Report

of the

Examination of

Cities and Villages Mutual Insurance Company

Wauwatosa, Wisconsin

As of December 31, 2012

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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July 30, 2013

Honorable Theodore K. Nickel
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) was conducted in 2009 as of December 31, 2008 The current examination covered the intervening period ending December 31, 2012, and included a review of such 2013 transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the NAIC Financial Condition Examiners Handbook, which sets forth guidance for planning and performing an examination to evaluate the financial condition and identify prospective risks of an insurer. This approach includes the obtaining of information about the company including corporate governance, the identification and assessment of inherent risks within the company, and the evaluation of system controls and procedures used by the company to mitigate those risks. The examination also included an assessment of the principles used and significant estimates made by management, as well as an evaluation of the overall financial statement presentation and management’s compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations.

The examination consisted of a review of all major phases of the company's operations and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employees' Welfare and Pension Plans
Territory and Plan of Operations
Affiliated Organizations
Growth of Company
Member Excess Insurance Coverages
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of 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 with respect to the alternative or additional examination steps performed during the course of the examination.

II. HISTORY AND PLAN OF OPERATION

CVMIC was organized in 1987 by 20 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.

CVMIC was created for the purpose of 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.

New municipality admission is subject to certain conditions as defined by the participating members. A new municipality may be required to make a capital contribution to CVMIC or pay an annual fee or surcharge in lieu of such a contribution. Currently, there are 47 member municipalities. New members currently do not make any contributions and no premium surchages are levied. One new member joined in 2012 and two in 2013.

CVMIC continues to pay dividends to participating municipalities on a pro rata basis that takes into account their original general obligation contribution bond, premiums paid, the individual member's loss experience and its 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, 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 loss control, safety and risk management services are currently directed with the following:

- Five full-time staff providing loss control, safety and risk management services
- Two full-time employment practices liability specialists
- One full-time Distance Learning Specialist providing e-learning and webinars in both safety/risk management and employment practices liability
- Averaged 13 days of on-site services per member in 2012
- Develop and maintain a rolling three-year work plan for each member
- During 2012, 12,154 employees received 33,073 hours of training in 629 on-site and regional training programs covering 95 topics
- Provide advanced training for supervisors through three academies Pre-Supervisory (4 one-day programs), Supervisory (8 two-day sessions) and a Management Series (16 one-day sessions)
- Offer a Risk Management Academy (16 one-day sessions)
- Conduct a comprehensive tri-annual risk assessment consisting of more than 200 individual items covering all major municipal operations
- Provide specialized on-site audits in state of Wisconsin, safety and professional services, compliance, human resources policy review, and 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. Members' current SIRs are as follows:

1.	Antigo	$ 25,000	26.	Monroe	$ 50,000
2.	Appleton	200,000	27.	Neenah	100,000
3.	Baraboo	25,000	28.	New Berlin	50,000
4.	Beloit	50,000	29.	New London & Utilities	17,500
5.	Brookfield	50,000	30.	Oak Creek	50,000
6.	Brown Deer	25,000	31.	Onalaska	17,500
7.	Cedarburg	17,500	32.	Plymouth	17,500
8.	Cedarburg L&W	17,500	33.	Racine	225,000
9.	Cudahy	100,000	34.	Reedsburg	37,500
10.	Elkhorn	25,000	35.	Reedsburg Utility *	10,000
11.	Glendale	25,000	36.	Rhinelander	17,500
12.	Green Bay	200,000	37.	Sheboygan	125,000
13.	Greendale	25,000	38.	South Milwaukee	37,500
14.	Hartford	50,000	39.	Stoughton	25,000
15.	Jackson	20,000	40.	Stoughton Utilities	25,000
16.	Janesville	100,000	41.	Sun Prairie	50,000
17.	Kenosha	125,000	42.	Superior	75,000
18.	Kimberly	17,500	43.	Waupun	37,500
19.	LaCrosse	150,000	44.	Wausau	50,000
20.	Manitowoc	50,000	45.	Wauwatosa	125,000
21.	Menasha	25,000	46.	West Allis	150,000
22.	Menasha Utility *	37,500	47.	Whitefish Bay	37,500
23.	Milton	25,000	48.	Whitewater	25,000
24.	Menomonee Falls	125,000	49.	Wisconsin Dells	10,000
25.	Monona	37,500			

* Not considered a separate member

As a risk management service to its members, the company provides boiler and machinery, crime, employment practice liability, excess worker's compensation and excess liability coverage through group purchase arrangements with other insurance carriers. These excess coverages are outlined in the "Member Excess Group Purchase Programs" section of this report. Member participation in the various coverages and program offerings in 2012 are shown by the following table:

Cities and Villages Mutual Insurance Company
Coverage and Program Member Participation

Coverage	Over 50,000	15,000 to 50,000	Under 15,000	Total
	Category by City Size			
CVMIC Coverage:				
CVMIC Liability	7	16	22	45
CVMIC Worker's Compensation	2	10	20	32
CVMIC Auto Physical Damage	3	16	23	42
Group Purchase Programs:				
Excess Liability (5X5)	7	16	22	45
Employment Practice Liability	7	16	22	45
Boiler & Machinery	5	14	21	40
Excess Worker's Compensation	5	2	0	7

All business is produced on a direct basis. CVMIC policies are assessable for up to 125% of the annual premium.

CVMIC also offers third-party worker's compensation claim administration services to seven of its members. Separate service fees for each indemnity claim and each medical claim are billed to the member. Claims that were reported to a previous third-party administrator and later administered by CVMIC are billed lesser fees for the life of the file.

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.

Organizational Objectives

The company was organized to provide a long-term solution to municipal liability insurance programs. Advantages of the program, as cited by the company, in comparison with purchasing commercial insurance by individual cities and villages, include the following:

1) To charge relatively level premiums, thereby protecting municipalities from commercial insurance pricing cycles.

2) To provide cost savings resulting from the elimination of insurance company profits and insurance agent commissions and fees.

3) To enable members of a pooled liability program with significant loss reserves to negotiate with commercial insurance companies for better terms for excess insurance or reinsurance coverages.

4) To enable member municipalities to meet their liability insurance needs by controlling their own insurance program.

5) To provide municipalities with a means of formal training on risk management concerns.

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.

The following table is a summary of the net insurance premiums written by the company in 2012. 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	$ 6,214,718	$	$	$ 6,214,718
Other liability – occurrence	2,756,065			2,756,065
Commercial auto liability	918,688			918,688
Auto physical damage	1,044,433			1,044,433
Total All Lines	$10,933,904	$0	$0	$10,933,904

Liability, worker's compensation, and auto physical damage programs are experience rated and provide the opportunity to return premium through a dividend program. Liability program premiums are based on a comprehensive, actuarially reviewed, underwriting protocol and reflect the self-insured retention selected by each member.

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 for two years and are elected on a staggered basis. 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 City	Member City Occupation	Term Expires
Paul Ziehler West Allis	City Administrator	2013
Robert Scott Brookfield	Finance Director	2014
Patrick Marsh Monona	City Administrator	2014
Steve Stanczak Kenosha	Director of Personnel & Labor Relations	2014
Kaye Matucheski Antigo	Clerk/Treasurer	2013
Michael Ciaramita Beloit	Director of General Services	2013
Tamara Mayzik South Milwaukee	City Administrator	2013

Officers of the Company

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

Name	Office	2012 Compensation
Steven Stanczak	President	$ 0
Michael Ciaramita	Vice President	0
Robert Scott	Secretary/Treasurer	0
Michael DeMoss	Executive Director	180,958
Kenneth Horner	Director of Operations	169,208
Michelle Voskuil	Finance Director	43,732*

* Part-time employee

Committees of the Board

CVMIC currently has no committees of the board of directors. The CVMIC board of directors has, however, appointed presidential committees. Presidential committees are formed to address items referred from the board and make recommendations back to the board. Presidential committees have no independent authority other than to provide a recommendation 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 following constitute the current list of presidential committees:

Finance
Personnel
Claims

The principal purpose for presidential committees is to formulate information in their respective areas, which the board of directors uses for decision-making and voting processes. The operation of these committees gives member communities a greater opportunity for participation in governance and focus on risk management.

Each member community has appointed a CVMIC member representative. Presidential committees are comprised of member representatives. They do not have a size limit; CVMIC's goal is to foster member participation for the advisory role of presidential committees.

IV. AFFILIATED ORGANIZATIONS

CVMIC is not owned or controlled by any other entity and in turn does not own or control any other entities. CVMIC is therefore not a member of a holding company system. However, CVMIC has a working relationship with the following organizations:

Wisconsin Mutual 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 $10,000.

Association of Government Risk Pools (AGRiP)

AGRiP, a non-profit trade organization, was formed to provide a forum for intergovernmental risk pools to exchange information on issues for 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, 2015.

V. MEMBER EXCESS GROUP PURCHASE PROGRAMS

CVMIC members use an excess insurance coverage strategy for insuring members' risks above CVMIC policy limits. An outline of the excess coverage contracts in force at the time of the examination is as follows:

1.	Type:	Excess Public Entity Liability	
	Insured:	CVMIC and member cities named by policy endorsement	
	Insurer:	Darwin National Assurance Company	
	Scope:	Liability by contract for bodily injury and property damage, public entity errors & omissions, and employee benefit wrongful act for CVMIC members	
	Retention:	$2,000,000 each occurrence	
	Coverage:	$8,000,000 each occurrence	
	Premium:	Based on population of member municipalities at the rate of $.223 per capita	
	Effective:	January 1, 2012, to January 1, 2013	
2.	Type:	Excess Worker's Compensation & Employers' Liability	
	Insured:	CVMIC and member cities named by policy endorsement	
	Insurer:	Safety National Casualty Corporation	
	Scope:	Worker's compensation and employers' liability insurance for CVMIC members	
	Retention:	$400,000 each occurrence	
	Coverage:	Worker's Compensation	Statutory
		Employers' Liability	$1,000,000 excess of $400,000 each accident $1,000,000 excess of $400,000 policy limit $1,000,000 excess of $400,000 each employee
	Limitation:	Employers' Liability	$1,000,000
	Premium:	Based on annual payroll of member municipalities at the rate of $.1252 per $100	
	Effective:	January 1, 2012, to January 1, 2013	
3.	Type:	Auto Physical Damage	
	Insured:	CVMIC and member cities named by policy endorsement	
	Insurer:	Alterra Excess & Surplus Insurance Company	

Scope:	Auto physical damage insurance for CVMIC members	
Retention:	$50,000 per occurrence	
Program limit:	$10,000,000	any one occurrence
	$1,500,000	any one vehicle
Premium:	Annual rate of $.057 per $100 of insurable values	
Effective:	January 1, 2012, to January 1, 2013	

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, 2012, annual statement. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. 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."

Cities and Villages Mutual Insurance Company
Assets
As of December 31, 2012

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$24,766,495	$	$24,766,495
Common stocks	11,861,108		11,861,108
Real estate occupied by the company	3,077,092		3,077,092
Cash, cash equivalents, and short-term investments	2,013,235		2,013,235
Receivables for securities	18,592		18,592
Investment income due and accrued	147,775		147,775
Electronic data processing equipment and software	95,242	13,103	82,139
Furniture and equipment, including health care delivery assets	94,117	78,967	15,150
Write-ins for other than invested assets:			
Excess of loss receivable	38,376		38,376
Prepaid license fees	139,212	139,212	0
Fees receivable from member	20,435		20,435
Other write-ins	971,250	959,126	12,124
Total Assets	$43,242,929	$1,190,408	$42,052,521

Liabilities, Surplus, and Other Funds

Losses		$10,740,527
Loss adjustment expenses		1,635,534
Other expenses (excluding taxes, licenses, and fees)		72,011
Current federal and foreign income taxes		2,778
Advance premium		1,268,103
Policyholder dividends declared and unpaid		3,332,348
Amounts withheld or retained by company for account of others		7,135
Total liabilities		17,058,436
Refundable restricted surplus	$25,000,000	
Unassigned funds (surplus)	(5,915)	
Surplus as regards policyholders		24,994,085
Total Liabilities and Surplus		$42,052,521

Cities and Villages Mutual Insurance Company
Summary of Operations
For the Year 2012

Underwriting Income		
Premiums earned		$10,933,904
Deductions:		
Losses incurred	$4,587,389	
Loss adjustment expenses incurred	2,184,235	
Other underwriting expenses incurred	2,844,371	
Total underwriting deductions		9,615,995
Net underwriting gain		1,317,909
Investment Income		
Net investment income earned	843,189	
Net realized capital gains (losses)	919,522	
Net investment gain (loss)		1,762,711
Other Income		
Non-member training sessions	2,950	
Total other income		2,950
Net income before dividends to policyholders and before federal and foreign income taxes		3,083,570
Dividends to policyholders		3,040,545
Net Income, after dividends, after capital gains tax and before all other federal and foreign income taxes		43,025
Federal and foreign income taxes incurred		3,931
Net Income		$ 39,094

Cities and Villages Mutual Insurance Company
Cash Flow
For the Year 2012

Premiums collected net of reinsurance			$11,048,793
Net investment income			1,779,941
Miscellaneous income			2,950
Total			12,831,684
Benefit- and loss-related payments		$ 6,583,266	
Commissions, expenses paid, and aggregate write-ins for deductions		2,861,645	
Dividends paid to policyholders		2,894,506	
Total deductions			12,339,417
Net cash from operations			492,267
Proceeds from investments sold, matured, or repaid:			
Bonds	$10,858,745		
Stocks	8,018,477		
Total investment proceeds		18,877,222	
Cost of investments acquired (long-term only):			
Bonds	11,994,538		
Stocks	6,075,428		
Total investments acquired		18,069,976	
Net cash from investments			807,246
Cash from financing and miscellaneous sources:			
Other cash provided (applied)		(1,554,432)	
Net cash from financing and miscellaneous sources			(1,554,432)
Reconciliation:			
Net change in cash, cash equivalents, and short-term investments			(254,919)
Cash, cash equivalents, and short-term investments:			
Beginning of year			2,268,154
End of Year			$ 2,013,235

Cities and Villages Mutual Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2012

Surplus		$24,994,085
Annual premium:	$10,933,904	
Policy dividends	3,040,545	
Subtotal	7,893,359	
Factor	20%	
	1,578,671	
Compulsory surplus (subject to a minimum of $2 million)		2,000,000
Compulsory Surplus Excess (or Deficit)		$22,994,085
Surplus		$24,994,085
Security surplus (140% of compulsory surplus)		2,800,000
Security Surplus Excess (or Deficit)		$22,194,085

Cities and Villages Mutual Insurance Company
Reconciliation and Analysis of Surplus
For the Five-Year Period Ending December 31, 2012

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	2012	2011	2010	2009	2008
Surplus, beginning of year	$25,113,790	$25,415,332	$23,502,791	$21,718,174	$22,670,749
Net income	39,094	436,875	347,475	132,618	829,200
Change in net unrealized capital gains/losses	804,768	(540,143)	1,547,676	1,670,325	(1,770,404)
Change in non-admitted assets	(963,566)	(198,274)	17,390	(18,326)	(11,371)
Surplus, End of Year	$24,994,086	$25,113,790	$25,415,332	$23,502,791	$21,718,174

Cities and Villages Mutual Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2012

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

	Ratio	**2012**	**2011**	**2010**	**2009**	**2008**
#1	Gross Premium to Surplus	44%	43%	41%	45%	48%
#2	Net Premium to Surplus	44	43	41	45	48
#3	Change in Net Premiums Written	1	5	-2	0	8
#4	Surplus Aid to Surplus	0	0	0	0	0
#5	Two-Year Overall Operating Ratio	104*	98	94	88	89
#6	Investment Yield	2.0*	2.3*	2.3*	3.1	4.9
#7	Gross Change in Surplus	0	-1	8	8	-4
#8	Change in Adjusted Surplus (established in 2005)	0	-1	8	8	-4
#9	Liabilities to Liquid Assets	44	43	43	41	42
#10	Agents' Balances to Surplus	0	0	0	0	0
#11	One-Year Reserve Development to Surplus	0	-1	-4	0	-3
#12	Two-Year Reserve Development to Surplus	2	-6	-4	-2	-9
#13	Estimated Current Reserve Deficiency to Surplus	-1	-6	-4	-1	-3

Ratio No. 5 measures the company's profitability over the previous two-year period. The exceptional ratio result in 2012 was due to policyholders' dividends of $3 million. Ratio No. 6 measures the average return on the company's investments. The exceptional ratio results for 2012, 2011 and 2010 were mainly due to CVMIC's conservative portfolio and the low interest rate environment of recent years.

Growth of Cities and Villages Mutual Insurance Company

Year	**Admitted Assets**	**Liabilities**	**Surplus as Regards Policyholders**	**Net Income**
2012	$42,052,521	$17,058,436	$24,994,085	$ 39,094
2011	41,736,283	16,622,493	25,113,790	436,875
2010	41,950,885	16,535,553	25,415,332	347,475
2009	38,505,606	15,002,816	23,502,790	132,618
2008	36,023,286	14,305,112	21,718,174	829,200

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2012	$10,933,904	$10,933,904	$10,933,904	61.9%	26.0%	87.9%
2011	10,841,119	10,841,119	10,841,119	60.9	22.7	83.6
2010	10,305,480	10,305,480	10,305,480	59.0	22.3	81.3
2009	10,475,980	10,475,980	10,475,980	61.7	20.5	82.2
2008	10,460,964	10,460,964	10,460,964	60.1	19.2	79.3

Gross and net premium written and premium earned have increased 4.5% each during the examination period. The company does not utilize reinsurance but instead purchases excess insurance coverage. This results in gross and net premium written being the same. All premiums are due on January 1 and are fully earned by year-end. The loss and loss adjusting expense (LAE) ratio has remained relatively stable between 59.0% and 61.9% during the period under examination. The company has reported a net income after policyholders dividends in each of the five years under examination. Dividends to policyholders have gradually increased from $1.9 million in 2008 to $3.0 million in 2012. Admitted assets and policyholders' surplus have increased 16.7% and 15.1%, respectively, during the period under examination.

Reconciliation of Surplus per Examination

The examination made no adjustment or reclassification to the company's reported capital and surplus.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were five specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Agent Listing—It is recommended that the company list agents, maintain the annual listing, and pay the pertinent agent license program revenue fee pursuant to s. Ins 6.57, Wis. Adm. Code.

   Action—The company has complied with this recommendation.

2. Annual Statement Schedule D Reporting—It is recommended that the company amortize the discount on all bonds and recognize investment income pertaining to the effective yields.

   Action—This recommendation is no longer applicable. See comments in the "Summary of Current Examination Results" section of this report.

3. Annual Statement Schedule D Reporting—It is recommended that the company report investment earnings reported in the annual statement "Exhibit of Net Investment Earnings" schedule equal to investment earnings reported in Schedule D.

   Action—The company has complied with this recommendation.

4. Annual Statement Schedule D Reporting—It is recommended that the company: 1) report correct security acquisition dates and 2) include investment items in the correct part of Schedule D, in accordance with NAIC Annual Statement Instructions Property and Casualty.

   Action—The company has complied with this recommendation.

5. Annual Statement Schedule D Reporting—It is recommended that the company first notify this office and obtain permission, prior to filing any statement amendments, pursuant to SSAP 3, Paragraph 10, of the NAIC Accounting Practices and Procedures Manual.

   Action—The company has complied with this recommendation.

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 D Reporting

The prior examination recommended that the company amortize the discount on all bonds and recognize investment income pertaining to the effective yields. This recommendation was made due to the company's failure to calculate the amortization of discount on zero-coupon bonds. The company sold all of its zero-coupon bonds in 2009, and the current examination concluded that the recommendation, in the way it was presented to the company, is no longer applicable. Although the examiners determined that the recommendation is not applicable to the current examination as regards zero-coupon bonds, the examination determined that the company did not calculate the amortization of certain mortgage-backed securities it has held for a number of years. According to Statement of Statutory Accounting Principle (SSAP) No. 43R – Loan-backed and Structured Securities, amortization of bond premium or discount should be calculated using the scientific (constant yield) method. The examination did not determine the effect of the company's failure to calculate, over a number of years, amortization on the portfolio of mortgage-backed fixed securities. The examination determined, however, that the remaining amortization on the existing securities would not be material to the financial position of the company. Therefore, the examination does not require that the company record amortization on its bonds purchased prior to 2012. The company should, however, record amortization of premium or discount on all of its bonds, including mortgage-backed securities, going forward, in accordance with SSAP No. 43R par. 8 and SSAP No. 26 par. 6. It is recommended that the company amortize discounts and premiums on all bonds on a go forward basis, in accordance with SSAP No. 26 and SSAP No. 43R.

Annual Statement Schedule P Reporting

The company does not have any reinsurance contracts in place. Instead, it has excess insurance contracts with its members whereby both the company and its members are listed as insureds on the policies. These contracts do not meet the statutory requirements for reinsurance contracts, and, therefore, any balances resulting from the application of these contracts should not be reported as reinsurance balances. The review of Schedule P – Analysis of Losses and Loss Expenses revealed that the company erroneously reported ceded loss payments and ceded loss reserves in Part 1 – Summary of that schedule. The examination concluded that although Schedule P was not properly completed, the combined incurred losses and loss adjustment expenses and net losses unpaid were correctly reported on the Underwriting and Investment Exhibit, Part 2A. Information reported on the Underwriting and Investment Exhibit, Part 2A, provides support for net income and net loss reserve reported on the annual statement. It is recommended that the company complete Schedule P – Analysis of Losses and Loss Expense in accordance with the NAIC Annual Statement Instructions – Property and Casualty.

Incurred Losses and Loss Adjustment Expenses

During the review of the loss payment data of the company's largest premium line, worker's compensation, the examination team noted that the allocation between paid losses and paid loss adjustment expenses was incorrect. The company estimated incurred losses and loss adjustment expenses separately, at the beginning of each quarter. Any subsequent paid losses, however, are combined with paid loss adjustment expenses. The examination found that the company did not properly separate the paid losses and loss adjustment expenses when it reported the final incurred loss and loss adjustment expense numbers on the annual statement. As a result, the combined incurred loss and loss adjustment expenses were correctly reported by the company; however, they were incorrectly allocated between these two categories. It is recommended that the company properly allocate loss and loss adjustment expenses on future annual statements.

VIII. CONCLUSION

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.

CVMIC was organized in 1987 by 20 communities to provide liability insurance for municipal operations. Currently, there are 47 member communities. The company is managed by a 7-member board of directors. There currently are no committees of the board of directors. The CVMIC board of directors has, however, appointed presidential committees. Presidential committees are formed to address items referred from the board and make recommendations back to the board. Presidential committees serve strictly in an advisory role. The board has final authority and must take an affirmative vote to act on any recommendation from a presidential committee.

CVMIC members use an excess insurance coverage strategy for insuring members' risks above CVMIC policy limits. Reinsurance is not used.

The examination made no balance sheet or surplus adjustments. The company complied with four of the prior examination recommendations and one prior examination recommendation was no longer applicable. The current examination made three recommendations. One of the current recommendations addresses Schedule D reporting issues, and two others relate to proper reporting of losses and loss adjustment expenses.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 21 - Annual Statement Schedule D Reporting—It is recommended that the company amortize discounts and premiums on all bonds on a go forward basis, in accordance with SSAP No. 26 and SSAP No. 43R.

2. Page 22 - Annual Statement Schedule P Reporting—It is recommended that the company complete Schedule P – Analysis of Losses and Loss Expense in accordance with the NAIC Annual Statement Instructions – Property and Casualty.

3. Page 22 - Incurred Losses and Loss Adjustment Expenses—It is recommended that the company properly allocate loss and loss adjustment expenses on future annual statements.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company 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**
Judy Michael	Insurance Financial Examiner
David Jensen	IT Specialist

Respectfully submitted,

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Examiner-in-Charge