement with GIBA to perform all required bookkeeping and tax preparation services. This includes all electronic data processing and the preparation, mailing, collecting, and depositing of all assessments of the Association. In consideration for these services, and in accordance with the agreement, the Association pays GIBA a monthly fee of \$4,500.

RELATED PARTY TRANSACTIONS

The Association maintains insurance marketing and bookkeeping services agreements with GIBA. The Association has no employees; its President is an employee of Guynn Furniture Company, its First and Second Vice-Presidents are employees of GIBA, and its Secretary-Treasurer is an employee of Vaughan Guynn Funeral Home.

COMMERCIAL BLANKET BOND

The Association is protected from losses resulting from the dishonest acts of its officers under the provisions of a commercial blanket bond. The bond covers losses up to \$125,000, with a \$25,000 deductible. This bond covers both the Association and GIBA.

REINSURANCE

The Association did not participate in any reinsurance contracts during the period covered by this examination.

REQUIRED SURPLUS TO POLICYHOLDERS

During the course of the December 31, 1992 examination, it was noted that the provisions of Chapter 40 of Title 38.2 of the Code of Virginia do not specifically require that the Association maintain a minimum surplus as is required for all other insurers. However, by letter of understanding dated December 2006, the Bureau requires the Association to maintain a minimum surplus of \$1,200,000. At December 31, 2008, the Association's surplus decreased to \$443,965. As a result of the decline in surplus, the Association's license was suspended by order dated January 28, 2009. At December 31, 2012, the Association's surplus was \$1,647,268. As of June 30, 2013, the Association's surplus was \$1,805,940.

GROWTH OF THE ASSOCIATION

The following data, taken from the Association's Annual Statements and from examination reports, reflect the growth of the Association for the ten-year period ending December 31, 2012:

| <u>Year</u> | <u>Admitted Assets</u> | <u>Liabilities</u> | <u>Reserves</u> | <u>Unassigned Funds</u> |
|-------------|----------------------------|--------------------|-----------------|-----------------------------|
| 2003 | 8,560,637 | 66,296 | 6,702,188 | 1,792,153 |
| 2004 | 8,894,209 | 73,522 | 7,071,001 | 1,749,686 |
| 2005 | 9,239,620 | 80,984 | 7,626,763 | 1,531,873 |
| 2006 | 9,410,053 | 100,723 | 7,873,192 | 1,436,138 |
| 2007 | 9,581,703 | 63,800 | 8,312,589 | 1,205,314 |
| 2008 | 8,799,222 | 80,352 | 8,274,905 | 443,965 |
| 2009 | 8,816,590 | 72,265 | 7,982,157 | 762,168 |
| 2010 | 8,974,637 | 73,153 | 7,298,719 | 1,602,765 |
| 2011 | 8,732,763 | 86,682 | 7,225,869 | 1,420,212 |
| 2012 | 8,590,712 | 78,397 | 6,865,047 | 1,647,268 |

| <u>Year</u> | <u>Net Assessments</u> | <u>Investment Income</u> | <u>Net Losses Paid</u> | <u>Number of Policies</u> | <u>Insurance In Force</u> |
|-------------|----------------------------|------------------------------|----------------------------|-------------------------------|-------------------------------|
| 2003 | 920,324 | 367,693 | 848,907 | 12,926 | 16,314,491 |
| 2004 | 899,401 | 437,324 | 872,012 | 12,470 | 16,383,730 |
| 2005 | 954,885 | 447,657 | 786,155 | 12,003 | 16,548,007 |
| 2006 | 855,510 | 480,140 | 1,105,135 | 11,585 | 16,770,615 |
| 2007 | 761,984 | 489,841 | 784,230 | 11,076 | 16,459,642 |
| 2008 | 689,702 | 513,248 | 971,219 | 10,663 | 16,476,123 |
| 2009 | 201,024 | 468,398 | 933,040 | 10,036 | 15,519,912 |
| 2010 | 184,166 | 465,401 | 819,267 | 9,469 | 14,738,782 |
| 2011 | 173,458 | 421,303 | 697,065 | 9,081 | 14,165,219 |
| 2012 | 160,603 | 386,996 | 725,948 | 8,445 | 13,424,479 |

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, 2010 through December 31, 2012. Assets were verified and liabilities were established at December 31, 2012.

The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that the Bureau plan and perform the examination to evaluate the financial condition and identify prospective risks of the Corporation, assess corporate governance, identify and assess inherent risks within the Corporation, 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 income and disbursements for the period under review, a statement of financial condition as of December 31, 2012, and a statement of Examiner's changes in surplus at December 31, 2012.

**INCOME AND DISBURSEMENTS FOR THE
PERIOD UNDER REVIEW**

| | <u>2010</u> | <u>2011</u> | <u>2012</u> |
|--|---------------------------|---------------------------|---------------------------|
| Ledger Assets, beginning of year | <u>\$9,225,041</u> | <u>\$8,917,119</u> | <u>\$8,665,499</u> |
| <u>INCOME</u> | | | |
| Subsequent years' assessments or premiums | \$175,454 | \$169,765 | \$158,774 |
| Three and five year pay (Class I coverage) | <u>8,712</u> | <u>3,693</u> | <u>1,896</u> |
| Total received from applicants and members | \$184,166 | \$173,458 | \$160,670 |
| Deduct payments returned to applicants and members | | | <u>67</u> |
| Net amount received from applicants and members | \$184,166 | \$173,458 | \$160,603 |
| Gross interest on mortgage loans | 158,154 | 155,123 | 143,974 |
| Gross interest on bonds | 207,983 | 179,816 | 146,346 |
| Gross dividends on stocks | 81,152 | 83,508 | 89,797 |
| Gross interest on deposits | 5,785 | 22 | 41 |
| Miscellaneous income | 538 | | |
| Gross profit from sale or maturity of ledger assets | <u>11,789</u> | <u>2,834</u> | <u>6,838</u> |
| TOTAL INCOME | <u>\$649,567</u> | <u>\$594,761</u> | <u>\$547,599</u> |
| AMOUNTS CARRIED FORWARD | <u><u>\$9,874,608</u></u> | <u><u>\$9,511,880</u></u> | <u><u>\$9,213,098</u></u> |

| | <u>2010</u> | <u>2011</u> | <u>2012</u> |
|--|---------------------------|---------------------------|---------------------------|
| AMOUNTS BROUGHT FORWARD | <u>\$9,874,608</u> | <u>\$9,511,880</u> | <u>\$9,213,098</u> |
| <u>DISBURSEMENTS</u> | | | |
| Death claims | \$819,267 | \$697,065 | \$725,948 |
| Other compensation of officers and trustees | | | 5,500 |
| Salaries of office employes | 500 | 500 | |
| Agent appointments | | 84 | 84 |
| Custody fee | | | 106 |
| Taxes on assessments or premiums | 1,733 | 2,142 | 1,871 |
| Other taxes | | 25 | 35 |
| Insurance | 315 | 315 | |
| General office maintenance and expense | 212 | 550 | 507 |
| Advertising, printing and stationery | 4,068 | 4,872 | 3,138 |
| Postage, express, telegraph, and telephone | 6,466 | 5,702 | 5,953 |
| Legal expenses | | 14,294 | 15,532 |
| All other disbursements: | | | |
| Investment and miscellaneous expense | 21,684 | 22,552 | 10,774 |
| Bookkeeping and computer expense | 48,487 | 58,376 | 76,517 |
| Actuary and audit expense | 31,875 | 13,700 | 15,700 |
| Gross loss from sale or maturity of ledger assets | 22,882 | 26,004 | 50,440 |
| Gross decrease, by adjustment, in book value of ledger assets | | 200 | |
| TOTAL DISBURSEMENTS | <u>\$957,489</u> | <u>\$846,381</u> | <u>\$912,105</u> |
| Ledger Assets, end of year | <u><u>\$8,917,119</u></u> | <u><u>\$8,665,499</u></u> | <u><u>\$8,300,993</u></u> |

ASSETS

| | |
|-----------------------------------|------------------|
| Mortgage loans on real estate | \$2,556,032 |
| Book value of bonds and stocks | 4,714,299 |
| Total cash on hand and on deposit | <u>1,030,662</u> |
| Total Ledger Assets | <u>8,300,993</u> |

NON-LEDGER ASSETS

| | |
|--|---------------------------|
| Total interest due and accrued | \$24,448 |
| Market value of bonds and stocks over book value | <u>265,271</u> |
| Total Non-Ledger Assets | <u>\$289,719</u> |
| Total Admitted Assets | <u><u>\$8,590,712</u></u> |

LIABILITIES

| | | |
|--|---------------|---------------------------|
| Death claims due and unpaid | \$10,389 | |
| Death claims incurred in the current year, not reported until the following year | <u>38,632</u> | |
| Total unpaid death claims | | \$49,021 |
| Salaries, rent, expenses, bills and accounts due or accrued | | 5,369 |
| Advance premiums or assessments | | <u>24,007</u> |
| Total unpaid claims and other current liabilities | | <u>\$78,397</u> |
| Reserves and Unassigned Funds: | | |
| Income accumulation on emergency reserve | | \$1,255,694 |
| Emergency fund reserves | | 503,010 |
| Legal life reserve | | 5,068,003 |
| Reserve for uncollectable mortgages | | 38,340 |
| Unassigned funds | | <u>1,647,268</u> |
| Total Reserves and Unassigned Funds | | <u>\$8,512,315</u> |
| Total Liabilities, Reserves and Unassigned Funds | | <u><u>\$8,590,712</u></u> |

EXAMINERS' CHANGES IN CAPITAL AND SURPLUS

| | <u>Corporation</u> | <u>Examiners</u> | <u>Increase (Decrease)</u> |
|--|--------------------|------------------|--------------------------------|
| <u>Liabilities:</u> | | | |
| Legal Life Reserve | \$5,024,299 | \$5,068,003 | <u>(\$43,704)</u> |
| Examiners' Change in Unassigned Funds | | | <u><u>(\$43,704)</u></u> |
| Total Unassigned Funds per the Association | | | \$1,690,972 |
| Total Unassigned Funds per the Examiners | | | <u>1,647,268</u> |
| Examiners' Change in Unassigned Funds | | | <u><u>(\$43,704)</u></u> |

RECOMMENDATION FOR CORRECTIVE ACTION**Accounts and Records****Legal Life Reserve****\$5,068,003**

The above liability is \$43,704 more than the amount reported by the Association in its 2012 Annual Statement. The decrease is the result of two separate issues as described below.

In determining the legal life reserve, the Association obtains the total reserve for these policies from the appointed actuary and subtracts the reserves for those policies for which a claims liability is already reported as part of Total Death Claims. Three claims with reserves equal to \$32,122 were subtracted from the appointed actuary's amount to arrive at the legal life reserve total of \$5,024,299. However, the Examiners discovered that the reserve amount reported by the appointed actuary for the three claims was zero. Therefore, the \$32,122 should not have been subtracted from the legal life reserve.

In addition, the legal life reserve was understated by \$11,582 due to errors in the appointed actuary's reserve listing. The Association and the appointed actuary maintain separate policy listings. There were two instances where the appointed actuary's listing showed zero reserves for policies still in force, resulting in a reserve understatement of \$22,791. In addition, the appointed actuary included reserves for two policies not included in the Association's listing resulting in a reserve overstatement of \$11,209. The net effect was an understatement in the legal life reserve of \$11,582.

It is recommended that the Association take appropriate steps to ensure that the amounts reported for the legal life reserve and claims liability in the financial statement are accurate and complete.

CONCLUSION

The courteous cooperation extended by the Association's officers and directors during the course of the examination is gratefully acknowledged.

In addition to the undersigned, Christopher J. Collins, CFE, Craig Chupp, FSA, MAAA and Bryan Almond participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "William K. Knight". The signature is written in a cursive style with a prominent initial "W".

William K. Knight, CFE
Senior Insurance Examiner

Blue Ridge Mutual Association, Inc.

203 WEST CENTER STREET

GALAX, VIRGINIA 24333-0967

PHONE: 276-236-6641

STATE OF VIRGINIA
COMMISSION
BUREAU OF INSURANCE
P.O. Box 967
13 DEC 12 AM 7:57

December 9, 2013

**David H. Smith, CFE, CPA, CPCU
Chief Examiner
Commonwealth of Virginia
Bureau of Insurance
P O Box 1157
Richmond, VA 243218**

Dear Mr. Smith:

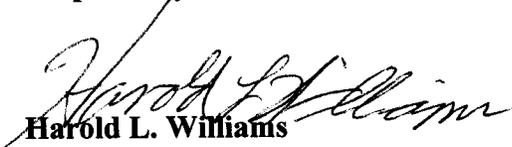
In response to your letter dated November 27, 2013, we wish to respond to the recommendations contained on Page 12 of the report of the examiners.

In determining the legal life reserve, we will not subtract claims from the legal life reserve which have been reported by the actuary with a zero reserve. This was the first time this error had occurred in our reserving. We will also make certain that the reserving list of the Actuary matches that of the Association.

We will need eight (8) copies of the report for Directors, attorney, actuary and accountant. Also we wish to comment that the examiners were thorough and most helpful during this examination.

Thank you for your cooperation.

Respectfully,


**Harold L. Williams
President**