

**EXAMINATION REPORT**  
**of**  
**PATRICK COUNTY FARMERS MUTUAL**  
**INSURANCE COMPANY**  
**OF VIRGINIA, INCORPORATED**  
**Meadows of Dan, Virginia**  
**as of**  
**December 31, 2010**

**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 Patrick County Farmers Mutual Insurance Company of Virginia, Incorporated as of December 31, 2010, 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 10th day of August, 2011

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Jacqueline K. Cunningham  
Commissioner of Insurance

(SEAL)

**TABLE OF CONTENTS**

Description .....1

History .....1

Management and Control .....2

Fidelity Bond and Other Insurance .....3

Territory and Plan of Operation .....3

Growth of the Company .....4

Scope .....5

Financial Statements .....5

Recommendation for Corrective Action .....9

Conclusion.....10

Richmond, Virginia  
May 10, 2011

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, 2007. This examination covers the period January 1, 2008 through December 31, 2010.

**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, 2010, 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	Unemployed
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, 2010. 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 \$0.45 to \$1.01 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, 2010:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus</u>		
2001	\$336,667	\$836	\$335,831		
2002	361,027	839	360,188		
2003	365,336	2,772	362,564		
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		

<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>
2001	\$40,937	\$13,270	\$527	365	\$5,393,700
2002	41,630	14,454	540	361	5,546,200
2003	41,609	9,504	15,258	340	5,310,300
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

## **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, 2008 through December 31, 2010. Assets were verified and liabilities were established at December 31, 2010. 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, 2010.



**INCOME FOR PERIOD UNDER REVIEW**

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Net assessments received	\$31,574	\$30,535	\$29,048
Interest on cash deposits	17,213	8,698	6,767
Reconciling amounts	2,765	2,735	2,740
Other income		44	438
	<u>          </u>	<u>          </u>	<u>          </u>
Total income	\$51,552	\$42,012	\$38,993
Deduct total disbursements	<u>45,671</u>	<u>33,356</u>	<u>58,469</u>
Net income	\$5,881	\$8,656	(\$19,476)
Add ledger assets December 31, previous year	<u>391,837</u>	<u>397,718</u>	<u>406,374</u>
Ledger assets December 31, current year	<u><u>\$397,718</u></u>	<u><u>\$406,374</u></u>	<u><u>\$386,898</u></u>

**DISBURSEMENTS FOR PERIOD UNDER REVIEW**

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Net losses paid	\$13,724	\$1,450	\$26,600
Commissions and brokerage	212	263	89
Gross salaries	20,000	20,000	20,000
Directors' fees	600	300	350
Travel and travel items	94		85
Boards, bureaus and associations	482	200	200
Rent, office and equipment maintenance	2,500	2,500	2,517
Advertising	120	145	50
Printing and stationery	60	98	
Postage, telephone and express	1,464	1,420	1,657
Insurance and fidelity bonds	402	902	402
Miscellaneous	252	76	704
Taxes, licenses and fees	1,258	1,213	1,185
Payroll items	4,503	4,466	4,630
Loss on disposal of investments		323	
	<u>          </u>	<u>          </u>	<u>          </u>
Total disbursements	<u>\$45,671</u>	<u>\$33,356</u>	<u>\$58,469</u>

**ASSETS**

	<u>Ledger Assets</u>	<u>Non- Ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Cash in office	\$212			\$212
Cash on deposit	386,686			386,686
Interest due and accrued on cash deposits		<u>2,006</u>		<u>2,006</u>
Total assets	<u>\$386,898</u>	<u>\$2,006</u>	<u>\$0</u>	<u>\$388,904</u>

**LIABILITIES, SURPLUS AND OTHER FUNDS**

Payroll items due or accrued	\$139
Other expenses	402
Taxes, licenses and fees	<u>1,140</u>
Total liabilities	\$1,681
Excess of admitted assets over liabilities (surplus)	<u>387,223</u>
Total liabilities and surplus	<u>\$388,904</u>

**RECOMMENDATION FOR CORRECTIVE ACTION****Accounts and Records**

1. During a review of the 2010 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 correctly reported. This is the third consecutive examination in which this recommendation appears.

**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, Mario A. Cuellar, CFE of the Bureau participated in the work of the examination.

Respectfully submitted,

*Jennifer K. Blizzard*

Jennifer K. Blizzard, CFE  
Senior Insurance Examiner

Steven W. Wood, Vice President  
Meadows of Dan, VA 24120  
Telephone: (540) 593-2003

W. Gurney Royall II  
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Pamela B. Royall, Agent  
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THE PATRICK COUNTY FARMERS  
**MUTUAL INSURANCE COMPANY**  
OF VIRGINIA, INCORPORATED

11 JUL 29 AM 10:00

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

July 27, 2011

State Corporation Commission  
Bureau of Insurance  
Attn: David H. Smith, CFE, CPA, CPCU  
P. O. Box 1157  
Richmond VA 23218

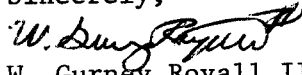
Dear Mr. Smith:

Please send ten (10) copies of the report for the directors and the company to retain for records. We will count the assessments to properly report the correct number of policy holders to comply with the regulations.

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

Thank-you for your assistance in this matter.

Sincerely,



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