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FILED *ty*

FEB 29 2012

Department of Insurance
State of Idaho

Attorneys for Department of Insurance

BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE

STATE OF IDAHO

In the Matter of:

Associated Loggers Exchange

NAIC Company Code: 37370

Docket No. 18-2741-12

**ORDER ADOPTING REPORT OF
EXAMINATION AS OF
DECEMBER 31, 2010**

The Report of Examination as of December 31, 2010 (Report) of Associated Loggers Exchange (ALE) was completed by examiners of the Idaho Department of Insurance (Department) and signed the 12th day of January 2012 by the Examiner-in-Charge, Kelvin Ko, CFE. The verified (attested) copy of the Report was filed with the Department effective January 12, 2012. The verified report was transmitted electronically to ALE on January 18, 2012. The final report, attached hereto and incorporated herein in full and identified as Exhibit A, is identical to the verified report.

Pursuant to Idaho Code § 41-227(4), ALE was afforded a reasonable opportunity to review the verified examination report and to make written submissions regarding relevant matters contained within the Report. No written submissions or rebuttals were received from ALE regarding the verified report.

WAIVER

Attached hereto and incorporated herein as Exhibit B is a Waiver signed by the President of ALE's Attorney-in-Fact, Mr. John Graham. The Waiver was executed (signed) on January 24, 2012, and an electronic copy was received by the Department on January 24, 2012. Based upon the Waiver/Exhibit B, this is a final order, and ALE has waived its rights to seek reconsideration and judicial review of this order.

ORDER

NOW THEREFORE, after carefully reviewing the above-described Report of Examination, attached hereto as Exhibit A, and good cause appearing therefor:

IT IS HEREBY ORDERED that the above-described Report, which includes the findings, conclusions, comments and recommendations supporting this order, is hereby ADOPTED as the final examination report and as an official record of the Department under Idaho Code § 41-227(5)(a).

DATED and EFFECTIVE at Boise, Idaho, this 29TH day of February, 2012.

IDAHO DEPARTMENT OF INSURANCE



WILLIAM W. DEAL, Director

CERTIFICATE OF SERVICE

I hereby certify that on this 29TH day of February 2012, I caused to be served the foregoing document on the following parties in the manner set forth below:

Mr. John Robert Graham, President	<u> X </u>	certified mail
Associated Loggers Management Company	<u> </u>	first class mail
3380 Elder St.	<u> </u>	hand delivery
Boise, Idaho 83705	<u> </u>	Facsimile
e-mail: ALEJRG@aol.com	<u> X </u>	e-mail

Georgia Siehl, CPA, CFE	<u> </u>	certified mail
Bureau Chief / Chief Examiner	<u> </u>	first class mail
Idaho Department of Insurance	<u> X </u>	hand delivery
700 W. State St., 3 rd Floor	<u> </u>	facsimile
Boise, Idaho 83720-0043	<u> </u>	
e-mail: Georgia.Siehl@doi.idaho.gov	<u> X </u>	e-mail



William R. Michels, MBA, CPA, CFE
Deputy Chief Examiner
IDAHO DEPARTMENT OF INSURANCE

EXHIBIT A

DEPARTMENT OF INSURANCE

STATE OF IDAHO



REPORT OF EXAMINATION

of

ASSOCIATED LOGGERS EXCHANGE
(a domestic reciprocal insurer)

NAIC Company Code: 37370

as of

December 31, 2010

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State of Idaho
DEPARTMENT OF INSURANCE

C.L. "BUTCH" OTTER
Governor

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WILLIAM W. DEAL
Director

Boise, Idaho
January 12, 2012

The Honorable William W. Deal
Director of Insurance
State of Idaho
700 West State Street
Boise, Idaho 83720

Dear Director:

Pursuant to your instructions, in compliance with Section 41-219(1), Idaho Code, and in accordance with generally accepted examination practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2010 of:

Associated Loggers Exchange
3380 Elder Street
Boise, Idaho 83705

hereinafter referred to as the "Exchange" at its offices in Boise, Idaho.

The following Report of Examination is respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period January 1, 2007 through December 31, 2010. Material transactions and/or events occurring subsequent to the examination date(s) were also reviewed.

The examination was conducted at the Boise, Idaho office of the Exchange by examiners from the State of Idaho. The examination was conducted in accordance with Section 41-219(1), Idaho Code, the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*, the NAIC *Accounting Practices and Procedures Manual* and the NAIC *Market Regulation Handbook*.

All accounts and activities of the Exchange were considered in accordance with the NAIC's risk-focused examination process. The *Financial Condition Examiners Handbook* requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Exchange by obtaining information about the Exchange including corporate governance, identifying and assessing inherent risks within the Exchange, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and NAIC Annual Statement instructions as governed and prescribed by Idaho law.

The actuarial review of reserves, related liabilities and the inherent risks associated with estimating these liabilities were performed by Taylor-Walker & Associates, Inc., consulting actuaries for the Idaho Department of Insurance. A risk assessment of the Exchange's IT systems and controls was performed by Examination Resources, LLC. There was some reliance placed on the 2010 certified public accountant's statutory audit report and work papers during the examination of the Exchange.

A letter of representation attesting to the Exchange's ownership of all assets and to the nonexistence of unrecorded liabilities or contingent liabilities was signed by and received from management.

In addition to the Report of Examination, a Management Letter was issued to the Exchange by the Department which covered items that were not included in this Report, due to the materiality threshold, items that were related to proprietary/operational issues, as well as minor accounting and/or annual statement reporting corrections.

PRIOR EXAMINATION

The prior financial examination was conducted by the Idaho Department of Insurance covering the period January 1, 2002 through December 31, 2006.

A review was made to ascertain what action was taken by the Exchange with regard to comments and recommendations made by the Department in the prior examination report. Unless otherwise mentioned in the *Comments and Recommendations* section of this report, the prior report exceptions were adequately addressed by the Exchange.

HISTORY AND DESCRIPTION

General

The Exchange was organized as a Casualty-Workers' Compensation Only, Reciprocal Insurer under the laws of the State of Idaho.

Pursuant to Section 41-2909, Idaho Code, the Certificate of Authority was issued to its Attorney-in-Fact, Associated Loggers Management Corporation (ALMC), in the name of the Exchange on July 24, 1979.

On May 24, 1994, the Exchange purchased all of the outstanding capital stock of its corporate Attorney-in-Fact, ALMC. This transaction was approved by the Idaho Department of Insurance.

On June 29, 2001, the Exchange obtained a Certificate of Authority from the State of Montana to write casualty business, limited to workers' compensation only. The Exchange started writing premium in the State of Montana in 2002.

Distributions to Subscribers

During the period January 1, 2007 through December 31, 2010, the Board of Governors declared and paid the following premium returns to subscribers of the Exchange:

<u>Date</u> <u>Declared</u>	<u>Date</u> <u>Approved</u>	<u>Date</u> <u>Paid</u>	<u>Cash</u> <u>Distribution</u>	<u>Non-Cash</u> <u>Distribution</u>
04/26/07	05/29/07	06/01/07	\$1,300,000	Not Applicable
04/24/08	04/30/08	06/01/08	\$1,150,000	Not Applicable
04/23/09	05/01/09	06/01/09	\$ 900,000	Not Applicable
04/22/10	04/27/10	06/01/10	\$ 950,000	Not Applicable

Subsequent to the examination date of this report (December 31, 2010), the following premium returns were declared and paid to subscribers of the Exchange:

<u>Date</u> <u>Declared</u>	<u>Date</u> <u>Approved</u>	<u>Date</u> <u>Paid</u>	<u>Cash</u> <u>Distribution</u>	<u>Non-Cash</u> <u>Distribution</u>
04/28/11	05/02/11	06/01/11	\$1,000,000	Not Applicable

These distributions are permitted under Section 41-2927, Idaho Code., and were properly authorized by the Board of Governors.

Surplus Notes

Only one class of surplus note was outstanding during the current examination period. These surplus notes represented amounts originally contributed to the Exchange to fund its minimum surplus requirements. The notes were issued to original and early subscribers of the Exchange, and amounts

were based on a percentage of estimated annual premiums. These notes do not bear interest and were subordinated to all liabilities of the Exchange.

Redemption of surplus notes was dependent upon Board of Governor determination, certain surplus requirements, and Department of Insurance approval. During the examination period of January 1, 2007 through December 31, 2010 the Exchange redeemed the following surplus notes pursuant to Section 41-2916, Idaho Code:

Schedule of Surplus Note Redemptions (2007-2010):

	<u>Date Board Authorized</u>	<u>Date DOI Approved</u>	<u>Date Redeemed</u>	<u>Number of Surplus Notes</u>	<u>Amount Redeemed</u>	<u>Balance Per Examination</u>
Balance @ 12/31/06 *					\$102,012
	Various dates in 05 and 07	Various dates in 05 and 07	Various dates in 07	48	41,649	
	Various dates in 05 and 07	Various dates in 05 and 07	Various dates in 08	18	7,169	
	Various dates in 05 and 07	Various dates in 05 and 07	4/6/2010	1	429	
Total Redemptions					49,247
Balance @ 12/31/10 *					<u>\$ 52,765</u>

* Balance per examination

As the above schedule reflects, the balance of the surplus notes as of December 31, 2010 was \$52,765.

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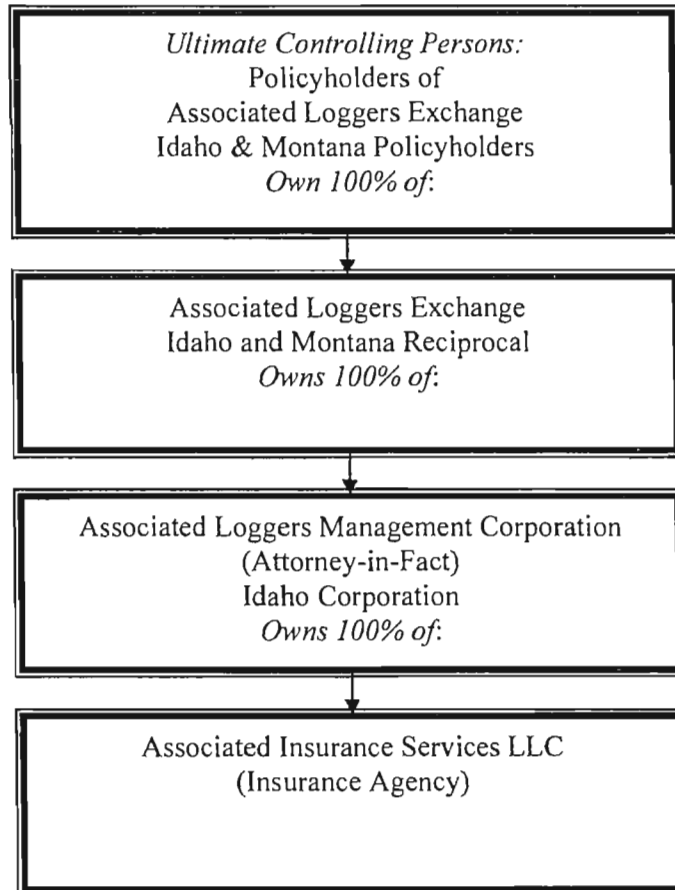
MANAGEMENT AND CONTROL

The Exchange became a member of an insurance holding company system on May 24, 1994, through purchase of its Attorney-in-Fact, ALMC. The Idaho Department of Insurance, however, does not require the Exchange to comply with the requirements of Section 41-3806, Idaho Code, with respect to registration.

As a reciprocal insurance company, the Exchange operated through and was managed by its Attorney-in-Fact. The following individuals were serving as Officers of the Attorney-in-Fact at December 31, 2010:

John Graham	President
Merlyn Colpron	Secretary

The Exchange was an unincorporated aggregation of subscribers acting individually and collectively through their Attorney-in-Fact. The “Ultimate Controlling Persons” therefore, were the policyholders of the Exchange as shown in the following organizational chart:



The Rules of the Exchange provided for a Board of Governors, consisting of a minimum of nine members, who shall supervise the finances and operations of the Exchange. Two or more members shall be appointed by the Attorney-in-Fact, and one member shall be the Executive Director of Associated Logging Contractors of Idaho, Inc.

The remaining members of the Board of Governors shall be duly elected by the membership of the Exchange. No Governor shall serve for more than two consecutive terms, with the exception of the two or more members appointed by the Attorney-in-Fact and the Executive Director of Associated Logging Contractors of Idaho, Inc. No person shall serve as an elected member of the Board unless he or she is a member, or a partner of, or an officer of a member. At least two-thirds (2/3) of the members of the Board of Governors, other than the members appointed by the Attorney-in-Fact and the Executive Director of Associated Logging contractors of Idaho, Inc. shall at times be members, partners, or officers employed by the Idaho forest product industry.

The Rules of the Exchange also provided for appointment of a Board of Alternate Governors, consisting of a minimum of five and a maximum of fifteen members who are members of the Exchange, the exact number of which shall be determined by the board. Members of the Alternate Board may be selected to appear and vote in place of any Governor unable to attend a meeting of the Board of Governors.

Each member of the Exchange shall have one vote upon any matter submitted to a vote. At any meeting, the presence in person or by proxy of 30 percent or more of the membership shall constitute a quorum.

The annual meeting of the Exchange shall be held during March, April or May of each year, at a time determined by the Board of Governors.

Board of Governors

The following persons were serving as members of the Board of Governors at December 31, 2010:

<u>Name and Business Address</u>	<u>Principal Occupation</u>
Capella Ikola, Chairman McCall, Idaho	Owner G. Ikola Inc.
John Larson, Vice Chairman Orofino, Idaho	Owner M. John Larson Logging
Shawn Keough, Secretary Coeur d'Alene, Idaho	Executive Director Associated Logging Contractors of Idaho, Inc.
Jack Buell St. Maries, Idaho	Owner JMF Co., Inc.

Tim E. Christopherson Kamiah, Idaho	Owner Dabco Inc.
Merlyn D. Colpron Boise, Idaho	Owner Colpron & Associates
Raymond F Coon Lewiston, Idaho	Owner RF Coon Logging
Bob Danielson St. Maries, Idaho	Owner Danielson Logging Inc.
James C. Finke Orofino, Idaho	Owner Finke Logging Co, Inc.
Frank Howerton Washougal, Washington	Owner Howerton Logging Inc.
Mark Mahon Council, Idaho	Owner Tom Mahon Logging
G. Bruce McLaughlin Orofino, Montana	Owner McLaughlin Logging Inc.
Barry Smith Missoula, Montana	Owner Barry Smith Logging
Rick Smith Kalispell, Montana	Owner Smith Logging Inc.
Robert St. Onge Big Fork, Montana	Owner St. Onge Logging, Inc.

The number of Governors serving on the Board at December 31, 2010 met the requirements of the Rules of the Exchange and Section 41-2835, Idaho Code.

Board of Alternate Governors

The following persons were appointed as members of the Board of Alternate Governors at December 31, 2010:

Rex Anderson	Richard A. Nordstrom	Ron Streeter
Dave Johnson	Robert Peterson	Norman Tomlinson
Greg Kelso	Steve Sherich	Kenneth J. Weller

Officers

The following persons were serving as officers of the Exchange at December 31, 2010:

Capella Ikoka	Chairman
John Larson	Vice-Chairman
Shawn Keough	Secretary

Committees

The following persons were appointed to the Committees listed below at December 31, 2010:

Investment Committee

Capella Ikola	Scott Brassey
John Larson	Mark Mahon
Shawn Keough	John Graham
Chad Neptune	Jack Buell
Tim Christopherson	Merlyn Colpron

Audit Committee

Capella Ikola
Jack Buell
Jim Finke*
Tim Christopherson**

*Jim Finke resigned and was replaced by Merle Colpron on March 4, 2011

** Tim Christopherson serves as an alternate member of the committee

Advisory Committee

Kelly Kelso

Conflict of Interest Policy

On June 4, 1999, the Board of Governors adopted a conflict of interest policy whereby members of the Board of Governors and Alternate Governors must complete conflict of interest statements every year they serve on the Board. Conflict of interest statements completed during this examination period (2007-2010) were reviewed. They appeared to appropriately disclose any possible conflicts of interest.

Contracts and Agreements:

The Exchange had the following agreements in effect at December 31, 2010:

Management Agreement

Under the terms of this agreement, Associated Loggers Management Corporation (ALMC) agreed to act as Attorney-in-Fact for the Exchange and its subscribers. Pursuant to the agreement, the Attorney-in-Fact was responsible for production, underwriting, and servicing of insurance, as well as servicing and handling insurance claims and losses. In consideration for these services, the Attorney-in-Fact received 13.5 percent and 14.5 percent of the Exchange's gross paid premium written in the states of Idaho and Montana respectively.

The Exchange was responsible for expenses including, but not limited to losses and claim payments; loss prevention expenses; governmental charges; taxes; audit and attorney fees; board fees and expenses; reinsurance premiums; investment counsel fees; officers' expenses, and subscriber meeting expenses.

The management agreement was effective January 1, 2010 through December 31, 2010, and may be terminated by either party for reasons specified therein. This agreement was renewed on December 10, 2010 that covered the period from January 1, 2011 through December 31, 2011. Fees paid on the renewed agreement were decreased to 13 percent and 14 percent of the Exchange's gross paid premium written in the states of Idaho and Montana respectively.

Safety Services Agreements

A safety services agreement was executed between the Exchange and ALC Services, Inc. (ALC). ALC is a wholly-owned subsidiary of Associated Logging Contractors, Inc. Under terms of the agreement, ALC agreed to provide loss prevention services through development and administration of a safety program for the Idaho insureds of the Exchange.

ALC was paid compensation in an amount equal to 6.5 percent of gross paid premium on Idaho workers' compensation insurance collected during the proceeding month.

The term of the agreement was July 1, 2009 through June 30, 2011 and may be cancelled by either party with ninety days prior written notice.

Another safety services agreement was executed between the Exchange and MLA Services, Inc. (MSI) effective on July 1, 2010. MSI is a Montana corporation specializing in insurance and safety services products for Montana's logging industry. Under terms of the agreement, MSI provided loss prevention services through development and administration of a safety program for the Montana insureds of the Exchange.

MSI was paid compensation in an amount equal to 4 percent of gross paid premium on Montana workers' compensation insurance collected during the preceding month.

The term of the agreement was July 1, 2010 through June 30, 2012 and may be cancelled by either party with ninety days prior written notice.

Investment Management Contract

This contract, dated April 17, 2008, was executed between the Exchange and Burroughs & Hutchinson, Inc. Under its terms, Burroughs was retained as personal investment counsel to manage funds and securities of the Exchange. Burroughs had the power to invest and reinvest funds and to buy, sell, and trade securities for the benefit of the Exchange. A management fee of 1/4 of 1 percent for the first \$25 million and .15 percent for the amount over \$25 million on the total value of funds and securities under management were paid quarterly in advance to its investment counsel. Either party may terminate the contract upon written notice.

The Exchange did not have any producers. Through the following agreements, the Exchange's attorney-in-fact, Associated Loggers Management Corporation (ALMC), appointed its producers to promote the Exchange's business:

Policy Services Agreements

A policy services agreement was executed between Associated Loggers Management Corporation (ALMC) and Associated Insurance Services, LLC (AIS). Under the terms of this agreement, ALMC appointed AIS as its exclusive agent for workers' compensation insurance in Idaho written with the Exchange. AIS was authorized to act as ALMC's agent in connection with the administration of the Exchange's business. For the services rendered, ALMC agreed to pay ALS 3 percent of the Exchange's gross paid premium from business written in Idaho. This 3 percent was included in the 13.5% which the Exchange agreed to pay ALMC under the aforementioned management agreement. The term of this agreement was July 1, 2010 through June 30, 2011 and may be cancelled by either party with ninety days prior written notice.

Another policy services agreement was executed between ALMC and MLA Services, Inc. (MSI), a Montana corporation. Under the terms of this agreement, ALMC appointed MSI as its exclusive Montana producer for workers' compensation insurance written with the Exchange. For the services rendered by MSI, ALMC agreed to pay MSI 4 percent of the Exchange's gross paid premium from business written in Montana. This 4% was included in the 14.5% which the Exchange agreed to pay ALMC under the aforementioned management agreement. The term of this agreement was July 1, 2010 through June 30, 2012 and may be cancelled by either party with ninety days prior written notice.

Claims Service Agreement

The Exchange entered into a claims service agreement with Industrial Claims Management (ICM), a Montana Corporation. The term of this agreement was April 26, 2010 through April 26, 2012 and may be terminated at any time by giving 30 days prior notice. In this agreement, ICM agreed to administer workers' compensation claims on behalf of the Exchange in Montana. The Exchange agreed to pay ICM a flat fee of \$4,000 per month for the first year and \$5,000 per month the following year. An hourly fee of \$70 will be billed for unusual service needs.

CORPORATE RECORDS

Rules of the Associated Loggers Exchange

The Exchange was organized pursuant to Title 41, Chapter 29, Idaho Code, as a casualty-worker's compensation only, reciprocal insurer. As such, the Exchange was an unincorporated aggregation of subscribers and did not have articles of incorporation. The Exchange, however, operated under the Rules of the Exchange, which were analogous to bylaws of a corporation.

The Exchange's records indicated that the Rules of the Exchange were amended one time during the period under examination. Article III, Section 1 was amended to increase the number of the members of Board of Governors appointed by the Attorney-in-Fact from two to two or more and that the two or more members can serve for more than two conservative terms. Article VII, Section 1 was amended to allow the Exchange to transact insurance in the State of Idaho and any other states as authorized, the business of a reciprocal exchange. These amendments were approved by the Board on March 8, 2008.

The Exchange was not required to submit amended Rules of the Exchange to the Idaho Department of Insurance for approval. However, the Idaho Department of Insurance was notified of these changes on May 1, 2008.

Power of Attorney

Pursuant to Section 41-2910, Idaho Code, the rights and powers of the attorney (in-fact) of a reciprocal insurer shall be as provided in the power of attorney given it by the subscribers. The power of attorney was contained in each workers' compensation and employers' liability insurance policy, and was, therefore, executed by each member by acceptance of the (their) policy.

Minutes of Meetings

A review of the minutes of the meetings of the Members, the Board of Governors, the Investment Committee and the Audit Committee for the period January 1, 2007 through December 31, 2010 indicated compliance with the Rules of the Exchange with respect to annual membership and board meeting dates, the election of the Board of Governors and Officers, and the appointment of Alternate Governors and Committee members.

This review of the minutes also indicated that a quorum was present at all Board of Governors' meetings held during the examination period and that business transactions conducted by the Exchange were authorized. Specifically, contracts and agreements were approved, return of premium was declared, and redemption of surplus notes was properly authorized. In addition, investments of the Exchange were authorized by the Board of Governors and Investment Committee as required by Section 41-704, Idaho Code.

The Minutes of the Governors' meeting held June 21, 2008 indicated that the Examination Report as of December 31, 2006, conducted by the Idaho Department of Insurance was formally accepted.

FIDELITY BOND AND OTHER INSURANCE

Insurance coverage for the protection of the Exchange had been maintained through the period under examination. Coverages in effect as of December 31, 2010 included a financial institution bond and management and employment practices liability together with directors and officers errors and omissions professional liability.

The financial institution bond covered forgery or alteration and securities losses up to \$1,000,000, with a deductible of \$10,000 for all coverages. The financial institution bond coverage met the suggested minimum limits recommended by the NAIC *Financial Condition Examiners Handbook*.

In addition to the coverages noted above, the Attorney-in-Fact maintained worker's compensation and employers' liability; business property and liability; and employment practices liability insurance. The Attorney-in-Fact also maintained surety bond coverage pursuant to Section 41-2912, Idaho Code during the period under examination.

The insurance companies providing coverage to the Exchange and to the Attorney-in-Fact were licensed or otherwise authorized in the State of Idaho.

TERRITORY AND PLAN OF OPERATION

The Exchange is a reciprocal insurer organized under Idaho Statutes. It is an unincorporated association, organized pursuant to Chapter 29, Title 41 of the Idaho Code, and received its Certificate of Authority from the Idaho Department of Insurance on July 24, 1979. By statute, the Exchange operates through the Associated Loggers Management Corporation (ALMC), attorney-in-fact, which is a wholly owned subsidiary of the Exchange. Certain expenses incurred are reimbursed to the attorney-in-fact under a management agreement previously discussed under "Management and Control."

The Exchange is licensed to write worker's compensation insurance in Idaho and Montana. Operations of the Exchange were conducted from its main administrative office located in Boise, Idaho. In addition, an office to administer claims was maintained in Coeur d'Alene, Idaho. A TPA was used to administer claims on behalf of the Exchange in Montana.

As stated under the sub-caption, Contracts and Agreements, business was written on behalf of the Exchange through two policy services agreements. One was between the Associated Loggers Management Corporation (ALMC) and Associated Insurance Services, LLC on business produced in Idaho and the other one was between ALMC and MLA Services, Inc. on business produced in Montana. MLA Services, Inc. is a licensed producer (License # 66031) in the State of Montana.

STATUTORY AND SPECIAL DEPOSITS

As of December 31, 2010, the Exchange had provided the following deposits in trust for the protection of all its policyholders and/or creditors through the office of the Director of Insurance, in compliance with Section 41-316A, Idaho Code; these deposits were confirmed in this examination:

<u>Description</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
Statutory:			
Apache Corp., 6%, due 9/15/2013	\$ 250,000	\$264,304	\$280,725
Caterpillar Financial Service Corp., 5%, due 7/15/2013	250,000	250,000	266,468
General Electric Capital, 5%, due 9/15/2012	250,000	249,217	260,275
Union Bank of California, 5.95%, Due 5/11/2016	<u>300,000</u>	<u>302,571</u>	<u>319,320</u>
Totals	<u>\$1,050,000</u>	<u>\$1,066,092</u>	<u>\$1,126,788</u>

The Exchange was also required to maintain a special deposit for the Idaho Industrial Commission. The following is a schedule of securities on deposit with the Office of the State Treasurer which we confirmed in this examination:

<u>Description</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
Boise City ID Urban Renewal, 5%, Due 8/15/2020	\$ 165,000	\$ 180,336	\$ 173,115
Boise City Urban Renewal, 5.25%, Due 8/15/2015	250,000	265,223	281,013
Canyon Cnty ID Sch Dist No. 131, 3.625%, due 8/15/2013	45,000	46,976	47,529
Canyon Cnty ID Sch Dist No. 132, 4.5%, due 7/30/2013	150,000	160,372	161,664
Cassia & Twin Falls SD, 5.5%, due 8/1/2014	250,000	253,216	256,700
Idaho Health Facs Auth Rev, 5.75%, due 11/1/2017	240,000	252,417	263,227
Idaho Hsg Fin Assn Grant Rev, 2.5%, due 7/15/2015	250,000	246,401	252,445
U. S. Treasury Note, 3.125%, Due 4/30/2013	250,000	250,172	264,103
U. S. Treasury Note, 1%, due Due 4/30/2012	<u>500,000</u>	<u>500,419</u>	<u>504,045</u>
Totals	<u>\$2,100,000</u>	<u>\$2,155,532</u>	<u>\$2,203,841</u>

In addition, the Exchange had provided the following statutory deposit, which was confirmed, with the Montana Department of Labor & Industry as of December 31, 2010:

<u>Description</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
U. S. Treasury Note, 2.125%, Due 5/31/2015	\$250,000	\$250,138	\$253,985
Money Market Fund	<u>9,844</u>	<u>9,844</u>	<u>9,844</u>
Totals	<u>\$259,844</u>	<u>\$259,982</u>	<u>\$263,829</u>

GROWTH OF THE EXCHANGE

The Exchange's growth for the years indicated, as taken from its Annual Statements, is shown in the following schedule:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital & Surplus</u>	<u>Net Income(Loss)</u>
2006*	\$29,549,168	\$18,516,566	\$11,032,602	\$228,183
2007	29,771,180	18,364,115	11,407,065	568,582
2008	29,088,067	17,833,614	11,254,454	131,094
2009	28,053,142	16,088,299	11,964,843	435,729
2010*	\$28,321,624	\$16,394,427	\$11,927,197	\$(124,739)

*As determined by Examination.

Net income decreased substantially in 2011 is due to one large claim incurred in 2010 of \$1.9 million.

LOSS EXPERIENCE

The ratio of claims and underwriting expenses incurred to premiums earned, as reported in the Exchange's annual statements are scheduled below:

<u>Year</u>	<u>Premiums Earned</u>	<u>Losses & LAE Incurred</u>	<u>Underwriting Expenses Incurred</u>	<u>Total Losses, LAE and Expenses</u>	<u>Ratio to Premiums Earned</u>
2006*	\$7,966,173	\$5,759,176	\$1,735,231	\$7,494,407	94%
2007	7,223,852	4,798,425	1,769,790	6,568,215	91%
2008	6,390,407	4,242,126	1,568,526	5,810,652	91%
2009	4,684,394	3,115,626	1,313,366	4,428,992	95%
2010*	\$5,532,283	\$4,385,847	\$1,568,170	\$5,954,017	108%

*Per Examination

Premiums earned decreased during the period under examination were mainly due to recession in the logging industry.

REINSURANCE

Assumed

The Exchange did not assume any reinsurance business during the period under examination.

Ceded

At December 31, 2010, the Exchange's retention limit was \$1,000,000 per occurrence and ceded the excess to various reinsurers in accordance with the allocation percentages through four excess of loss reinsurance contracts.

The reinsurance contracts were written and administered by its reinsurance intermediary, Benfield Inc., Minneapolis, Minnesota. Contracts in force during the examination period contained the standard insolvency clause, right of offset, arbitration, access to records, commutation, and errors and omissions provisions. The first three layer excess of loss reinsurance contracts were in force for a one-year term commencing April 1 each year. They were renewed on a continuous basis, with substantially similar terms. The contracts also provided that for seven years after expiration, the Exchange would advise the reinsurers of any claims arising from occurrences which commenced during the contract term that had not been settled. The fourth layer excess of loss reinsurance contract was effective from June 1, 2010 through May 31, 2012 and it only provided excess of loss coverage on one policy in Montana.

The reinsurers that participated in the Exchange's reinsurance contracts executed Interests and Liabilities Agreements; these agreements specified the reinsurer's percentage share in the interests and liabilities set forth in the subject reinsurance contracts.

The Department's consulting actuary, Taylor-Walker & Associates, Inc., performed a review of the excess-of-loss reinsurance agreements that were in effect at year-end 2010. Upon review of the agreements, Taylor-Walker determined that the treaties "contain no rating or coverage features which would bring into question the existence of risk transfer." Taylor-Walker went on to conclude: "Therefore, reinsurance accounting treatment is appropriate."

The coverage structure for the ceded business is summarized as follows:

[See table on next page.]

Coverage Structure of Reinsurance Program
4/1/2010 – 3/31/2011

Type of Agreement	Reinsurer(s)	Exchange's Retention	Reinsurers' Limits
First Excess of Loss	Hannover Ruckversicherung AG (30%) Lloyd's Underwriter Syndicates (55%) Aspen Insurance UK Limited (15%)	\$1,000,000	\$1,000,000 per occurrence; \$1,000,000 maximum during the term of this contract
Second Excess of Loss	Midwest Employers Casualty Company (90%) Lloyd's Underwriter Syndicates (10%)	\$2,000,000	\$8,000,000 per occurrence; \$8,000,000 maximum during the term of this contract
Third Excess of Loss	Arch Reinsurance Company (15%) Flagstone Reassurance Suisse SA (10%)* Lloyd's Underwriter Syndicates (75%)	\$10,000,000	\$10,000,000 per occurrence; \$10,000,000 maximum during the term of this contract

*Unauthorized reinsurer

6/1/2010 – 5/31/2012

Type of Agreement	Reinsurer(s)	Exchange's Retention	Reinsurers' Limits
Fourth Excess of Loss	Lloyd's Underwriter Syndicates (40%) The Exchange can only obtain 40% coverage on this agreement; therefore, it self-insured the remaining 60%	\$20,000,000	\$20,000,000 per occurrence; \$20,000,000 maximum during the term of this contract. Note: This excess of loss contract only covered one policy in Montana

INSURANCE PRODUCTS AND RELATED PRACTICES

A limited scope Market Conduct Examination was conducted in conjunction with the examination of the administrative affairs, books, records, and financial condition of the Exchange. Underlying data was also validated during the limited scope Market Conduct Examination.

Policy Forms and Underwriting

The Exchange offered worker's compensation and employer's liability insurance coverage to its subscribers. Coverage applied to worker's compensation laws and occupational laws of Idaho and Montana and applied to all private employment not exempt by Section 72-212, Idaho Code and Section 39-71-401, Montana Code respectively. For employer's liability insurance, the limits of liability were as follows:

Bodily injury by accident:	\$100,000, each accident
Bodily injury by disease:	\$100,000, each employee
Bodily injury by disease:	\$500,000, policy limit

On July 24, 1979, the Idaho Department of Insurance authorized the Exchange to omit provisions imposing contingent liability in its worker's compensation policies.

The Exchange subscribed to the National Council on Compensation Insurance (NCCI) rating organization. Rates developed by the NCCI were utilized in an advisory capacity. With regard to rates in Idaho, the Board of Governors approved deviations from those rates. Since the Exchange is an Idaho domestic reciprocal insurer transacting worker's compensation insurance only, it is not required to file its rates with the Department, or seek approval for rate deviations, according to Idaho Code Section 41-1601(2). For the policy year July 1, 2010 to July 1, 2011, the rates were deviated 13 percent downward from NCCI's filed rates. For rates in Montana, the Exchange developed its rates by multiplying the NCCI advisory rates by a loss cost multiplier. The loss cost multiplier used effective July 1, 2008 was 1.00; it was approved by the Montana Department of Insurance.

A limited review of selected policies indicated compliance with the Exchange's underwriting guidelines, policy forms, and rates.

Treatment of Policyholders

Claims

Random samples of open, paid, and denied claims incurred during the examination period were reviewed. This review indicated that, in general, claims were being settled properly and payments were being made in a timely manner as contemplated in Idaho Code Section 41-1329 (Unfair Claim Settlement Practices).

The State of Idaho Industrial Commission also regulated and enforced treatment of policyholders by hearing disputed claims, regulating benefit payments, and by enforcing and monitoring worker's compensation insurance coverage. The exclusive remedy for injury claims was provided by the Worker's Compensation Law, Title 72, Idaho Code.

Complaints

Complaints made by policyholders were filed either directly with the Exchange or with the Idaho Department of Insurance and/or the Idaho Industrial Commission. The Exchange's procedure for maintaining complaints was in compliance with Section 41-1330, Idaho Code.

The Exchange maintained a log to record suspected fraudulent claims that were reported to the Department of Insurance as required by Section 41-290, Idaho Code. There were no suspected fraudulent claims during the period under examination; therefore, no suspected fraudulent claims were reported to the Department of Insurance.

Advertising and Sales Material

The Exchange published a newsletter that was periodically distributed to its members. Associated Logging Contractors of Idaho, Inc. also publicized activities of the Exchange, informed new members of the Exchange's existence, and encouraged recognition at meetings and certain sponsored occasions.

ACCOUNTS AND RECORDS

General Accounting

As previously reported, accounting, underwriting and claims administration services were provided to the Exchange by its Attorney-in-Fact, pursuant to the management agreement. Under this agreement, the Attorney-in-fact performed general accounting functions. However, an outside accountant compiled the financial statements and prepared the NAIC annual and quarterly statements, among other things.

Information technology services were provided to the Exchange under terms of the data processing agreement between the Attorney-in-Fact (ALMC) and Binary Options, Inc.

ALMC has two separate hardware systems. The underwriting software and claims management software are independent Access Database Programs, on a small NT network, not connected to the Internet. There is one computer dedicated for underwriting purposes, with an attached check printer. There is one PC used by John Graham, President of the ALMC, for management purposes. There is one PC dedicated for claims management with an attached check printer. There are two NT servers, a primary and a backup. There is also one workstation with a modem used as a PCAnywhere Host, which allows the claims personnel in Coeur d' Alene to call in and use the claims management system. All financial transactions are still physical. All payments are printed on checks. All bills are printed and mailed out, and incoming premium payments are all by check. Additionally, Industrial Claims Management, Inc. (ICM) operates an office in Missoula, MT and handles the claims in Montana as a TPA. The data from ICM is manually entered into the claims system in the Boise office from hard copy and email. In addition to the above system, each ALMC employee has a computer connected to the Internet through a DSL modem. These are used for email and web access, but are completely isolated from the NT network.

Independent Accountants

The annual independent audits of the Exchange for the years 2007 through 2010 were performed by Presnell Gage Accounting and Consulting, Lewiston, Idaho. The financial statements in each report were on a statutory basis. There was some reliance on the 2010 audit report and workpapers in this examination of the Exchange. The opinions expressed by the independent auditor for the periods under examination were all unqualified.

Actuarial Opinion

The policy reserves and related actuarial items were initially calculated by the Exchange and later reviewed and adjusted by Mark W. Mulvaney, FCAS, MAAA, with the firm of Milliman USA, Inc. The December 31, 2010 statement of opinion reported that the amounts carried in the balance sheet:

(a) meet the requirements of the insurance laws of Idaho; (b) are consistent with reserves computed in accordance with Standards of Practice issued by the Actuarial Standards Board (including the Casualty Actuarial Society's Statement of Principles Regarding Property and Casualty Loss and Loss Adjustment Expense Reserves); and (c) make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The identified actuarial items in the Annual Statement were as follows:

Reserve for unpaid losses (Page 3, Line 1)	\$13,765,416
Reserve for unpaid loss adjustment expenses (Page, 3 Line 3)	1,142,168
Reserve for unpaid losses - direct and assumed (Schedule P, Part I, totals from columns 13 and 15)	19,372,000
Reserve for unpaid loss adjustment expenses – direct and assumed (Schedule P, Part I, totals from columns 17, 19, and 21)	1,202,000
The Page 3 Write-in item reserve, "Retroactive reinsurance reserve assumed"	0
Reserve for direct and assumed unearned premiums	0
Reserve for net unearned premiums	0

Anticipated salvage and subrogation included as a reduction to loss reserves as reported in various Annual Statement exhibits was zero. There was no discount for the time value of money reflected in the above and as reported in Schedule P.

The Exchange did not participate in any voluntary or involuntary pooling arrangements. The Exchange, therefore, did not have any liabilities arising from these sources.

The net reserves for losses and loss adjustment expenses that the Exchange carried for asbestos liabilities and environmental liabilities were zero. The total reserves for losses and loss adjustment expenses that the Exchange carried for the extended loss and expense reserve and which were reported in the Schedule P Interrogatories were also zero.

For comments regarding the review of the Company's loss reserving methodology by the Department's consulting actuary, see the NOTES TO FINANCIAL STATEMENTS section (Note 2) of this report.

Evaluation of Controls and Information Systems

An offsite, limited EDP desk audit exam was conducted by Jenny Jeffers, Certified Information Systems Auditor (CISA) and Automated Examination Specialist (AES) of the Exchange on behalf of the Idaho Department of Insurance. The examination was performed in accordance with the guidelines and procedures set forth in the Exhibit C, Evaluation of Controls in the Information Technology

Planning Questionnaire (ITPQ) of the NAIC *Financial Condition Examiners Handbook*. The scope and procedures of her review follow:

Scope

- Determined the financially significant systems through which the data of the Exchange flows
- Reviewed the NAIC Information Technology Planning Questionnaire responses from the Exchange and follow up on any issues.
- Reviewed the Business Continuity and Disaster Recovery Plan
- Developed the IT Summary Memo

Procedures

Procedures included interviews with key company personnel and review of relevant supporting documentation of the underlying controls and follow-up of any responses where the company response indicated the potential for a material risk or material control exception.

Review of documentation of controls – printed and provided electronically.

Several control weaknesses were observed during the examiner's review of the Exchange's IT systems. These control weaknesses, however, were considered minor and did not create high enough risk to affect the scope of this examination. These control weaknesses, and the examiner's recommendations for correcting those weaknesses, were addressed separately in the management letter.

FINANCIAL STATEMENTS

The financial section of this report contains the following statements:

Statement of Financial Condition as of December 31, 2010

State of Income for the Year Ending December 31, 2010

Capital and Surplus Account for the Year Ending December 31, 2010

Reconciliation of Surplus as Regards Policyholders: December 31, 2006 through December 31, 2010

STATEMENT OF FINANCIAL CONDITION
As of December 31, 2010

ASSETS

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net <u>Admitted</u>
Bonds	\$23,512,538	\$ 0	\$23,512,538
Preferred stock	201,640	0	201,640
Common stock (Note 1)	1,691,812	40,203	1,651,609
Cash and short-term investments	1,158,824	0	1,158,824
Investment income due and accrued	284,983	0	284,983
Uncollected premiums and agents' balances (including audit premiums)	(52,811)	3,459	(56,270)
Premiums, agents' balances and installments booked but deferred and not yet due	1,003,932	0	1,003,932
Amounts recoverable from reinsurers	19,338	0	19,338
Current federal income tax recoverable	194,349	0	194,349
Net deferred tax asset	<u>705,827</u>	<u>355,146</u>	<u>350,681</u>
Totals	<u>\$28,720,432</u>	<u>\$398,808</u>	<u>\$28,321,624</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses (Note 2)	\$13,765,416
Loss adjustment expenses (Note 2)	1,142,168
Other expenses	277,182
Taxes, licenses and fees	109,033
Ceded reinsurance premiums payable (net of ceding commissions)	505,811
Funds held by company under reinsurance treaties	4,288
Amounts withheld or retained by company for account of others	297,932
Reserve for retrospective premium	<u>292,597</u>
Total liabilities	<u>\$16,394,427</u>
Special surplus funds	\$ 226,636
Surplus notes	52,765
Unassigned funds	<u>11,647,796</u>
Surplus as regards policyholders	<u>\$11,927,197</u>
Totals	<u>\$28,321,624</u>

STATEMENT OF INCOME
For the Year Ending December 31, 2010

<u>UNDERWRITING INCOME</u>	<u>Per Exchange and Examination</u>
Premiums earned	\$ <u>5,532,283</u>
Deductions:	
Losses incurred	\$ 4,129,563
Loss expenses incurred	256,284
Other underwriting expenses incurred	<u>1,568,170</u>
Total underwriting deductions	\$ <u>5,954,017</u>
Net underwriting loss	\$ <u>(421,734)</u>
 <u>INVESTMENT INCOME</u>	
Net investment income earned	\$ 980,715
Net realized capital gains (losses)	<u>120,820</u>
Net investment gain	\$ <u>1,101,535</u>
 Net income before dividends to policyholders and before federal and foreign income taxes	 \$ <u>679,801</u>
Dividends to policyholders	\$ <u>950,000</u>
Net income (loss) after dividends to policyholders but before federal and foreign income taxes	\$ <u>(270,199)</u>
Federal and foreign income taxes incurred (benefit)	\$ <u>(145,460)</u>
 Net income (loss)	 \$ <u>(124,739)</u>

CAPITAL AND SURPLUS ACCOUNT

For the Year Ending December 31, 2010

	<u>Per</u> <u>Exchange</u>	<u>Examination</u> <u>Changes</u>	<u>Per</u> <u>Examination</u>
Surplus as regards policyholders, December 31, 2009	<u>\$11,964,843</u>	<u>\$ 0</u>	<u>\$11,964,843</u>
<u>GAINS AND (LOSSES) IN SURPLUS</u>			
Net income (loss)	\$ (124,739)	\$ 0	\$ (124,739)
Change in net unrealized capital gains or (losses)	116,432	0	116,432
Change in net deferred income tax	11,275		11,275
Change in nonadmitted assets	(40,185)	0	(40,185)
Change in surplus notes	<u>(429)</u>	<u>0</u>	<u>(429)</u>
Change in surplus as regards policyholders for the year	<u>\$ (37,646)</u>	<u>\$ 0</u>	<u>\$ (37,646)</u>
Surplus as regards policyholders, December 31, 2010	<u>\$11,927,197</u>	<u>\$ 0</u>	<u>\$11,927,197</u>

RECONCILIATION OF SURPLUS AS REGARDS POLICYHOLDERS

From December 31, 2006 through December 31, 2010

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Surplus as regards policyholders, December 31, previous year	<u>\$11,032,602*</u>	<u>\$11,407,065</u>	<u>\$11,254,454</u>	<u>\$11,946,843</u>
Net income	\$ 568,582	\$ 131,094	\$ 435,729	\$ (124,739)
Net unrealized capital gains or losses	(85,240)	(251,967)	37,854	116,432
Change in net deferred income tax	(200,356)	437,313	(430,118)	11,275
Change in nonadmitted assets	133,126	(461,882)	666,924	(40,185)
Change in surplus notes	<u>(41,649)</u>	<u>(7,169)</u>	<u>0</u>	<u>(429)</u>
Change in surplus as regards policyholders for the year	<u>\$ 374,463</u>	<u>\$ (152,611)</u>	<u>\$ 710,389</u>	<u>\$ (37,646)</u>
Surplus as regards policyholders, December 31, current year	<u>\$11,407,065</u>	<u>\$11,254,454</u>	<u>\$11,964,843</u>	<u>\$11,927,197*</u>

* = Per examination

NOTES TO THE FINANCIAL STATEMENTS

Note (1) – Common Stock \$1,651,609

Common stock included the market value of publicly traded common stock in the amount of \$1,274,475. The asset also included 100 percent of the outstanding stock of the Exchange's Attorney-in-Fact, ALMC. The stock was valued on the equity basis of \$417,337, less \$40,203 to non-admit furniture and equipment, prepaid expenses and software. Valuation of ALMC was in compliance with Section 41-614(3), Idaho Code.

The net earnings of ALMC, including depreciation of nonadmitted assets, as of December 31, 2010 were \$46,610.

Note (2) – Losses & \$13,765,416
Loss Adjustment Expense \$ 1,142,168

The Department's consulting actuary (Taylor-Walker & Associates, Inc.) reviewed the actuarial opinion and supporting actuarial reports of the Exchange's loss and loss adjustment expense reserves as of December 31, 2010. Taylor-Walker concluded that the gross and net loss and loss adjustment reserves estimated by the opining actuary and were reported by the Exchange as of December 31, 2010 were reasonable. In addition, the actuary reviewed the Exchange's loss experience in order to determine whether the Exchange needed to book a premium deficiency reserve as of December 31, 2010. The actuary determined that no premium deficiency reserves needed be recognized.

SUMMARY, COMMENTS AND RECOMMENDATIONS

Summary

The results of this examination disclosed that as of December 31, 2010, the Exchange had admitted assets of \$28,321,624, liabilities of \$16,394,427 and surplus as regards policyholders of \$11,927,197. This amount met the minimum requirements of Sections 41-313 and 41-2906, Idaho Code.

Comments and Recommendations

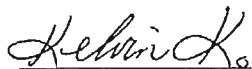
Several minor control weaknesses and discrepancies on the Exchange's IT systems, and books and records were observed during this examination. These weaknesses and discrepancies, along with the examiner's recommendations for correcting them, were addressed separately in the management letter.

CONCLUSION

The undersigned acknowledges the assistance and cooperation of the Exchange's officers, outside accountant, data processing consultant and the Attorney-in-Fact and its employees in conducting the examination.

In addition to the undersigned, R. Glenn Taylor, ACAS, MAAA, of Taylor-Walker & Associates, Inc., and Jenny Jeffers, CISA, AES (IT examiner) of Examination Resources, LLC, participated in the examination.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Kelvin Ko".

Kelvin Ko, CFE
Senior Insurance Examiner
Department of Insurance
State of Idaho

AFFIDAVIT OF EXAMINER

State of Idaho
County of Ada

Kelvin Ko being duly sworn, deposes and says that he is a duly appointed Examiner for the Department of Insurance of the State of Idaho, that he has made an examination of the affairs and financial condition of *Associated Loggers Exchange* for the period from January 1, 2007 through December 31, 2010, that the information contained in the report consisting of the foregoing pages is true and correct to the best of his knowledge and belief; and that any conclusions and recommendations contained in this report are based on the facts disclosed in the information.

Kelvin Ko
Senior Insurance Examiner
Department of Insurance
State of Idaho

Subscribed and sworn to before me the 12th day of January, 2012, at Boise, Idaho.



Brent W. Nye
Notary Public

My Commission Expires: 4/22/2016

EXHIBIT B

State of Idaho
DEPARTMENT OF INSURANCE

C.L. "BUTCH" OTTER
Governor

700 West State Street, 3rd Floor
P.O. Box 83720
Boise, Idaho 83720-0043
Phone (208)334-4250
FAX # (208)334-4398

WILLIAM W. DEAL
Director

WAIVER

In the matter of the Report of Examination as of December 31, 2010, of:

Associated Loggers Exchange
3380 Elder St.
Boise, Idaho 83705

By executing this Waiver, the Attorney-in-Fact for Associated Loggers Exchange hereby acknowledges receipt of the above-described examination report, verified as of the 12th day of January, 2012, and by this Waiver hereby consents to the immediate entry of a final order by the Director of the Department of Insurance adopting said report without any modifications.

By executing this Waiver, the Trust also hereby waives:

1. its right to examine the report for up to four (4) weeks as provided in § 41-4013(3), Idaho Code, and
2. its right to recommend to the director such corrections or changes therein as prescribed by § 41-4013(3), Idaho Code, and
3. any right to request a hearing under Idaho Code sections 41-227(5) and (6), 41-232(2)(b), or elsewhere in the Idaho Code, and
4. any right to seek reconsideration and appeal from the Director's order adopting the report as provided by section 41-227(6), Idaho Code, or elsewhere in the Idaho Code.

Dated this 24th day of January, 2012

John Graham

Name(s) (print)

John Graham

Name(s) (signature)

Pres / Att-in-Fact

Title(s)