SILBA

Self Insured Lumber Businesses Association, Inc.

THE QUALITY WORKERS COMPENSATION SOLUTION FOR MASSACHUSETTS LUMBER BUSINESSES

2009 Annual Report To the Members

SELF INSURED LUMBER BUSINESSES ASSOCIATION, INC.

February, 2011

Members of
Self Insured Lumber Businesses Association, Inc.

Dear SILBA Members:

It is my pleasure to introduce the 2009 Annual Report to the members of Self Insured Lumber Businesses Association, Inc. (SILBA), marking SILBA's eighteenth year serving lumber businesses in Massachusetts.

2009 Financial Results

SILBA performed very well once again in 2009 in spite of the continued downward trend in the economy adversely affecting payroll levels and paid-in premiums. Calendar year dividends earned were ***$1.57 million or 47.5%*** of 2009 calendar year earned premium, compared with $1.87 million or 44.5% in 2008.

Calendar year net earned premium decreased by approximately $883,000 in 2009 to $3.3 million, driven by an overall decrease in members' payrolls which affected both the current operating year of 2009 and the previous year's payroll audits. The group had seventy-five members at December 31, 2009, down from eighty-one at year-end 2008, with one member filing for bankruptcy, one selling its business, three going out of business and one member outsourcing its employees.

Although increasing slightly from 49.5% in 2008 to 50.4% in 2009, the group's loss ratio continued to be favorable. The group again enjoyed favorable loss development relating to prior years, releasing close to $463,000 of prior year reserves in 2009, and $786,000 in 2008.

On a nominal basis, SILBA's underwriting expenses decreased 22% from the previous year (dropping from $786,000 to $612,000) but remained consistent in proportion to premium, at 18.4% of premium in 2009 compared to 18.7% in 2008.

The net effect of the calendar year results was once again a very strong combined ratio (losses plus expenses as a percent of premium) of 68.8% compared to 68.2% in 2008. With the addition of investment income, members earned dividends (equivalent to net income) of over $1.57 million or 47.5% of 2009 net premium, compared with $1.87 million or 44.5% in 2008.

SILBA's Balance Sheet

At December 31, 2009, SILBA held $12.4 million in total assets, 97.2% of which were 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 2009, the group's earned approximately $542,000 in net investment income.

SILBA's largest liability, at $8.1 million or 65.1% of total liabilities, is "Distributions due to members", representing dividends earned and held for future distribution to SILBA members. These dividends payable represent the group's "surplus", corresponding to a very healthy premium to "surplus" ratio of .41 to 1.

SILBA also held just under $4.2 million in reserves to pay the estimated future costs of claims incurred to date. These reserves include $1.36 million of adjusters' reserves on reported losses for all fund years, and another $2.8 million of actuarial or contingent reserves established to fund potential ultimate losses. This equates to approximately $2.07 of contingent reserve held for every $1 of adjusters' reserves.

Since inception of the program in 1992, SILBA members have earned almost $24 million in dividends, an average earned dividend of more than 32% per year. At year-end 2009, dividend distributions to members totaled $15.9 million, with an additional $2.17 million in dividends paid to SILBA members in February of 2010. With distributions of $2.2 million scheduled for February 2011, dividend distributions to members will exceed $20.2 million.

Safety – Looking Back and Forging Ahead

As a Group, SILBA has challenged itself to improve results every year. For the past 4 years we have asked members to commit to reducing their workers compensation injuries in the areas of lifting and slips and falls by 20%.

For the fourth year in a row, SILBA members have met and exceeded the challenge.

We have asked members to continue with this effort, by engaging their employees every day in the safety improvement process. Also, when employees are aware that they have a personal responsibility to their company, their co-workers, and themselves to follow all safety rules and procedures during the day, good things happen.

It is more than this though. The focus for 2009 and 2010 has been and will continue to be, promoting Hazard Recognition, so it will be clearly understood that UNSAFE ACTS are responsible for a greater number of injuries every year, than are unsafe conditions.

Near- Miss Reporting will continue to be the key in helping Members stay on track in the challenging year ahead, and help SILBA accomplish the goals of injury reduction, and sending our employees home in the same condition in which they arrived at work.

SILBA's motto-"When your workplace is a safe place, everyone benefits", continues to hold true.

On behalf of the SILBA Board of Trustees, I wish to congratulate all members on the strong program you have helped build. As always, please share the news of SILBA's success and encourage potential members to consider SILBA membership. And 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.

2009 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

SILBA takes safety seriously. Our primary focus is to help our members keep their employees safe and to provide members with the resources they need to assist them in achieving this goal.

SAFETY ACTIVITIES

In 2009 members' individual safety services included safety training, accident investigations for key injuries, on-site surveys, Safety Committee meeting participation, and development of safety literature. Members received regular safety alerts, as well as special alerts developed as a result of a serious injury. On a group basis, members participated in the group's quarterly Claim and Loss Control Committee meetings, semi- annual safety workshops, and made use of the group's safety video/ DVD library.

SILBA's safety professionals review accidents to determine root causes and to help members identify and rectify deficiencies. Topics for training, email safety blasts and committee meetings are chosen to address current trends.

CLAIM and LOSS CONTROL COMMITTEE MEETINGS

In 2009 and 2010, as in prior years, SILBA held quarterly Claim and Loss Control Committee meetings to which all SILBA members were invited and encouraged to attend. "Round Table Discussions", which have been in place for four years, continue to help members identify best practices in the group and discuss the steps necessary to implement in their own companies. This process of sharing has proven to be beneficial to all and has strengthened the group. Accident investigation, near– miss reporting and unsafe acts were some of the topics discussed in 2009 and 2010.

SAFETY WORKSHOPS

In 2009 and continuing into 2010, the spring workshops have evolved into the SILBA "Safety Day". The fall workshops continue to be held in three regional settings.

Guest speakers and SILBA safety professionals presented topics on:

- Near Misses and Accident Investigation
- Slip/Fall Prevention Techniques
- Safe lifting/ Physical Therapist Back School
- Obesity and Nutrition
- Safety Glove Selection
- Winter Safety- slip resistant traction devices, and ice-treatment products

OTHER RESOURCES:

SILBA maintains a safety library of training videos and DVDs available to all members free of charge. Other shared safety resources include Massachusetts Department of Safety Round Table Workshops, Massachusetts Safety Council programs, and on-line Webinars offered by SILBA's excess insurance partner, Midwest Employers Casualty Company.

SILBA SAFETY FLASH

Monthly safety email flash reports go to each member. These are great to use for five minute safety talks and safety committee meetings as they focus mainly on the two loss drivers for the group: lifting injuries and slips, trips and falls.

2009 GOALS

As in 2008, in 2009 SILBA established a group goal, issuing a challenge to members to further reduce the frequency of claims as compared to the prior 3 year average. This goal emphasized reducing the total number of claims by 20% over the prior 3-year average by focusing on SILBA's two primary loss cause drivers: slips/falls and lifting injuries. The monthly safety flashes noted above included statistics to help members track the group's results compared to this goal. The flashes also offered safety tips relative to these loss drivers.

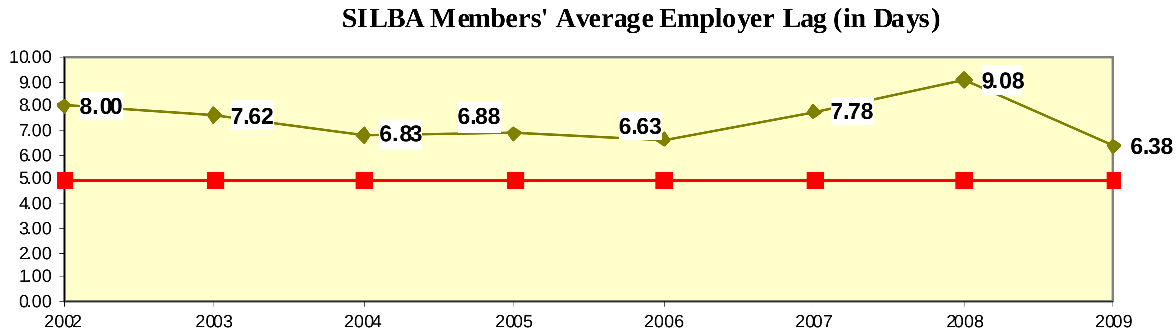
In 2009, while the group's payroll decreased by approximately 22% from the prior 3-year average, the group's claim count decreased by **43%** for indemnity (lost time) claims and **42%** for medical-only claims.

To continue this successful trend, the SILBA Board of Trustees has established the 20% reduction as an annual group goal.

Keys to SILBA Claims Management

Pro-active claims management, closely involving both the employer and the injured worker in the claims management process, is the cornerstone of SILBA's claims management philosophy. From the employer's perspective, SILBA focuses on three keys in the claims management process: early reporting of claims, temporary modified duty, and post-offer/pre-employment physicals. By concentrating on these areas, SILBA helps to ensure that members' injured employees receive the best treatment, their recovery time is decreased, and the injured worker is able to return to the workplace more quickly, and more importantly, healthy.

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.



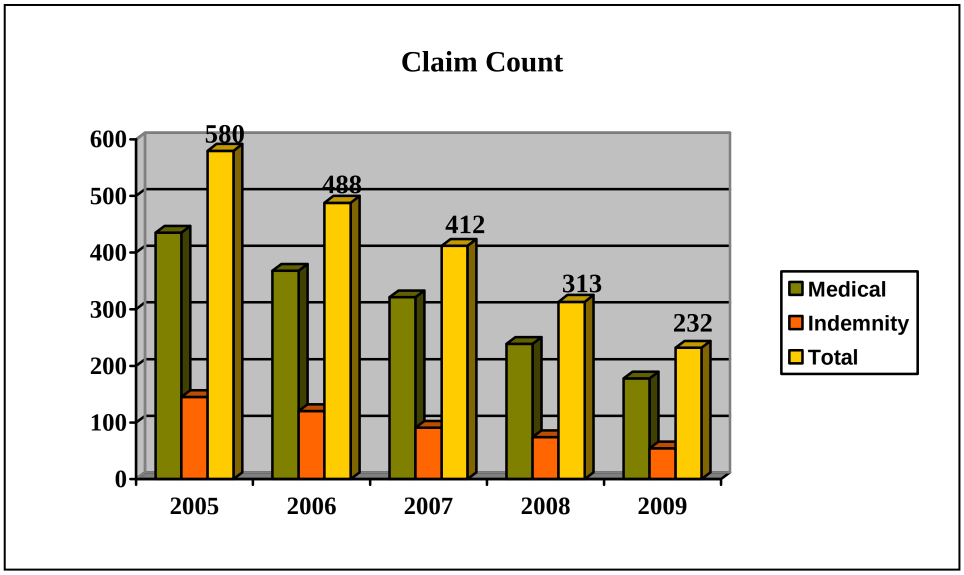
While the membership showed good improvement in 2009 in terms of reporting Lost Time claims, the group still fell short of the stated goal of 5 days. As highlighted in previous years, the earlier a claim is reported, the sooner the appropriate care can be given leading to decreased claims costs, which directly impacts the group's performance. While there was significant improvement in the reporting of Lost Time claims, Medical Only claims showed an increase in the lag time from 7.70 days to 11 days. SILBA must continue to improve in both areas so the performance and outcome of these claims continues to trend favorably.

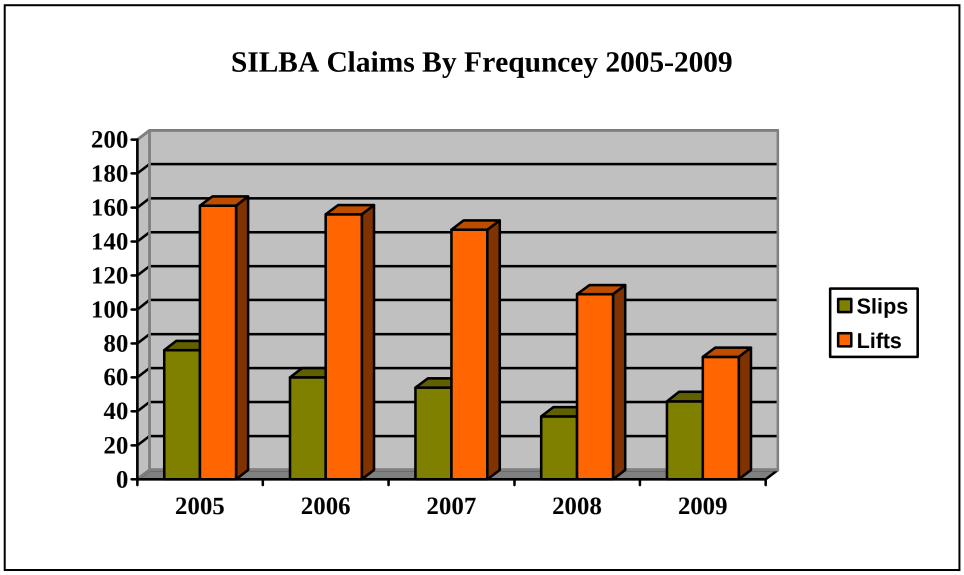
2) Provide Temporary Modified Duty. SILBA expects all members to provide temporary modified duty. When return to work programs are in place and employees' restrictions are accommodated, injured employees return to work up to 50% sooner and costs are reduced up to 70%.

3) Implement Post-Offer/Pre-Hire Physicals. The most pro-active way to manage claims is to prevent 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. We have taken the additional step of assisting members with developing an effective relationship with Occupational Health facilities for this purpose.

Claim Trending

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





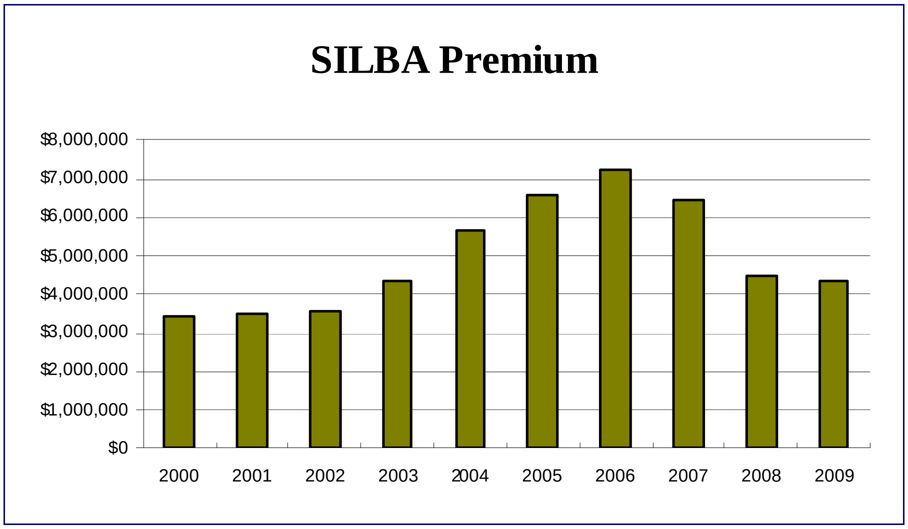
SILBA continues to focus on the root causes of injuries, particularly as it relates to its loss drivers – slips and falls and lifting injuries. In 2009, while the number of claims arising due to slips and falls rose from 37 to 46, lifting injuries decreased 34% from 109 to 72, reducing a major exposure for SILBA.

SILBA's commitment to safety is what sets its members apart from their competition and continues to produce positive results. Through the efforts of every member, SILBA will continue to set the standard for the lumber industry.

Operating Report

MEMBERSHIP AND PREMIUM

At year end 2009, SILBA's membership count stood at seventy-five.



Members' fund year premium totaled $4.3 million in 2009, representing a 3.6% decrease from the prior year, a combined result of an increase in Massachusetts workers compensation rates, offset by the overall decrease in group payroll.

DIVIDENDS EARNED

Dividends earned by the members are driven by both group results and individual performance. Members maximize savings for themselves and other members of the group by controlling their losses. Dividends are calculated as premiums paid in, less the cost of claims and all costs of running the Group, plus investment income. During 2009, members' generated calendar year earned premiums (net of excess insurance purchased) of $3.3 million, on which $1.57 million of dividends was earned, a return equal to 47.5% of premium. Since program inception, SILBA members have paid in a total premium of $73.9 million dollars and earned dividends of $24.0 million, ***an average return of 32%*** over SILBA's eighteen-year history.

SILBA began to return dividends earned to its members in 1995, the earliest date allowed by Massachusetts law and regulations. Through year-end 2009, $15.9 million of the $24.0 million of dividends earned had been returned to the members, including more than $1.6 million distributed to SILBA members in February of 2009. Additional distributions of $2.1 million in February 2010 bring total dividends distributed to SILBA members since its inception to over $18 million. Dividends earned but not distributed are designated as "Distributions due to members" on SILBA's balance sheet and set aside for future distribution.

GROUP EXPENSES

SILBA's Board of Trustees remains focused on safety, on actively managing claims and mitigating costs when injuries do occur, and on controlling the overall costs of the program in order to maximize the dividends it returns to its members.

SILBA's largest expense is the cost of its claims. Losses and loss adjustment expenses incurred include both amounts paid and reserves held to pay the estimated ultimate costs of open claims.

Losses and Loss Adjustment Expenses Incurred

	Fund Year Premium	Losses Incurred	Losses Incurred as a % of Premium
2000 Fund Year	$3,422	$2,309	67.5%
2001 Fund Year	$3,504	$2,635	75.2%
2002 Fund Year	$3,595	$2,551	71.0%
2003 Fund Year	$4,353	$2,773	63.7%
2004 Fund Year	$5,644	$2,798	49.6%
2005 Fund Year	$6,561	$3,229	49.2%
2006 Fund Year	$7,252	$3,919	54.0%
2007 Fund Year	$6,446	$3,357	52.1%
2008 Fund Year	$4,490	$2,472	55.1%
2009 Fund Year	$4,327	$2,135	49.3%

To help ensure ongoing profitability the SILBA Board of Trustees and Claim and Loss Control Committee have continually focused their efforts and allocated resources to safety and to the highest quality claim and loss control services for the Group's members.

SILBA also maintains high quality excess insurance coverage for the protection of its members. Excess insurance protects members by capping the Group's potential claim costs on both an individual 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. Over the last ten years, SILBA's excess and operating costs combined have consistently totaled 30% or less of group premium.

Other Operating Costs as a Percentage of Premium

	Excess Insurance	Other Operating	Total Costs
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%	13.8%	25.3%
2006 Fund Year	10.3%	13.4%	23.8%
2007 Fund Year	9.7%	14.1%	23.9%
2008 Fund Year	10.3%	15.5%	25.8%
2009 Fund Year	9.6%	16.6%	26.2%

Premium dollars not needed to cover claims and other operating costs are set aside and, combined with investment income earned, fund the members' dividend pool. With members' commitment and dedication to maintaining a safe workplace, to working closely with SILBA's claim adjusters, and to bringing injured workers back into the workplace as quickly as it is safe to do so, SILBA's results year after year have been such that the total costs to run the program have ultimately been less than the premium dollars collected. Remaining dollars from each fund year not needed to cover claims and operating expenses are ultimately returned to members in the form of dividends.

FINANCIAL HIGHLIGHTS

At December 31, 2009 SILBA's assets totaled $12.4 million, 97% of which were in the form of cash and invested assets, on which SILBA earns investment income to supplement its dividend pool. In 2009, invested assets yielded $541,725 of net investment gain.

Cash and Invested Assets (in 000's) as a Percentage of Total Assets

	Cash and Invested Assets	Total Assets	Percentage to Total
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%
2008 Fund Year	$12,509	$12,801	97.7%
2009 Fund Year	$12,083	$12,432	97.2%

Assets are invested in highly rated fixed income securities:

Valued at December 31, 2009:	**Amortized Cost**	**Market Value**
Corporate Securities	$4,878,382	$5,142,076
US Government Agency Securities	$4,864,263	$4,870,399
Mortgage-backed securities	$1,739,853	$1,800,423
Subtotal	$11,482,498	$11,812,898
Cash & Cash Equivalents	$600,516	$600,516
Total	$12,083,014	$12,413,414

SILBA's principal liabilities, comprising 98.6% of its total liabilities in 2009, were distributions due to members (dividends payable) and reserves for losses and loss adjustment expenses.

Dividends and Reserves (in 000's) as a Percentage of Total Liabilities

	Distributions due to Members	Reserves For Losses and LAE	Total Dividends and Reserves	Total Liabilities	Percentage to Total
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%
2008 Fund Year	$8,130	$4,448	$12,577	$12,801	98.3%
2009 Fund Year	$8,096	$4,166	$12,262	$12,432	98.6%

SILBA's largest liability in 2009 at just under $8.1 million, distributions due to members represent dividends earned by members and held for future distribution. These distributions payable are the equivalent of the Group's surplus. With $3.3 million of net calendar year premium earned, SILBA's premium to "surplus" ratio in 2009 was .41 to 1, underscoring SILBA's financial strength.

Reserves for losses and loss adjustment expenses are held to pay claims and claim-related expenses. The adequacy of reserves is reviewed annually and certified by an independent actuarial firm. Reserves include case reserves, which are the claim adjusters' estimates of the future amounts necessary to resolve open claims, and bulk reserves. Bulk reserves provide for the following 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 2009, reserves held were comprised of $1.36 million of case reserves and $2.81 million of bulk reserves (net of reserve discounts), approximately $2.07 of bulk reserve for each $1 of case reserve.

While it must be emphasized that reserves represent <u>estimates</u> of claim costs, and that the risk exists that the reserves could prove to be insufficient, 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. In 2009, SILBA's losses and loss adjustment expenses incurred include the release of $463,000 of prior years' reserves resulting from subsequent favorable loss development, and in 2008 $786,000 of prior years' reserves were released.

Year in and year out, SILBA has been fulfilling its mission to be the highest quality and most cost-effective long term solution for the workers compensation needs of lumber business in Massachusetts.

F&D

Feeley & Driscoll, P.C.

Certified Public Accountants / Business Consultants

Board of Trustees
Self Insured Lumber Businesses Association, Inc.
Andover, Massachusetts

Independent Auditors' Report

We have audited the accompanying balance sheets - statutory basis of Self Insured Lumber Businesses Association, Inc. as of December 31, 2009 and 2008, and the related statements of operations - statutory basis and 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 audits.

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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 Notes 2 and 3, Self Insured Lumber Businesses Association, Inc. 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 practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, 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 in the first paragraph 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, 2009 and 2008 or the results of its operations or its cash flows for the years then ended.

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However, in our opinion, the statutory basis financial statements referred to in the first paragraph present fairly, in all material respects, the balance sheets - statutory basis of Self Insured Lumber Businesses Association, Inc. as of December 31, 2009 and 2008 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.

As discussed in the notes to the financial statements, the reserve for unpaid losses and loss adjustment expenses reflected in the accompanying financial statements is based upon an evaluation by the Group's independent actuary. Management believes that this estimate is reasonable. However, changes in this estimate may occur from year to year which 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.

June 9, 2010

Feeley & Driscoll, P.C.

SELF INSURED LUMBER BUSINESSES ASSOCIATION, INC

Balance Sheets - Statutory Basis

December 31, 2009 and 2008

	2009	2008
Admitted assets:		
Cash and cash equivalents	$ 600,516	$ 462,680
Bonds	11,482,498	12,046,087
Reinsurance recoverable	39,533	35,926
Accrued interest income	164,928	196,397
Other assets	144,515	59,860
Total admitted assets	$ 12,431,990	$ 12,800,950
Liabilities:		
Reserve for losses and loss adjustment expenses, net	$ 4,165,812	$ 4,447,592
Distributions due to members	8,096,152	8,129,596
Policyholders' surplus	32,067	34,675
Accounts payable and accrued expenses	137,959	189,087
Total liabilities	$ 12,431,990	$ 12,800,950

See accompanying notes.

SELF INSURED LUMBER BUSINESSES ASSOCIATION, INC

Statements of Operations - Statutory Basis

For the years ended December 31, 2009 and 2008

	2009	2008
Premiums earned, net	$ 3,316,959	$ 4,199,790
Losses and loss adjustment expenses incurred	1,671,911	2,079,827
Other underwriting expenses incurred	611,083	785,709
Total underwriting expenses	2,282,994	2,865,536
Net underwriting income	1,033,965	1,334,254
Net investment income	468,008	434,788
Net realized investment gains	73,717	101,432
Net investment gain	541,725	536,220
Income before distributions to members and income taxes	1,575,690	1,870,474
Distributions to members	(1,575,234)	(1,870,018)
Income before income tax expense	456	456
Income tax expense	456	456
Net income	$ -	$ -
Policyholders' surplus - beginning of year	$ 34,675	$ 41,967
Increase in non-admitted assets	(2,608)	(7,292)
Policyholders' surplus - end of year	$ 32,067	$ 34,675

See accompanying notes.

SELF INSURED LUMBER BUSINESSES ASSOCIATION, INC

Statements of Cash Flows - Statutory Basis

For the years ended December 31, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Premiums collected	$ 3,239,369	$ 4,149,292
Losses and loss adjustment expenses paid, net of reinsurance	(1,957,299)	(2,862,293)
Other underwriting expenses paid	(653,791)	(784,503)
Net investment income	587,991	593,672
Distributions to members	(1,608,678)	(1,342,349)
Net cash used in operating activities	(392,408)	(246,181)
Cash flows from investing activities:		
Proceeds from sales or maturities of bonds	2,956,156	5,850,449
Purchase of bonds	(2,407,363)	(7,231,526)
Net cash provided by (used in) investing activities	548,793	(1,381,077)
Cash flows from financing activities:		
Contributed surplus applied	(2,608)	(7,292)
Other cash applied	(15,941)	(124,650)
Net cash used in financing activities	(18,549)	(131,942)
Net increase (decrease) in cash and cash equivalents	137,836	(1,759,200)
Cash and cash equivalents at beginning of year	462,680	2,221,880
Cash and cash equivalents at end of year	$ 600,516	$ 462,680

See accompanying notes.

Note 1 - Organization

Self Insured Lumber Businesses Association, Inc. (the Group) was organized as a workers' compensation self-insurance group on January 1, 1993 under Massachusetts General Law, Chapter 152. The Group is comprised of Massachusetts lumber businesses (the members) who have entered into agreements to pool their liabilities for workers' compensation benefits and employers' liability in Massachusetts. 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.

Note 2 - 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. Significant variances from accounting principles generally accepted in the United States of America (GAAP) include, but are not limited to, the following:

Policy Acquisition Costs - Under statutory accounting practices, the cost of acquiring and renewing business (principally commissions) is charged to operations as premiums are written. Under GAAP, such amounts are 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. Under GAAP, the discount for reserves on unpaid losses and loss adjustment expenses is computed based upon the Group's anticipated payout pattern using a discount rate determined by management to approximate the Group's investment yield during the payout period.

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 Bonds - Under statutory accounting practices, the bonds owned by the Group are generally valued at amortized cost. Under GAAP, such debt securities are designated at purchase as held to-maturity, trading or available-for-sale. Held-to-maturity debt securities are reported at amortized cost; the remaining debt securities are reported at fair value, with unrealized gains and losses reported in operations for those designated as trading and as a separate component of equity for those designated as available-for-sale.

Note 2 - Summary of Significant Accounting Policies - Continued

Cash and Cash Equivalents - Cash and cash equivalents include those items with an original maturity of one (1) year or less at the date of acquisition for purposes of the statutory basis financial statements. However, under GAAP, cash and cash equivalents include those items with an original maturity of three (3) months or less at the time of acquisition. Cash equivalents consist of various money market accounts and have been valued at cost.

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 balance sheets - statutory basis. Changes to non-admitted assets are recorded directly in policyholders' surplus. Common examples of non-admitted assets include premiums receivable over ninety (90) days old, certain prepaid expenses, certain fixed assets and certain deferred tax charges.

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 members. Any premium changes resulting from these payroll audits are recognized during the year of the payroll audit. Under GAAP, an estimate of earned but unbilled premiums expected to result from payroll audits would be recorded.

Premiums are established annually based on Massachusetts workers' compensation rates and adjusted for individual experience. Premium rates are intended to be sufficient to cover all operating costs, and to maintain and continue the Group in full force and effect. The Group's practice is to make additional premium assessments of any member whose case-incurred losses and allocable expenses exceed the original premiums charged for a fund year or in the event that sufficient funds are not available for the sound financial operation of the Group.

Premiums are recorded as earned on a pro rata basis over the term of individual policies. Premiums earned are reported net of premiums ceded.

Premiums Receivable - Premiums receivable over ninety (90) days past due are considered nonadmitted assets. Under GAAP, an allowance for amounts deemed uncollectible would be established through a charge to earnings.

Note 2 - Summary of Significant Accounting Policies - Continued

Distributions to Members - The Group typically has declared distributions payable to members equivalent to income before provision for distributions to members. The Board of Trustees will determine the timing of these distributions. In accordance with Massachusetts self-insurance group regulations, the Group will not begin to distribute this balance until twenty-four (24) months after the end of the fund year in which the distribution is declared, at which point, twenty-five percent (25%) of the calculated amount may be distributed. Thereafter, up to thirty-three percent (33%), fifty percent (50%) and one-hundred percent (100%) of the recalculated distributions may be distributed in each of the successive twelve (12)-month periods.

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.

Bonds - Bonds are carried at amortized cost, adjusted for accrual of discount or amortization of premium. For disclosure purposes, fair values for debt securities are based on quoted market prices, where available. For debt securities not actively traded, fair values are estimated using values obtained from independent pricing services, or, in the case of private placements, are estimated by discounting the expected future cash flows using current market rates applicable to the coupon rate, credit and maturity of the bonds.

Loan-backed debt securities are valued at amortized cost using the interest method, including anticipated prepayments. Prepayment assumptions are internal estimates based on the current interest rate and economic environment. The retrospective method is used to value all loan-backed debt securities.

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 balance sheet - statutory basis and statements of operations - statutory basis, as well as the disclosure of contingent liabilities. Actual results could differ from these estimates.

Subsequent Events - The Group has adopted standards for accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. The Group has evaluated subsequent events through June 9, 2010, which is the date the financial statements were available for issuance.

Note 3 - Statutory Accounting Practices

The financial statements of the Group are presented on the basis of accounting practices prescribed or permitted by the Commonwealth of Massachusetts Division of Insurance (the Division). The Division recognizes only statutory accounting practices prescribed or permitted by the state of Massachusetts for determining and reporting the financial condition and solvency of an insurance company under Massachusetts Insurance laws and regulations. The National Association of Insurance Commissioners' *Accounting Practices and Procedures Manual* (NAIC SAP) has been adopted as a component of prescribed or permitted practices by the Commonwealth of Massachusetts, along with certain prescribed accounting practices specifically related to self-insurance groups that differ from those found in NAIC SAP.

Those differences include the following:

Earned but Unbilled Premiums: Estimated earned but unbilled premiums based on premium audits are not recorded unless an audit has been completed indicating that additional premiums will be billed within the following thirty (30) days. Under NAIC SAP, an estimate of earned but unbilled premiums expected to result from payroll audits, less ten percent (10%) non-admitted, would be recorded.

Discounting of Loss Reserves: Loss reserves are discounted at rates currently used by the Internal Revenue Service. Under NAIC SAP, discounting of loss reserves is not permitted, except for tabular reserves under IRS guidelines.

Income Taxes: The Group is not required to record deferred tax assets and deferred tax liabilities on its financial statements.

Note 4 - Excess Insurance Coverage

The Group has purchased excess insurance for protection against unusually high losses. Specific excess insurance protects against large individual losses. Aggregate excess protects against a high overall level of losses. For each accident that is in excess of a specific retention, the coverage takes effect subject to the limits as imposed by the various contracts.

The following table summarizes the reinsurance activity for the years ended December 31:

	Premiums Earned		Reserve for Losses and Loss Adjustment Expenses		Loss and Loss Adjustment Expenses Incurred	
	2009	2008	2009	2008	2009	2008
Direct	$ 3,721,545	$ 4,758,490	$ 4,241,706	$ 4,559,349	$ 1,400,012	$ 2,074,160
Ceded	(404,586)	(558,700)	(75,894)	(111,757)	271,899	5,667
Net	$ 3,316,959	$ 4,199,790	$ 4,165,812	$ 4,447,592	$ 1,671,911	$ 2,079,827

Note 4 - Excess Insurance Coverage - Continued

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 insolvency.

There are no nonaffiliated, unsecured, and aggregate reinsurance recoverables for paid and unpaid losses, including incurred but not reported losses, unpaid loss adjustment expenses, and unearned premiums that exceed three percent (3%) of the Group's undistributed dividends.

Note 5 - Bonds

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

	December 31, 2009			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government securities	$ 4,864,263	$ 44,971	$ (38,835)	$ 4,870,399
Corporate securities	4,878,382	269,974	(6,280)	5,142,076
Mortgage backed securities	1,739,853	61,290	(720)	1,800,423
	$ 11,482,498	$ 376,235	$ (45,835)	$ 11,812,898

	December 31, 2008			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government securities	$ 4,182,970	$ 253,087	$ -	$ 4,436,057
Corporate securities	5,502,247	47,399	(281,023)	5,268,623
Mortgage backed securities	2,360,870	175,969	-	2,536,839
	$ 12,046,087	$ 476,455	$ (281,023)	$ 12,241,519

The amortized cost and estimated fair 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.

Note 5 - Bonds - Continued

	December 31, 2009		December 31, 2008	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 1,655,606	$ 1,665,574	$ 693,261	$ 694,100
Due in one year through five years	5,307,413	5,527,366	7,606,156	7,643,446
Due after five years through ten years	4,405,086	4,502,511	3,746,670	3,903,973
Due after ten years	114,393	117,447	-	-
	$ 11,482,498	$ 11,812,898	$ 12,046,087	$ 12,241,519

Proceeds from sales or maturities of bonds during 2009 and 2008 were $2,956,156 and $5,850,449, respectively. Gross gains of $103,546 and $197,620 were realized during 2009 and 2008, respectively. There were $29,829 and $96,188 of gross realized losses in 2009 and 2008, respectively.

Note 6 - 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 $3,600,000 and $3,900,000 on an undiscounted basis as of December 31, 2009 and 2008, respectively.

During the year ended December 31, 2009 and 2008, actuarially calculated losses and loss adjustment expenses incurred in excess of the Group's retention levels were approximately $42,000 and $221,000, respectively. Accordingly, these amounts were recorded as a reduction to 2009 and 2008 losses and loss adjustment expenses, respectively.

Any increases or decreases in ultimate incurred losses on a net basis as compared to the prior year will result in a direct increase or decrease in the current year's net earnings. During the years ended December 31, 2009 and 2008, the Group experienced a net decrease in the estimate of ultimate incurred losses and loss adjustment expenses and change in reserve discount for prior years as a result of claim development. These amounts have been credited to losses and loss adjustment expenses in both years.

Note 6 - Reserve for Unpaid Losses and Loss Adjustment Expenses - Continued

For the years ended December 31, 2009 and 2008, 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 $762,679 and $804,674 at December 31, 2009 and 2008, respectively.

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

	2009	2008
Reserve for losses and loss adjustment expenses, beginning of year	$ 4,447,592	$ 5,618,176
Incurred losses and loss adjustment expense:		
Provision for insured events of the current year	2,135,251	2,865,741
Provision for insured events of prior years	(463,340)	(785,914)
Total incurred losses and loss adjustment expenses	1,671,911	2,079,827
Losses and loss adjustment expense payments related to:		
Current year	506,134	808,899
Prior years	1,447,557	2,441,512
Total losses and loss adjustment expense payments	1,953,691	3,250,411
Reserves for losses and loss adjustment expenses, end of year	$ 4,165,812	$ 4,447,592

Note 7 - Management Fees

The Group has entered into a management agreement, expiring December 31, 2011, with the Administrator under which the Administrator provides various services including loss control, claims management, marketing, accounting and general administration. The administrator also receives a commission for obtaining excess insurance coverages for the Group. The Group paid management fees and commission expense of approximately $507,000 and $622,000 for the years ended December 31, 2009 and 2008, respectively.

Note 8 - 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 Trustees. The Group files with the Internal Revenue Service as a property and casualty insurance company under the provisions of Subchapter L of the Internal Revenue Code.

During 2009, the Group adopted accounting principles relating to the disclosure of uncertain income tax positions. The related pronouncements changed the manner the Group recognizes, presents, and discloses uncertain tax positions within their financial statements. Accordingly, the Group may recognize tax benefits only in the event that a position is more likely than not to be sustained upon examination by the applicable taxing authority. There was no impact on the December 31, 2009 financial statements of the Group as a result of the adoption of accounting for uncertain income tax positions.

Note 9 - 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 10 - Deposit with Massachusetts Division of Insurance and Restricted Cash

The group is required to provide security amounting to $387,000 and $473,000 at December 31, 2009 and 2008, respectively (see Note 12). An escrow account, which includes approximately $726,000 and $742,000 in bonds, is pledged to the Massachusetts Division of Insurance as a security deposit pursuant to Section 211CMR67.08(2)(9d) at December 31, 2009 and 2008, respectively. The pledged security exceeds the amount of security required by the state.

Note 11 - 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 reserves and reinsurance shall be the financial responsibility of the members.

Note 12 - Statutory Requirements

Among other requirements outlined in the Commonwealth of Massachusetts Self-Insurance Group regulations, the minimum financial requirements are as follows:

Security: The Group is required to provide to the Commissioner of Insurance of the Commonwealth of Massachusetts security equal to the greater of ten percent (10%) of the Group's standard premium, or $100,000. At December 31, 2009 and 2008, the Group was required to provide security amounting to $387,000 and $473,000, respectively (see Note 10).

Liquidity: The Group is required to provide security to the extent of undiscounted loss reserves and unearned premiums exceed liquid assets. The Group was not required to provide security because undiscounted loss reserves and unearned premiums did not exceed liquid assets.

Net Worth: The net worth of all the members of the Group combined is required to exceed the greater of four-hundred percent (400%) of the Group's standard premium, or $1,000,000.

Reinsurance/Excess Insurance: The Group is required to obtain specific excess reinsurance coverage of at least $5,000,000 per occurrence and aggregate excess insurance attaching at one hundred five percent (105%) of standard premium.

Note 12 - Statutory Requirements - Continued

The retention limit for the Group's excess reinsurance coverage shall not be more than thirty percent (30%) of the net premium of the Group. Reinsurers shall be licensed, admitted or otherwise authorized to transact insurance or reinsurance in the Commonwealth of Massachusetts and at least be rated by two of the following rating agencies: A.M. Best & Company (A-), Fitch (AA), Moody's Investors Services (AA2) and Standard & Poor's Corporation (A).

As of December 31, 2009 and 2008, the Group was in compliance with all statutory financial requirements, or received waivers via permitted practices as noted herein.

Note 13 - 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.

The Group has a potential concentration of credit risk in that it maintains deposits with a financial institution in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC). On October 3, 2008, the FDIC increased the insurance limit on interest bearing accounts from $100,000 to $250,000 and removed all insurance limitations for non-interest bearing accounts. These changes were effective through December 31, 2009. Subsequently, on May 20, 2009, the FDIC extended the increased insurance limit for interest bearing accounts through December 31, 2013 and imposed the $250,000 limit on non-interest bearing accounts, which will be effective January 1, 2010 through December 31, 2013. The total amount of uninsured deposits approximated $568,000 at December 31, 2009.

Premiums with two (2) members and three (3) members accounted for approximately thirty percent (30%) and forty percent (40%) of the Company's premiums as of December 31, 2009 and 2008, respectively.

SELF INSURED LUMBER BUSINESSES ASSOCIATION, INC.

Member Listing

Anderson & McQuaid Company, Inc.
Arlington Coal & Lumber Co.
Atlantic Plywood Corporation
Attleborough-Rehoboth Building Supply, Inc.
Belletetes, Inc.
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.
Devon Lumber
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
Johnson Lumber Co.
Keiver Willard Lumber Corp.
Kelly Fradet Lumber Co. Inc.
Koopman Lumber Co., Inc.
Larkin Lumber Company
Lynn Lumber Company
Maki Corporation
Moynihan-N. Reading Lumber Inc. & Moynihan Lumber of Beverly
Mozzone Lumber Company, Inc.
Nickerson Lumber Co.
North Atlantic Corporation
Northeast Treaters, Inc.
Plywood Supply and Lumber, Inc.
RB Negus Lumber Company
R.S. Lamson & Sons
Ryan Seamless Gutter Systems, Inc.
Shepley Wood Products
Squier & Company, Inc.
St. Denis Products, Inc./Lumber Center
Sudbury Lumber
Taylor Lumber & Oil Co. Inc./Harmony Realty Trust
Wachusett Lumber & Building Supply Inc
Warren Trask Company
Westwood Lumber, Inc.
Wholesale Doors, Inc.
Wilmington Builders Supply Co.
Wood Lumber Company
Yankee Pine Corporation

Includes all active members of the Self Insured Lumber Businesses Association (SILBA) as of January 1, 2011.

SELF INSURED LUMBER BUSINESSES ASSOCATION, INC.

<u>Officers</u>

Donald Chace, President
Karl I. Gray, Treasurer
Irving D. Humphrey, III, Clerk

<u>Trustees</u>

John R. Blakeney	Karl I. Gray	Lona Lamson
Donald Chace	Irving D. Humphrey, III	Rick Ursch
Tom Dennison	Linda Eddy	Manual Pina

<u>Claim & Loss Control Committee</u>

Tom Alves	Cliff Lord	Phyllis Messere
Joanne Cameron, **Chairperson**	David Lamb	Craig Miles
Linda Eddy	Jennifer MacGray	John Prizio
Steve Esty	Michael McNeil	Steve Sager

<u>Professional Management</u>

Meadowbrook / TPA Associates - Program Management,
Claim Management, and Loss Control Services
Midwest Employers Casualty Company - Excess Insurance
Feeley & Driscoll, P.C. – Financial Audit
Towers Watson Company – Actuary
Ropes & Gray - Legal Counsel
Standish Mellon Asset Management - Investment Management

The above listing is as of December 31, 2009.