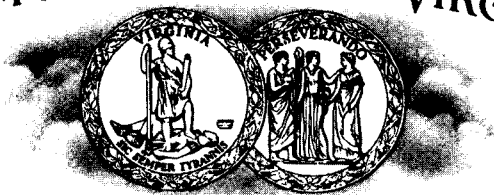


**EXAMINATION REPORT
ON
BLUE RIDGE MUTUAL ASSOCIATION, INC.
GALAX VIRGINIA
AS OF
DECEMBER 31, 2009**

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

COMMONWEALTH OF VIRGINIA

ALFRED W. GROSS
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



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I, Alfred W. Gross, 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, 2009, 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 December, 2010

A handwritten signature in cursive script that reads "Alfred W. Gross".

Alfred W. Gross
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
October 1, 2010

Honorable Alfred W. Gross
Commissioner of Insurance
Commonwealth of Virginia
Richmond, Virginia

Dear Sir:

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, 2006. This examination covers the three-year period from January 1, 2007, through December 31, 2009.

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, 2009, 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 \$3,500.

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. During the period covered by this examination the Association paid the following insurance commissions to GIBA:

2007	\$46,380
2008	47,908
2009	0

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, 2009, the Association's surplus, as adjusted by the Examiners, was \$762,168. As of June 30, 2010, the Association's surplus was \$1,053,465.

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, 2009:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Reserves</u>	<u>Unassigned Funds</u>
2000	7,343,197	90,441	5,529,941	1,722,815
2001	7,695,116	80,997	5,923,748	1,690,371
2002	7,998,957	67,569	6,298,468	1,632,920
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

<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>
2000	759,520	438,424	713,463	14,480	16,026,537
2001	904,871	465,475	802,407	13,939	16,033,986
2002	874,708	451,186	799,285	13,413	16,129,137
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

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, 2007 through December 31, 2009. Assets were verified and liabilities were established at December 31, 2009. A review of income and disbursements for the period was made to the extent deemed necessary.

The items comprising the Balance Sheet had a medium or low residual risk assessment as determined from the principles of the risk-focused examination approach contained in the National Association of Insurance Commissioners Financial Condition Examiners Handbook. Analytical review procedures were applied for non-material items.

In addition, the following items were reviewed, several of which are discussed separately under their respective captions in this report.

History
Management and Control
Territory and Plan of Operation
Contracts and Underwriting
Fidelity Bond
Special Reserves and Deposits
Growth of the Association
Accounts and Records
Financial Statements

FINANCIAL STATEMENTS

There follows a statement of income and disbursements for the period under review, a statement of financial condition as of December 31, 2009, and a statement of Examiner's changes in surplus at December 31, 2009.

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

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Ledger Assets, beginning of year	<u>\$9,187,595</u>	<u>\$9,601,452</u>	<u>\$9,607,693</u>
<u>INCOME</u>			
Subsequent years' assessments or premiums	\$202,640	\$197,294	\$186,993
Single pay (Class H coverage)	551,198	489,116	
Three and five year pay (Class I coverage)	<u>12,988</u>	<u>13,612</u>	<u>14,299</u>
Total received from applicants and members	\$766,826	\$700,022	\$201,292
Deduct payments returned to applicants and members	<u>4,842</u>	<u>10,320</u>	<u>268</u>
Net amount received from applicants and members	\$761,984	\$689,702	\$201,024
Gross interest on mortgage loans	121,434	115,680	145,465
Gross interest on bonds	269,239	295,859	241,893
Gross dividends on stocks	76,802	71,553	69,946
Gross interest on deposits in trust companies and banks	22,366	30,156	11,094
Gross profit from sale or maturity of ledger assets	<u>164,564</u>	<u>33,083</u>	
TOTAL INCOME	<u>\$1,416,389</u>	<u>\$1,236,033</u>	<u>\$669,422</u>
AMOUNTS CARRIED FORWARD	<u>\$10,603,984</u>	<u>\$10,837,485</u>	<u>\$10,277,115</u>

	<u>2007</u>	<u>2008</u>	<u>2009</u>
AMOUNTS BROUGHT FORWARD	<u>\$10,603,984</u>	<u>\$10,837,485</u>	<u>\$10,277,115</u>
<u>DISBURSEMENTS</u>			
Death claims	\$784,230	\$971,219	\$933,040
Commissions and fees paid to agents	46,380	47,908	
Other compensation of officers and trustees	20,000		500
Traveling and other expenses of officers and trustees	500		
Other licenses and fees:			
Corporate registration	25	25	
Agents license	112	84	
Penalty	60		
Taxes on assessments or premiums	7,861	7,920	1,439
Other taxes	520	907	315
General office maintenance and expense	72		513
Advertising, printing and stationery	7,652	5,137	5,153
Postage, express, telegraph, and telephone	5,801	6,330	5,955
Legal expenses	15,706	22,577	15,237
All other disbursements:			
Bookkeeping, computer expense and bond expense	59,420	59,494	51,223
Actuary and audit expense	16,581	9,806	12,027
Investment advisor expense	11,378	17,174	23,508
Miscellaneous	(79)	3	(180)
Gross loss on sale or maturity of ledger assets	<u>26,313</u>	<u>81,208</u>	<u>3,344</u>
TOTAL DISBURSEMENTS	<u>\$1,002,532</u>	<u>\$1,229,792</u>	<u>\$1,052,074</u>
Ledger Assets, end of year	<u>\$9,601,452</u>	<u>\$9,607,693</u>	<u>\$9,225,041</u>

ASSETS

Mortgage loans on real estate	\$2,441,713
Book value of bonds and stocks	5,947,362
Total cash on hand and on deposit	<u>835,965</u>
Total Ledger Assets	<u>9,225,040</u>

NON-LEDGER ASSETS

Total interest due and accrued	\$22,938
Market value of bonds and stocks over book value	<u>(431,388)</u>
Total Non-Ledger Assets	<u>(\$408,450)</u>
Total Admitted Assets	<u><u>\$8,816,590</u></u>

LIABILITIES

Death claims due and unpaid	\$34,398	
Death claims incurred in the current year, not reported until the following year	<u>3,821</u>	
Total unpaid death claims		\$38,219
Salaries, rents, expenses, bills and accounts, due or accrued		6,004
Advance premiums or assessments		<u>28,042</u>
Total unpaid claims and other current liabilities		<u>\$72,265</u>
Reserves and Unassigned Funds:		
Income accumulation on emergency reserve		\$1,486,994
Emergency fund reserves		477,761
Legal life reserve		6,017,402
Unassigned Funds		<u>762,168</u>
Total Reserves and Unassigned Funds		<u>\$8,744,325</u>
Total Liabilities, Reserves and Unassigned Funds		<u><u>\$8,816,590</u></u>

EXAMINERS' CHANGES IN CAPITAL AND SURPLUS

	<u>Corporation</u>	<u>Examiners</u>	<u>Increase (Decrease)</u>
<u>Assets:</u>			
Total interest due and accrued	\$56,209	\$22,938	<u>(\$33,271)</u>
Examiners' Change in Unassigned Funds			<u>(\$33,271)</u>
Total Unassigned Funds per the Association			\$795,439
Total Unassigned Funds per the Examiners			<u>762,168</u>
Examiners' Change in Unassigned Funds			<u>(\$33,271)</u>

RECOMMENDATIONS FOR CORRECTIVE ACTION**Accounts and Records**

1. Total interest due and accrued \$22,938

The above asset is \$33,271 less than the amount reported by the Association in its 2009 Annual Statement. This decrease is a result of the Examiners nonadmitting the past due and accrued interest on two mortgage loans. The Examiners recommend that the Association nonadmit interest on past due mortgage loans in future filings with the Bureau.

2. In the previous examination report, there was a recommendation for corrective action stating that the Association should use historical IBNR data to develop future unpaid claims estimates. It was noted during this examination that the Association had not changed their IBNR methodology. It is again recommended that the Association use historical IBNR data to develop future unpaid claims estimates.

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, David Fiden, 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 large initial "W".

William K. Knight, AFE
Senior Insurance Examiner

Blue Ridge Mutual Association, Inc.

STATE COURT COMMISSION
BUREAU OF INSURANCE

203 WEST CENTER STREET

GALAX, VIRGINIA 24333-0967

10 DEC -3 AM 9:31
P.O. Box 967

PHONE: 276-236-6641

November 30, 2010

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, 2009

Dear Mr. Smith:


In reference to your letter dated November 23, 2010, we wish to make the following responses to the recommendations for corrective action:

1. Total Interest due and accrued: We have implemented a practice of non-admitting interest that is in excess of 90 days. This action was first taken on the quarterly report for June 30, 2010.
2. IBNR methodology: as of the September 2010 quarterly report we have implemented an additional amount of \$3500.00 to the incurred but reported. This amount seems to be historically correct. The only classes which remain unreported for any length of time are the burial classes B-G. Most legal life claims (Class H & I) are reported promptly.

Additionally we feel seven (7) copies of the report will be sufficient.

If you require any additional information, please advise.

Respectfully,



G. Carolyn Underwood
Secretary/Treasurer