

**EXAMINATION REPORT**  
**of**  
**BLUE RIDGE MUTUAL ASSOCIATION, INC.**  
**Galax, Virginia**  
**as of**  
**December 31, 2017**

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

# COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE

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I, Scott A. White, 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, 2017, 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 2<sup>nd</sup> day of April 2019

A handwritten signature in black ink, appearing to read 'Scott A. White', written over a horizontal line.

Scott A. White  
Commissioner of Insurance

(SEAL)

**TABLE OF CONTENTS**

Scope of the Examination ..... 1

History..... 2

Management and Control..... 2

Related Party Transactions..... 3

Territory and Plan of Operation ..... 3

Reinsurance ..... 4

Required Surplus to Policyholders..... 4

Growth of the Association ..... 5

Financial Statements ..... 6

Recommendations for Corrective Action..... 12

Conclusion ..... 13

Richmond, Virginia  
January 14, 2019

Honorable Scott A. White  
Commissioner of Insurance  
Virginia Bureau of Insurance  
Richmond, Virginia

Dear Sir:

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

**BLUE RIDGE MUTUAL ASSOCIATION, INC.**  
Galax, Virginia

hereinafter referred to as the Association. The report thereon is submitted for your consideration.

**SCOPE OF THE EXAMINATION**

The last examination of the Association was made by representatives of the State Corporation Commission's Bureau of Insurance ("Bureau") as of December 31, 2012. The current examination covers the five year period from January 1, 2013 through December 31, 2017.

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 Association's financial condition, assess corporate governance, identify current and prospective risks of the Association and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Association were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein.

This examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g. subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Association.

### 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. The Association is a mutual assessment burial association and presently operates pursuant to Chapter 40 of Title 38.2 of the Code of Virginia.

### 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, 2017, the Board of Directors and officers were as follows:

<u>Directors</u>	<u>Principal Business Affiliation</u>
Harold L. Williams	Retired, 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

DirectorsPrincipal Business Affiliation

G. Carolyn Underwood

Employee, Vaughan Guynn Funeral Home  
Fries, Virginia

Harold N. Hanks

Retired, Vaughan Guynn Funeral Home  
Woodlawn, VirginiaOfficers

Harold L. Williams

President

Jacquelin G. McGrady

First Vice-President

Marie P. Lawson

Second Vice-President

G. Carolyn Underwood

Secretary-Treasurer

Harold N. Hanks

Assistant Secretary/Assistant Treasurer

**RELATED PARTY TRANSACTIONS**

The Association has a service agreement with Guynn Insurance and Bookkeeping Agency, Inc. ("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 \$7,500.

**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 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, 2017, the Association's surplus was \$887,169.

## 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, 2017:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Reserves</u>	<u>Unassigned Funds</u>
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
2013	8,208,133	61,942	6,608,715	1,537,476
2014	8,197,145	55,603	6,507,509	1,634,033
2015	7,812,673	32,893	6,317,071	1,462,709
2016	7,628,772	68,905	5,985,850	1,574,017
2017	7,760,774	45,454	6,828,151	887,169

<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>
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
2013	135,806	395,830	808,493	7,891	12,623,703
2014	143,485	381,788	753,198	7,371	12,058,773
2015	133,489	482,642	597,606	6,935	11,540,503
2016	126,642	301,159	591,820	6,547	11,088,746
2017	117,325	473,009	578,719	6,129	10,567,239



**FINANCIAL STATEMENTS**

The following statutory financial statements present the financial condition of the Association for the period ending December 31, 2017. An examination adjustment made to the statutory financial statements filed by the Association with the Bureau for the period ending December 31, 2017 has been incorporated into these financial statements and is outlined in the Examiners' Changes in Unassigned Funds. A description of the examination adjustment is included in the Recommendations for Corrective Action section of this report.

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

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Ledger Assets, beginning of year	\$8,300,993	\$7,704,667	\$7,299,981	\$7,116,619	\$6,782,749
<b><u>INCOME</u></b>					
Subsequent years' assessments or premiums Three and five year pay (Class I coverage)	\$149,890 973	\$143,504	\$133,555	\$126,642	\$117,325
Total received from applicants and members	\$150,863	\$143,504	\$133,555	\$126,642	\$117,325
Deduct payments returned to applicants and members	15,057	19	66	27	
Net amount received from applicants and members	\$135,806	\$143,485	\$133,489	\$126,615	\$117,325
Gross interest on mortgage loans	140,402	132,594	139,714	144,238	148,231
Gross interest on bonds	74,808	59,424	49,429	32,526	23,817
Gross dividends on stocks	86,911	125,640	109,159	115,429	121,222
Gross interest on deposits in trust companies and banks	1,542	5,409	7,000	6,222	7,972
Gross profit from sale or maturity of ledger assets:	92,167	58,721	177,340	2,744	171,667
<b>TOTAL INCOME</b>	<u>\$531,636</u>	<u>\$525,273</u>	<u>\$616,131</u>	<u>\$427,774</u>	<u>\$590,234</u>
<b>AMOUNTS CARRIED FORWARD</b>	<u>\$8,832,629</u>	<u>\$8,229,940</u>	<u>\$7,916,112</u>	<u>\$7,544,393</u>	<u>\$7,372,983</u>

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<b>AMOUNTS BROUGHT FORWARD</b>	<u>\$8,832,629</u>	<u>\$8,229,940</u>	<u>\$7,916,112</u>	<u>\$7,544,393</u>	<u>\$7,372,983</u>
<b><u>DISBURSEMENTS</u></b>					
Death claims	\$808,493	\$753,198	\$597,606	\$591,820	\$578,719
Other compensation of officers and trustees	500				
Traveling and other expenses of officers and trustees	154				
Other licenses and fees:					
Insurance department fees	84				
Corporate registration	25	25	25		
Salaries of office employes		500	500	500	500
Agent appointments		70	70		
Taxes on assessments or premiums	1,370	1,530	1,440	1,996	1,641
Other taxes	666			25	25
Settlement with Bureau of Insurance		4,000			
Custody fee	94				
General office maintenance and expense	4,457		203	5,426	9,003
Advertising, printing and stationery	1,342	3,854	3,881	5,166	
Postage, express, telegraph, and telephone	5,288	5,446	5,525	4,904	3,864
Legal expenses	18,638	10,969	12,334	7,357	6,696
All other disbursements:					
Bookkeeping, computer expense and bond expense	59,354	71,591	99,178	90,000	90,000
Actuary and audit expense	13,000	15,500	16,540	17,400	19,161
Investment advisor expense	17,746	19,751	21,146	18,934	18,689
Gross loss from sale or maturity of ledger assets:	196,751	12,842	41,045	17,676	447
Gross loss on sale or maturity of ledger assets		30,683		440	
<b>TOTAL DISBURSEMENTS</b>	<u>\$1,127,962</u>	<u>\$929,959</u>	<u>\$799,493</u>	<u>\$761,644</u>	<u>\$728,745</u>
Ledger Assets, end of year	<u>\$7,704,667</u>	<u>\$7,299,981</u>	<u>\$7,116,619</u>	<u>\$6,782,749</u>	<u>\$6,644,238</u>

**ASSETS**

Mortgage loans on real estate	\$2,911,829
Book value of bonds and stocks	2,875,577
Total cash on hand and on deposit	<u>856,832</u>
Total Ledger Assets	<u>\$6,644,238</u>

**NON-LEDGER ASSETS**

Total interest due and accrued	\$35,101
Market value of bonds and stocks over book value	<u>1,103,916</u>
Total Non-Ledger Assets	<u>\$1,139,017</u>
Gross Assets	\$7,783,255
Less Excess Category II Investments	<u>22,481</u>
Total Admitted Assets	<u><u>\$7,760,774</u></u>

**LIABILITIES**

Death claims due and unpaid	\$2,200	
Death claims incurred in the current year, not reported until the following year	<u>20,211</u>	
Total unpaid death claims		\$22,411
Salaries, rents, expenses, bills and accounts, due or accrued		327
Estimated amount due or accrued for taxes		1,802
Advance premiums or assessments		<u>20,914</u>
Total unpaid claims and other current liabilities		<u>\$45,454</u>
Reserves and Unassigned Funds:		
Emergency fund reserves		\$2,100,000
Legal life reserve		3,622,278
Reserve for uncollectable mortgages		43,680
Asset adequacy reserve		1,062,193
Unassigned funds		<u>887,169</u>
Total Reserves and Unassigned Funds		<u>\$7,715,320</u>
Total Liabilities, Reserves and Unassigned Funds		<u><u>\$7,760,774</u></u>

**EXAMINERS' CHANGES IN UNASSIGNED FUNDS**

	<u>Association</u>	<u>Examiners</u>	Increase <u>(Decrease)</u>
<u>Reserves</u>			
Asset Adequacy Reserve	\$0	\$1,062,193	<u>\$1,062,193</u>
Examiners' Change in Unassigned Funds			<u><u>(\$1,062,193)</u></u>
Total Unassigned Funds per the Association			\$1,949,362
Total Unassigned Funds per the Examiners			<u>887,169</u>
Examiners' Change in Unassigned Funds			<u><u>(\$1,062,193)</u></u>

**RECOMMENDATIONS FOR CORRECTIVE ACTION**1. Asset Adequacy Reserve \$1,062,193

The above liability was established by the Examiners at December 31, 2017. An actuarial consultant was engaged by the Bureau to provide actuarial assistance for this examination. Based on the review, the Examiners have established an additional reserve for asset adequacy, including a provision for moderately adverse risk situations, in the amount of \$1,062,193. It is recommended that the Association include a provision for asset adequacy, with a provision for moderately adverse risk situations, in future filings to the Bureau.

2. Pursuant to a Letter of Understanding dated December 4, 2006, the Association agreed to maintain a minimum surplus amount of \$1,200,000. As a result of the reserve increase noted above, the Association's unassigned funds has decreased from \$1,949,362, as reported in its 2017 Annual Statement, to \$887,169. The Examiners recommend that the Association either infuse additional capital in order to increase its surplus above the \$1,200,000 minimum requirement or enter into a new Letter of Understanding with the Bureau that includes the following conditions: a) the Association acknowledges and agrees that future operations will be limited to the runoff of their existing block of business; b) the Association agrees to establish and maintain a reserve for asset adequacy, including a provision for moderately adverse risk situations; c) the Association agrees to maintain a minimum surplus of \$650,000 during the period of the runoff; and d) the Association agrees to submit a detailed runoff plan that addresses, at a minimum, ongoing investment strategies, claims administration and processing, succession planning and continued monitoring of the Association's expense structure.
3. The Association's license to write new business was suspended by an order dated January 28, 2009. The Examiners recommend that the suspension to write new business continue.

**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, Kevin Knight, CFE, Craig Chupp, FSA, MAAA and Hai Nguyen of the Bureau participated in the work of the examination.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "C Collins".

Chris Collins, CFE  
Senior Insurance Examiner  
Commonwealth of Virginia



## **ATTACHMENT**

The Association's response to the Examiner's recommendations in the December 31, 2017 Examination Report included a supplemental attachment. The attachment was not incorporated as a part of this Examination Report; however, the attachment was considered during the Examiners' review of the Association's response and has been incorporated into the examination workpapers.

# Blue Ridge Mutual Association, Inc.

203 WEST CENTER STREET

GALAX, VIRGINIA 24333-0967

P.O. Box 967

PHONE: 276-236-6641

March 12, 2019

**CERTIFIED MAIL #7009 0080 0000 8907 5674**  
**RETURN RECEIPT REQUESTED**

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

**RE: Blue Ridge Mutual Association, Inc.**  
**Examination Report as of December 31, 2017**

Dear Mr. Smith:

In reference to your letter dated February 26, 2019, this is the response discussed by the Executive Committee consisting of myself, Jackie McGrady and Carolyn Underwood.

1. The Asset Adequacy Reserve in the amount of \$1,062,193 will be placed on our first quarterly report for 2019. It is our hope our actuary will assist us in regulating this amount each annual report.
2. Since it is not likely we will be able to infuse additional capital into the Association to increase its surplus to \$1,200,000 we will agree to maintain a minimum surplus of \$650,000.00.
3. The runoff plan for ongoing investment strategies will include lowering our exposure in investments by taking gains in appropriate stocks and investing in certificates of deposit with highest possible interest rates. Claims administration is as strict as we possibly can do. Each claim is carefully prepared and paid per the by-laws and regulations.
  - a. During my past work experience with a public account firm, I managed multiple engagements related to asset/liability management, investment securities and interest rate risk. I believe this experience will be an advantage in working with the investments and using alternative methods in our investment strategies. I am enclosing my personal resume for your reference.

**RE: Blue Ridge Mutual Association, Inc.  
Examination Report as of December 31, 2017**

- b. Succession planning was addressed at our most recent regular annual meeting. The officers for 2019 are as follows:

President	Larry C. Blevins, Jr.
Vice President	Jacquelin G. McGrady
First Vice President	Marie P. Lawson
Secretary/Treasurer	G. Carolyn Underwood
Asst Secretary/Treasurer	Stephen Williams

I hope this letter represents our intent toward the recommendations you have given our Association successfully. If you have any concerns pertaining to this information, please feel free to contact me.

We will need a total of 6 copies of the examination report for the officers/directors and our attorney.

Respectfully,



Larry C. Blevins, Jr.  
President

Enclosure: 1