SILBA

Self Insured Lumber Businesses Association, Inc.

THE QUALITY WORKERS COMPENSATION SOLUTION FOR MASSACHUSETTS LUMBER BUSINESSES

2007 Annual Report To the Members

SELF INSURED LUMBER BUSINESSES ASSOCIATION, INC.

February, 2009

Members of
Self Insured Lumber Businesses Association, Inc.

Dear SILBA Members:

It is a great pleasure to introduce the 2007 Annual Report to the members of Self Insured Lumber Businesses Association, Inc. (SILBA), SILBA's sixteenth year serving lumber businesses in Massachusetts.

2007 Financial Results

SILBA enjoyed another year of strong financial results in 2007, with calendar year dividends earned of ***$3.5 million or 56.2%*** of 2007 calendar year premium, compared with $3.3 million or 47.4% in 2006.

The calendar year net premium base decreased $777,000 in 2007 to $6.2 million. The decrease was driven by an overall decrease in members' payrolls combined with improving experience modification and ARAP factors, along with the non-renewal of two members, accounting for approximately $224,000. In 2007, one new member joined the group, one cancelled during the year and two did not renew for a total count of eighty four members by year end.

The group's loss ratio improved by 28% from 44.9% in 2006 to 36.4% in 2007, a result primarily of favorable loss development of prior fund years (principally the 2006, 2005 and 2003 fund years), allowing close to $1.25 million of previously held reserves to be released during 2007.

SILBA's expense ratio returned to its more normal level of 16.3% of premium from its artificially low level of 13.4% in 2006. The reduced expense ratio in 2006 was caused by a state mandate requiring self-insurance groups to collect certain amounts from members consistent with the voluntary workers compensation market. The additional revenue from the members came into the program in 2006, offsetting a portion of the group's expenses.

The net effect of the calendar year results was a very strong combined ratio (losses plus expenses as a percent of premium) of 52.7%, compared to 58.2% in 2006. With the addition of investment income, members earned dividends (equivalent to net income) of almost $3.5 million or 56.2% of 2007 premium, compared with $3.3 million or 47.4% in 2006.

SILBA's Balance Sheet

Of SILBA's $13.57 million in total assets, 94.8% are invested in highly-rated debt securities, in accordance with state regulations, or held in cash and short-term investments. This large base of invested assets provides SILBA with a consistent stream of investment income that supplements the members' dividend pool. In 2007, the group earned approximately $553,000 on its cash and invested assets.

SILBA's two principal liabilities are dividends due to policyholders and reserves for unpaid losses and loss adjustment expenses. Comprising 56% of total liabilities, SILBA held policyholder dividends at year-end 2007 of $7.6 million for future distribution to members. These dividends payable represent the group's "surplus", corresponding to a very healthy premium to "surplus" ratio of .82 to 1.

SILBA also held approximately $5.6 million in reserves to pay the estimated future costs of claims incurred to date. These reserves include $1.7 million of adjusters' reserves on reported losses for all fund years, and another $3.9 million of actuarial or contingent reserves established to fund potential ultimate losses, representing approximately $2.24 of contingent reserves for every $1 of adjusters' reserves.

Since inception of the program in 1992, SILBA members have earned $20.5 million in dividends, an average earned dividend of 31.3% per year. At year-end 2007, dividend distributions to members totaled $12.9 million, including almost $1 million in dividends paid to SILBA members in January of 2007. With additional distributions of $1.36 million in January 2008 and $1.88 million in February of 2009, dividend distributions to members will exceed $16.1 million.

Safety – A Challenge

The Board of Trustees is very pleased with the results we have achieved over the years, but that has not and will not stop us from challenging ourselves to improve each year. In addition to on-going safety efforts as outlined in the "Safety Focus" section of the 2007 Operating Report, in 2008 we raised the bar and challenged members to reduce their injuries by 20% in the two main areas that drive our losses – lifting injuries and slips and falls. The ultimate goal was to maximize employees' safety and well being, reduce members' costs, and increase member dividends. I am pleased to report that SILBA members met and exceeded that test. SILBA will be issuing a similar challenge to members in 2009.

The SILBA Board of Trustees wishes to congratulate all members on the strong program you have helped build. Please share the news of SILBA's success and join the Board of Trustees in encouraging potential members to consider SILBA membership. And always remember, when your workplace is a safe place, everyone benefits.

Thank you for your continued support.

Very truly yours,

Donald Chace
President, Self Insured Lumber Businesses Association, Inc.

SELF INSURED LUMBER BUSINESSES ASSOCIATION, INC.

2007 ANNUAL REPORT

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Prepared by Meadowbrook TPA Associates
Program Manager for
SELF INSURED LUMBER BUSINESSES ASSOCIATION, INC.

SELF INSURED LUMBER BUSINESSES ASSOCIATION, INC.

SAFETY FOCUS

THE SILBA MISSION STATEMENT:

The Mission of Self Insured Lumber Businesses Association, Inc. is to be the Highest Quality and Most Cost-Effective Workers Compensation Alternative Available to Massachusetts Lumber Businesses.

SAFETY FOCUS

To keep members' employees safe by preventing or minimizing potential injury is SILBA's primary focus. In 2007, SILBA again devoted significant resources to providing members with the tools necessary to help ensure the safest possible working environment for their employees. SILBA is serious about safety and requires a demonstrated commitment to loss prevention from each and every member.

SAFETY ACTIVITIES

SILBA again devoted significant resources in 2007 to help members create and maintain the safest possible working environment for their employees. In return, SILBA expects that each member will continue to make a commitment to controlling their exposures and reducing employee injury potential.

In 2007, members received individualized safety services such as on-site surveys, safety discussions, and training focused on members' accident trends. Appropriate safety literature was developed and disseminated at member visits, claim and loss control committee meetings, and safety workshops.

The group's dedicated safety professionals investigated accidents throughout the year, using the results to direct training to the member, for group educational opportunities at the Claim and Loss Control Meetings, and to alert members to common exposures in SILBA's quarterly newsletters.

CLAIM and LOSS CONTROL COMMITTEE MEETINGS

SILBA's Claim and Loss Control Committee met quarterly in 2007 to discuss group and member safety activities and the status of members' claims. The "Round Table Discussion" component that the group began in 2006 continued in 2007. During this session, Committee members discuss best practices and solicit peer opinions on safety problems and observations at their own facilities. This has been very successful in identifying issues and sharing information throughout the group. Jobsite safety hazards and fall protection were two of the main topics addressed in 2007. All SILBA members are always invited and welcome to attend these meetings.

SAFETY WORKSHOPS

SILBA Safety Workshops were conducted in the Spring and Fall of 2007 at 3 regional locations. Outside guest speakers were brought in who, along with SILBA's dedicated safety and claim service teams, presented safety information on:

- SAW STOP Safety saws; three live demonstrations were provided at the 3 regional workshops
- Manual Material Handling Equipment from Southworth Co.
- Back Injury Prevention "Back School" by Braintree Rehab. Hospital
- Claims 101
- Conducting Job Safety Analysis
- Recognizing Jobsite Safety Hazards

The Board of Trustees voted to approve 2 rebate periods in 2007 for Members who purchased SAW STOP safety saws. This was a successful undertaking, as 24 saws were purchased by the Members, in an effort to keep their employees safe.

SAFETY TRAINING GRANT:

SILBA applied for and was awarded a safety grant. The funds allowed for a safety training day for Forklift Safety, by HYSTER Company. The speaker also provided information on the Massachusetts Hoisting License criteria.

OTHER RESOURCES:

SILBA's other safety resources include a video library, Massachusetts Safety Council programs, and on-line webinars offered by our reinsurance partner, Midwest Employers Casualty Company.

SILBA SAFETY FLASH

Monthly safety flash reports are sent out and they focus mainly on the two loss drivers for the Group: Lifting injuries and slips, trips and falls.

2008 GOALS

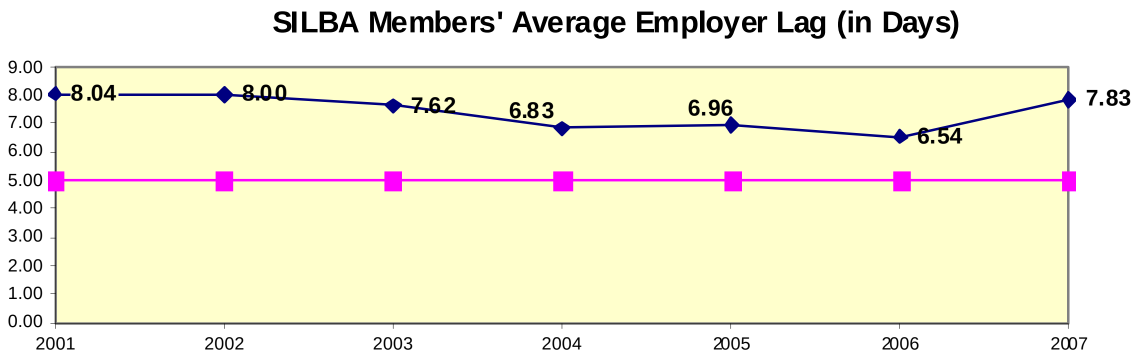
At the end of 2007, SILBA set a goal for the group and issued a challenge to members to reduce the frequency of claims. The group announced this goal at its annual meeting of members in early 2008 - to reduce the number of claims by 20% over the prior 3-year average by focusing on SILBA's two primary loss cause drivers: slips and falls and lifting injuries. To assist members and to track the group's results compared to this goal, SILBA members will receive monthly safety flash reports during 2008 with safety tips relative to these loss drivers, as well as a monthly comparison of 2008 results to the prior 3-year average.

Keys to SILBA Claims Management

We have said it in the past, but it bears repeating. SILBA continues to focus on the cornerstones of pro-active claims management. When both the employer and the injured worker are active in the claims management process, the employee receives the best treatment, recovery time is decreased, and the injured worker is able to return to the workplace more quickly, and more importantly, healthy.

Keys to pro-active claims management are:

1) Report All Claims Early. SILBA regularly monitors the employers' lag time, defined as the number of days between the date an incident occurs and the date it is reported to the claims adjuster.



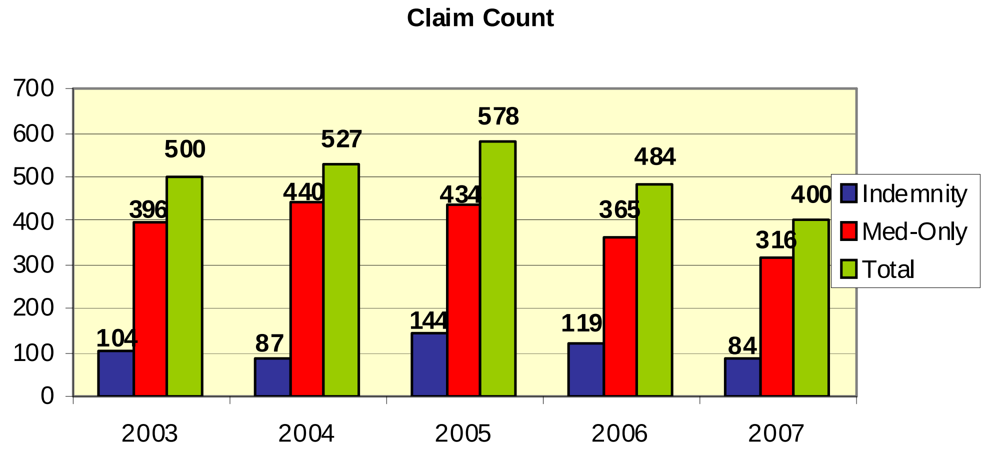
SILBA continues to work with members to achieve our goal of a reporting lag of 5 days or less, but we are not there yet. Why is prompt reporting so important? Numerous studies have shown that claims filed five or more days after an injury are significantly more costly than those filed timely. A delay in reporting means a delay in starting the appropriate treatment and adds recovery time. Claims filed a month or more after an injury cost almost twice as much to settle than those reported within the first week.

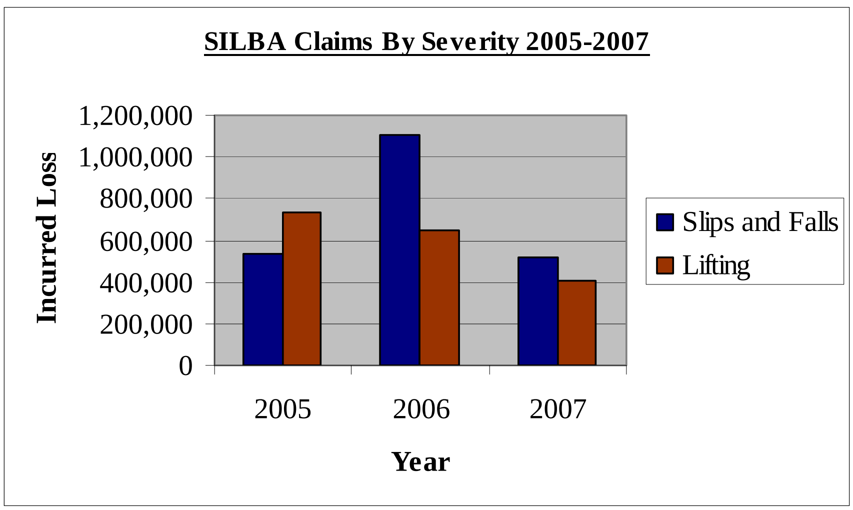
2) Provide Temporary Modified Duty. SILBA expects all members to provide temporary modified duty. When early return to work programs are in place and employees' restrictions are accommodated, injured employees return to work up to 50% sooner and costs are reduced up to 70%.

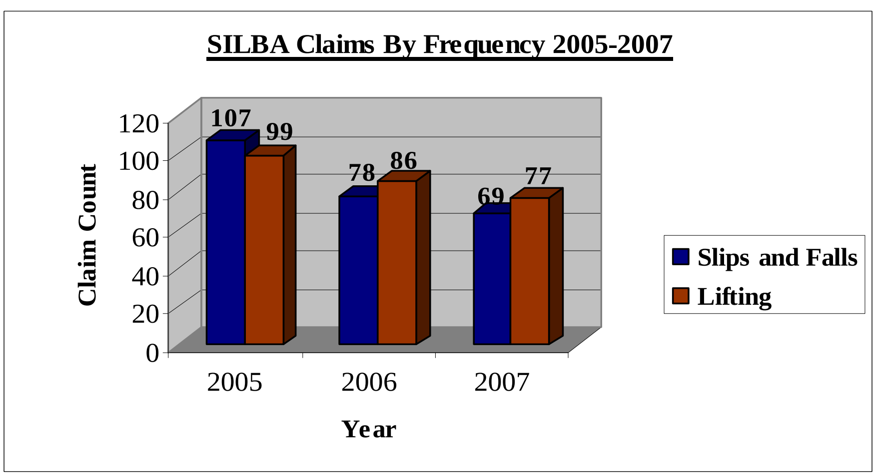
3) Implement Post-Offer/Pre-Hire Physicals. The most pro-active way to manage claims is to stop them before they occur. Implementing and maintaining a post-offer/pre-hire physical program, complete with job descriptions, helps to ensure that only those people physically capable of performing the job requirements are hired for the position. SILBA requires that all members maintain a safety program that includes post-offer/pre-hire physicals.

Claim Trending

Knowing our exposures and claim trends allows us to better assist our members in controlling their losses.







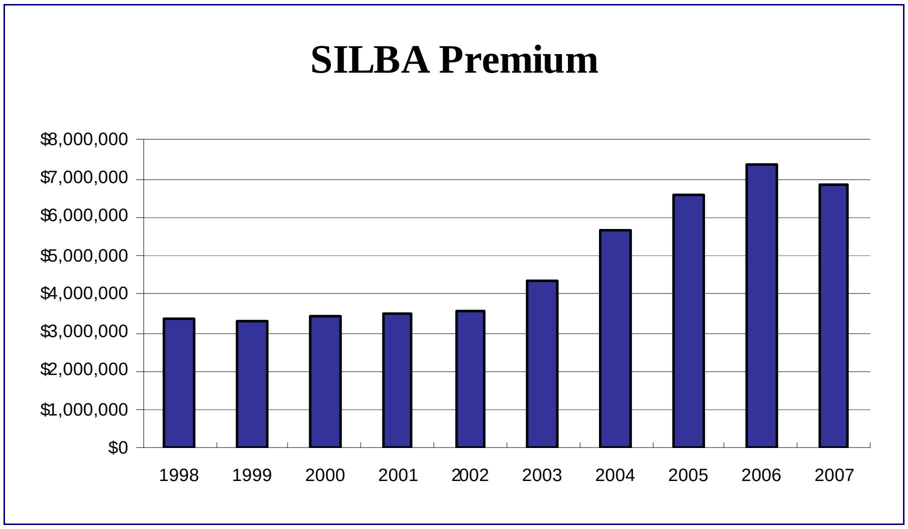
SILBA has long focused on its primary cause of loss drivers - sprains and strains to backs, shoulders and knees from improper lifting and slips and falls – in order to continue to favorably impact claim frequency and to keep members' employees safe. From 2005 through 2007, these claims accounted for 40% or more of SILBA's total claim costs and 35% of SILBA's total number of claims. In 2008, SILBA will further focus its members on these cause of loss drivers through its challenge to reduce claim frequency by 20% over the prior three year average by focusing on these two areas.

SILBA is as committed as ever to its safety and claims management approach to ensure that SILBA will be able to continue to serve its members as the premier workers compensation alternative for safety-minded Massachusetts employers engaged in the lumber business.

OPERATING REPORT

OUR MEMBERS

At year end 2007, SILBA's membership count stood at eighty-four, with one new member joining during the year, two non-renewing from the previous year, and one cancelling mid-term.



Members' premium totaled $6.8 million in 2007, representing a 7.3% decrease from the prior year level of $7.3 million.

DIVIDENDS

SILBA members realize savings and control over their premium costs by controlling their losses and earning dividends. Dividends earned by the members, driven by individual performance, are calculated as premiums paid in, less all costs of running the Group, from the cost of claims to underwriting and other expenses. During 2007, members' generated calendar year net premiums (after reinsurance) of $6.2 million, on which $3,490,233 of dividends (net income) was earned, a return equal to 56.2% of premium. Since program inception, SILBA members have paid in a total premium of $65.6 million dollars and earned dividends of $20.5 million, ***an average return of 31%*** over SILBA's sixteen-year history.

SILBA began to return dividends earned to its members in 1995, the earliest date allowed by Massachusetts law and regulation. Through year-end 2007, $12.9 million of the $20.5 million of dividends earned had been returned to the members, including close to $1 million distributed to SILBA members in January of 2007. Additional distributions of $1.36 million in January, 2008 and close to $1.9 million in February, 2009 bring total dividends distributed to SILBA members since its inception to over $16.1 million. Dividends earned but not distributed are designated as "Policyholders' dividends" on SILBA's balance sheet and set aside for future distribution.

GROUP EXPENSES

SILBA maximizes the dividends it returns to its members through diligent attention to and control of its costs of operation.

SILBA's largest expense is the cost of its claims. Claim costs include not only paid amounts, but also reserves held to pay the estimated ultimate costs of open claims.

	Fund Year Premium	Incurred Losses	Claim Costs as a % of Premium
1998 Fund Year	$3,395	$1,548	45.6%
1999 Fund Year	$3,329	$1,217	36.5%
2000 Fund Year	$3,422	$2,356	68.8%
2001 Fund Year	$3,504	$2,639	75.3%
2002 Fund Year	$3,595	$2,618	72.8%
2003 Fund Year	$4,353	$2,858	65.7%
2004 Fund Year	$5,644	$2,814	49.9%
2005 Fund Year	$6,573	$3,455	52.6%
2006 Fund Year	$7,340	$4,173	56.9%
2007 Fund Year	$6,803	$3,505	51.5%

To ensure ongoing profitability in an environment of decreasing premium rates, the SILBA Board of Trustees and Claim and Loss Control Committee have continually focused their efforts and allocated SILBA premium dollars to safety and to the highest quality claim and loss control services for the Group's members.

For the protection of its members, SILBA has continually obtained and maintained quality excess insurance coverage, despite a difficult marketplace. Excess insurance is coverage purchased by SILBA to protect its members by capping the Group's potential claim costs on both a per-claim as well as an aggregate (total cost of all claims for the year) basis.

Other operating costs include costs for administration, claims management, loss control services, and marketing. SILBA's dedication to controlling its costs has allowed SILBA to keep other operating expenses low as a percent of premium.

Other Operating Costs as a Percentage of Premium	Excess Insurance	Other Operating	Total Costs
1998 Fund Year	9.5%	18.9%	28.4%
1999 Fund Year	10.8%	17.9%	28.7%
2000 Fund Year	12.0%	18.1%	30.1%
2001 Fund Year	7.6%	20.2%	27.8%
2002 Fund Year	9.5%	18.2%	27.7%
2003 Fund Year	9.9%	15.7%	25.6%
2004 Fund Year	12.9%	15.0%	27.9%
2005 Fund Year	11.5%	13.7%	25.2%
2006 Fund Year	10.2%	13.2%	23.4%
2007 Fund Year	9.8%	13.9%	23.6%

Because of the commitment to safety and cost control, SILBA's results year after year have been such that the total costs to run the program have ultimately been less than premium dollars collected. Premium dollars not needed to cover claims and other operating costs are set aside and, when combined with investment income earned, serve to fund the members' dividend pool.

FINANCIAL HIGHLIGHTS

SILBA's balance sheet remains strong year after year. At the end of 2007, SILBA's asset base totaled $13.57 million. In 2007 and consistently since 1994, 92% or more of all assets were in the form of cash and invested assets, providing a substantial base on which SILBA earns investment income to supplement its dividend pool. In 2007, its invested assets yielded $552,797 of investment income.

Cash and Invested Assets (in 000's) as a Percentage of Total Assets	Cash and Invested Assets	Total Assets	Percentage to Total
1998 Fund Year	$8,816	$8,972	98.3%
1999 Fund Year	$8,568	$8,712	98.3%
2000 Fund Year	$7,644	$7,847	97.4%
2001 Fund Year	$7,288	$7,551	96.5%
2002 Fund Year	$6,317	$6,842	92.3%
2003 Fund Year	$6,655	$7,147	93.1%
2004 Fund Year	$7,376	$7,716	95.6%
2005 Fund Year	$9,166	$9,535	96.1%
2006 Fund Year	$11,823	$11,991	98.6%
2007 Fund Year	$12,869	$13,571	94.8%

Assets are invested in highly rated fixed income securities:

Valued at December 31, 2007:	Amortized Cost	Market Value
US Treasury Securities	$3,614,922	$3,737,101
Corporate Securities	$4,601,540	$4,560,461
US Government Agency Securities	$901,474	$917,975
Mortgage-backed securities	$1,529,509	$25,117
Subtotal	$10,647,445	$9,240,654
Cash & Cash Equivalents	$2,221,880	$2,221,880
Total	$12,869,325	$11,462,534

SILBA's liabilities consist primarily of two components, dividends payable to members (policyholders' dividends) and reserves for unpaid losses and loss adjustment expenses.

	Policyholders' Dividends	Reserves For Losses and LAE	Total Dividends and Reserves	Total Liabilities	Percentage to Total
1998 Fund Year	$6,526	$2,261	$8,787	$8,972	97.9%
1999 Fund Year	$5,344	$3,106	$8,450	$8,712	97.0%
2000 Fund Year	$4,234	$3,364	$7,598	$7,847	96.8%
2001 Fund Year	$3,605	$3,703	$7,308	$7,551	96.8%
2002 Fund Year	$2,844	$3,679	$6,523	$6,842	95.3%
2003 Fund Year	$1,846	$4,938	$6,784	$7,147	94.9%
2004 Fund Year	$1,905	$5,362	$7,267	$7,716	94.2%
2005 Fund Year	$2,508	$6,379	$8,887	$9,535	93.2%
2006 Fund Year	$5,093	$6,554	$11,647	$11,991	97.1%
2007 Fund Year	$7,602	$5,618	$13,220	$13,571	97.4%

Policyholders' dividends, SILBA's largest liability in 2007, represent dividends held for future distribution to members, and are the equivalent of the Group's surplus. At year-end 2007, policyholders' dividends totaled $7.6 million. With $6.2 million of net calendar year premium, SILBA's premium to "surplus" ratio in 2007 was .82 to 1, further underscoring SILBA's financial strength.

SILBA holds reserves for unpaid losses and loss adjustment expenses to pay the estimated ultimate costs of open claims and claim-related expenses. The adequacy of reserves held is reviewed annually and certified by an independent actuarial firm. These reserves include claim adjusters' estimates of the costs of open claims (case reserves) as well as bulk reserves.

Bulk reserves fund the contingencies:

- That the adjuster's estimates may understate the ultimate cost of a claim (that is, an injury could prove to be more severe, and benefits more costly, than is known at the time of the adjuster's estimate);
- That an injury which occurred before year-end has yet to be reported;
- That a previously closed claim is reopened.

In 2007, of the $5.6 million of reserves held, $1.73 million represented adjuster's estimates of ultimate claim costs on reported claims, while $3.89 million was held in bulk reserves (net of reserve discounts). That equates to more than ***$2.24*** held in bulk reserves for each $1 of case reserves.

It should be emphasized that reserves represent <u>estimates</u> of claim costs, and while it is SILBA's objective that reserves be established and maintained on a cautious basis, the risk exists that the reserves could prove to be insufficient. In 2007, SILBA's results include the release of $1.25 million of prior years' reserves resulting from subsequent favorable loss development, and in 2006 $1.47 million of prior years' reserves were released. It has been SILBA's history that, overall, reserves established have exceeded the amounts ultimately required to fulfill claim liabilities. As a result, excess amounts are eventually released, increasing members' dividends.

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Self Insured Lumber Businesses Association, Inc.

We have audited the accompanying statements of financial position - statutory basis of the Self Insured Lumber Businesses Association, Inc. (the Group) as of December 31, 2007 and 2006, and the related statements of operations and changes in surplus - statutory basis and of cash flows - statutory basis for the years then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, the Group prepared these financial statements using the accounting practices prescribed or permitted by the Division of Insurance of the Commonwealth of Massachusetts, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Self Insured Lumber Businesses Association, Inc. as of December 31, 2007 and 2006, or the results of its operations or its cash flows for the years then ended.

In our opinion, the statutory basis financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and policyholders' surplus of Self Insured Lumber Businesses Association, Inc. at December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended, in conformity with accounting practices prescribed or permitted by the Division of Insurance of the Commonwealth of Massachusetts.

INDEPENDENT AUDITORS' REPORT - CONTINUED

As discussed in the notes to the financial statements, the reserves for unpaid losses and loss adjustment expenses reflected in the accompanying financial statements are based upon evaluations by the Group's independent actuary. Management believes that these estimates are reasonable. However, changes in these estimates may occur from year to year and can be material in relation to the financial statements taken as a whole. No assurance can be given that the actual losses will not be more or less than the current estimate.

[illegible], Tr[illegible]man, Butler & Company, P.A.

June 19, 2008

Self Insured Lumber Businesses Association, Inc.

STATEMENTS OF FINANCIAL POSITION - STATUTORY BASIS

ADMITTED ASSETS

	December 31, 2007	December 31, 2006
CASH AND INVESTED ASSETS		
Bonds	$ 10,647,445	$ 8,590,977
Cash and short-term investments	2,221,880	3,231,742
Total cash and invested assets	12,869,325	11,822,719
Reinsurance recoverables on loss and loss adjustment expenses	424,044	29,338
Interest income due and accrued	271,413	136,786
Other admitted assets	6,765	2,588
Total admitted assets	$ 13,571,547	$ 11,991,431

LIABILITIES AND POLICYHOLDERS' SURPLUS

	2007	2006
LIABILITIES		
Reserve for unpaid losses and loss adjustment expenses	$ 5,618,176	$ 6,554,103
Other expenses	33,717	49,702
Taxes, licenses and fees (excluding income taxes)	144,831	109,914
Ceded reinsurance premiums payable	130,929	144,973
Policyholders' dividends	7,601,927	5,093,365
Total liabilities	13,529,580	11,952,057
POLICYHOLDERS' SURPLUS	41,967	39,374
Total liabilities and policyholders' surplus	$ 13,571,547	$ 11,991,431

The accompanying notes are an integral part of these statements.

Self Insured Lumber Businesses Association, Inc.

STATEMENTS OF OPERATIONS AND CHANGES IN SURPLUS - STATUTORY BASIS

	Year Ended December 31, 2007	2006
UNDERWRITING INCOME		
Premiums earned, net of ceded reinsurance	$ 6,205,689	$ 6,982,643
UNDERWRITING EXPENSES		
Losses and loss adjustment expenses	2,257,622	3,132,274
Other underwriting expenses	1,010,631	932,349
	3,268,253	4,064,623
NET UNDERWRITING GAIN	2,937,436	2,918,020
NET INVESTMENT GAIN	552,797	393,512
NET INCOME BEFORE DIVIDENDS TO POLICYHOLDERS AND FEDERAL INCOME TAXES	3,490,233	3,311,532
Dividends to policyholders	(3,490,233)	(3,311,532)
NET INCOME AFTER DIVIDENDS TO POLICYHOLDERS AND BEFORE FEDERAL INCOME TAXES	--	--
Provision for Federal income taxes	--	--
NET INCOME	--	--
Policyholders' surplus - beginning of year	39,374	41,967
(Increase) Decrease in non-admitted assets	2,593	(2,593)
POLICYHOLDERS' SURPLUS - END OF YEAR	$ 41,967	$ 39,374

The accompanying notes are an integral part of these statements.

Self Insured Lumber Businesses Association, Inc.

STATEMENTS OF CASH FLOWS - STATUTORY BASIS

	Year Ended December 31, 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Premiums collected, net of ceded reinsurance	$ 6,191,645	$ 6,711,627
Losses and loss adjustment expenses paid, net of reinsurance	(3,588,255)	(2,734,558)
Underwriting expenses paid	(995,876)	(965,232)
Net investment income	443,380	407,602
Dividends paid to policyholders	(981,671)	(726,251)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,069,223	2,693,188
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of bond investments	(4,887,002)	(3,975,107)
Proceeds from sale or maturity of bond investments	2,805,324	3,578,721
NET CASH USED IN INVESTING ACTIVITIES	(2,081,678)	(396,386)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributed surplus recaptured (applied)	2,593	(2,593)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	2,593	(2,593)
NET INCREASE (DECREASE) IN CASH AND SHORT-TERM INVESTMENTS	(1,009,862)	2,294,209
Cash and short-term investments - beginning of year	3,231,742	937,533
CASH AND SHORT-TERM INVESTMENTS - END OF YEAR	$ 2,221,880	$ 3,231,742

The accompanying notes are an integral part of these statements.

Self Insured Lumber Businesses Association, Inc.

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS

December 31, 2007 and 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared on the basis of accounting practices prescribed or permitted by the Division of Insurance of the Commonwealth of Massachusetts. Statutory accounting practices vary from accounting principles generally accepted in the United States of America (GAAP). Significant variances from GAAP include, but are not limited to, the following:

Policy Acquisition Costs

The cost of acquiring and renewing business (principally commissions) is charged to operations as premiums are written rather than being deferred to the extent recoverable and charged to operations ratably over the periods covered by the related insurance contracts.

Reserve for Unpaid Losses and Loss Adjustment Expenses

Under statutory accounting practices, the reserve for unpaid losses and loss adjustment expenses is discounted for the time value of money utilizing a rate and payout pattern prescribed by the Internal Revenue Service for Federal income tax purposes.

Reinsurance Balances

Under statutory accounting practices, reinsurance balances related to unpaid losses and loss adjustment expenses are presented as a reduction to the reserves. Under GAAP, such amounts are presented as reinsurance recoverables, and the loss reserves are gross of any such recoverables.

Valuation of Investments

Under statutory accounting practices, the investments owned by the Group are generally valued at amortized cost. However, under GAAP, certain of these bonds may have been valued at fair market value.

Cash and Short-term Investments

Cash and short-term investments include those items with an original maturity of one year or less at the date of acquisition for purposes of the statutory basis financial statements. However, under GAAP, cash and short-term investments includes those items with an original maturity of three months or less at the time of acquisition.

Short-term investments consist primarily of a certificate of deposit and certain government agency and corporate securities. Certain short-term investments have been valued at amortized cost.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Statement of Cash Flows

Under statutory accounting practices, a reconciliation to the indirect method of cash flows is not presented. This would be required under GAAP.

Unearned Premium Reserves

Unearned premium reserves, if any, are reduced by ceded unearned premiums. However, under GAAP, these amounts would be recorded as a prepayment.

Non-Admitted Assets

Under statutory accounting practices, certain assets are considered non-admitted assets. As such, they are excluded from the statements of financial position - statutory basis. Changes to non-admitted assets are recorded directly in unassigned policyholder surplus. Common examples of non-admitted assets include premiums receivable over ninety days old, certain prepaid expenses, certain fixed assets, and certain deferred tax charges.

Comprehensive Earnings

Under statutory accounting practices, a reconciliation of net earnings to other comprehensive earnings is not required as it is under GAAP.

Other significant accounting policies are as follows:

Earned Premiums

Earned premiums as reflected herein are based upon estimated payrolls as submitted by the insured employers. The Group conducts annual payroll audits of the payroll records of insured employers. Any premium changes resulting from these payroll audits are recognized during the year of the payroll audit. Premiums are recorded as earned on a pro rata basis over the term of individual policies. Premiums earned are reported net of premiums ceded.

Earnings of the Group

Earnings of the Group are used to provide for potentially uncollectible receivables, any uninsured deficits and other expenses. As required by the Group's governing documents and as required by Board action, any remaining earnings will be distributed to the insured employers. The timing of this distribution is subject to limitations imposed by applicable law and regulations and discretion of the Board of Trustees. All current year earnings have been declared as payable to the members.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Income Taxes

Under applicable provisions of the Internal Revenue Code, the Group is liable for income taxes on earnings not ultimately distributed by the Board of Directors as well as certain other temporary differences as more fully discussed in Note 7. The Group files with the Internal Revenue Service as a property and casualty insurance company.

Realized Gains and Losses on the Sale of Bonds

Gains and losses resulting from the sale of bonds are determined using the specific-identification method. Premiums paid and discounts taken on the purchase of bonds are amortized and recognized in investment income using the effective interest method over the period to maturity.

Management Estimates

The preparation of financial statements in conformity with statutory accounting practices requires management to make estimates and assumptions that affect the reported amounts in the statements of financial position - statutory basis and statements of earnings and changes in surplus - statutory basis, as well as the disclosure of contingent liabilities. Actual results could differ from these estimates.

Reclassification

Certain amounts reported in the prior year financial statements may have been reclassified to conform with the current year classification.

NOTE 2 - ORGANIZATION

Self Insured Lumber Businesses Association, Inc. (the Group) was organized as a workers' compensation self insurance group under Massachusetts General Law, Chapter 152. The Group was created to make a self insured workers' compensation program available for lumber businesses in Massachusetts. Its purpose is to meet and fulfill employers' obligations and liabilities under applicable Massachusetts Workers' Compensation Statutes through the effective use of cost efficient claims service, loss control and safety programs. The Group is governed by the Board of Trustees, all of whom were elected by and represent the members. The day-to-day operations are administered by a third-party administrator who is paid a management fee based upon a percentage of premiums earned.

NOTE 3 - EXCESS INSURANCE

To minimize the Group's exposure to loss, it has purchased specific excess and aggregate excess insurance. Specific excess insurance is purchased to protect against large individual losses. Aggregate excess insurance is purchased to protect against an overall high level of losses. Retentions and limits differ by policy year and are based upon the individual contracts the Group has entered into.

Excess insurance contracts do not relieve the Group from its obligations to its members. Failure of excess insurers to honor their obligations could result in losses to the Group. Accordingly, the Group evaluates the financial condition of its excess insurer to minimize exposure to significant losses from excess insurer insolvency.

Approximately $500,000 and $29,000 was recoverable from the excess insurers on paid and unpaid losses and loss adjustment expenses at December 31, 2007 and 2006, respectively. Approximately $387,000 and $29,000 was due from a single excess insurer at December 31, 2007 and 2006, respectively.

During the year ended December 31, 2007, the net ultimate losses and loss adjustment expenses incurred in excess of the Group's excess insurance retention levels increased approximately $370,000. Accordingly, this amount was credited to losses and loss adjustment expenses. During the year ended December 31, 2006, the net ultimate losses and loss adjustment expenses incurred in excess of the Group's excess insurance retention levels increased approximately $12,000. Accordingly, this amount was credited to losses and loss adjustment expenses.

NOTE 4 - BONDS

Bonds are stated at amortized cost and consist of the following:

	December 31, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Treasury securities	$ 3,614,922	$ 122,179	$ --	$ 3,737,101
U.S. Government agency securities	901,474	16,501	--	917,975
Corporate securities	4,601,540	36,534	(77,613)	4,560,461
Mortgage-backed securities	1,529,509	39,473	(100)	1,568,882
	$ 10,647,445	$ 214,687	$(77,713)	$ 10,784,419

NOTE 4 - BONDS - CONTINUED

	December 31, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Treasury securities	$ 3,127,307	$ 13,946	$(53,111)	$ 3,088,142
U.S. Government agency securities	1,950,275	4,650	(15,536)	1,939,389
Corporate securities	3,488,399	14,775	(70,231)	3,432,943
Foreign securities	24,996	121	--	25,117
	$ 8,590,977	$ 33,492	$(138,878)	$ 8,485,591

The amortized cost and estimated market value of bonds, by contractual maturity, are shown below. In some instances, actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Due within one year or less	$ 101,705	$ 132	$(652)	$ 101,185
Due after one year through five years	5,735,931	119,327	(23,887)	5,831,371
Due after five years through ten years	3,280,300	55,755	(53,074)	3,282,981
Mortgage-backed securities	1,529,509	39,473	(100)	1,568,882
	$ 10,647,445	$ 214,687	$(77,713)	$ 10,784,419

	December 31, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Due within one year or less	$ 1,358,601	$ 818	$(3,555)	$ 1,355,864
Due after one year through five years	3,933,734	21,638	(56,537)	3,898,835
Due after five years through ten years	3,298,642	11,036	(78,786)	3,230,892
	$ 8,590,977	$ 33,492	$(138,878)	$ 8,485,591

NOTE 4 - BONDS - CONTINUED

Proceeds from the sale of bonds for the years ended December 31, 2007 and 2006 were $2,805,324 and $3,578,721, respectively. Gross gains and losses of $20,742 and $5,509, respectively, were realized on sales during the year ended December 31, 2007. Gross gains and losses of $28,195 and $12,555, respectively, were realized on sales during the year ended December 31, 2006.

At December 31, 2007 and 2006, the Group had pledged certain bonds with amortized cost of $758,935 and $717,034, respectively, to the Massachusetts Division of Insurance as a security deposit.

NOTE 5 - RESERVE FOR UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

The reserve for unpaid losses and loss adjustment expenses is based upon an evaluation of the Group's losses as prepared by the Group's independent actuary. This evaluation of the Group's losses is a significant estimate which is subject to change. These changes can be material in relation to the financial statements taken as a whole. The reserve for unpaid losses and loss adjustment expenses includes an estimated provision for incurred but not reported losses (IBNR) as well as reported losses. The IBNR provision totaled approximately $4,900,000 and $4,500,000 on an undiscounted basis as of December 31, 2007 and 2006, respectively.

Any increases or decreases in the estimate of net ultimate incurred losses as compared to the prior year will result in a direct increase or decrease in the current year's net earnings.

During 2007 the Group experienced a net decrease in the estimate of ultimate incurred claims and change in reserve discount for the prior years. During 2006 the Group also experienced a net decrease in the estimate of ultimate incurred claims and change in reserve discount for the prior years. Losses and loss adjustment expenses has been decreased accordingly during the years ended December 31, 2007 and 2006.

For the years ended December 31, 2007 and 2006, the reserve for unpaid losses and loss adjustment expenses has been discounted to its net present value in the accompanying financial statements. The reserves have been discounted utilizing interest rates and payout patterns based upon nationwide losses, both of which were promulgated by the Internal Revenue Service. The unpaid losses and loss adjustment expenses were discounted by approximately $1,026,000 and $1,100,000 at December 31, 2007 and 2006, respectively.

The following table sets forth a reconciliation of beginning and ending reserves for losses and loss adjustment expenses for the years ended December 31, 2007 and 2006:

NOTE 5 - RESERVE FOR UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES - CONTINUED

	December 31, 2007	December 31, 2006
Reserve for losses and loss adjustment expenses, beginning of year	$ 6,554,103	$ 6,378,970
Incurred losses and loss adjustment expenses:		
Provision for insured events of the current year	3,504,000	4,602,000
Provision for insured events of the prior year	(1,246,378)	(1,469,726)
	2,257,622	3,132,274
Losses and loss adjustment expenses paid:		
Current year	1,020,000	1,379,000
Prior year	2,173,549	1,578,141
	3,193,549	2,957,141
Reserves for losses and loss adjustment expenses, end of year	$ 5,618,176	$ 6,554,103

NOTE 6 - THIRD-PARTY ADMINISTRATOR

The Group has entered into an agreement with a third party administrator to provide certain accounting and administrative services as well as claims adjusting and loss control services to the Group in exchange for a fee, which is a percentage of manual premium. During the years ended December 31, 2007 and 2006, the Group incurred management fee expenses totaling approximately $810,000 and $840,000, respectively.

NOTE 7 - INCOME TAXES

The Group is subject to Federal income taxes as a property and casualty insurance company under the provisions of Sub-chapter L of the Internal Revenue Code. However, no income taxes were incurred attributable to net income and temporary differences between the book and tax basis of assets and liabilities. Therefore, there were no Federal income taxes incurred at December 31, 2007 and 2006.

The Group's income tax returns are subject to examination by taxing authorities. Because the application of tax laws and regulations to many types of transactions is susceptible to varying interpretations, amounts reported in the financial statements could be revised at a later date upon final determinations by taxing authorities. Although the tax treatments reflected in the financial statements are believed to be appropriate, material adjustments could result if some treatments are successfully challenged by the taxing authorities.

NOTE 8 - PRESCRIBED OR PERMITTED STATUTORY ACCOUNTING PRACTICES

The Group is domiciled in Massachusetts and prepares its statutory financial statements in accordance with accounting principles and practices prescribed or permitted by the Division of Insurance of the Commonwealth of Massachusetts. Prescribed statutory accounting practices include state laws, regulations and general administrative rules, as well as a variety of publications of the NAIC. Permitted statutory accounting practices encompass all accounting practices that are not prescribed. Such practices differ from state to state, may differ from company to company within a state, and may change in the future.

NOTE 9 - MEMBER INDEMNIFICATION

The Group has entered into an agreement with each participating employer to provide risk management services, workers' compensation and employers' liability coverages for the participating employers. The agreement includes a provision that each member is jointly and severally liable for the workers' compensation and employers' liability obligations of the Group and its members which were incurred during the period of time that the participating employer was a member of the Group. Accordingly, any claims or expenses after the Group has exhausted available reserves and excess insurance will be the financial responsibility of the members.

NOTE 10 - CONCENTRATIONS

The majority of the insured members who participate in the Group are lumber businesses exclusively in the Commonwealth of Massachusetts. The Group does not insure any other members outside of Massachusetts.

SELF INSURED LUMBER BUSINESSES ASSOCIATION, INC.

Member Listing

ABG Corporation DBA Beacon Lumber Company
Anderson & McQuaid Company, Inc.
Arlington Coal & Lumber Co.
Atlantic Plywood Corporation
Attleborough-Rehoboth Building Supply, Inc.
Belletetes, Inc.
Better Cabinet Distributors
Biss Lumber Company, Inc.
Boston Cedar, Inc.
Braintree Lumber Co., Inc.
Brockway-Smith Company
Bucksworth Enterprises, Inc.
Building Center, Inc. of Gloucester
Building Materials, Inc.
Burnett & Moynihan, Inc.
Cambridge Lumber & Supply, Inc.
Cape Cod Lumber
Chace Building Supply
Chairtown Lumber Company
Colonial Fence MFG, Inc.
Concord Lumber Corp.
Cooperative Reserve Supply, Inc.
Curtis-Newton Corp.
Denison - Cannon Co.
Dettinger Lumber Co. Inc.
Doherty Lumber Co./DBS Lumber Co.
Dorchester Door & Window
E.C. Cottle, Inc. & E.C. Cottle Corp.
E.G. Barker Lumber Co. Inc.
Edwin L. Morse Co., Inc.
F.D. Sterritt Lumber Co.
Fairhaven Lumber Company
Fairview Millwork Inc. & Value Millwork Inc.
Falmouth Lumber, Inc.
Franklin Lumber Co.
Friend Building Center of Burlington Inc.
G.V. Moore Lumber Co. Inc.
Gilbert & Cole Building Products Inc.
Gilfoy Distributing Company, Inc.
Gove Lumber Company
H. Greenburg & Son, Inc.
H.N. Hinckley & Sons, Inc.
High Standard Inc
Hingham Lumber Company Inc.
Horner Millwork Corp./Design Door Openings, Inc.
Howe Lumber Company Inc.
Island Lumber Company, Inc.
Jackson Lumber & Millwork Co. Inc.
John Foster Lumber Co., Inc./Pine Products
John Pagliazzo DBA Plywood Supply
Johnson Lumber Co.
Keiver Willard Lumber Corp.
Kelly Fradet Lumber Co. Inc.
Koopman Lumber Co., Inc.
Larkin Lumber Company
Linden Forst, Inc.
Lynn Lumber Company
Maki Corporation
Moynihan-N. Reading Lumber Inc. & Moynihan Lumber of Beverly
Mozzone Lumber Company, Inc.
National Lumber Company, Inc.
Nickerson Lumber Co.
North Atlantic Corporation
Northeast Treaters, Inc.
RB Negus Lumber Company
R.S. Lamson & Sons
Ralph Esty & Sons, Inc.
Ryan Seamless Gutter Systems, Inc.
Shepley Wood Products
Southeastern Millwork Company, Inc.
Squier & Company, Inc.
St. Denis Products, Inc./Lumber Center
Taylor Lumber & Oil Co. Inc./Harmony Realty Trust
Wachusett Lumber & Building Supply Inc
Warren Trask Company
Westwood Lumber, Inc.
Wholesale Doors, Inc.
William T. King Lumber Company
Wilmington Builders Supply Co.
Wood Lumber Company
Yankee Pine Corporation

Includes all active members of the Self Insured Lumber Businesses Association (SILBA) as of December 31, 2008.

SELF INSURED LUMBER BUSINESSES ASSOCATION, INC.

Professional Management

Meadowbrook / TPA Associates - Program Management,
Claim Management, and Loss Control Services
Midwest Employers Casualty Company - Excess Insurance
Shores, Tagman, Butler & Company, P.A. – Financial Audit
Towers Perrin Company – Actuary
Ropes & Gray - Legal Counsel
Standish Mellon Asset Management - Investment Management

The above listing is as of December 31, 2007.