

EXAMINATION REPORT
on
AUGUSTA MUTUAL INSURANCE COMPANY
Staunton, 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



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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 Augusta Mutual Insurance Company 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 4th day of February, 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
November 1, 2013

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 records and affairs of the

AUGUSTA MUTUAL INSURANCE COMPANY
Staunton, 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 last examination made by representatives of the State Corporation Commission Bureau of Insurance (Bureau) was as of December 31, 2009. This examination covers the three-year period from January 1, 2010 through December 31, 2012.

HISTORY

The Company was organized on June 4, 1870, and was first granted a charter by the Circuit Court of Augusta County on August 14, 1871. On September 22, 1906, the Company was granted a new charter with the name East Augusta Mutual Fire Insurance Company, Incorporated. This charter was amended on June 6, 1933, May 1, 1953 and January 24, 1964 to enlarge the territory of operations and to permit the insurance of more types of risks. The latter amendment also restated the articles of incorporation. The Company's name was changed to Augusta Mutual Insurance Company by charter amendment on December 6, 1977.

The purposes and powers of the Company according to the charter, as amended, are as follows:

The conduct of a mutual assessment fire insurance business, within the widest definition of Section 38.1-659, Code of Virginia of 1950, as amended from time to time.

The powers of this corporation are those permitted to a mutual assessment fire insurance company under Chapter 2 of Title 13.1 of the Code of Virginia, as amended from time to time.

On January 27, 1982, The Nelson County Mutual Fire Insurance Company merged into the Company. The State Corporation Commission (Commission) approved the merger effective January 27, 1982.

On February 25, 1993, Bedford Mutual Insurance Company, Inc. merged into the Company. The Commission approved the merger effective March 4, 1993.

On January 1, 1999, Albemarle Home Mutual Fire Insurance Company merged into the Company. The Commission approved the merger effective January 1, 1999.

MANAGEMENT AND CONTROL

Management of the Company is vested in a board of not less than nine and not more than fifteen directors, including the president and vice president, each of whom must be a member of the Company. All of the directors are elected by the members at the annual meeting, with at least three directors elected each year. A quorum at any meeting shall consist of a majority of the members of the board.

The board may by resolution designate three or more of their members to constitute an executive committee which, to the extent provided in the resolution, has all powers of the board except for the power to levy assessments.

The bylaws of the Company provide that the officers shall be a president, a vice president, an executive vice president, one or more vice presidents, a secretary, a treasurer and, at the option of the board, such other officers as the board may designate. Their term of office is one year.

The Company's directors, officers and members of selective committees at December 31, 2012 were as follows:

<u>Directors</u>	<u>Principal Occupation</u>
Richard P. Chaffin	Developer Forest, Virginia
George A. Coyner, II	Farmer Waynesboro, Virginia
Rebecca L. Earhart	Senior Planner Augusta County Verona, Virginia
Carl L. Freed, Jr.	Farmer Crimora, Virginia
David B. Hewitt	Farmer Swoope, Virginia
Keith W. Holland	Contractor Lexington, Virginia
Steve R. Marshall	Insurance Agency Owner/Agent Staunton, Virginia
Samuel F. McClure	Real Estate Appraiser Stonewall Appraisal Company Staunton, Virginia
Dale C. Smith	Farmer Staunton, Virginia
Robert D. Thompson	Retired Fishersville, Virginia
Joseph F. Williams	Farmer Greenville, Virginia

Officers:

George A. Coyner, II	President
David B. Johnson	Executive Vice President
Steven H. Rogers	Vice President Underwriting
Mary R. Taylor	Vice President Claims
Eric T. Peifer	Secretary and Treasurer

Executive Committee

George A. Coyner, II
David B. Hewitt
Samuel F. McClure
Robert D. Thompson

Audit Committee

George A. Coyner, II
Keith W. Holland
Dale C. Smith
Mary R. Taylor
Robert D. Thompson

Investment Committee

Keith W. Holland
David B. Johnson
Samuel F. McClure
Eric T. Peifer
Robert D. Thompson
Joseph F. Williams

RELATED PARTY TRANSACTIONS

One officer of the Company is a director and shareholder of Augusta Insurance Agency, Inc. (Agency). The Agency markets various lines of insurance through other insurance companies, and is also an appointed agent of the Company. In 2010, 2011, and 2012, respectively, the Company paid the Agency commissions of \$188,760, \$189,461 and \$201,512 and insurance premiums for its property, workers' compensation and commercial auto coverages of \$13,108, \$12,525 and \$12,825.

FIDELITY BOND AND OTHER INSURANCE

The Company had insurance in force at December 31, 2012, providing coverage in the amount of \$200,000, subject to a deductible of \$1,000 to insure against losses arising from dishonest acts of its officers and employees. The Company had a directors' and officers' liability policy in force at December 31, 2012. The coverage was for \$5,000,000 with a retention of \$25,000 on each director or officer for each loss event. In addition, the Company had business owners, commercial auto, workers compensation, employers liability coverages, and commercial umbrella liability in force at December 31, 2012.

TERRITORY AND PLAN OF OPERATION

The Company is currently licensed as a mutual assessment property and casualty insurer under Chapter 25 of Title 38.2 of the Code of Virginia and may operate throughout Virginia. The Company is licensed to write the following business:

Fire	Inland Marine
Miscellaneous Property	Liability Other Than Auto
Farm Multiple Peril	Automobile Liability
Homeowners Multiple Peril	Automobile Physical Damage
Commercial Multiple Peril	

Business is solicited by 313 agents and 67 corporate agencies. Commissions paid range from 15 to 25% of assessments, depending upon the type of services rendered.

All applications for insurance are submitted to the Company's underwriter and if the risk is accepted, a term type of policy is issued. The usual term for a homeowners, mobile homeowners, farmowners or commercial policy is one year. Some short-term policies are issued (usually six months or less) on livestock and builders' risks. Additional coverages are available to the Company's members by endorsement to fire or homeowners policies containing the standard provisions provided for by the Code of Virginia.

Assessments are generally levied and payable annually in advance. An installment plan is available for premiums in excess of \$200 (payable on a semi-annual basis) and those in excess of \$500 (payable on a quarterly basis). Assessments rates vary according to classification of risks, subject however, to a minimum charge of \$100 on personal policies and \$200 to \$400 on commercial policies.

Losses are adjusted in the Staunton area by salaried personnel of the Company and by independent adjusters. An independent adjuster is employed to adjust claims outside of the Staunton area.

GROWTH OF THE COMPANY

The following data, obtained from annual statements filed with the Bureau and from examination reports, reflect the growth of the Company in the ten-year period ending December 31, 2012:

<u>Year</u>	<u>Admitted</u>			<u>Net Underwriting Gains or (Losses)</u>
	<u>Assets</u>	<u>Liabilities</u>	<u>Surplus</u>	
2003	\$16,503,083	\$7,143,181	\$9,359,902	\$108,160
2004	18,258,303	7,180,104	11,078,199	1,758,532
2005	20,845,068	7,803,451	13,041,617	2,143,408
2006	22,383,744	7,463,348	14,920,396	1,635,248
2007	23,797,970	7,217,368	16,580,602	1,669,367
2008	23,292,833	7,065,218	16,227,615	743,051
2009	24,797,419	7,235,411	17,562,008	469,125
2010	25,991,701	7,027,851	18,963,850	1,020,609
2011	26,053,381	6,876,918	19,176,463	(371,714)
2012	26,769,167	6,837,353	19,931,814	(466,683)

<u>Year</u>	<u>Premiums Earned</u>	<u>Loss and Loss Adjustment Expenses</u>	<u>Other Underwriting Expenses</u>	<u>Net Underwriting Gains or (Losses)</u>
	2003	\$7,259,175	\$4,231,935	\$2,919,080
2004	7,940,780	2,968,971	3,213,277	1,758,532
2005	8,405,173	2,854,116	3,407,649	2,143,408
2006	8,912,944	3,766,070	3,511,626	1,635,248
2007	8,463,233	3,602,452	3,191,414	1,669,367
2008	8,126,063	4,125,540	3,257,472	743,051
2009	7,891,456	4,194,696	3,227,635	469,125
2010	7,846,594	3,767,676	3,058,309	1,020,609
2011	7,672,321	4,855,114	3,188,921	(371,714)
2012	7,530,228	4,755,187	3,241,724	(466,683)

REINSURANCE

As of December 31, 2012, the Company was reinsured under the following excess of loss reinsurance agreements through the reinsurance intermediary, Axiom Re, LLC. These agreements are described briefly as follows:

<u>Type of Agreement</u>	<u>Business Covered</u>	<u>Company's Retention</u>	<u>Reinsurers' Limit of Liability</u>
First Excess of Loss (Section A)	Property	\$100,000	\$400,000 in excess of \$100,000, each and every loss, any one risk; subject to an occurrence limitation of \$800,000
First Excess of Loss (Section B)	Casualty	\$100,000	\$400,000 in excess of \$100,000, each and every loss occurrence
First Excess of Loss (Section C)	Property and Casualty	\$100,000	\$100,000 each and every loss occurrence in excess of \$100,000 each and every loss occurrence
Second Excess of Loss	Property	\$500,000	\$500,000 each and every loss, any one risk, excess of \$500,000 each and every loss, any one risk; subject to an occurrence limitation of \$1,000,000
Second Excess of Loss	Casualty	\$500,000	\$500,000 in excess of \$500,000, each and every loss occurrence
Property Per Risk	Property	\$1,000,000 subject to underlying excess of loss coverage	\$1,500,000 each loss, each and every risk, excess of \$1,000,000 each loss, each and every risk; subject to an occurrence limit of \$3,000,000

<u>Type of Agreement</u>	<u>Business Covered</u>	<u>Company's Retention</u>	<u>Reinsurers' Limit of Liability</u>
First Property Catastrophe Excess of Loss	Property per Occurrence	\$750,000	\$250,000 ultimate net loss each and every loss occurrence in excess of \$750,000 ultimate net loss each and every loss occurrence; subject to a limit of liability of \$250,000 in respect of any one loss occurrence
Second Property Catastrophe Excess of Loss	Property per Occurrence	\$1,000,000 subject to underlying excess of loss coverage	\$3,000,000 ultimate net loss each and every loss occurrence in excess of \$1,000,000 ultimate net loss each and every loss occurrence; subject to a limit of liability of \$3,000,000 in respect of any one loss occurrence
Third Property Catastrophe Excess of Loss	Property per Occurrence	\$4,000,000 subject to underlying excess of loss coverage	\$9,000,000 ultimate net loss each and every loss occurrence in excess of \$4,000,000 ultimate net loss each and every loss occurrence; subject to a limit of liability of \$9,000,000 in respect of any one loss occurrence
Umbrella Quota Share	Personal, Farm and Commercial Umbrella	5% of the first \$1,000,000 subject only to excess of loss reinsurance	95% of the Company's net liability of the first \$1,000,000 and 100% of \$1,000,000 in excess of \$1,000,000 for each policy

All of the above agreements contain an insolvency clause and a guarantee of the intermediary's credit.

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.

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, 2012, a statement of income for the period ending December 31, 2012, a reconciliation of surplus for the period under review, and a statement of cash flow as of December 31, 2012. The financial statements are presented in accordance with Statutory Accounting Principles.

ASSETS

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$14,857,473		\$14,857,473
Common stocks	6,956,195		6,956,195
Property occupied by the company	828,128		828,128
Cash and short-term investments	2,728,269		2,728,269
Investment income due and accrued	112,666		112,666
Uncollected premiums and agents' balances in the course of collection	60,734		60,734
Deferred premiums, agents' balances and installments booked but deferred and not yet due	625,626		625,626
Amounts recoverable from reinsurers	137,653		137,653
Current federal income tax recoverable	262,300		262,300
Net deferred tax asset	200,123		200,123
Electronic data processing equipment and software	114,642	114,642	
Totals	<u>\$26,883,809</u>	<u>\$114,642</u>	<u>\$26,769,167</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		\$1,274,128
Loss adjustment expenses		55,056
Commissions payable, contingent commissions and other similar charges		325,221
Other expenses		137,396
Taxes, licenses and fees		94,521
Unearned premiums		4,646,959
Advance premium		130,564
Ceded reinsurance premiums payable		<u>173,508</u>
 Total liabilities		 \$6,837,353
 Unassigned funds (surplus)	<u>19,931,814</u>	
 Surplus as regards policyholders		 <u>19,931,814</u>
 Totals		 <u><u>\$26,769,167</u></u>

UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned	\$7,530,228
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Deductions:	
Losses incurred	\$3,777,836
Loss adjustment expenses incurred	977,351
Other underwriting expenses incurred	3,241,724
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Total underwriting deductions	\$7,996,911
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Net underwriting gain	(\$466,683)
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INVESTMENT INCOME

Net investment income earned	\$532,751
Net realized capital gains	1,075,177
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Net investment gain	\$1,607,928
	<hr/>
Net income before federal income taxes	\$1,141,245
Federal income taxes incurred	205,221
	<hr/>
Net income	\$936,024
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RECONCILIATION OF CAPITAL AND SURPLUS
FOR PERIOD UNDER REVIEW

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Surplus as regards policyholders, December 31, previous year	<u>\$17,562,008</u>	<u>\$18,963,850</u>	<u>\$19,176,463</u>
Net income	\$890,650	\$192,615	\$936,024
Change in net unrealized capital gains or (losses)	537,107	(7,754)	(113,412)
Change in net deferred income tax	(2,439)	(2,672)	(30,650)
Change in nonadmitted assets	<u>(23,476)</u>	<u>30,424</u>	<u>(36,611)</u>
Change in surplus as regards policyholders for the year	<u>\$1,401,842</u>	<u>\$212,613</u>	<u>\$755,351</u>
Surplus as regards policyholders, December 31, current year	<u><u>\$18,963,850</u></u>	<u><u>\$19,176,463</u></u>	<u><u>\$19,931,814</u></u>

CASH FLOW**Cash From Operations**

Premiums collected net of reinsurance	\$7,372,944
Net investment income	691,695
Total	<u>\$8,064,639</u>
Benefit and loss related payments	\$4,207,403
Commissions, expenses paid and aggregate write-ins for deductions	3,907,980
Total	<u>\$8,115,383</u>
Net cash from operations	<u>(\$50,744)</u>

Cash From Investments

Proceeds from investments sold, matured or repaid:	
Bonds	\$2,629,810
Stocks	8,212,140
Miscellaneous Proceeds	23,500
Total investment proceeds	<u>\$10,865,450</u>
Cost of investments acquired (long-term only):	
Bonds	\$10,268,000
Stocks	6,662,662
Other invested assets	90,816
Miscellaneous applications	292,891
Total investments acquired	<u>\$17,314,369</u>
Net cash from investments	<u>(\$6,448,919)</u>
Net change in cash and short-term investments	<u><u>(\$6,499,663)</u></u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments:	
Beginning of year	\$9,227,932
End of year	2,728,269
Net change in cash and short-term investments	<u><u>(\$6,499,663)</u></u>

RECOMMENDATION FOR CORRECTIVE ACTION**Management and Control**

During the period of this examination, the Company sold an automobile to an officer. Code of Virginia § 38.2-211 prohibits such activity:

Exept as provided in § 38.2-212, no officer or director of any company listed in § 38.2-210 and transacting business in this Commonwealth shall receive, directly, indirectly or through any substantial interest in any other corporation, any compensation for negotiating, procuring, recommending, or aiding in the purchase or sale of property by such company, or in obtaining any loan from the company. No such officer or director shall be pecuniarily interested either as principal, agent, or beneficiary, in any such purchase, sale or loan.

The Examiners recommend that the Company ensure its future compliance with Code of Virginia § 38.2-211.

CONCLUSION

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

In addition to the undersigned, Allison L. Bohrer, Jennifer K. Blizzard, CFE, and Mario A. Cuellar, CFE, of the Bureau participated in the work of the examination.

Respectfully submitted,



T. Bradford Earley, CFE, CPCU, AIAF
Insurance Principal Financial Analyst



AMIC

STATE CORP COMMISSION
BUREAU OF INSURANCE

14 JAN 24 AM 8:04

AUGUSTA MUTUAL INSURANCE COMPANY

13 Idlewood Blvd.
Staunton, VA 24401-9355

January 22, 2014

Certified Mail # 70113500000112773381

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

Re: Augusta Mutual Insurance Company
Examination Report as of December 31, 2012

Dear Mr. Smith:

We acknowledge receipt of your December 31, 2013 letter and the "Draft" of the Examination Report on Augusta Mutual Insurance Company as of December 31, 2012. We would like to request 15 copies of the final examination report.

Corrective action was taken immediately upon notice by the auditors during their visit to address your recommendation on page 15 of the examination. We apologize for the oversight.

Our thanks and gratitude to the team of auditors, Brad Early, Allison Bohrer, Jennifer Blizzard and Mario Cuellar for their courtesy, and professionalism shown to the staff and management during the time spent here for the examination.

Respectfully,

George A. Coyner, II
President