

Report of the Examination of
Cities and Villages Mutual Insurance Company
Wauwatosa, Wisconsin
As of December 31, 2022

TABLE OF CONTENTS

	Page
I. INTRODUCTION	1
II. HISTORY AND PLAN OF OPERATION.....	3
III. MANAGEMENT AND CONTROL.....	6
IV. AFFILIATED COMPANIES.....	8
V. REINSURANCE.....	10
VI. FINANCIAL DATA	12
VII. SUMMARY OF EXAMINATION RESULTS	21
VIII. CONCLUSION.....	24
IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS	25
X. ACKNOWLEDGMENT.....	26



March 13, 2024

Honorable Nathan D. Houdek
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

CITIES AND VILLAGES MUTUAL INSURANCE COMPANY
Wauwatosa, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Cities and Villages Mutual Insurance Company (CVMIC or the company) was conducted in 2018 as of December 31, 2017. The current examination covered the intervening period ending December 31, 2022, and included a review of such subsequent transactions as deemed necessary to complete the examination.

The examination was conducted using a modified risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. This approach sets forth guidance for planning and performing the examination of an insurance company to evaluate the financial condition, assess corporate governance, identify current and prospective risks (including those that might materially affect the financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

All accounts and activities of the company 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, annual statement instructions, and Wisconsin laws and regulations. The examination does not attest to the fair presentation

of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately at the end of the "Financial Data" section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation concerning the alternative or additional examination steps performed during the examination.

II. HISTORY AND PLAN OF OPERATION

The company was organized in 1987 by 25 municipalities to provide liability insurance for municipal operations pursuant to s. 611.23, Wis. Stat. Section 611.23, Wis. Stat., exempts CVMIC from chs. 604 to 607, 612 to 619, 625, and 646, Wis. Stat. These chapters' provisions were determined unnecessary for the protection of the interests of municipalities and their citizens.

The company was created for the purpose of providing a long-term solution to municipal liability insurance programs and providing member communities with stable liability insurance coverage and focused risk management services previously not available to public entities in Wisconsin. The company was originally capitalized with \$25 million in taxable revenue bonds issued by Wisconsin Municipal Insurance Commission (WMIC), a joint powers authority, organized under s. 66.30, Wis. Stat. (s. 66.30 was renumbered to s. 66.0301 in 1999). WMIC's bonds were collateralized by general obligation bonds issued by member municipalities. Investment earnings (as policy dividends) were paid to participating municipalities to enable them to reduce or eliminate the need to collect property taxes for their general obligation bonds. WMIC refinanced the original bonds with \$22.8 million taxable revenue refund bonds in 1997. The final payment on WMIC's issued bonds was made on April 1, 2007.

On July 24, 2015, CVMIC purchased 30 shares of \$1 par value common stock of Municipal Property Insurance Company (MPIC), a stock company, for a total investment of \$3,000,000. MPIC commenced business on September 1, 2015, to write property insurance for municipalities in the state of Wisconsin. MPIC was capitalized by three separate municipal mutual insurance companies, including CVMIC. Each investor contributed \$3,000,000 in capital for an initial capitalization of \$9,000,000 and purchased 30 shares each of common stock. The three investors have equal voting rights.

New municipality admission is subject to approval by the board of directors which is comprised of participating members. New members do not make any contributions and no premium surcharges are levied. The company has established underwriting and claims administration standards, and liability claims control quality guidelines. Failure of a municipality to follow such standards and guidelines or failure to pay premium when due may, under certain circumstances, result in cancellation of coverage. Effective January 1, 2024, there are 55 member municipalities. CVMIC gained two new

members in 2019, 2020, 2022, and one new member in 2023. Two members left at policy expiration in 2020 and 2022.

CVMIC continues to pay dividends to participating municipalities on a pro rata basis that takes into account each individual member's paid premiums, loss experience, and self-insured retention. The CVMIC board of directors declares dividends based upon an annual assessment of the company's surplus, the adequacy of reserves, and net income.

CVMIC writes municipal liability insurance to member municipalities in the state of Wisconsin, including general liability, public officials' liability, law enforcement liability, worker's compensation, commercial auto liability, and auto physical damage coverage. Extensive risk management services are an integral part of the company's operating philosophy. CVMIC provides members with a program of loss control, risk management services, and employment practices liability. CVMIC also offers specialized training for safety and professional services, compliance, human resources policy review, fleet safety, hiring, and accident investigation.

For liability policies, CVMIC provides coverage of \$2 million in excess of each member's self-insured retention (SIR). These SIRs range from \$10,000 to \$225,000. As a risk management service to its members, the company provides equipment breakdown, crime, employment practice liability, excess worker's compensation, volunteer liability, cyber liability, and excess liability coverage through group purchase arrangements with other insurance carriers. CVMIC policies are assessable for up to 125% of the annual premium.

CVMIC also offers third-party worker's compensation claim administration services to nine of its members. Separate service fees for each indemnity claim and each medical claim are billed to the member.

In Wisconsin, municipalities have limited exposure to large general liability and automobile claims due to a tort cap of \$50,000 in indemnity losses for general liability, \$250,000 for automobile liability, and \$150,000 for wrongful death. This tort cap does not apply to the miscellaneous liability coverage or for federal court cases.

The company writes direct premium only in the state of Wisconsin. CVMIC is not authorized to write business in other states. CVMIC has no agents. The following table is a summary of the net

insurance premiums written by the company in 2022. The growth of the company is discussed in the “Financial Data” section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Worker’s compensation	\$ 8,857,744	\$	\$	\$ 8,857,744
Other liability – occurrence	3,652,355		296,069	3,356,286
Other commercial auto liability	1,217,452		98,690	1,118,762
Commercial auto physical damage	<u>2,211,654</u>			<u>2,211,654</u>
Total All Lines	<u>\$15,939,205</u>	<u>\$</u>	<u>\$394,759</u>	<u>\$15,544,446</u>

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of seven members elected by member community representatives. The seven-member board is comprised of two directors representing large communities (populations exceeding 50,000), two directors representing medium-sized communities (populations 15,000 to 50,000), and two directors representing small communities (populations less than 15,000). The seventh director is elected at-large, for a one-year term. All other terms are on a staggered basis for two years each. Officers are elected at the board's annual meeting. The board members currently receive no compensation or meeting expense reimbursement for serving on the board other than mileage. Mileage is reimbursed at the current federal tax allowable reimbursement rate.

Currently, the board of directors consists of the following persons:

Name and Member Municipality	Principal Occupation	Term Expires
Bill Burns City of Middleton	Finance Director	2025
Nathan Richard Froemming City of Green Bay	Risk Manager	2024
Amanda Jackson City of Onalaska	City Attorney	2024
Scott R Letteney City of Racine	City Attorney	2025
Kaye Marie Matucheski City of Antigo	Clerk/Treasurer	2025
Judith M Radke City of New London	Treasurer/ Finance Director	2024
Robert William Scott City of Brookfield	Director of Finance and Administration	2024

Officers of the Company

The officers serving at the time of this examination are as follows:

Name	Office
Scott R Letteney	President
Kaye Marie Matucheski	Vice President
Robert William Scott	Secretary and Treasurer
Steve Stanczak	Chief Executive Officer

Committees of the Board

CVMIC currently has no committees of the board of directors; however, the board appointed presidential committees for claims and for finance. Presidential committees are formed to address items referred by the board and make recommendations back to the board. They serve strictly in an advisory role. The board has final authority and must take an affirmative vote to concur or act on any recommendation from a presidential committee. The operation of these committees gives member communities a greater opportunity for participation in governance and focus on risk management. Presidential committees are comprised of member representatives. They do not have a size limit as CVMIC's goal is to foster member participation for the advisory role of presidential committees.

IV. AFFILIATED COMPANIES

CVMIC is affiliated with one insurance company, MPIC, and has a working relationship with two organizations described below.

Municipal Property Insurance Company

As noted earlier in this report, on July 24, 2015, MPIC was capitalized by three separate municipal mutual insurance companies, including CVMIC, in equal amounts. Therefore, CVMIC is one-third owner of MPIC with a total initial investment of \$3,000,000. MPIC's board of directors is comprised of officers and directors of the three companies, with each company having equal voting rights. The three companies are related to each other only through their ownership in MPIC. Other than shared ownership of MPIC, the three companies are not considered to be part of a group.

MPIC commenced business on September 1, 2015, to provide property insurance to Wisconsin municipalities. As of December 31, 2022, the audited financial statements of MPIC reported assets of \$26,459,269, liabilities of \$14,168,759, and policyholders' surplus of \$12,290,510. Operations for 2022 produced a net loss of \$291,955.

Wisconsin Municipal Insurance Commission (WMIC)

WMIC, a joint powers authority organized under s. 66.30, Wis. Stat., was formed for the purpose of providing financing for CVMIC. WMIC provided the original capital funding to CVMIC in the form of taxable revenue bonds of \$25 million. WMIC's bonds were collateralized by general obligation bonds issued by CVMIC member municipalities. WMIC's bonds were repaid in 2007.

All CVMIC members are WMIC members. CVMIC and WMIC also have a common board of directors with the board meeting of one following the board meeting of the other. CVMIC incurs expenses on behalf of WMIC and provides personnel and administrative services on behalf of WMIC. The company estimates these annual expenses to be under \$100.

Association of Government Risk Pools (AGRiP)

AGRiP is a non-profit trade organization which was formed to provide a forum for intergovernmental risk pools to exchange information on issues for the operation of group insurance purchasing programs. Through AGRiP, there is a recognition program which is based on self-evaluation by the pool of their compliance with the AGRiP advisory standards for public entity risk pools. CVMIC has

earned recognition for AGRiP compliance with the advisory standards. This recognition has been renewed through January 1, 2027.

V. REINSURANCE

The company's reinsurance portfolio and strategy at the time of the examination are described below. A list of the companies that have a significant amount of reinsurance or excess insurance at the time of the examination follows. The reinsurance contracts contained proper insolvency provisions.

CVMIC members are each liable, in the event of a loss on the general liability insurance coverage, for their own established self-insured retention. After this amount has been paid to the claimant by the member, CVMIC pays up to the limit of \$5,000,000. Of that amount, CVMIC retains 100% of the first \$2,000,000 and 33% of the next \$3,000,000. It has an excess of loss reinsurance contract with Government Entities Mutual, Inc., to reinsure 67% of the \$3,000,00 layer above the \$2,000,000 retention. Claim amounts that are still outstanding, after \$5,000,000 and up to \$10,000,000, are then paid 100% by Government Entities Mutual, Inc. The policy premiums for the last layer (\$5,000,000 to \$10,000,000) are not paid by CVMIC but by the members themselves.

In addition to the excess of loss reinsurance contract for liability coverage, CVMIC has two excess insurance contracts for insuring members' risk, one for auto physical damage and one for worker's compensation coverage. CVMIC also facilitates the group purchase program policies where members pay for coverage premium costs of excess of their deductible amounts.

Ceding Reinsurance Contracts

1. Type:	Liability Excess of Loss Reinsurance Quota Share Agreement
Reinsurer:	Government Entities Mutual, Inc.
Scope:	Policies classified as Bodily Injury, Property Damage, Personal Injury Part 1 - Quota share of \$3,000,000 limit of liability beyond first retention of \$2,000,000 classified as Bodily Injury, Property Damage, Personal Injury
Coverage:	67.0% of each loss occurrence, including loss adjustment expense, on the business covered by this Part, subject to a maximum limit of liability of \$2,010,000 (67% of \$3,000,000) on each loss occurrence for any individual member Part 2 - 100% of \$5,000,000 in excess of \$5,000,000 each loss occurrence classified as Bodily Injury, Property Damage, Personal Injury
Retention:	\$5,000,000 each loss occurrence

Coverage: 100% of loss, including loss adjustment expense, in excess of a net retention of \$5,000,000, subject to the reinsurers limit of liability of 100% of \$5,000,000 each loss occurrence for any individual member

Effective date: January 1, 2023

Termination: January 1, 2024

Excess Insurance Contracts

1. Type: Vehicle Physical Damage Insurance Agreement

Reinsured: Hanover Insurance Company

Scope: Loss or damage to vehicles caused by accidental collision of the vehicle with another object or by upset.

Retention: \$150,000 each loss occurrence

Coverage: \$20,000,000 any one occurrence

Effective date: January 1, 2023

Termination: January 1, 2024
2. Type: Excess Worker's Compensation and Employers Liability Insurance Policy

Reinsured: Arch Insurance Company

Scope: Worker's compensation and employers liability

Retention: Part One and Part Two—Excess Worker's Compensation Insurance and Excess Employer's Liability Insurance
\$600,000 each accident or disease occurrence.

Coverage: Part One—Excess Worker's Compensation Statutory
Part Two—Excess Employers Liability
\$2,000,000, each accident or disease, each employee

Effective date: January 1, 2023

Termination: January 1, 2024

Member Excess Group Purchase Programs

Lastly, CVMIC facilitates the purchase of group purchase policies, as a service to its members. These are programs that provide specialized coverage to specific members, with the members themselves providing the total of the premium payments and directly contacting the insurer for claim servicing.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the commissioner of insurance in the December 31, 2022, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination." Also included in this section are schedules that reflect the growth of the company and the compulsory and security surplus calculation.

Cities and Villages Mutual Insurance Company
Assets
As of December 31, 2022

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$28,913,616	\$	\$28,913,616
Stocks:			
Preferred stocks	1,368,493		1,368,493
Common stocks	14,514,235		14,514,235
Real estate:			
Occupied by the company	1,665,605		1,665,605
Properties held for the production of income	4,374,983		4,374,983
Cash, cash equivalents, and short-term investments	1,294,302		1,294,302
Other invested assets	500,000		500,000
Receivables for securities	41,179		41,179
Investment income due and accrued	155,172		155,172
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	60,765		60,765
Electronic data processing equipment and software	159,710	143,250	16,460
Furniture and equipment, including health care delivery assets	102,530	89,914	12,616
Write-ins for other than invested assets:			
Excess of loss receivable	4,406		4,406
Prepaid license fees and premiums	204,830	204,830	
Accounts receivable	<u>23,349</u>	<u> </u>	<u>23,349</u>
Total Assets	<u>\$53,383,174</u>	<u>\$437,994</u>	<u>\$52,945,180</u>

**Cities and Villages Mutual Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2022**

Losses		\$13,060,412
Reinsurance payable on paid loss and loss adjustment expenses		
Loss adjustment expenses		3,843,983
Other expenses (excluding taxes, licenses, and fees)		106,400
Dividends declared and unpaid:		
Policyholders		3,448,246
Amounts withheld or retained by company for account of others		524,457
Write-ins for liabilities:		
Post retirement benefits liabilities		230,477
Deferred rent income		92,400
125 Liability		<u>17,627</u>
 Total Liabilities		 \$21,324,002
 Unassigned funds (surplus)	 \$31,621,178	
 Surplus as Regards Policyholders		 <u>31,621,178</u>
 Total Liabilities and Surplus		 <u>\$52,945,180</u>

Cities and Villages Mutual Insurance Company
Summary of Operations
For the Year 2022

Underwriting Income		
Premiums earned		\$15,544,446
Deductions:		
Losses incurred	\$4,008,482	
Loss adjustment expenses incurred	4,386,499	
Other underwriting expenses incurred	4,877,266	
Total underwriting deductions		<u>13,272,247</u>
Net underwriting gain (loss)		\$ 2,272,199
Investment Income		
Net investment income earned	1,112,511	
Net realized capital gains (losses)	<u>168,016</u>	
Net investment gain (loss)		1,290,527
Other Income		
Write-ins for miscellaneous income:		
Commission income	172,592	
Gain on sale of property	10,931	
Miscellaneous Income	<u>200</u>	
Total other income		<u>183,723</u>
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		3,746,449
Dividends to policyholders		<u>3,536,351</u>
Net Income (Loss)		<u>\$ 210,098</u>

Cities and Villages Mutual Insurance Company
Cash Flow
For the Year 2022

Premiums collected net of reinsurance		\$14,055,497
Net investment income		1,400,025
Miscellaneous income		<u>183,723</u>
Total		15,639,245
Benefit- and loss-related payments	\$ 9,842,128	
Commissions, expenses paid, and aggregate write-ins for deductions	5,437,060	
Dividends paid to policyholders	<u>1,188,105</u>	
Total deductions		<u>16,467,293</u>
Net cash from operations		(828,048)
Proceeds from investments sold, matured, or repaid:		
Bonds	\$5,297,377	
Stocks	8,603,346	
Net gains (losses) on cash, cash equivalents, and short-term investments	<u>(75)</u>	
Total investment proceeds	13,900,649	
Cost of investments acquired (long- term only):		
Bonds	5,609,622	
Stocks	6,544,930	
Real estate	857,092	
Other invested assets	500,000	
Miscellaneous applications	<u>70,116</u>	
Total investments acquired	13,581,760	
Net cash from investments		\$ 318,889
Cash from financing and miscellaneous sources:		
Other cash provided (applied)	(291,278)	
Net cash from financing and miscellaneous sources		<u>(291,278)</u>
Reconciliation:		
Net Change in Cash, Cash Equivalents, and Short-Term Investments		(800,437)
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>2,094,739</u>
End of Year		<u>\$ 1,294,302</u>

**Cities and Villages Mutual Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2022**

Assets		\$52,945,180
Less security surplus of insurance subsidiaries		3,461,095
Less liabilities		<u>21,324,002</u>
Adjusted surplus		28,160,083
Annual premium:		
Lines other than accident and health	\$12,008,095	
Factor	<u>20%</u>	
Compulsory surplus (subject to a minimum of \$2 million)		<u>2,401,619</u>
Compulsory Surplus Excess (Deficit)		<u>\$25,758,464</u>
Adjusted surplus (from above)		28,160,083
Security surplus (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million, with a minimum factor of 110%)		<u>3,362,267</u>
Security Surplus Excess (Deficit)		<u>\$24,797,816</u>

**Cities and Villages Mutual Insurance Company
Analysis of Surplus
For the Five-Year Period Ending December 31, 2022**

The following schedule details items affecting surplus during the period under examination as reported by the company in its filed annual statements:

	2022	2021	2020	2019	2018
Surplus, beginning of year	\$36,790,871	\$31,816,281	\$28,576,179	\$25,257,485	\$28,589,461
Net income	210,098	1,438,140	1,436,567	132,328	142,132
Change in net unrealized capital gains/losses	(5,070,442)	2,069,133	1,640,777	2,868,110	(3,214,851)
Change in nonadmitted assets	(309,349)	219,762	162,758	318,256	(259,257)
Prior year adjustment	_____	<u>1,247,555</u>	_____	_____	_____
Surplus, End of Year	<u>\$31,621,178</u>	<u>\$36,790,871</u>	<u>\$31,816,281</u>	<u>\$28,576,179</u>	<u>\$25,257,485</u>

Growth of Cities and Villages Mutual Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2022	\$52,945,180	\$21,234,002	\$31,621,178	\$ 210,098
2021	59,128,708	22,337,837	36,790,871	1,438,140
2020	53,343,700	21,527,419	31,816,281	1,436,567
2019	53,019,389	24,443,210	28,576,179	132,328
2018	46,529,488	21,272,003	25,257,485	142,132
2017	52,104,920	23,515,459	28,589,461	(654,732)

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2022	\$15,939,205	\$15,544,446	\$15,544,446	54.0%	30.2%	84.2%
2021	15,161,148	14,819,169	14,819,169	65.0	31.3	96.3
2020	15,266,797	15,032,472	15,032,472	57.6	29.2	86.8
2019	14,916,388	14,712,111	14,712,111	64.9	30.4	95.3
2018	13,918,902	13,760,561	13,760,561	55.9	30.1	86.0
2017	14,076,344	13,927,844	13,927,844	76.1	28.5	104.6

CVMIC has increased policyholder surplus in three of the last five years. A surplus decline of \$5.17 million in 2022 was mostly driven by unrealized capital losses of \$5.07 million due to equity market volatility. Gross and net premium written have increased 13.3% and 11.6%, respectively, during the

examination period. The premium increases are partially due to growth of the company's policyholders' base. All premiums are due on January 1 and are fully earned by year-end.

CVMIC's underwriting results were positive in the last four years. The company also has reported a net income after policyholders' dividends in all five years under examination. Dividends to policyholders have averaged \$1.6 million in the exam period. CVMIC benefits from tax-exempt status, as well as tort caps in Wisconsin that limit indemnity losses at the state level. CVMIC has an extensive loss control program, and risk management services and training are an important part of CVMIC's operations. Admitted assets and policyholders' surplus have increased 1.6% and 10.6%, respectively, during the period under examination.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2022, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were three specific recommendation(s) in the previous examination report. The actions taken by the company as a result of the recommendations were as follows:

1. Annual Statement Schedule P Reporting—It is recommended that the company continue its efforts to complete Schedule P – Analysis of Losses and Loss Expense in accordance with the NAIC *Annual Statement Instructions – Property and Casualty*.

Action—Partial Compliance.

2. Reinsurance Intermediary—It is recommended that the company utilize a reinsurance intermediary agreement containing all of the required contract provisions in accordance with s. Ins. 47.03, Wis. Adm. Code.

Action—Compliance.

3. Executive Compensation—It is recommended that the company report all executive compensation, including direct and indirect compensation paid or accrued during the year, on the annual Executive Compensation Report filed with OCI in accordance with s. 611.63 (4), Wis. Stat.

Action—Compliance.

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Annual Statement Schedule P Reporting

The prior examination recommended that the company complete Schedule P in accordance with the NAIC *Annual Statement Instructions – Property and Casualty*. During testing and review, examiners noted CVMIC made progress in complying with the prior recommendation by identifying weaknesses in the previous reporting process. Schedule P and the Underwriting and Investment Exhibits should be reconciled on a regular basis to verify that the paid losses and loss adjusting expenses as reported in the Underwriting and Investment Exhibits are equal to the change in cumulative paid and incurred losses and LAE reported in Schedule P, Part 1 Summary. While CVMIC has improved the overall process, examiners encountered difficulties in reconciling paid losses and loss adjusting expenses between different schedules. The total losses paid and incurred from the Underwriting and Investment Exhibit Part 2-Losses Paid and Incurred do not reconcile to Schedule P Part 1-Analysis of Losses and Loss Expenses. The total loss adjusting expenses paid from the Underwriting and Investment Exhibit Part 3 - Expenses also do not reconcile to Schedule P Part 1-Analysis of Losses and Loss Expenses. The reconciling differences were not material for the purpose of this examination; however, the company should continue working on eliminating all discrepancies in its reporting. Examiners determined there was evidence of partial compliance with the prior examination recommendation.

During the examination, additional Schedule P errors were discovered. For commercial auto physical damage, and worker's compensation, the company incorrectly reported paid losses in Schedule P gross of subrogation recoveries, when these paid losses should be reported net of subrogation. Also, for auto physical damage, the company did not exclude policyholder deductibles from the paid losses reported in Schedule P. For commercial auto liability, and other liability-occurrence, where loss and defense and cost containment (DCC) loss adjustment expenses payments were properly reported net of salvage and subrogation, CVMIC did not report the amount of subrogation recoveries in the designated column in Schedule P, Part 1. The company should endeavor to report losses and DCC payments net of

any policyholder deductibles and salvage and subrogation recoveries. It is recommended that the company continue its efforts to complete Schedule P – Analysis of Losses and Loss Expense, in accordance with the NAIC *Annual Statement Instructions – Property and Casualty*.

VIII. CONCLUSION

CVMIC was organized in 1987 by 25 communities to provide liability insurance for municipal operations. Currently, there are 55 member communities. CVMIC writes municipal liability insurance, including general liability, public officials' liability, law enforcement liability, worker's compensation, commercial auto liability, and auto physical damage coverage to member municipalities in the state of Wisconsin. Extensive risk management services are an integral part of the company's operating philosophy. CVMIC trains member communities for loss control, safety, and risk management.

Operations have resulted in increased admitted assets and policyholders' surplus of 1.6% and 10.6%, respectively. Net premium written has increased 11.6% during the examination period. The company has reported a net income after policyholders' dividends in all five years under examination.

The examination made no balance sheet or surplus adjustments or reclassifications. The company complied with two and partially complied with one of the three prior examination recommendations made by the prior examination. The current examination resulted in one recommendation.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 22 - Annual Statement Schedule P Reporting—It is recommended that the company continue its efforts to complete Schedule P – Analysis of Losses and Loss Expense, in accordance with the NAIC *Annual Statement Instructions – Property and Casualty*.

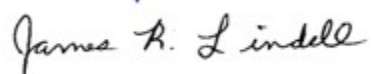
X. ACKNOWLEDGMENT

The courtesy and cooperation extended by the officers and employees of the company during the course of the examination are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Rob Monroe	Insurance Financial Examiner
Junji Nartatez, CISA	IT Specialist
Terry Lorenz, CFE	Quality Control Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,



James Lindell
Examiner-in-Charge