

**STATE OF WASHINGTON
OFFICE OF THE INSURANCE
COMMISSIONER**



FINANCIAL EXAMINATION

of

**Timber Products Manufacturers Trust
Spokane, Washington**

NAIC CODE 12239

December 31, 2006

Order No. G07-0345
Timber Products Manufacturers Trust
Exhibit A

Participating State:
Washington

SALUTATION

Seattle, Washington
November 30, 2007

The Honorable Alfred E. Gross
Insurance Commissioner
Chair, NAIC Financial Condition (E) Committee
Virginia Bureau of Insurance
Commonwealth of Virginia
PO Box 1157
Richmond, VA 23219

The Honorable Morris Chavez
Superintendent, New Mexico Insurance Department
NAIC Secretary, Western Zone
PO Drawer 1269
Santa Fe, NM 87504-1269

The Honorable Mike Kreidler, Commissioner
Washington State Office of the Insurance Commissioner (OIC)
Insurance Building – Capitol Campus
302 Sid Snyder Avenue SW, Suite 200
Olympia, WA 98504

Dear Commissioners and Superintendent:

In accordance with your instructions, and in compliance with the statutory requirements of RCW 48.125.140 and RCW 48.03.010, an examination was made of the corporate affairs and financial records of

Timber Products Manufacturers Trust

of

Spokane, Washington

hereinafter referred to as the "Trust." The examination was conducted at the statutory home office located at 951 East Third Avenue, Spokane, Washington 99202-2287. This report is respectfully submitted showing the condition of the Trust as of December 31, 2006.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of Timber Products Manufacturers Trust of Spokane, Washington. This report shows the financial condition and related corporate matters as of December 31, 2006.



Patrick H. McNaughton
Chief Examiner

11-30-07

Date

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SCOPE OF THE EXAMINATION

This examination covers the period beginning January 1, 2005 through December 31, 2006 and comprises a comprehensive review of the books and records of the Trust. The examination followed the statutory requirements contained in the Washington Administration Code (WAC), Revised Code of Washington (RCW), and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination that were noted during the examination.

Corporate records, external reference materials, and various aspects of the Trust's operating procedures and financial records were reviewed and tested during the course of this examination and are commented upon in the following sections of this report. In addition, the Trust's certified public accountant's (CPA's) work papers were reviewed and utilized, where possible, to facilitate efficiency in the examination.

INSTRUCTIONS

The examiners reviewed the Trust's filed 2005 and 2006 NAIC Annual Statements as part of the statutory examination. This review was performed to determine if the Trust completed the NAIC Annual Statements in accordance with the NAIC Annual Statement Instructions and to determine if the Trust's accounts and records were prepared and maintained in accordance with Title 48 RCW, Title 284 WAC, and the NAIC Statements of Statutory Accounting Principles (SSAP) as contained in the NAIC Accounting Practices and Procedures Manual (AP&P).

1. NAIC Annual Statement Errors and Misclassifications

The results of the examination disclosed several instances where the Trust's filing of the 2006 NAIC Annual Statement did not conform to the NAIC Accounting Practices and Procedures Manual and the NAIC Annual Statement Instructions.

a. Vision and Dental Revenue and Expenses not Reported Separately

Vision and dental revenues and expenses are not reported separately on the "Analysis of Operations by Lines of Business" (Page 7), "Underwriting and Investment Exhibit-Part 1" (Page 8), and the "Underwriting and Investment Exhibit Part 2 (Page 9)", in the 2006 NAIC Annual Statement pursuant to the 2006 NAIC Annual Statement Instructions. This resulted in total underwriting gain or (loss) by line of business being reported inaccurately.

b. Ceded Reinsurance Premiums Incorrectly Reported

Reinsurance ceded premiums were not reported on the "Underwriting and Investment Exhibit-Part 1" (Page 8) in the 2006 NAIC Annual Statement pursuant to the 2006 NAIC Annual Statement Instructions. This resulted in "Net premium income" being reported inaccurately. Reinsurance premiums were incorrectly reported as "Claims adjustment expenses" instead of an offset to "Net premium income" in the 2006 NAIC Annual Statement on the Statement of Revenue and Expenses. (See examination adjustment No. I, debiting

"Net premium income" and crediting "Claims adjustment expenses" in the amount of \$566,608.)

c. Employee Assistance Program Premiums and Expense Incorrectly Reported

Employee Assistance Program (EAP) premiums and expense were incorrectly reported as "Net premium income" in the 2006 NAIC Annual Statement on the Statement of Revenue and Expenses. EAP premiums and expense should be reported as "Fee for service". (See examination adjustment No. 2, debiting "Net premium income" for \$11,563, debiting "Fee for service (net of medical expenses)" for \$3,899, and crediting "Net premium income" for \$15,462.)

d. Broker Commissions Incorrectly Reported

Broker commissions were incorrectly reported as an offset to "Net premium income" instead of an expense to "General administrative expenses" in the 2006 NAIC Annual Statement on the Statement of Revenue and Expenses. (See examination adjustment No. 3, debiting "General administrative expenses", and crediting "Net premium income" in the amount of \$143,543.)

e. Stop-Loss Reinsurance Recoveries Incorrectly Reported

Stop-loss reinsurance recoveries were incorrectly reported as a reduction of "Hospital/medical benefits" instead of being reported separately as "Net reinsurance recoveries" in the 2006 NAIC Annual Statement on the Statement of Revenue and Expenses. (See examination adjustment No. 4, debiting "Hospital/medical benefits" and crediting "Net reinsurance recoveries" in the amount of \$185,928.)

f. Life Premiums and Short Term Disability Premiums Incorrectly Reported

The Trust collects premiums for life coverage and short term disability coverage from employer groups that are underwritten by other insurers. The premiums collected have been incorrectly reported as "Net premium income" in the 2006 NAIC Annual Statement on the Statement of Revenue and Expenses. The premiums paid to other insurers have been incorrectly reported as "Hospital/medical benefits". These premiums collected and premiums paid should be reported as "Fee for service". (See examination adjustment No. 5, debiting "Net premium income" in the amount of \$178,414, and crediting "Hospital/medical benefits" for life premiums paid in the amount of \$111,238 and short term disability premiums paid in the amount of \$41,104. The net total of premiums collected and premiums paid to other insurers would be an offsetting credit to "Fee for service" in the amount of \$26,072.)

g. Increase in Incurred but not Reported Claims Expense and Claims Adjustment Expense Incorrectly Reported

The increase in incurred but not reported (IBNR) claims expense and claims adjustment expense was incorrectly reported as "Hospital/medical benefits" in the 2006 NAIC Annual Statement on the Statement of Revenue and Expenses. (See examination adjustment No. 6, debiting "Claims adjustment expenses" in the amount of \$19,396, debiting "Increase in reserves for health contracts" in the amount of \$465,507, and crediting "Hospital/medical benefits" in the amount of \$484,903.)

The Trust is instructed to comply with RCW 48.125.090 and file an accurate statement of its financial condition, transactions, and affairs; with RCW 48.43.097 which requires the filing of its financial statements in accordance with the NAIC AP&P Manual; and with WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the NAIC AP&P Manual.

2. Bonds Reported at Fair Market Value Rather Than Amortized Cost

The Trust reported the value of its bonds at fair market value in the 2006 NAIC Annual Statement. The NAIC Annual Statement of Instructions requires the reporting of bonds at amortized cost. Correspondingly, the Trust incorrectly answered Note No. 1, C(1)(2) in the 2006 NAIC Annual Statement as valuing short-term investments and bonds at amortized cost in the 2006 NAIC Annual Statement when, in fact, they were reported at fair market value.

The Trust is instructed to comply with RCW 48.12.170(1) pursuant to RCW 48.125.090 and value bonds at amortized cost if not purchased at par value.

3. Statutory Actuarial Opinion (SAO) not Prepared in Accordance with NAIC Annual Statement Instructions

The Trust did not comply with the 2006 NAIC Annual Statement Instructions in the preparation of the 2006 SAO. The opining actuary did not opine and document all required items noted in the 2006 NAIC Annual Statement Instructions. These included: (a) an incorrect reference to the state of Montana instead of Washington, (b) the wording relating to consistency with corresponding items "from the preceding year end" was omitted, and (c) format and number changes that required editing.

The Trust is instructed to comply with WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the NAIC AP&P Manual.

4. The Amended SAO was not Filed Timely with the OIC

The Trust was required to amend the 2006 SAO as a result of initial reporting errors. The amended 2006 SAO was not filed timely with the OIC.

The Trust is instructed to comply with RCW 48.125.090(5) which requires that an annual financial statement and those additional schedules as prescribed by the commissioner, and any amendments to such original filings, be filed with the commissioner.

5. Complete Claim Data not Provided to Consulting Actuary

Complete claim data was not used by the consulting actuary to determine the 2006 unpaid claim liability. A pharmacy claim payment in the amount of \$328,289 made on December 28, 2006 was correctly recorded as an expense in the 2006 NAIC Annual Statement but was not included in the paid claim data supplied to the consulting actuary to calculate the unpaid claim reserve liability. The OIC actuary determined that unpaid claim reserves were still within a reasonable range for year 2006 so no adjustment was necessary.

Pursuant to RCW 48.12.030(2), the Trust is instructed to supply complete and accurate information to the consulting actuary so that an accurate determination of the unpaid claim liability can be determined.

COMMENTS AND RECOMMENDATIONS

1. Conflict of Interest Disclosure

The Trust's Conflict of Interest Policy defines situations that could be construed as a potential conflict of interest. The Trust's Conflict of Interest Practices and Procedures document requires all trustees and employees to complete a conflict of interest certification document. Conflict of interest statements were only prepared by the Trust's Board of Trustees. The Trust has no employees; however, the Trust's sponsor, Timber Products Manufacturers, Inc., has a small number of employees that perform the administrative functions of the Trust. Those employees have not provided conflict of interest disclosure statements.

Pursuant to the Trust's Conflict of Interest Practices and Procedures document, it is recommended that the employees who perform administrative functions for Timber Products Manufacturers Trust prepare conflict of interest disclosure statements pursuant to the Trust's conflict of interest policy.

COMPANY PROFILE

Company History

The Trust was organized on August 4, 1960 by Timber Products Manufacturers, Inc., and operates under Title I of the Employee Retirement Income Security Act (ERISA) as a non-profit entity registered under the provisions of the Internal Revenue Code of 1986, Section 501(c)(9). Timber Products Manufacturers, Inc., is also known as, and commonly referred to as, Timber Products Manufacturers Association (Association). Effective March 31, 2004, the Washington State Legislature enacted Senate Bill 6112 which authorized the amendment of several chapters and sections in Title 48 RCW and the addition of a new Chapter 48.125 RCW titled as the Self-Funded Multiple Employer Welfare Arrangement (MEWA). In addition to ERISA, effective January 1, 2005, the Trust was licensed as a MEWA pursuant to Chapter 48.125 RCW.

Capitalization

The Trust is a non-stock entity. Employer contributions fund the Trust. MEWAs must continuously maintain a surplus equal to at least ten percent of the next twelve months projected incurred claims or two million dollars, whichever is greater. "Unassigned funds" were \$5,386,345 and \$4,513,117 as of years ended 2005 and 2006, respectively. Capital requirements are being met pursuant to RCW 48.125.060.

Territory and Plan of Operation

The Trust has Certificates of Authority in the states of Idaho, Montana, Oregon, Washington, and operates as a legally recognized ERISA Employee Welfare Plan in Wyoming. The Trust was established to provide health, dental, vision, life and short-term disability benefits to participating employers.

The Association developed a self-funded health care plan (Plan Document) for the benefit of participating employers, their eligible employees and dependents. The purpose of the Plan Document is to provide reimbursement for eligible expenses incurred for covered services, treatment or supplies as a result of medically necessary treatment for illness or injury of the participating employers' eligible employees and their eligible dependents. The Association, by and through the Trust, agrees to make payments as provided in the Plan Document.

Acquisitions, Mergers, Disposals, Dissolutions, Purchases, and Sales

There are no plans for acquisitions, mergers, disposals, dissolutions, purchases or sales.

Growth of Company

The Trust first produced business under state of Washington regulation in January 2005. The following reflects the growth of the Company based on information filed in the NAIC Annual Statements for the three years ended December 31, 2006:

	<u>12/31/2004</u>	<u>12/31/2005</u>	<u>12/31/2006</u>
Assets, Liabilities, Capital and Surplus:			
Admitted Assets	\$6,870,392	\$8,763,156	\$8,227,957
Liabilities	<u>3,109,405</u>	<u>3,376,811</u>	<u>3,714,840</u>
Capital and Surplus	<u>\$3,760,987</u>	<u>\$5,386,345</u>	<u>\$4,513,117</u>
Revenue and Expenses:			
Premiums and Risk Revenue	\$16,953,314	\$24,398,335	\$28,473,098
Net Underwriting Deductions	<u>16,649,410</u>	<u>22,895,421</u>	<u>29,652,103</u>
Underwriting Gain or Loss	303,904	1,502,914	(1,179,005)
Investment and Other Income	<u>61,055</u>	<u>256,644</u>	<u>266,646</u>
Pre-Tax Income	364,959	1,759,558	(912,359)
Taxes Incurred	<u>0</u>	<u>0</u>	<u>0</u>
Net Income	<u>\$364,959</u>	<u>\$1,759,558</u>	<u>(\$912,359)</u>

MANAGEMENT AND CONTROL

Timber Products Manufacturers Association

The Association was founded in 1916 and is an association of 244 member companies in the wood products industry and is the sponsor of the Trust. The Association is a non-profit, non-stock corporation with a mission to improve, promote and advance the common interests and welfare of employers in the timber products industry. Dues from each member company fund the Association.

The Trust has no Articles of Incorporation or Bylaws. Instead, a Trust Agreement was first executed between the Trust and the Association on August 4, 1960 to serve the same purpose. It has been amended and restated several times with the most recent amendment and entire restatement effective October 26, 2004. The Trust obtained a Washington State Certificate of Authority to function as a MEWA pursuant to Chapter 48.125 RCW on January 1, 2005.

Ownership

The Trust is controlled by the Association with management vested in a Board of Trustees.

Board of Trustees (BOT)

Management of the Trust is vested in a board of nine trustees appointed by the Board of Directors of the Association. Trustees are appointed for a three year term. There are three trustees appointed each year to achieve continuity in the BOT. A trustee may be appointed to succeed himself. The BOT will select a chairman and a vice chairman from among its members to serve as officers of the Trust.

Trustees as of December 31, 2006:

William A. Clawson
Gregory J. Lambert
Loren R. Rose

James M. Clements
Elizabeth M. Burchett
Richard E. Molenda

Tyler D. Honn
James H. Peterson
Ernest W. Schmidt

Officers

Officers as of December 31, 2006:

Loren R. Rose
Richard E. Molenda

Chairman
Vice Chairman

Fidelity Bond and other Insurance

The Trust is a named insured on a Financial Institution Fidelity Bond. An aggregate loss limit of coverage in the amount of \$1,000,000 is provided with no deductible. The minimum amount recommended by the NAIC for the insured companies is \$250,000 to \$300,000. The aggregate amount of coverage meets the NAIC recommended level for the Trust.

Officers', Employees', and Agents' Welfare and Pension Plans

The Trust has no employees. The Association performs services for the Trust and its participating employers pursuant to an Administrative Service Agreement between each participating employer and the Association.

Intercompany Agreements

The Trust is operated by a small staff of employees of the Association subject to the Trust Agreement. Additionally, the Trust has agreements in place with third party administrators (TPAs) for the performance of various administrative services as enumerated under the Trust Agreement. These include the maintenance of all plan records regarding eligibility, coverage, claims, contributions, and pharmaceutical benefit services.

CORPORATE RECORDS

The Trust Agreement, Certificate of Authority, and minutes of the BOT and committees were reviewed for the period under examination. No exceptions were noted and all BOT meetings were conducted with a quorum present.

ACTUARIAL REVIEW

An independent consulting actuary with SHPS, Inc., and a member of the American Academy of Actuaries, performed a review of the Trust's loss reserves, actuarial liabilities, and related items as of December 31, 2006.

The OIC health actuary reviewed the Trust's actuarial report, claims unpaid, and other claim liabilities as of December 31, 2006. This review included examining the Trust's reserving philosophy and methods to determine the reasonableness of the claim liabilities; verifying that claim liabilities included provisions for all components noted in SSAP No. 55, Paragraphs 7 and 8; reviewing historical paid claims and loss ratios; and estimating claims unpaid as of December 31, 2006. The OIC actuary is in agreement with the consulting actuary's estimate within a reasonable range for unpaid claim reserves and unpaid claim adjustment expenses.

The OIC actuary noted three exceptions or deficiencies in the actuarial review which did not require examination adjustments:

1. The Trust did not comply with standard wording and documentation required by the 2006 NAIC Annual Statement Instructions with regards to the preparation of the 2006 SAO. (See Instruction No. 3)
2. The amended SAO was not filed timely with the OIC. (See Instruction No. 4)
3. Paid claims data for pharmacy claim payments made on December 28, 2006 in the amount of \$328,289, was not included by the consulting actuary in the determination of the unpaid claim liability as of December 31, 2006. (See Instruction No. 5)

REINSURANCE

The Trust has excess loss reinsurance with Great-West Life & Annuity Insurance Company, an authorized and licensed insurance company in the state of Washington. The maximum amount of retention per year, per covered person is \$275,000. The overall maximum reimbursement that the reinsurer will be liable for over a person's lifetime is \$1,725,000. The aggregate reimbursement that the reinsurer will reimburse in any policy year is \$1,000,000. The policy runs for a twelve month term and has a twenty-four month incurred claims cut-off period.

SPECIAL DEPOSITS

MEWAs are not required to complete Section IV of the additional data statement, Underwriting of Indemnity Calculation or Funded Reserve Form of the NAIC Annual Statement pursuant to WAC 284-07-050(8).

MEWAs are required to have a reserve for the payment of claims if the MEWA becomes insolvent, pursuant to RCW 48.125.040(1)(b). The Trust has a special deposit of \$213,622 which satisfies this requirement. Examiners verified this balance to the bank statement, bank reconciliation, and to a direct confirmation from the certified public accounting firm of Schoedel & Schoedel, PS.

ACCOUNTING RECORDS AND INFORMATION SYSTEMS

The Trust maintains its accounting records on a Generally Accepted Accounting Principles (GAAP) accrual basis of accounting and adjusts to Statutory Accounting Practices (SAP) basis for NAIC Annual Statement reporting. The Trust is audited annually by the certified public accounting firm of Schoedel & Schoedel, PS. The Trust received an unqualified opinion for all years under review. The Trust's accounting procedures, internal controls, and transaction cycles were reviewed during the planning and testing phase of the examination and no exceptions were noted.

All information systems (IS) processing has been outsourced to a TPA, Allegiance Benefit Plan Management, Inc., in Missoula, Montana. Operations and application controls of the TPA were reviewed to determine the type of hardware installed; operating systems and proprietary software in use; back up and recovery facilities employed and the internal controls exercised to maintain data security. The TPA has sufficient internal controls in place to monitor system activity and processes.

The TPA has a formal, written Disaster Recover Plan for the restoration of the IS Department and has a formal, written Business Continuity Plan that addresses the continuation of all significant business activities, including financial functions, telecommunication services and data processing services, in the event of a disruption of normal business activities, as recommended by NAIC Guidelines.

SUBSEQUENT EVENTS

In February 2006, the Trust experienced one very large claim where it was required to retain \$550,000 on one claimant for the calendar year 2006 because the claim spanned two policy years of reinsurance coverage at \$275,000 per policy year. Additionally, there were two other catastrophic claims that had a significant impact on surplus. The rate increases budgeted for the year 2006 were not adequate to meet the claim expenses, therefore, surplus was depleted and several operating ratios fell to a level outside normal operating ranges expected for a health care company.

The BOT participates in rate setting and meets every quarter to review individual group annual experience for expiring contracts and approves rates for a one year renewal term. Higher rates were established for contracts effective January 1, 2007, contracts effective April 1, 2007, and contracts effective July 1, 2007. Premium revenue increased slightly due to the January 1, 2007 rate increase offsetting the decline in enrollment for the same reason. The increase in revenue and a decline in underwriting deductions increased "Net income" as of March 31, 2007 in the amount of \$128,819.

FINANCIAL STATEMENTS

The following examination financial statements show the financial condition of Timber Products Manufacturers Trust as of December 31, 2006:

Assets, Liabilities, Capital and Surplus
Statement of Revenue and Expenses
Five Year Surplus Reconciliation

TIMBER PRODUCTS MANUFACTURERS TRUST
ASSETS, LIABILITIES, CAPITAL AND SURPLUS
December 31, 2006

	<u>BALANCE</u> <u>PER COMPANY</u>	<u>ref.</u>	<u>EXAMINATION</u> <u>ADJUSTMENTS</u>	<u>BALANCE PER</u> <u>EXAMINATION</u>
Assets				
Bonds	\$6,310,597		\$0	\$6,310,597
Cash and short-term investments	1,770,962			1,770,962
Investment income due and accrued	83,554			83,554
Premiums and considerations:				
Uncollected premiums and agents' balances	35,984			35,984
Amounts recoverable from reinsurers	24,715			24,715
Health care and other amounts receivable	2,145			2,145
Total Assets	<u>\$8,227,957</u>		<u>\$0</u>	<u>\$8,227,957</u>
 Liabilities, Capital, and Surplus				
Claims unpaid	\$3,470,086			\$3,470,086
Unpaid claims adjustment expenses	144,587			144,587
Premiums received in advance	4,362			4,362
General expenses due or accrued	95,805			95,805
Total Liabilities	<u>3,714,840</u>		<u>\$0</u>	<u>3,714,840</u>
Unassigned funds (surplus)	4,513,117.00			4,513,117
Total Capital and Surplus	<u>4,513,117</u>		<u>0</u>	<u>4,513,117</u>
Total Liabilities, Capital and Surplus	<u>\$8,227,957</u>		<u>\$0</u>	<u>\$8,227,957</u>

TIMBER PRODUCTS MANUFACTURERS TRUST
STATEMENT OF REVENUE AND EXPENSES
December 31, 2006

	<u>BALANCE PER COMPANY</u>	<u>ref.</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
Member months	130,379			130,379
Net premium income	\$28,473,098	1,2,3,5	(\$597,580)	\$27,875,518
Fee-for-service	0	2,5	22,173	22,173
Total revenues	<u>28,473,098</u>		<u>(575,407)</u>	<u>27,897,691</u>
<u>Hospital and Medical:</u>				
Hospital/medical benefits	22,677,186	4,5,6	(451,317)	22,225,869
Emergency room and out-of-area	402,542			402,542
Prescription drugs	4,101,512			4,101,512
Subtotal	<u>27,181,240</u>		<u>(451,317)</u>	<u>26,729,923</u>
<u>Less:</u>				
Net reinsurance recoveries	24,715	4	185,928	210,643
Total hospital and medical	27,156,525		(637,245)	26,519,280
Claims adjustment expenses	2,142,985	1,6	(547,212)	1,595,773
General administrative expenses	352,593	3	143,543	496,136
Increase in reserves for A&H contracts		6	465,507	465,507
Total underwriting deductions	<u>29,652,103</u>		<u>(575,407)</u>	<u>29,076,696</u>
Net underwriting gain or (loss)	<u>(1,179,005)</u>		<u>0</u>	<u>(1,179,005)</u>
Net investment income earned	336,197			336,197
Net realized capital gains or (losses)	<u>(71,338)</u>			<u>(71,338)</u>
Net investment gains or (losses)	<u>264,859</u>		<u>0</u>	<u>264,859</u>
Aggregate write-ins for other income or expenses	<u>1,787</u>			<u>1,787</u>
Net income or (loss) before FIT	<u>(912,359)</u>		<u>0</u>	<u>(912,359)</u>
Net Income (Loss)	<u>(\$912,359)</u>		<u>\$0</u>	<u>(\$912,359)</u>
<u>CAPITAL AND SURPLUS ACCOUNT</u>				
Capital and surplus prior reporting period	<u>\$5,386,342</u>		<u>\$0</u>	<u>\$5,386,342</u>
Net Income (Loss) from above	(912,359)		0	(912,359)
Change in net unrealized capital gains and losses	39,134			39,134
Net change in capital and surplus	<u>(873,225)</u>		<u>0</u>	<u>(873,225)</u>
Capital and surplus end of reporting period	<u>\$4,513,117</u>		<u>\$0</u>	<u>\$4,513,117</u>

**SURPLUS RECONCILIATION
FOR THE PERIODS ENDING**

	<u>12/31/2006</u>	<u>12/31/2005</u>	<u>12/31/2004</u>
Capital and surplus, prior reporting year	<u>\$5,386,342</u>	<u>\$3,760,987</u>	<u>\$3,425,721</u>
Net income or (loss)	(912,359)	1,759,558	364,959
Change in net unrealized capital gains and losses	39,134	(134,203)	(29,693)
Net change in capital and surplus	<u>(873,225)</u>	<u>1,625,355</u>	<u>335,266</u>
Capital and surplus, end of reporting period	<u>\$4,513,117</u>	<u>\$5,386,342</u>	<u>\$3,760,987</u>

NOTES TO THE FINANCIAL STATEMENTS

The Trust has no special consents, permitted practices, or orders from the state of Washington.

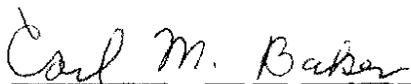
1. Stop-loss reinsurance premiums were incorrectly reported as "Claims adjustment expenses" instead of an offset to "Net premium income" in the 2006 NAIC Annual Statement on the Statement of Revenue and Expenses. (See examination adjustment No. 1, debiting "Net premium income" and crediting "Claims adjustment expenses" in the amount of \$566,608.)
2. Employee Assistance Program (EAP) premiums and expense were incorrectly reported as "Net premium income" in the 2006 NAIC Annual Statement on the Statement of Revenue and Expenses. EAP premiums and expense should be reported as "Fee for service (net of medical expenses)". (See examination adjustment No. 2, debiting "Net premium income", \$11,563, debiting "Fee for service (net of medical expenses)", \$3,899, and crediting "Net premium income" in the amount of \$15,462.)
3. Broker commissions were incorrectly reported as "Net premium income" instead of "General administrative expenses" in the 2006 NAIC Annual Statement on the Statement of Revenue and Expenses. (See examination adjustment No. 3, debiting "General administrative expenses", and crediting "Net premium income" in the amount of \$143,543.)
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5. The Trust collects premiums for life coverage and short-term disability coverage from employer groups that are underwritten by other insurers. The premiums collected have been incorrectly reported as "Net premium income" in the 2006 NAIC Annual Statement on the Statement of Revenue and Expenses. The premiums paid to other insurers have been incorrectly reported as "Hospital/medical benefits". These premiums collected and premiums paid should more appropriately be reported as "Fee for service". (See examination adjustment No. 5, debiting "Net premium income" in the amount of \$178,414, and crediting "Hospital/medical benefits" for life premiums paid in the amount of \$111,238 and short term disability premiums paid in the amount of \$41,104. The net total of premiums collected and premiums paid to other insurers would be an offsetting credit to "Fee for service" in the amount of \$26,072.)
6. The increase in incurred but not reported (IBNR) claims expense and claims adjustment expense was incorrectly reported as "Hospital/medical benefits" in the 2006 NAIC Annual Statement on the Statement of Revenue and Expenses. (See examination adjustment No. 6, debiting "Claims adjustment expenses" in the amount of \$19,396, debiting "Increase in reserves for health contracts" in the amount of \$465,507, and crediting "Hospital/medical benefits" in the amount of \$484,903.)

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers of Timber Products Manufacturers Trust during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; Larry A. Omdal, Examiner in Charge; John Jacobson, AFE, CISA, AES, Automated Examination Specialist; and Shiraz Jetha, FSA, MAAA, Health Actuary; all from the Washington State Office of the Insurance Commissioner, participated in the examination and the preparation of this report. In addition, Stephen Mack CPA, CFE, Insurance Examiner from the state of Montana Insurance Department participated in the examination.

Respectfully submitted,



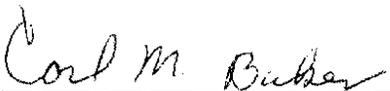
Carl M. Baker, CPA, CFE, CISA
Supervising Examiner-in-Charge
State of Washington

AFFIDAVIT

STATE OF WASHINGTON }
 } ss
COUNTY OF KING }

Carl M. Baker, being duly sworn, deposes and says that the foregoing report subscribed is true to the best of his knowledge and belief.

He attests that the examination of Timber Products Manufacturers Trust was performed in a manner consistent with the standards and procedures required or prescribed by the Washington State Office of the Insurance Commissioner and the National Association of Insurance Commissioners (NAIC).



Carl M. Baker, CPA, CFE, CISA
Supervising Examiner
State of Washington

Subscribed and sworn to before me this 30th day of November, 2007.



Notary Public in and for the
State of Washington.

