SILBA

Self Insured Lumber Businesses Association, Inc.

THE QUALITY WORKERS COMPENSATION SOLUTION FOR MASSACHUSETTS LUMBER BUSINESSES

2013 Annual Report To the Members

February, 2015

Members of
Self Insured Lumber Businesses Association, Inc.

Dear SILBA Members:

I thank you for the opportunity to introduce the 2013 Annual Report to the members of Self Insured Lumber Businesses Association, Inc. (SILBA), marking SILBA's 22nd year serving lumber businesses in Massachusetts.

2013 Financial Results

In 2013 SILBA generated a calendar year loss of -\$141,779, or -5.3% of 2013 calendar year earned premium. This compares to a calendar year loss of -\$270,057, or -11.1% in 2012.

Calendar year net earned premium increased by approximately \$256,000 in 2013 to \$2.69 million, while membership decreased during the year by 6 to 67. The decrease in membership was due to one member selling their business and five others closing their businesses. The increase in premium was related to higher average experience mod and ARAP factors for 2013.

SILBA's loss ratio decreased from 104.1% in 2012 to 89.9% in 2013. The 2013 calendar year results include a net decrease of \$29,000 relating to overall favorable development in prior year claims as compared to a net increase of \$740,000, reflecting unfavorable development of prior years' claims, included in the 2012 calendar year results. The overall high loss ratio for calendar year 2013 relates to a higher estimated current year (2013) loss ratio of 91.3% as compared to the current year loss ratio for calendar year 2012 of 72.6%

On a nominal basis, SILBA's underwriting expenses increased 21.3% from the previous year (increasing \$106,000 from \$495,000 to \$601,000). As a percentage of premium, SILBA's underwriting expenses increased about 9.8%, from 20.3% in 2012 to 22.3% in 2013. The majority of this change related to a combination of a reduction of prior year expenses during the 2012 calendar year due to final payroll audit, and a change in the net DIA Assessment.

The net effect of the calendar year results was a combined ratio (losses plus expenses as a percent of premium) of 112.2% compared to 124.5% in 2012. Investment income earned in 2013 of \$188,000 offset a portion of this loss, resulting in an operating loss of -\$141,779 or -5.3% of 2013 net premium, compared with an operating loss of -270,057 or -11.1% of 2012 net premium..

SILBA's Balance Sheet

At December 31, 2013, SILBA held \$6.47 million in total assets, more than 97% of which were invested in highly-rated debt securities, in accordance with state regulations, or held in cash and short-term investments. This base of invested assets provides SILBA with a consistent stream of investment income that supplements the members' dividend pool. As noted above, in 2013 the group earned approximately \$188,000 in net investment income.

One of SILBA's largest liabilities, at \$2.3 million or 35.5% 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 premium to "surplus" ratio of 1.17 to 1.

SILBA also held almost \$4.0 million in reserves to pay the estimated future costs of claims incurred to date. These reserves include \$2.06 million of adjusters' reserves on reported losses for all fund years, and another \$1.91 million of net actuarial or contingent reserves established to fund potential ultimate losses. This equates to approximately $.93 of contingent reserve held for every $1 of adjusters' reserves.

Since inception of the program in 1992, SILBA members have earned more than $24.7 million in dividends, an average earned dividend of 28.8% per year. At year-end 2013, dividend distributions to members to date totaled more than $22.4 million.

THE IMPACT OF SAFETY

Each year when we gather for the Annual Meeting, we have a unique opportunity to motivate ourselves to work toward a common goal - to maintain a safe workplace for our employees. I am sure we all agree, our employees are our most valuable assets. They are a significant part of what makes each of our companies successful. They are committed to us, to care for them when they are at work. Yes, some people just work for the pay they receive, but many more truly want to be successful, and want their companies to be successful. People take pride in their work, especially when pride is reciprocated by the organization.

One way of fostering this esteem is by creating a "safety climate". Different than a safety culture, a Safety Climate is easier to measure. One way of measuring a safety climate is to do a simple survey amongst the employees, supervisors and the managers to measure the PERCEIVED importance of safety within the organization. The survey can be used to forecast future potential for injuries to occur. Real change occurs when companies then take action to improve based on the results of the survey.

Past studies have shown that there is a direct relationship between Leadership and Climate within an organization. Improving Safety Leadership should lead to an improved climate, which then may lead to improved overall results. When **all** levels of management provide employees with a clear message that SAFETY IS IMPORTANT TO EVERYONE, everyone will get the message. This may take a little creativity on your part, as owners and principals of your organizations. Are one-on-one safety conversations your preferred method or do you find a 5 minute safety talk more effective? The most important thing is being consistent and doing what works for you. Try to remember to say the words "Safety" or "Safely" at least every day to someone. You can heighten someone's safety awareness by having a brief but meaningful safety conversation with them.

That brings us to **RESPONSIBILITY**. We talk about it every year because it is important. As the principals of our companies, our burden is greater. Not only must we assure that our business is profitable, we have the added responsibility to assure that those who are doing the work are kept safe and whole, every day. This then means we have to continually work on enhancing and improving our safety efforts. The efforts have to be made daily in order to be effective. Our behavior as owners and managers is directly related to our positive or negative results throughout the organization. And because we are part of a self insured group, our efforts and results directly impact the other members of the group.

We've talked in the past about "owning" safety. It is still a true cause today. Our safety is in our hands. Our employees' safety is in our hands. Our profitability is in our hands.

Those of you who know me, know that I firmly believe that we all have a moral obligation to help our employees work safely everyday. We all have families who count on us to send their loved ones home the same way they came in to work. Show them that you care, and believe in the "way of safety".

Very truly yours,

Thomas A. Dennison, Jr.

Thomas A. Dennison, Jr.
President

SELF INSURED LUMBER BUSINESSES ASSOCIATION, INC.

2013 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:

Safety is a shared responsibility. When each member takes responsibility and maintains a safe workplace, everyone benefits. This is the safety focus that SILBA members have taken seriously for more than 22 years.

SAFETY ACTIVITIES:

SILBA's team of Safety Professionals from Meadowbrook work to assist members in achieving their goal of creating and maintaining a safe workplace. Safety services are made-to-order to fit the individual member's needs, including on-site safety surveys; training, attendance and presentations at members' safety committee meetings, and sharing of pertinent safety literature and resources.

SILBA members also receive quarterly safety newsletters via email, as well as Safety Alerts when there is a critical need to do so. For example, a recent Safety Alert was sent just before the recent severe cold snap so that members could have something in hand to discuss with their employees, and then post on their safety bulletin board or send via their own intra-net. There are Safety Blasts developed on a variety of safety subjects. Members have found these to be helpful and they have used them to supplement their in-house meetings and 5 minute safety talks.

The SILBA safety professionals also review accident reports on a daily basis and accident investigations are conducted when a serious injury occurs. The root cause(s) is determined and an action plan is developed to help the member prevent future loss. Information is shared with the other members in the interest of safety and preventing similar injuries. The information obtained from accident reports, investigations and on-site visits is used to select topics for the Workshops and Safety Day event. This information is also used in safety articles in the quarterly newsletters and monthly safety blasts. Past topics have included: preventing slips, trips and falls, lifting safe practices, jobsite safety, forklift safety, GHS requirements, electrical safety, machine guarding, and safe storage practices.

CLAIM AND LOSS CONTROL COMMITTEE MEETINGS:

The SILBA Claim and Loss Control Committee, comprised of both SILBA Members and SILBA's Claim and Safety professionals, meets on a quarterly basis. The meetings are used to discuss the prior quarter's claims and results of accident investigations, as well as the members' safety action plans to address areas of concern. There is also a Round Table segment where members share their current safety activities, both what has worked and what has not. This forum encourages the discussion of best practices and successes, and has been found it to be extremely beneficial. **All** members are invited and encouraged to participate in these quarterly committee meetings.

SPRING SAFETY DAY AND FALL SAFETY WORKSHOPS:

SILBA has held a Spring Safety Day for several years, typically in April. SILBA members attend to hear a variety of excellent speakers discuss topics ranging from Good Hiring practices to Safe Lifting Techniques, Return to Work Programs, and Job Fit Analysis.

There are also 3 Fall workshops held in 3 regional settings, for the convenience of members throughout the state. Past topics have included Facility self- inspections, safety activities, conducting 5 minute safety talks, Mass Hoisting License requirements, and the availability of in-house training and outside vendor training.

PRINCIPALS MEETING:

In order to keep the ownership and senior management in touch with the loss trends, SILBA has held Principals Meetings in each of the last few years. The financial impact of loss trends upon members' businesses and on the group overall was discussed. Members were reminded of the positive steps they can and should be taking from both a safety and claim management standpoint to move the results in a favorable direction. The meetings have been well attended and well received.

OTHER RESOURCES:

SILBA launched its website a little over two years ago. This is another great resource for SILBA members, as the website is frequently updated with pertinent, useful information. Meeting dates, workshop dates and links to other safety sites are included for easy reference, and there is an archive of past safety newsletters, and safety blasts. Members can also report claims and request certificates of insurance through the website. Please be sure to visit the site regularly at: www.silba-wc.com.

Another resource available through SILBA's service provider, Meadowbrook, is Safetysurance. Through this site, SILBA members are able to download and print or share electronically a large variety of safety information such as Safety Brochures, Safety Talks and Meeting Topics, Safety Posters and Checklists, and Safety Plans and Programs. Live Streaming Training Videos are also available. Please visit the site at: www.safetysurance@meadowbrook.com.

GOALS: 2015-2016:

As we look ahead to 2015 and 2016, SILBA members will focus on:

- Assuring that all persons in authority- upper management and supervisors- make **SAFETY** a top priority every day;
- Making all management-level and supervisory personnel **responsible** for the safety of all their direct reports/ departments;
- Insisting that employees become **personally responsible** for working safely every day, and helping them understand the **need** to work safely;
- Providing education and training to all employees so that they will learn the **SAFE** way to do their jobs; and

- Eliminating unsafe behaviors in the workplace by having an effective **disciplinary** program to deal with this issue.

Though not a new issue, another **HOT TOPIC** going forward is "The Aging Workforce". Members must give some thought as to how they will deal with this very real issue as time goes on. There are some easy things that all companies can do to start addressing some of the physical aspects of aging in the workplace:

- Job rotation
- Improved illumination, better task lighting
- Subsidizing orthopedic footwear
- Safe and better designed workspaces
- Temperature controls; minimizing /limiting exposures to extreme hot and cold temperatures

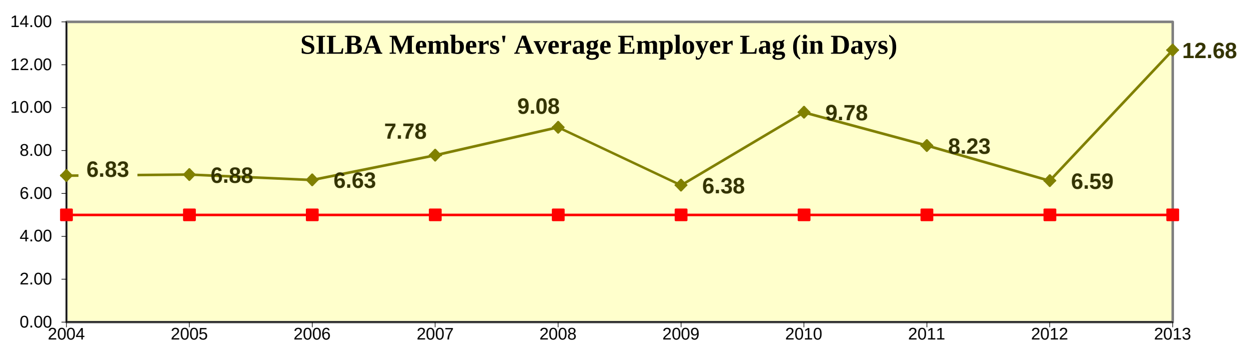
Health and Wellness topics are also important:
- Fostering stretching programs
- Having a nutritionist come in to talk about healthy eating and food choices
- Mandating a smoke-free workplace
- Providing medical screening for Diabetes/ Hypertension

SILBA's safety professionals will be arranging Workshop speakers in 2015 to assist members in addressing this very critical issue.

<u>Keys to SILBA Claims Management</u>

The focus for claims management remains on three key areas: early reporting of claims, providing temporary modified duty, and post-offer/pre-employment physicals. It is imperative that members take responsibility in fulfilling their roles in each of these areas, as they are the most direct and effective means to improving SILBA's results. To continue to achieve the success upon which SILBA has been built, good claims management requires a commitment from every member.

1) <u>Report All Claims Early</u>. 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.

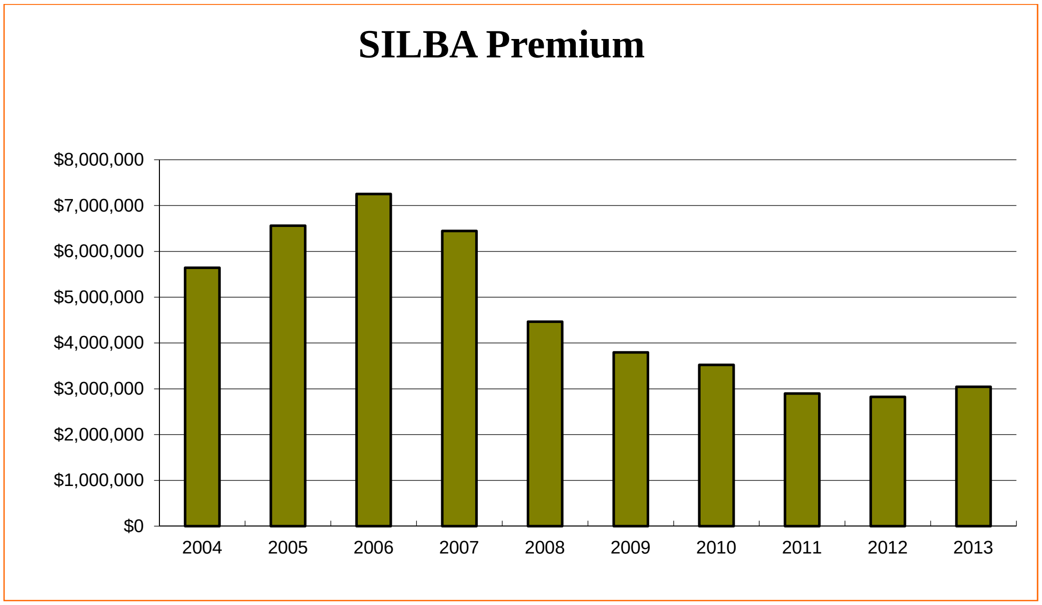


Often overlooked is the importance of timely reporting of all claims. This has been a frequent topic of discussion at Claim and Loss Control Meetings, Board of Trustees Meetings, and Workshops over the years, as early intervention by the Claim Department allows us to ensure the proper treatment is being sought and early return to work is being addressed. 2013 saw a

OPERATING REPORT

MEMBERSHIP AND PREMIUM

At year end 2013, SILBA had sixty seven members.



Members' 2013 fund year premium totaled $3.04 million, a 7.8% increase from the prior year. This increase in premium was the result of an increase in the group's average experience modification and ARAP factors.

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. From program inception through December 31, 2013, SILBA members have paid in a total premium of $85.7 million dollars and earned dividends of $24.7 million, an average return of 28.8% over SILBA's history.

SILBA began to return dividends earned to its members in 1995, the earliest date allowed by Massachusetts laws and regulations. Through year-end 2013, $22.4 million of the $24.7 million of dividends earned had been returned to the members, including more than $728,000 distributed to SILBA members in February of 2013. Dividends earned but not distributed are designated as "Distributions due to members" on SILBA's balance sheet.

GROUP EXPENSES

From an expense perspective, SILBA's Board of Trustees remains focused on safety, on actively managing claims and mitigating claim 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
2004 Fund Year	$5,644	$2,642	46.8%
2005 Fund Year	$6,561	$3,500	53.3%
2006 Fund Year	$7,252	$3,805	52.5%
2007 Fund Year	$6,446	$3,250	50.4%
2008 Fund Year	$4,464	$2,321	52.0%
2009 Fund Year	$3,795	$1,291	34.0%
2010 Fund Year	$3,521	$3,418	97.1%
2011 Fund Year	$2,897	$2,201	76.0%
2012 Fund Year	$2,823	$1,787	63.3%
2013 Fund Year	$3,044	$2,446	80.4%

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 the Group and its members. Excess insurance caps the Group's potential claim costs on both an individual (specific) 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 other day to day operating costs.

Operating Costs as a Percentage of Premium

	Excess Insurance	Other Operating	Total Costs
2004 Fund Year	12.9%	15.0%	27.9%
2005 Fund Year	11.5%	13.8%	25.3%
2006 Fund Year	10.3%	13.5%	23.8%
2007 Fund Year	9.7%	14.4%	24.2%
2008 Fund Year	10.4%	16.3%	26.7%
2009 Fund Year	10.9%	17.7%	28.6%
2010 Fund Year	10.6%	18.4%	29.0%
2011 Fund Year	12.1%	18.6%	30.7%
2012 Fund Year	12.1%	21.7%	33.8%
2013 Fund Year	12.0%	17.6%	29.6%

Premium dollars are used to pay claims and all operating costs of the program. When these premium dollars, combined with investment income exceed program costs, the members' dividend pool is funded. Conversely, if funds are inadequate to cover all costs, additional amounts may need to be collected. Historically, 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 have been such that the total costs to run the program have ultimately been less than the premium dollars collected. Since 2010 with low workers compensation rates and higher claim costs, the group's financial results and related profit margins have been negatively impacted. Remaining committed to safety and claim mitigation strategies is more important now than ever.

FINANCIAL HIGHLIGHTS

At December 31, 2013 SILBA's assets totaled $6.47 million, 97.5% of which were in the form of cash and invested assets, on which SILBA earns investment income to supplement its dividend pool. In 2013, invested assets yielded $187,505 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
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%
2010 Fund Year	$9,946	$10,156	97.9%
2011 Fund Year	$8,049	$8,210	98.0%
2012 Fund Year	$6,370	$6,478	98.3%
2013 Fund Year	$6,305	$6,468	97.5%

Assets are invested in highly rated fixed income securities:

Valued at December 31, 2013:	**Amortized Cost**	**Market Value**
Corporate Securities	$1,975,723	$2,115,202
US Government Agency Securities	$2,179,633	$2,171,548
Mortgage-backed securities	$1,067,657	$1,070,209
Subtotal	$5,223,013	$5,356,959
Cash & Cash Equivalents	$1,082,049	$1,082,049
Total	$6,305,062	$6,439,008

The majority of SILBA's liabilities 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
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%
2010 Fund Year	$6,905	$3,090	$9,995	$10,156	98.4%
2011 Fund Year	$5,402	$2,778	$8,180	$8,210	99.6%
2012 Fund Year	$3,167	$3,261	$6,428	$6,478	99.2%
2013 Fund Year	$2,298	$3,968	$6,265	$6,468	96.9%

Distributions due to members, at almost $2.3 million at year end 2013, represent dividends earned by members and held for future distribution. These distributions payable are the equivalent of the Group's surplus. With $2.69 million of net calendar year premium earned, SILBA's premium to "surplus" ratio in 2013 was 1.17 to 1.

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 actuarial or 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 2013, reserves held were comprised of $2.06 million of case reserves and $1.91 million of bulk reserves (net of reserve discounts), approximately $.93 of bulk reserve for each $1 of case reserve.

Reserves represent estimates of claim costs, and the risk exists that the reserves could prove to be insufficient to cover the ultimate cost of the claims. In 2013, SILBA's losses and loss adjustment expenses incurred included a decrease of $28,812 of prior years' reserves resulting from subsequent favorable loss development, as compared to 2012 when prior years' reserves were increased $740,117 due to unfavorable loss development.. When reserves are subsequently increased, the overall dividend pool is decreased, while releasing reserves increases the related fund year dividend pools.

Feeley & Driscoll, P.C.
Certified Public Accountants / Business Consultants

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

Independent Auditor's Report

We have audited the accompanying financial statements of Self Insured Lumber Businesses Association, Inc., which comprise the balance sheets - statutory basis as of December 31, 2013 and 2012, and the related statutory statements of operations and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the Division of Insurance of the Commonwealth of Massachusetts. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Independent Auditor's Report - Continued

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the balance sheets - statutory basis of Self Insured Lumber Businesses Association, Inc. as of December 31, 2013 and 2012, and the results of its operations for the years then ended, in accordance with the financial reporting provisions of the Division of Insurance of the Commonwealth of Massachusetts as described in Notes 2, 3 and 9.

Basis of Accounting

We draw attention to Notes 2, 3 and 9 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the basis of the financial reporting provisions of the Division of Insurance of the Commonwealth of Massachusetts, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of the Division of Insurance of the Commonwealth of Massachusetts. Our opinion is not modified with respect to that matter.

Risk of Change in Estimate

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.

Restriction on Use

This report is intended solely for the information and use of the Board of Directors and management of Self Insured Lumber Businesses Association, Inc. and the Division of Insurance of the Commonwealth of Massachusetts and is not intended to be and should not be used by anyone other than these specified parties.

Feeley & Driscoll, P.C.

Boston, Massachusetts
June 10, 2014

SELF INSURED LUMBER BUSINESSES ASSOCIATION, INC.

Balance Sheets - Statutory Basis

December 31, 2013 and 2012

	2013	2012
Admitted assets:		
Cash and cash equivalents	$ 1,082,049	$ 610,591
Bonds	5,223,013	5,759,493
Reinsurance recoverable	42,719	41,548
Accrued interest income	44,595	61,632
Other assets	76,092	4,847
Total admitted assets	$ 6,468,468	$ 6,478,111
Liabilities:		
Reserve for losses and loss adjustment expenses, net	$ 3,967,691	$ 3,261,131
Accounts payable and accrued expenses	166,676	123,225
Distributions due to members	2,297,557	3,167,554
Policyholders' surplus (deficit)	36,544	(73,799)
Total liabilities	$ 6,468,468	$ 6,478,111

See accompanying notes to financial statements - statutory basis.

SELF INSURED LUMBER BUSINESSES ASSOCIATION, INC.

Statements of Operations - Statutory Basis

For the years ended December 31, 2013 and 2012

	2013	2012
Premiums earned, net	$ 2,689,226	$ 2,432,923
Losses and loss adjustment expenses incurred	2,417,295	2,533,426
Other underwriting expenses incurred	600,759	495,082
Total underwriting expenses	3,018,054	3,028,508
Net underwriting loss	(328,828)	(595,585)
Net investment income	124,864	172,516
Net realized investment gains	62,641	153,468
Net investment gain	187,505	325,984
Loss before assessment from members and income taxes	(141,323)	(269,601)
Assessments from members	141,779	270,057
Income before income tax expense	456	456
Income tax expense	456	456
Net income	$ -	$ -
Policyholders' deficit - beginning of year	$ (73,799)	$ (88,971)
Decrease in non-admitted assets	110,343	15,172
Policyholders' surplus (deficit) - end of year	$ 36,544	$ (73,799)

See accompanying notes to financial statements - statutory basis.

SELF INSURED LUMBER BUSINESSES ASSOCIATION, INC.

Statements of Cash Flows - Statutory Basis

For the years ended December 31, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Premiums collected	$ 2,692,510	$ 2,435,541
Losses and loss adjustment expenses paid, net of reinsurance	(1,711,903)	(2,061,352)
Other underwriting expenses paid	(572,611)	(491,580)
Net investment income	168,135	217,827
Distributions to members	(728,218)	(1,964,592)
Net cash used in operating activities	(152,087)	(1,864,156)
Cash flows from investing activities:		
Proceeds from sales or maturities of bonds	2,135,174	3,127,484
Purchase of bonds	(1,562,290)	(1,395,931)
Net cash provided by investing activities	572,884	1,731,553
Cash flows from financing activities:		
Contributed surplus applied	95,171	128,684
Other cash applied	(44,510)	(62,973)
Net cash provided by financing activities	50,661	65,711
Net increase (decrease) in cash and cash equivalents	471,458	(66,892)
Cash and cash equivalents at beginning of year	610,591	677,483
Cash and cash equivalents at end of year	$ 1,082,049	$ 610,591

See accompanying notes to financial statements - statutory basis.

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 - Management has evaluated events and transactions subsequent to the balance sheet date for potential recognition or disclosure in the financial statements through June 10, 2014, 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:

Premiums receivable over 90 days old: If a member's premium is more than ninety (90) days overdue, in lieu of "nonadmitting" the balance, it may be offset against declared but unpaid dividends. However, a monthly penalty equal to the average earnings on investments, plus at least one percent (1%), must be charged to the member. Under NAIC SAP, such premium receivable balances would be nonadmitted.

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	
	2013	2012	2013	2012	2013	2012
Direct	$ 3,054,946	$ 2,743,519	$ 4,001,155	$ 3,272,293	$ 2,418,469	$ 2,537,388
Ceded	(365,720)	(310,596)	(33,464)	(11,162)	(1,174)	(3,962)
Net	$ 2,689,226	$ 2,432,923	$ 3,967,691	$ 3,261,131	$ 2,417,295	$ 2,533,426

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, 2013			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government securities	$ 2,179,633	$ 24,089	$ (32,174)	$ 2,171,548
Corporate securities	1,975,723	146,106	(6,627)	2,115,202
Mortgage backed securities	1,067,657	15,310	(12,758)	1,070,209
	$ 5,223,013	$ 185,505	$ (51,559)	$ 5,356,959

Note 5 - Bonds - Continued

	December 31, 2012			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government securities	$ 2,259,308	$ 115,135	$ (597)	$ 2,373,846
Corporate securities	2,168,591	240,785	(27)	2,409,349
Mortgage backed securities	1,331,594	34,826	(123)	1,366,297
	$ 5,759,493	$ 390,746	$ (747)	$ 6,149,492

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.

	December 31, 2013		December 31, 2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 247,477	$ 250,687	$ 1,064,825	$ 1,071,939
Due in one year through five years	3,217,706	3,317,901	2,706,937	2,877,306
Due after five years through ten years	1,757,830	1,788,371	1,987,731	2,200,247
Due after ten years	-	-	-	-
	$ 5,223,013	$ 5,356,959	$ 5,759,493	$ 6,149,492

Proceeds from sales or maturities of bonds during 2013 and 2012 were $2,135,174 and $3,127,484, respectively. Gross gains of $67,168 and $154,811 were realized during 2013 and 2012, respectively. There were $4,527 and $1,343 of gross realized losses in 2013 and 2012, 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 $2,500,000 and $2,200,000 on an undiscounted basis as of December 31, 2013 and 2012, 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, 2013 and 2012, the Group experienced a net decrease and net increase, respectively, 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 deducted and charged to losses and loss adjustment expenses in 2013 and 2012, respectively.

For the years ended December 31, 2013 and 2012, 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 $570,676 and $531,735 at December 31, 2013 and 2012, respectively.

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

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

	2013	2012
Reserve for losses and loss adjustment expenses, beginning of year	$ 3,261,131	$ 2,777,727
Incurred losses and loss adjustment expense:		
Provision for insured events of the current year	2,446,109	1,793,309
Provision for insured events of prior years	(28,814)	740,117
Total incurred losses and loss adjustment expenses	2,417,295	2,533,426
Losses and loss adjustment expense payments related to:		
Current year	538,219	514,094
Prior years	1,172,516	1,535,928
Total losses and loss adjustment expense payments	1,710,735	2,050,022
Reserves for losses and loss adjustment expenses, end of year	$ 3,967,691	$ 3,261,131

Note 7 - Management Fees

The Group has entered into a management agreement, expiring December 31, 2013, 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 incurred management fees and commission expense of approximately $430,000 and $383,000 for the years ended December 31, 2013 and 2012, 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 (IRS) as a property and casualty insurance company under the provisions of Subchapter L of the Internal Revenue Code.

The Group recognizes tax benefits only in the event that a position is more likely than not to be sustained upon examination by the applicable taxing authority. Tax years from 2010 through the current year remain open for examination by federal and state tax authorities. The Group is currently being audited by the IRS for tax years 2010 and 2011. The IRS is challenging the deductibility of the policyholders' dividends on the accrual basis and has suggested that this should be on the cash basis. The Group has not received a final adjustment from the IRS but intends to rigorously defend their position.

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 $291,000 and $277,000 at December 31, 2013 and 2012, respectively (see Note 12). An escrow account, which includes approximately $300,000 in certificates of deposit, is pledged to the Massachusetts Division of Insurance as a security deposit pursuant to Section 211CMR67.08(2)(9d) at December 31, 2013 and 2012. 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, 2013 and 2012, the Group was required to provide security amounting to \$291,000 and \$277,000, 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.

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 (2) 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, 2013 and 2012, 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 financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC). The maximum deposit insurance amount was $250,000 for interest-bearing accounts, which was applied per depositor, per insured bank for each account ownership category. Noninterest-bearing accounts were provided unlimited insurance coverage through December 31, 2012. Effective January 1, 2013, noninterest-bearing accounts are no longer insured separately from depositors' other accounts at the same bank. Instead, noninterest-bearing accounts are added to any of a depositor's other accounts in the applicable ownership category, and the aggregate balance insured up to the amount of $250,000, per depositor at each bank. As of December 31, 2013, the Group had deposits of $948,975 in excess of FDIC limits.

Premiums with one (1) member accounted for approximately ten percent (10%) of the Group's premiums as of December 31, 2013.

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
Burnett & Moynihan, Inc.
Cape Cod Lumber
Chace Building Supply
Chairtown Lumber Company
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.
Gilbert & Cole Building Products Inc.
Gilfoy Distributing Company, Inc.
H.N. Hinckley & Sons, 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.
Maki Corporation
Moore Lumber & Hardware, Inc.
Moynihan-N. Reading Lumber Inc. & Moynihan Lumber of Beverly
Mozzone Lumber Company, Inc.
Nickerson Lumber Company LLC
North Atlantic Corporation
Northeast Treaters, Inc.
Plywood Supply and Lumber, Inc.
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
Warren Trask Company
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 February 1, 2015.

SELF INSURED LUMBER BUSINESSES ASSOCIATION, INC.

The above listing is as of December 31, 2013.