

**EXAMINATION REPORT**  
**of**  
**BLUE RIDGE MUTUAL ASSOCIATION, INC.**  
**Galax, Virginia**  
**as of**  
**December 31, 2022**

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

# COMMONWEALTH OF VIRGINIA



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

P.O. BOX 1157  
RICHMOND, VIRGINIA 23218  
1300 E. MAIN STREET  
RICHMOND, VIRGINIA 23219  
TELEPHONE: (804) 371-9741  
[www.scc.virginia.gov/boi](http://www.scc.virginia.gov/boi)

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, 2022, 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 24<sup>th</sup> day of October 2023

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

Scott A. White  
Commissioner of Insurance



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Richmond, Virginia  
August 18, 2023

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, 2017. The current examination covers the five year period from January 1, 2018 through December 31, 2022.

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, 2022, the Board of Directors and officers were as follows:

<b><u>Directors</u></b>	<b><u>Principal Business Affiliation</u></b>
Larry C. Blevins, Jr.	Chief Financial Officer Guynn Enterprises, Inc. Galax, Virginia
Charles L. Cox	Self-Employed Galax, Virginia
Jacquelin G. McGrady	Employee, Guynn Insurance and Bookkeeping Agency, Inc. Galax, Virginia
Marie P. Lawson	Retired Galax, Virginia

Directors

G. Carolyn Underwood

Principal Business AffiliationEmployee, Vaughan Guynn Funeral Home  
Fries, VirginiaOfficers

Larry C. Blevins, Jr.

President

Jacquelin G. McGrady

First Vice-President

Marie P. Lawson

Second Vice-President

Charles L. Cox

Second Vice-President

G. Carolyn Underwood

Secretary-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 \$6,000.

**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. Prior to 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 required the Association to maintain a minimum surplus of \$1,200,000. Due to further decreases in surplus, on March 12, 2019, the Association entered into another letter of understanding to maintain a new minimum surplus of \$650,000. At December 31, 2022, the Association's Unassigned funds (surplus) was \$406,883.

### **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, 2022:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Reserves</u>	<u>Unassigned Funds</u>
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
2018	6,810,069	59,453	5,734,273	1,016,343
2019	7,043,406	20,589	5,848,616	1,174,201
2020	6,796,058	43,871	5,910,160	842,027
2021	6,990,908	29,029	5,993,279	968,600
2022	6,151,144	58,403	5,685,858	406,883

<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>
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
2018	110,084	479,437	637,574	5,800	9,962,534
2019	103,611	848,024	586,981	5,423	9,429,564
2020	98,199	706,587	560,353	5,100	8,785,224
2021	91,486	712,887	632,264	4,769	8,343,838
2022	84,740	325,517	462,041	4,438	7,870,227



**FINANCIAL STATEMENTS**

The following statutory financial statements present the financial condition of the Association for the period ending December 31, 2022. Three examination adjustments made to the statutory financial statements filed by the Association with the Bureau for the period ending December 31, 2022 have been incorporated into these financial statements and are outlined in the Examiners' Changes in Unassigned Funds. A description of the examination adjustments is included in the Recommendations for Corrective Action section of this report.

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

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Ledger Assets, beginning of year	<u>\$6,644,238</u>	<u>\$6,446,059</u>	<u>\$6,633,195</u>	<u>\$6,609,610</u>	<u>\$6,622,220</u>
<b><u>INCOME</u></b>					
First years' assessments or premiums	110,084				
Subsequent years' assessments or premiums		103,611	98,202	91,486	84,740
Total received from applicants and members	<u>110,084</u>	<u>103,611</u>	<u>98,202</u>	<u>91,486</u>	<u>84,740</u>
Deduct payments returned to applicants and members			(3)		
Net amount received from applicants and members	\$110,084	\$103,611	\$98,199	\$91,486	\$84,740
Gross interest on mortgage loans	152,378	151,984	132,890	111,880	74,319
Gross interest on bonds	19,466	17,329	28,729	41,889	93,691
Gross dividends on stocks	115,564	117,128	103,602	74,186	44,087
Gross interest on deposits in trust companies and banks	10,273	11,896	5,152	35	2,272
Capital gains	52,150	48	280	843	118
Litigation		24		146	
Cash Overage				(1)	6
Miscellaneous					230
Gross profit from sale or maturity of ledger assets:	<u>129,606</u>	<u>549,639</u>	<u>435,934</u>	<u>484,054</u>	<u>111,030</u>
<b>TOTAL INCOME</b>	<u>\$589,521</u>	<u>\$951,659</u>	<u>\$804,786</u>	<u>\$804,518</u>	<u>\$410,493</u>
<b>AMOUNTS CARRIED FORWARD</b>	<u>\$7,233,759</u>	<u>\$7,397,718</u>	<u>\$7,437,981</u>	<u>\$7,414,128</u>	<u>\$7,032,713</u>

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
<b>AMOUNTS BROUGHT FORWARD</b>	<u>\$7,233,759</u>	<u>\$7,397,718</u>	<u>\$7,437,981</u>	<u>\$7,414,128</u>	<u>\$7,032,713</u>
<b><u>DISBURSEMENTS</u></b>					
Death claims	\$637,574	\$586,981	\$560,353	\$632,264	\$462,041
Other compensation of officers and trustees	18,250	1,050	2,500	2,500	2,000
Investment expense		17,985	18,106	17,902	17,867
Deed on trust releases					42
Taxes on assessments or premiums	1,379	1,801	2,724	1,677	1,565
Other taxes	25				573
Cash Shortage		2	76		
General office maintenance and expense	6,903	794	381		3,561
Advertising, printing and stationery	3,590	2,792	4,443	4,247	
Postage, express, telegraph, and telephone	3,692	2,241	2,666	2,928	2,628
Legal expenses	4,091	2,262	23,591	27,414	11,190
All other disbursements:					
Insurance, bookkeeping, professional fees					
and software support	82,500	124,408	109,409	95,120	81,247
Actuary and audit expense	11,000				
Investment advisor expense	18,213				
Gross loss from sale or maturity of					
ledger assets:	483	23,140	104,121	7,856	1,270
Gross decrease, by adjustment in book					
value of ledger assets:		1,071			
<b>TOTAL DISBURSEMENTS</b>	<u>\$787,700</u>	<u>\$764,527</u>	<u>\$828,370</u>	<u>\$791,908</u>	<u>\$583,984</u>
Ledger Assets, end of year	<u>\$6,446,059</u>	<u>\$6,633,191</u>	<u>\$6,609,611</u>	<u>\$6,622,220</u>	<u>\$6,448,729</u>

**ASSETS**

Mortgage loans on real estate	\$1,347,398
Book value of bonds and stocks	4,340,455
Total cash on hand and on deposit	<u>760,876</u>
Total Ledger Assets	<u>\$6,448,729</u>

**NON-LEDGER ASSETS**

Total interest due and accrued	<u>\$19,386</u>
Total Non-Ledger Assets	<u>\$19,386</u>
Gross Assets	\$6,468,115
Less book value of bonds and stocks over market value	<u>(119,851)</u>
Total Assets	\$6,348,264
Deduct category 2 investments in excess of the amount allowed by Section 38.2-1403 of the Code of Virginia	<u>197,120</u>
Total Admitted Assets	<u><u>\$6,151,144</u></u>

**LIABILITIES**

Death claims due and unpaid	\$43,542	
Death claims incurred in the current year, not reported until the following year	<u>1,438</u>	
Total unpaid death claims		\$44,980
Advance premiums or assessments		<u>13,423</u>
Total unpaid claims and other current liabilities		<u>\$58,403</u>
Reserves and Unassigned Funds:		
Emergency fund reserves		\$2,350,000
Legal life reserve		2,353,933
Reserve for uncollectable mortgages		43,679
Asset adequacy reserves		<u>938,246</u>
Total reserves for death claims		<u>\$5,685,858</u>
Total Unpaid Claims and Other Current Liabilities		<u>\$5,744,261</u>
Unassigned funds		<u>\$406,883</u>
Total Liabilities, Reserves and Unassigned Funds		<u><u>\$6,151,144</u></u>

**EXAMINERS' CHANGES IN UNASSIGNED FUNDS**

	<u>Amount Per Association</u>	<u>Amount Per Examiners</u>	<u>Increase (Decrease)</u>
<b><u>Assets:</u></b>			
Category 2 investments in excess of Code of Virginia Section 38.2-1403	\$0	\$197,120	(\$197,120)
<b><u>Liabilities:</u></b>			
Legal Life Reserves	2,301,577	2,353,933	(52,356)
Asset Adequacy Reserve	1,062,193	938,246	<u>123,947</u>
Examiners' changes in Unassigned Funds			<u>(\$125,529)</u>
Total Unassigned Funds per the Association			\$532,412
Total Unassigned Funds per the Examiners			<u>406,883</u>
Examiners' Change in Unassigned Funds			<u>(\$125,529)</u>

## RECOMMENDATIONS FOR CORRECTIVE ACTION

### Summary of Significant Findings

1. Category 2 Assets in Excess of Amounts Allowable Pursuant to Section 38.2-1403 of the Code of Virginia \$197,120

Section 38.2-1403 of the Code of Virginia states, "The value of Category 2 investments shall be excluded from the value of admitted assets to the extent the value of Category 2 investments exceeds seventy-five percent of the amount by which an insurer's surplus to policyholders exceeds its minimum capital and surplus." The Examiners have decreased admitted assets \$197,120, which is the amount of Category 2 investments that exceed the available threshold allowed by Section 38.2-1403 of the Code of Virginia. Category 2 treatment was accorded to one mortgage exceeding 2% of admitted assets in any one secured location pursuant to Section 38.2-1437 F of the Code of Virginia. Category 2 treatment was accorded to common stocks exceeding the amount by which surplus to policyholders exceeds minimum capital and surplus requirements of the Association pursuant to Section 38.2-1411 A 11 of the Code of Virginia. The calculation of the excess Category 2 investments is as follows:

a. Surplus as reported in the 2022 Annual Statement	\$532,412
b. Minimum net worth requirement	<u>0</u>
c. Balance available for Category 2 investments ( $\{a-b\} \times 75\%$ )	\$399,309
d. Total investment exceeding 2% of admitted assets in mortgages covering any one secured location (Section 38.2-1437 F of the Code of Virginia)	28,854
e. Investments in common stock exceeding the amount by which surplus to policyholders exceeds minimum capital and surplus requirements (Section 38.2-1411 A 11 of the Code of Virginia)	<u>567,575</u>

Category 2 investments in excess of amount allowed by Section 38.2-1403 of the Code of Virginia (c-d-e)	<u>\$197,120</u>
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A review of the Association's 2022 Analysis of Excess Capital and Surplus Investment Exhibit revealed that the Association failed to calculate the amount of excess Category 2 assets. Because of this the Association failed to reduce the admitted

assets by excess Category 2 assets as required by Section 38.2-1403 of the Code of Virginia. It is therefore recommended that the Association complete the Analysis of Excess Capital and Surplus Investment Exhibit correctly in future filings with the Bureau. Additionally, the Association should review its investments so that Category 2 investments can be identified and those Category 2 investments that exceed limits established by Section 38.2-1403 of the Code of Virginia properly reduce admitted assets.

2. Legal Life Reserves \$2,353,933

The above liability is \$52,356 more than the amount reported by the Association in its 2022 Annual Statement. The increase was the result of an adjustment to the amount of interest accrued on death benefits for the seven-month period ending December 31, 2022. Code of Virginia Section 54.1-2820 C was amended, effective March 9, 2022, to remove the requirement that if a life insurance or annuity contract is used to fund a preneed funeral contract, the contract must provide that the face value be adjusted annually by a factor equal to the annualized Consumer Price Index, or a benefit payable at death under such contract that will equal or exceed the sum of all premiums paid for such contract plus interest or dividends, which for the first 15 years shall be compounded annually at a rate of at least five percent.

One of the provisions in the Association's Class H/I contracts is an increasing death benefit which states that the benefit payable "will be equal to or exceed the sum of all premiums paid for such certificate plus interest thereon at the annual rate of at least five percent, compounded annually." The Bureau believes that the amended language in Code of Virginia Section 54.1-2820 C has no effect on the Class H/I contract provisions for in-force Class H/I policies, and that discontinuing the five percent increase to the death benefit would be considered a breach of the insurance contract. It is therefore recommended that the Association continue to satisfy the increasing death benefit provision in the Class H/I policies when determining Legal Life Reserves in future filings to the Bureau.

3. Asset Adequacy Reserve \$938,246

The above liability is \$123,947 less than the amount reported by the Association in its 2022 Annual Statement. An actuarial consultant was engaged by the Bureau to provide actuarial assistance for this examination. Based on their review, the Examiners have decreased the reserve for asset adequacy, including a provision for moderately adverse risk situations, by \$123,947. It is recommended that the Association continue to include a provision for asset adequacy, with a provision for moderately adverse risk situations, in future filings to the Bureau.

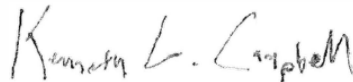


4. Pursuant to a Letter of Understanding dated March 12, 2019, the Association agreed to maintain a minimum surplus amount of \$650,000. As a result of the examination adjustments noted above, the Association's Unassigned funds has decreased from \$532,412, as reported in its 2022 Annual Statement, to \$406,883. Based on the review performed by the actuarial consultant, the Examiners recommend that the Association either infuse additional capital in order to increase its surplus above the \$650,000 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 \$350,000 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.

### **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, Chris Collins, CFE, Kevin Knight, CFE, Chamelle Macon, Alyssa Marinoble, Craig Chupp, FSA, MAAA and Hai Nguyen of the Bureau participated in the work of the examination.

Respectfully submitted,



Kenneth Campbell, CFE  
Assistant Chief Examiner  
Commonwealth of Virginia

## **ATTACHMENT**

The Association's response to the Examiner's recommendations in the December 31, 2022 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**  
**203 W CENTER STREET**  
**GALAX, VA 24333**  
**PHONE 276-236-6641 FAX 276-236-3269**

October 6, 2023

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, 2022**

Dear Mr. Smith:

In reference to your letter dated September 20, 2023, this is the response discussed by the Executive Committee consisting of myself, Larry Blevins, and Carolyn Underwood.

1. Category 2 Assets: We will complete and review the Analysis of Excess Capital and Category 2 Investments each quarter going forward and ensure compliance with Section 38.2 of the Code of Virginia.
2. Legal Life Reserves: Based on the opinion of the Bureau of Insurance the adjustment to legal life reserves will be made by December 31, 2023.
3. Asset Adequacy Reserve: The recommendation concerning Asset Adequacy Reserve is acceptable to the Association. We will continue to book provisions to Asset Adequacy in future periods based on actuary reports.
4. Since it is not likely we will be able to infuse additional capital into the Association to increase its surplus to \$650,000.00 we will agree to maintain a minimum surplus of \$350,000.00
5. 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.

**Re: Blue Ridge Mutual Association, Inc.  
Examination Report as of December 31, 2022**


- a. During Larry's past work experience with a public account firm, he managed multiple engagements related to asset/liability management, investment securities and interest rate risk we believe this experience will be an advantage in working with the investments and using alternative methods in our investment strategies. I am enclosing Larry's personal resume for your reference.
- b. Succession planning will be addressed at our next regular annual meeting. The officers for 2023 are as follows:

President	Jacquelin G. McGrady
Vice President	Larry C. Blevins
Secretary/Treasurer	G. Carolyn Underwood
First Vice President	Marie P. Lawson
First Vice President	Charles C. Cox

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 six (6) copies of the examination report for our officers/directors and our attorney.

Respectfully,

  
Jacquelin G. McGrady  
President

Enclosure: 1