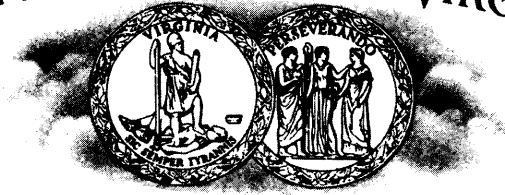


EXAMINATION REPORT
of the
FLOYD COUNTY MUTUAL FIRE
INSURANCE COMPANY, INCORPORATED
Floyd, Virginia
as of
December 31, 2008

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA

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



P.O. BOX 1157
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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 Floyd County Mutual Fire Insurance Company, Incorporated as of December 31, 2008, 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 18th day of June, 2009

Alfred W. Gross
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
March 12, 2009

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

Dear Sir:

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

**FLOYD COUNTY MUTUAL FIRE
INSURANCE COMPANY, INCORPORATED**

Floyd, 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, 2005. This examination covers the period from January 1, 2006, through December 31, 2008.

HISTORY

The Company was chartered on July 1, 1941. The purpose for which the Company was organized, as defined in its charter, is as follows:

To organize and conduct a mutual fire, lightning, or storm company, which shall have no capital stock, but which is organized and carried on for the benefit of its members, and which pays its losses solely from assessments upon its members without distributing any portion of its profits among its policyholders or members in the shape of dividends, and which confines its business to the State of Virginia.

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

MANAGEMENT AND CONTROL

Management of the Company is vested in a board of directors consisting of not less than six nor more than twelve members of the Company. The bylaws provide for the election of directors at the annual meeting of members. Each director is elected for a term of one year. The bylaws were last revised in 1991.

Officers of the Company include a president, vice president and a secretary-treasurer. The bylaws provide for the election of other officers and agents as deemed necessary and require that the president and vice president be directors of the Company.

The directors and officers of the Company at December 31, 2008, were as follows:

<u>Director</u>	<u>Occupation</u>
Curtis R. Allen	Data Entry Clerk Floyd, Virginia
Hassell L. Altizer	Retired Riner, Virginia
S. G. Bolt	Preacher Willis, Virginia
Lelan R. Cockram	Farmer Roanoke, Virginia
Reece McPeak, Jr	Factory Worker Radford, Virginia
Kevin B. Phillips	Factory Worker Willis, Virginia
Winston R. Poff	Retired Copper Hill, Virginia
Kyle R. Taylor	Retired Floyd, Virginia

Officers

President	S. G. Bolt
Vice President	Reece McPeak, Jr
Secretary-Treasurer	Lenna T. Shelor

The board of directors may also select an executive committee of six members, including the president, to possess and discharge all powers of the board of directors during intervals between its meetings. The following members comprised the executive committee at December 31, 2008:

Curtis R. Allen	Reece McPeak, Jr.
Hassel L. Altizer	Kevin B. Phillips
S. G. Bolt	Kyle R. Taylor

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2008, the Company had a fidelity bond in force for \$25,000 providing coverage against dishonest acts of the president, vice president and secretary-treasurer. Other insurance coverage included a policy covering home office real estate and contents with \$1,000,000 of business liability insurance.

TERRITORY AND PLAN OF OPERATION

The Company confines its operations to Floyd County, Virginia, with operations divided into six districts represented by five agents. The lines of coverage written include fire and extended coverage, with a combined limit on any one building and its contents not to exceed \$125,000. The Company has no reinsurance.

Rates charged for coverage are based on classifications of property, including residential, farm, church and small business properties. Rates are set by the board of directors and range from \$0.35 to \$0.50 per \$100 of coverage.

Underwriting of applications for insurance is handled by the agents. Approval may be made by any one or more of the directors of the Company. Claims may be settled by an officer, director or agent of the Company subject to appeal to the board of directors by the claimant.

GROWTH OF THE COMPANY

The following data, obtained from annual statements filed with the Bureau of Insurance and from examination reports, indicates the growth of the Company for the ten-year period ending December 31, 2008:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Unassigned Surplus</u>
1999	\$1,544,672	\$101,175	\$1,443,497
2000	1,662,530	97,562	1,564,968
2001	1,775,508	102,263	1,673,245
2002	1,865,384	104,187	1,761,197
2003	1,958,745	103,338	1,855,407
2004	2,039,667	97,200	1,942,467
2005	2,140,230	98,841	2,041,389
2006	2,260,399	104,627	2,155,772
2007	2,372,071	107,819	2,264,252
2008	2,521,111	103,154	2,417,957

<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>
1999	\$124,123	\$68,449	\$76,776	1,315	\$30,544,938
2000	118,089	80,711	30,103	1,281	29,732,363
2001	128,456	91,368	32,121	1,272	32,041,335
2002	127,613	51,340	12,546	1,250	32,431,784
2003	124,711	33,431	12,710	1,230	32,097,284
2004	119,921	24,707	12,671	1,213	31,791,584
2005	120,676	50,124	18,806	1,168	31,257,634
2006	129,769	71,353	10,394	1,150	33,092,571
2007	132,658	91,812	46,110	1,133	33,257,046
2008	122,941	86,418	11,615	1,198	32,343,896

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, 2006, through December 31, 2008. Assets were verified and liabilities were established at December 31, 2008. 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 risk assessment as determined from the principles of the risk-based examination procedures contained in the National Association of Insurance Commissioners *Examiners' Handbook*. Analytical review procedures were applied to non-material items.

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

History
Corporate Records
Management and Control
Fidelity Bond
Territory and Plan of Operation
Growth of the Company
Accounts and Records
Financial Statements
Conflict of Interest

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, 2008.

INCOME

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Net assessments received	\$129,769	\$132,658	\$122,941
Interest on cash deposits	71,353	91,812	86,418
Amounts withheld from employees	5,478	5,831	2,598
Other income	<u>2,500</u>	<u>2,500</u>	<u>2,500</u>
 Total income	 \$209,100	 \$232,801	 \$214,457
 Deduct total disbursements for the year	 <u>90,321</u>	 <u>121,517</u>	 <u>66,667</u>
 Net income	 \$118,779	 \$111,284	 \$147,790
 Add ledger assets December 31, previous year	 <u>2,136,431</u>	 <u>2,255,210</u>	 <u>2,366,494</u>
 Ledger assets December 31, current year	 <u><u>\$2,255,210</u></u>	 <u><u>\$2,366,494</u></u>	 <u><u>\$2,514,284</u></u>

DISBURSEMENTS

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Net losses paid	\$10,394	\$46,110	\$11,615
Loss adjustment expense	1,041	1,405	1,525
Commission and brokerage	13,646	9,275	3,217
Gross salaries	16,565	20,502	12,721
Directors' fees	6,240	6,240	6,240
Travel and travel items	15,700	12,233	7,416
Boards, bureaus and associations	714	755	792
Legal and auditing	1,020		325
Furniture, fixtures and equipment	131		
Rent, office and equipment maintenance	1,980	2,001	2,498
Advertising	625	690	667
Printing and stationery	1,697	1,604	833
Postage, telephone and express	1,243	1,121	1,168
Charitable contributions	4,700	6,300	7,500
Miscellaneous	2,274	770	2,026
Taxes, licenses and fees	1,762	1,858	1,878
Payroll items	8,387	8,408	3,986
Real estate	2,202	2,245	2,260
	<u> </u>	<u> </u>	<u> </u>
Total disbursements	<u><u>\$90,321</u></u>	<u><u>\$121,517</u></u>	<u><u>\$66,667</u></u>

ASSETS

	<u>Ledger Assets</u>	<u>Non- Ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Cash on deposit	\$2,472,771			\$2,472,771
Real estate	41,513			41,513
Interest due and accrued		6,827		6,827
Total assets	<u>\$2,514,284</u>	<u>\$6,827</u>	<u>\$0</u>	<u>\$2,521,111</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Payroll items due or accrued	\$1,457
Other expenses due or accrued	688
Taxes, licenses and fees	1,691
Assessments unearned	<u>99,318</u>
Total liabilities	\$103,154
Excess of admitted assets over liabilities (surplus)	<u>2,417,957</u>
Total liabilities and surplus	<u>\$2,521,111</u>

RECOMMENDATIONS FOR CORRECTIVE ACTION**Accounts and Records**

1. During a review of the 2008 Annual Statement, the Examiners noted the amount of the Company's insurance in force was incorrectly reported in the General Interrogatories. The Examiners recommend that the Company ensure future filings with the Bureau are reported correctly.
2. The amounts that were reported as Payroll Items in the Disbursements page of the 2008 Annual Statement (a total of \$6,202) were incorrect and did not reconcile to the actual balance recorded in the general ledger (a total of \$3,986). However, the \$3,986 was the amount that the Company utilized to calculate Total Disbursements for 2008 and was also the amount used by the Examiners in the financial statements of this examination report. Therefore, the adjustment made by the Examiners had no impact on surplus. The Examiners recommend that the Company properly report payroll expenses in future filings.

CONCLUSION

The courteous cooperation extended by the Secretary-Treasurer is hereby acknowledged.

In addition to the undersigned, Gina M. Gainer of the Bureau participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink that reads "Jennifer K. Crawley". The signature is written in a cursive style with a large, looping initial "J".

Jennifer K. Crawley, CFE
Senior Insurance Examiner

FLOYD COUNTY MUTUAL FIRE INSURANCE COMPANY, INCORPORATED

P.O. BOX 3
FLOYD, VIRGINIA 24091

STATE CORPORATION COMMISSION
BUREAU OF INSURANCE
09 JUN 11 AM 9:59

June 8, 2009

David H. Smith, CFE, CPA, CPCU
Chief Examiner
State Corporation Commission
Bureau of Insurance
P.O. Box 1157
Richmond, Virginia 23218

Attention: Mr. David H. Smith
Chief Examiner

RE: Floyd County Mutual Fire Insurance Company
Examination Report as of December 31, 2008

Dear Mr. Smith:

I would like to respond to the recommendations on page 9 of the audit report.

1. The Company will make sure that the reporting of the insurance in force in the future will be correct.
2. The amounts reported on the Payroll Items that were incorrect will be properly reported in the future.

Three copies of the Audit report will be needed. One copy for the office and one for the President and one for the Vice President.

I hope I have responded to these recommendations satisfactorily, if not please let me know.

Sincerely,

Lenna T. Shelor
Secretary - Treasurer