A Report
to the
Montana
Legislature

Financial-Compliance Audit

Montana State Fund

For the Fiscal Year Ended
June 30, 2014

January 2015

Legislative Audit
Division

14-05

Financial-Compliance Audits

Financial-compliance audits are conducted by the Legislative Audit Division to determine whether an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) licenses.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2013, was issued March 28, 2014. The Single Audit Report for the two fiscal years ended June 30, 2015, will be issued by March 31, 2016. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
Room 277, State Capitol
P.O. Box 200802
Helena, MT 59620-0802

Legislative Audit Division
Room 160, State Capitol
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LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

January 2015

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report of the Montana State Fund, a component unit of the state of Montana, for the fiscal year ended June 30, 2014. The financial statements include comparative information for the fiscal year ended June 30, 2013. This report does not include any audit recommendations. On page A-1, you will find the Independent Auditor's Report. We issued an unmodified opinion on the financial statements, which means the reader can rely on the information presented.

Montana State Fund's response to our audit is on page B-1. We thank the Montana State Fund President/CEO and his staff for their cooperation and assistance during the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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Appointed and Administrative Officials

Montana State Fund	Laurence Hubbard, President/CEO	
	Mark Barry, Vice President, Corporate Support	
	Richard Duane, Vice President, Human Resources	
	Julie Jenkinson, Vice President, Insurance Operations	
	Peter Strauss, Vice President, Insurance Operations Support	
	Nancy Butler, General Counsel	
	Al Parisian, Chief Information Officer	
		Term Expires
State Fund Board of Directors	Elizabeth Best, Chair	2015
	Joe Brenneman	2015
	Wayne Dykstra	2015
	Bruce Mihelish	2017
	Richard Miltenberger	2017
	Lynda Moss	2017
	Lance Zanto	2017
	Laurence Hubbard, President/CEO - ex officio nonvoting member	

For additional information concerning the Montana State Fund, contact:

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Montana Legislative Audit Division

Financial-Compliance Audit
Montana State Fund
For the Fiscal Year Ended June 30, 2014

January 2015 14-05 Report Summary

Total net position of the Montana State Fund increased $67 million from fiscal year 2013 to 2014 as a result of an increase in premium or business written and investment performance. Investment income in fiscal year 2014 was $80.8 million as compared to $44.5 million in fiscal year 2013. The Montana State Fund Board of Directors approved a 6 percent rate decrease effective for the 2014 policy year. The Board approved and the State Fund paid dividends of $12 million payable to qualified policy holders in fiscal year 2014, and recently approved a dividend of $20 million to be paid in fiscal year 2015.

Context

The Montana State Fund (MSF) is a nonprofit, independent public corporation established under Title 39, chapter 71 of the Montana Code Annotated, and provides Montana employers with an option for workers' compensation and occupational disease insurance guaranteeing available coverage for all employers in Montana.

The Montana State Fund board is allocated to the Department of Administration for administrative purposes only. MSF is governed by a seven-member board of directors appointed by the Governor. The board of directors appoints the President/CEO who is charged with oversight of MSF operations on a day-to-day basis.

Primary revenue for the MSF is derived from insurance premiums and investment income. MSF does not receive funding from the State General Fund. Expenses incurred are for claims paid to injured workers and for general operating expenses of the MSF. Revenues from insurance premiums and investment income in fiscal year 2014 were $165.3 million and $80.9 million, respectively. Claims and operating expenses in fiscal year 2014 were $132.3 million and $36.0 million, respectively.

Results

Our audit work included testing of MSF internal controls and business processes related to:

- Payment of claim expenses and reservations for future claims.
- Assessment and collection of policy premiums.
- Investment activity.
- Compliance with selected laws and regulations.
- Overall reasonableness of the financial statement presentation.

The prior report contained no recommendations. We issued an unmodified opinion on the financial statements, which means the reader can rely on the information presented. This report does not contain any recommendations.

For a complete copy of the report (14-05) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at http://leg.mt.gov/audit
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Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Montana State Fund (MSF) for the fiscal year ended June 30, 2014.

The objectives of this audit were to:

1. Determine whether the MSF's financial statements present fairly the financial position, results of operations, and cash flows for the fiscal year ended June 30, 2014, with comparative financial amounts for the fiscal year ended June 30, 2013.
2. Obtain an understanding of the MSF's control systems to the extent necessary to support our audit of MSF's financial statements, and if appropriate, make recommendations for improvement.
3. Determine whether MSF complied with selected applicable laws and regulations.

Our audit work included testing of MSF internal controls and business processes related to:

- Payment of claim expenses and reservations for future claims.
- Assessment and collection of policy premiums.
- Investment activity.
- Compliance with selected laws and regulations.
- Overall reasonableness of the financial statement presentation, including note disclosures.

MSF personnel prepared the financial statements based on accounting information from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) with adjustments. Adjustments are made to present financial activity in accordance with generally accepted accounting principles. This report contains no recommendations.

Background

MSF is a nonprofit, independent public corporation that provides Montana employers with an option for worker's compensation and occupational disease insurance, and guarantees available coverage for all employers in Montana. MSF is governed by a seven-member board of directors appointed by the Governor.

MSF management must set premium rates for claims incurred after July 1, 1990, at amounts sufficient, when invested, to carry the estimated cost of all claims to maturity, to meet the reasonable expenses of conducting the business of MSF, and to maintain a surplus over a calculated amount based on the National Association of Insurance Commissioners' risk-based capital requirements for a casualty insurer. The investments of the MSF, per state law, are managed by the Montana Board of Investments and invested in accordance with the prudent expert principle.

In January 2014, our office issued a performance audit report entitled, *Worker's Compensation Insurance Premium Review*, (13P-05). That report provides information about the MSF's process for calculating worker's compensation insurance premiums, applying dividends and other premium returns, and the effects of Chapter 167, Laws of 2011, of House Bill 334, passed by the 2011 Legislature.

Independent Auditor’s Report

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Statement of Net Position of the Montana State Fund as of June 30, 2014, and 2013, the related Statement of Revenues, Expenses and Changes in Fund Net Position, and Statement of Cash Flows for each of the fiscal years then ended, and the related notes which collectively comprise the Montana State Fund's basic 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 accounting principles generally accepted in the United States of America; this responsibility includes designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 controls relevant to the Montana State Fund'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 Montana State Fund's internal control, and 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 the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Montana State Fund as of June 30, 2014, and 2013, and the changes in net position and cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Managements Discussion and Analysis beginning on page A-5, the Required Supplementary Information related to Other Post Employment Benefits and Risk Management on page A-36, and Risk Management Trend Information on page A-37, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

December 2, 2014

Montana State Fund Financial Statements

Montana State Fund

(A Component Unit of the State of Montana)
Management Discussion and Analysis
June 30, 2014, 2013 and 2012

Montana State Fund (MSF) is a self-sufficient, not-for-profit workers' compensation insurance carrier. Our statutory purpose is to act as a competitive insurance carrier, providing an available market and thereby guaranteeing coverage to all employers in Montana. Operating on the premium dollars paid by the insured employers and the net proceeds from our investments, MSF is not funded by the State general fund for primary business operations. We function like a private insurance carrier in a competitive marketplace and, as provided by law, perform all the functions and exercise all the powers of a private insurance carrier that are necessary, appropriate or convenient for the administration of the Montana State Fund.

MSF has undergone a number of changes since our creation in 1990. We have transitioned from a traditional organizational structure to one that is more adapted to the demands of the information age. Our operational structure includes multifunctional teams that are aligned with specific groups of employers and agents that allow us to work more closely with our policyholders and their injured employees. We continue to strive to improve efficiencies in all operational areas and have made a major investment in our safety management services as we work diligently with Montana employers in developing accident prevention programs. MSF has invested more resources for medical management and provider relations to improve our focus on managing medical costs as medical benefit costs are over half of total claim costs. As our state's economic structure continues to evolve, we stand ready to fulfill our critical role as the guaranteed workers' compensation market for all Montana employers.

MSF also administers and manages the claims remaining in the Old Fund for the State of Montana. The assets of the Old Fund were completely liquidated in 2011 and benefit payments and administrative costs for claims occurring before July 1st, 1990 are fully supported by General Fund resources as required under state law (Section 39-71-2352, MCA). Therefore, the Old Fund is considered to be part of the Primary Government for financial reporting purposes and is not included in the accompanying financial statements.

Overview of the Financial Statements

This overview is an introduction to Montana State Fund financial statements. The financial statements consist of two components: (1) basic financial statements, and (2) notes to the basic financial statements.

The Statement of Net Position presents information regarding all of MSF's assets and liabilities, with the difference between the two being reported as total net position.

The Statement of Revenues, Expenses, and Changes in Fund Net Position presents the financial results of operations for MSF for the two most recent fiscal years. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

The Statement of Cash Flows details the cash used and provided by the various activities of MSF during the fiscal year. However, this statement does not consider unpaid responsibilities which have been established by contract or other underlying events during the fiscal year.

Financial Highlights

While many challenges remain for MSF, the economy and our business are improving. MSF continues to deliver high quality products to Montana businesses at the lowest possible cost consistent with sound insurance principles. MSF fosters and supports a competitive insurance market in Montana, offering a competitively priced product based upon actuarially sound rates while still fulfilling our role as the guaranteed market. The Board of Directors approved a 6% rate decrease effective July 1, 2013 for policy year 2014. Total dividends of $12 million were paid to qualifying policyholders in fiscal year 2014.

MSF continues to monitor the impact of House Bill (HB) 334, a state law that put into place historic changes to the workers' compensation system in Montana. Medical staff were added to improve our claim handling and ensure that the appropriate medical treatment protocols are applied. MSF also added a provider relations resource to facilitate more timely scheduling of doctor appointments and medical treatment for our injured employees. MSF looks forward to realizing the improvements intended by HB 334 and the positive benefit it can bring to workers' compensation. We are committed to maintaining a strong, stable and dependable insurer for Montana's businesses and their employees.

Analysis of Financial Position and Results of Operations

The following analysis presents three years of comparative condensed financial data for MSF.

Statement of Net Position (In thousands)
For the periods ending June 30, 2014, 2013 (restated) and 2012

	6/30/2014	6/30/2013 (Restated)	6/30/2012
Assets:			
Cash and STIP	$ 37,672	$ 52,837	$ 26,137
Investments	1,380,202	1,278,671	1,263,070
Security Lending Collateral	166,416	141,152	149,465
Receivables (Net)	63,078	63,222	62,230
Capital Assets (Net)	29,764	30,391	32,351
Other Assets	47,142	54,347	49,906
Total Assets	$ 1,724,274	$ 1,620,620	$ 1,583,159
Current Liabilities:			
Estimated Claims Payable	$ 109,595	$ 118,467	$ 114,004
Securities Lending Liability	166,416	141,152	149,465
Payables	8,356	9,756	10,885
Other Current Liabilities	52,622	52,360	46,840
Total Current Liabilities	336,989	321,735	321,194
Noncurrent Liabilities:			
Estimated Claims Payable	$ 815,002	$ 784,381	$ 775,936
Other Noncurrent Liabilities	72,176	81,811	74,096
Total Noncurrent Liabilities	887,178	866,192	850,032
Total Liabilities	1,224,167	1,187,927	1,171,226
Net Position:			
Total Net Position	500,107	432,693	411,933
Total Liabilities and Net Position	$ 1,724,274	$ 1,620,620	$ 1,583,159

MSF has seen a continual increase in Net Position the past three years. Net Position increased 15.6% or $67.4M (million) from $432.7M in fiscal year 2013 to $500.1M in fiscal year 2014. This increase is due to an increase in the amount of business written by MSF and improved operating results, as well as strong investment performance that results in significant unrealized gains. Net Position increased by $20.8M in fiscal year 2013, which includes a $3.1M reduction in beginning net position related to the prior period adjustments described below.

MSF restated fiscal year 2013 to reflect implementation of GASB Statement 65 during fiscal year 2014. This new statement requires acquisition costs related to insurance policies to be expensed in the period incurred rather than deferred and amortized as historically required under GASB Statement 10. This adjustment resulted in an increase to Operating Expenses of $1.1M, a decrease in Other Assets of $5.2M, and a decrease in Net Position of $4.1M. Additionally, MSF restated fiscal year 2013 to reflect the correction of an error in the actuarial valuation of the State of Montana's Other Post Employment Benefits plan. An error was discovered in the calculation of the State's overall OPEB liability and the corresponding corrections were allocated to the member agencies. This adjustment resulted in a decrease in Operating Expenses of $224K, a decrease in Other Post Employment Benefits liability of $1.1M, and an increase in Net Position of $926K.

MSF investments include bond and equity holdings and the combined value as of June 30, 2014 was $1.4B, this was an increase of $101.5M or 7.9% in fiscal year 2014. Investments increased 1.2% or $15.6M in fiscal year 2013 compared to the previous year. The changes in market value of MSF's investment portfolio of fixed and equity securities in fiscal years 2014, 2013 and 2012 are as follows (In thousands):

	2014	2013	2012
Prior Year Market Value	$ 1,278,671	$ 1,263,070	$ 1,203,149
Purchases at Cost	253,312	197,389	226,513
Sales	(191,375)	(185,115)	(196,328)
Net Realized Gains	14,280	11,033	4,888
Net Accretion of Bonds	(370)	(139)	25
Unrealized Gain (Loss)	25,684	(7,569)	24,824
Current Year Market Value	$ 1,380,202	$ 1,278,670	$ 1,263,070

MSF financial statements include $1.1M in land for fiscal years 2014, 2013, and 2012. Buildings (net of depreciation) are $25.8M, $26.3M, and $26.8M, at June 30, 2014, 2013 and 2012, respectively. (Note 1- Other Assets in the Notes to the Financial Statements provides additional information.)

Liabilities are presented as current and noncurrent. Total liabilities increased by $36.3M in fiscal year 2014 primarily due to an increase in the total estimated claims payable of $21.7M. Total liabilities increased by $16.7M in fiscal year 2013 primarily due to an increase in the total estimated claims payable of $12.9M, an increase in unearned premium of $5.4M and an increase of $8.0M in other liabilities which includes the reinsurance funds withheld liability.

Estimated claims payable include both loss and LAE reserves. Loss reserves are the actuarially determined estimate of the cost of claims that have already been incurred, and are the most significant liability on MSF's statement of net position. Reserves are decreased as claims are paid and are increased as new losses are incurred. Loss Adjustment Expense (LAE) reserves represent the loss adjustment, or claim management expenses related to the unpaid losses. Since these amounts are a percentage of unpaid losses, fluctuations are typically similar to fluctuations in unpaid losses.

The current portion of the loss and LAE reserves liability is presented undiscounted at $109.6M and $118.5M, as of June 30, 2014, and 2013, respectively. The noncurrent portion of the loss and LAE reserves liability is $815.0M and $784.4M, as of June 30, 2014, and 2013, respectively. This is a total increase in both the current and noncurrent liability of $21.7M compared to fiscal year 2013, and is primarily a net result of the addition of the new accident year's reserves and payments on prior accident years.

As of June 30, 2013, and 2012, the current portion of the loss and LAE reserves liability is presented undiscounted at $118.5M and $114.0M, respectively. The noncurrent portion of the loss and LAE reserves liability is $784.4M and $775.9M, as of June 30, 2013, and 2012, respectively. This is a total increase in both the current and noncurrent liability of $12.9M compared to fiscal year 2012, and is primarily due to changes in the LAE reserves for the new accident year of $14.3M.

Towers Watson, an independent actuarial firm, prepares an annual actuarial study used to estimate liabilities, including claim adjustment expenses and the ultimate cost of settling claims reported but not settled and claims incurred but not reported (IBNR) for MSF. Towers Watson provides a range of potential costs associated with reported claims, the future development of those claims and IBNR. MSF management has selected a central estimate within that range as the estimated claims payable, consisting of unpaid claims and claim adjustment expenses.

Statement of Revenues, Expenses, and Changes in Fund Net Position (In thousands)
for the fiscal years ending June 30, 2014, 2013 (restated), and 2012

	6/30/2014	6/30/2013 (Restated)	6/30/2012
Operating Revenues:			
Net Premium Earned	$ 165,272	$ 156,062	$ 150,482
Total Operating Revenue	165,272	156,062	150,482
Operating Expenses:			
Benefits and Claims	132,320	127,168	129,664
Personal Services	23,996	25,092	25,245
Other Operating Expense	11,965	16,343	15,821
Total Operating Expense	168,281	168,603	170,730
Net Operating Income (Loss)	(3,009)	(12,541)	(20,248)
Nonoperating Revenue (Expense):			
Investment Income	80,878	44,573	72,831
Other Nonoperating Revenue	1,548	1,878	1,792
Dividend Expense	(12,003)	(10,005)	(6,001)
Total Nonoperating Revenue (Expense)	70,423	36,446	68,622
Change in Net Position	67,414	23,905	48,374
Beginning Net Position	432,693	411,933	363,559
Prior Period Adjustment	-	(3,145)	-
Beginning Net Position (As Restated)	432,693	408,788	363,559
Total Net Position	$ 500,107	$ 432,693	$ 411,933

MSF's book of business increased approximately 3.7% from $156.1M of net earned premium in fiscal year 2013 to $165.3M in fiscal year 2014. This increase is a result of increased payroll being reported by policyholders and an increase in new business. MSF's premium retention, or amount of business that returned, was approximately 91% in fiscal year 2014.

MSF's book of business increased approximately 3.7% from $150.5M of net earned premium in fiscal year 2012 to $156.1M in fiscal year 2013. This increase is a result of increased payroll being reported by policyholders and an increase in new business. MSF's premium retention was approximately 90% in fiscal year 2013.

Benefits and claim expenses were 78% of total operating expenses for fiscal year 2014 as compared to 75% in fiscal year 2013 and 76% in fiscal year 2012. Other operating expenses decreased significantly in fiscal year 2014 as compared to fiscal year 2013 due to an increase in the reinsurance program's contingent commission credit from $8.6M in FY13 to $12.8M in FY14. Reinsurance contingent commission amounts fluctuate based on loss results of the associated contract years. Total operating expenses decreased $322K from $168.6M in fiscal year 2013 to $168.3M in fiscal year 2014. Total operating expenses decreased $2.1M from $170.7M in fiscal year 2012 to $168.6M in fiscal year 2013.

Investment income shows a significant increase of $36.3M or 81.5% from $44.6M in fiscal year 2013 to $80.9M in fiscal year 2014. This change is primarily the result of unrealized gains on investments, which are a reflection of the performance of the investment markets. These unrealized gains may or may not ever be realized even though they are included in income in the year they occur.

Investment income decreased $28.3M or 38.8% from $72.8M in fiscal year 2012 to $44.6M in fiscal year 2013. Net unrealized gains decreased by $32.5M due to the market fluctuation of bonds. There is an increase of $6.1M of net realized gains and a decrease in bond income in the amount of $1.8M.

MSF dividends return to employers a portion of premiums paid to MSF. It is a way for MSF to share our strong financial results with those employers who help make it possible by lowering workplace injuries. MSF paid dividends to policyholders of $12.0M, $10.0M and $6.0M in fiscal years 2014, 2013 and 2012, respectively. The Board of Directors, based on analysis of policyholder surplus adequacy and financial results, recommends the amount of dividends to be declared. MSF has declared and paid dividends for fifteen consecutive years.

Montana State Fund
Statement of Net Position
Montana State Fund is a component unit of the State of Montana

June 30,	2014	2013 (Restated)
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 37,671,851	$ 52,837,260
Receivables, Net	63,078,243	63,221,700
Securities Lending Collateral	166,416,008	141,152,406
Other Assets	1,229,682	1,246,173
Total Current Assets	268,395,784	258,457,539
Noncurrent Assets		
Investments	1,380,201,796	1,278,670,677
Reinsurance Receivables	45,911,683	53,100,879
Equipment, Net	2,181,972	2,199,824
Land	1,139,460	1,139,460
Buildings, Net	25,769,315	26,302,350
Construction Work in Progress	295,413	-
Intangible Assets	378,111	749,161
Total Noncurrent Assets	1,455,877,750	1,362,162,351
Total Assets	$ 1,724,273,534	$ 1,620,619,890
LIABILITIES		
Current Liabilities		
Accounts Payable	$ 8,355,620	$ 9,755,868
Estimated Claims Payable	109,595,106	118,466,946
Compensated Absences	1,910,060	1,831,535
Securities Lending Liability	166,416,008	141,152,406
Unearned Premium	48,080,932	48,073,611
Policyholder Deposits	2,630,317	2,454,435
Total Current Liabilities	336,988,043	321,734,801
Noncurrent Liabilities		
Estimated Claims Payable	815,002,474	784,380,983
Reinsurance Funds Withheld	66,702,918	76,971,113
Compensated Absences	909,289	908,811
Other Post Employment Benefits	4,563,229	3,930,710
Total Noncurrent Liabilities	887,177,910	866,191,617
Total Liabilities	1,224,165,953	1,187,926,418
NET POSITION		
Net Investment in Capital Assets	29,764,271	30,390,795
Unrestricted	470,343,310	402,302,677
Total	500,107,581	432,693,472
Total Net Position	500,107,581	432,693,472
Total Liabilities and Net Position	$ 1,724,273,534	$ 1,620,619,890

The notes to the financial statements are an integral part of this statement.

Montana State Fund
Statement of Revenues, Expenses, and Changes in Fund Net Position
Montana State Fund is a component unit of the State of Montana

YEAR ENDED JUNE 30,	2014	2013 (Restated)
Net Premiums Earned	$ 165,271,880	$ 156,062,480
Operating Expenses		
Benefits and Claims	132,320,345	127,168,485
Personal Services	23,996,017	25,092,349
Contractual Services	1,723,636	5,017,254
Supplies and Materials	659,152	570,151
Depreciation	896,704	1,445,445
Amortization	371,050	1,057,941
Rent and Utilities	552,099	530,523
Communications	1,125,283	1,285,841
Travel	220,158	187,262
Repair and Maintenance	1,397,270	1,366,097
Other Operating Expenses	5,018,978	4,881,305
Total Operating Expenses	168,280,692	168,602,653
Operating Income (Loss)	(3,008,812)	(12,540,173)
Nonoperating Revenue(Expenses)		
Investment Income	80,878,176	44,572,556
Securities Lending Income	678,288	931,880
Securities Lending Expenses	(66,169)	(245,679)
Penalties and Interest	53,978	84,361
Loss on Retirement of Assets	(9,671)	(9,692)
Dividend Expense	(12,003,138)	(10,005,214)
Other Income	71,822	247,556
Payment From State of Montana	819,635	869,735
Total Nonoperating Revenue(Expenses)	70,422,921	36,445,503
Change in Net Position	67,414,109	23,905,330
Total Net Position - Beginning (As Previously Reported)	-	411,932,990
Prior Period Adjustment	-	(3,144,848)
Total Net Position - Beginning (As Restated)	432,693,472	408,788,142
Total Net Position - Ending	$ 500,107,581	$ 432,693,472

The notes to the financial statements are an integral part of this statement.

Montana State Fund
Statement of Cash Flows
Montana State Fund is a component unit of the State of Montana

YEAR ENDED JUNE 30,	2014	2013
Cash Flows from Operating Activities		
Receipts for Premiums	161,957,395	156,387,524
Payments to Suppliers for Goods and Services	(10,369,737)	(13,114,915)
Payments to Employees	(24,939,501)	(24,168,004)
Payments for Claims	(110,838,932)	(114,259,655)
Other Operating Receipts	945,435	1,201,653
Net Cash Provided by (Used for) Operating Activities	16,754,660	6,046,603
Cash Flows from Noncapital Financial Activities		
Payment of Dividends to Policyholders	(12,003,138)	(10,005,214)
Net Cash Provided by (Used for) Noncapital Financing Activities	(12,003,138)	(10,005,214)
Cash Flows from Capital and Related Financing Activities		
Acquisition of Fixed Assets	(659,480)	(581,549)
Proceeds from Sale of Fixed Assets	8,578	28,638
Net Cash Used for Capital and Related Financing Activities	(650,902)	(552,911)
Cash Flows from Investing Activities		
Purchase of Investments	(253,312,485)	(197,388,779)
Proceeds from Sales or Maturities of Investments	191,375,063	185,114,870
Proceeds from Securities Lending Transactions	678,288	931,880
Payments of Security Lending Costs	(76,501)	(254,164)
Interest and Dividends on Investments	42,069,606	42,808,368
Net Cash Provided by (Used For) Investing Activities	(19,266,029)	31,212,175
Net Increase (Decrease) in Cash and Cash Equivalents	(15,165,409)	26,700,653
Cash and Cash Equivalents - July 1	52,837,260	26,136,607
Cash and Cash Equivalents - June 30	37,671,851	52,837,260

The notes to the financial statements are an integral part of this statement.

Montana State Fund
Statement of Cash Flows
Montana State Fund is a component unit of the State of Montana

YEAR ENDED JUNE 30,	2014	2013 Restated
Reconciliation of Change in Net Position to Net Cash Provided by (Used for) Operating Activities		
Change in Net Position	67,414,109	23,905,330
Adjustments to Reconcile Change in Net Position to Net Cash Provided by (Used for) Operating Activities		
Depreciation	896,704	1,445,445
Amortization	371,050	1,057,941
Security Lending Costs	66,169	245,679
Security Lending Income	(678,288)	(931,880)
Income on Investments	(80,878,176)	(44,572,556)
Payments of Dividends to Policyholders	12,003,138	10,005,214
Decrease (Increase) in		
Accounts Receivable	3,278,772	(6,474,424)
Other Assets	26,161	75,669
Increase (Decrease) in		
Accounts Payable	(5,310,355)	2,799,354
Unearned Premium	7,321	5,604,631
Property Held in Trust	175,883	(135,974)
Funds Withheld	(3,079,000)	(579,040)
Estimated Claims Payable	21,749,651	12,907,355
OPEB Liability	632,519	631,504
Compensated Absences	79,002	62,355
Total Adjustments	(50,659,449)	(17,858,727)
Net Cash Provided by (Used for) Operating Activities	16,754,660	6,046,603

The notes to the financial statements are an integral part of this statement.

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1. Summary of Significant Accounting Policies

Description of Business

The Montana State Fund (MSF) is a nonprofit, independent public corporation established under Title 39, chapter 71 of the Montana Code Annotated (MCA). MSF provides Montana employers with an option for workers' compensation and occupational disease insurance and guarantees available coverage for all employers in Montana. MSF is governed by a seven member Board of Directors appointed by the Governor. The Board has full power, authority, and jurisdiction in the administration of MSF. MSF's board is allocated to the State of Montana, Department of Administration for administrative purposes only.

During the 1990 Montana Special Legislative Session, legislation passed establishing separate funding and accounts for claims of injuries resulting from accidents occurring before July 1, 1990, referred to as the Old Fund, and claims occurring on or after July 1, 1990, referred to as the New Fund. Hereafter, any reference to MSF refers to the New Fund or those claims occurring after July 1, 1990.

MSF functions as an autonomous insurance entity supported solely from its own revenues. All assets, debts, and obligations of MSF are separate and distinct from assets, debts, and obligations of the State of Montana. If MSF is dissolved by an act of law, the assets held by MSF are subject to the disposition provided by the legislature enacting the dissolution with due regard given to obligations incurred and existing (Section 39-71-2322, MCA). MSF administers and manages the claims remaining in the Old Fund for the State of Montana and is the administering entity for recording the financial activity related to receipt and disbursement of funds and assets held by the Old Fund. Other than the administrative fees paid for the management of the Old Fund claims, no State of Montana General Fund money is used for MSF operations.

Prior Period Adjustments

During fiscal year 2014, MSF adopted Governmental Accounting Standards Board (GASB) Statement 65, Items Previously Reported as Assets and Liabilities, which requires that acquisition costs related to insurance activities no longer be deferred but instead recognized as expense in the period incurred. The Statement requires retroactive application by restating financial statements for all periods presented. Accordingly, MSF restated the following 2013 balances: Other Assets from \$6.4M (million) to \$1.2M, a change of \$5.2M; Other Operating Expenses from \$3.8M to \$4.9M, a change of \$1.1M. Beginning Net Position was reduced by \$4.1M to reflect the portion of the change related to periods prior to 2013.

An error was identified in the State of Montana Other Post-Employment Benefit plan's valuation that resulted in an overstated liability. MSF recorded its allocated portion of the correction by restating the following 2013 balances: Other Post-Employment Benefits liability from \$5.0M to \$3.9M, a change of \$1.1M; Personal Services expense from \$25.3M to \$25.1M, a change of

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$224K. Beginning Net Position was increased by $926K to reflect the portion of the change related to periods prior to 2013.

Previously reported accounts receivable of $3.9M have been reclassified to maintain consistency between periods presented. The reclassification had no impact on net position or change in net position.

Basis of Accounting

MSF uses the accrual basis of accounting, as defined by generally accepted accounting principles, for their workers' compensation insurance operations. Under the accrual basis, revenues are recorded in the accounting period earned, if measurable, and expenses are recorded in the period incurred, if measurable.

Cash and Cash Equivalents

Cash balances include demand deposits with the State Treasury. Cash equivalents are short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value. MSF participates in the Montana Board of Investments Short Term Investment Pool (STIP). STIP balances are highly liquid investments with maturities of 397 days or less with the exception of securities having rate reset dates. The STIP portfolio is carried at amortized cost or book value with market value approximating cost. MSF's STIP balances as of June 30, 2014 and June 30, 2013 were $30.7M and $48.4M, respectively.

The STIP investments' credit risk is measured by investment grade ratings given individual securities. The Montana Board of Investment's (BOI) policy requires that STIP investments have the highest rating in the short-term category by one of any Nationally Recognized Statistical Rating Organizations (NRSRO).

Investments

In addition to STIP investments, the BOI invests in long-term securities. Under the provisions of the state constitution, MSF invested assets are managed by the BOI. Securities are stated at fair value as defined and required by GASB Statement 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools". Premiums and discounts are amortized using the straight-line method over the life of the securities. Net unrealized gains or losses on securities are included in net income in accordance with GASB 31.

The BOI follows the provisions of GASB Statement No. 40 – Deposit and Investment Risk Disclosures. The investment risk disclosures are described in the following paragraphs.

Credit Risk

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Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. With the exception of the U.S. government securities, the Montana State Fund fixed income instruments have credit risk as measured by major credit rating services. This risk is that the issuer of a fixed income security may default in making timely principal and interest payments. The Board of Investments' policy requires Montana State Fund fixed income investments, at the time of purchase, to be rated investment grade as defined either by Moody's or by Standard & Poor's (S&P) rating services. The investment policy, revised in February 2013, states "the maximum fixed income credit risk will be limited to 2% of the total securities portfolio in any one name". The U.S. government securities are guaranteed directly or indirectly by the U.S. government. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The credit ratings presented in the following table are provided by S&P's rating services. If an S&P rating is not available, a Moody's rating has been used.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Montana Board of Investments will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2014 and 2013, all the fixed income and other equity securities were registered in the nominee name for the Montana Board of Investments and held in the possession of the Board's custodial bank, State Street Bank. The Equity Index and Core Real Estate investments were purchased in the State of Montana Board of Investments name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Montana State Fund Investment Policy requires credit risk to "be limited to 2 percent in any one corporate name with no limitation on U.S. government/agency securities". Investments issued or explicitly guaranteed by the U.S. government are excluded from the concentration of credit risk requirement.

In October 2008, the U.S. government extended the explicit guarantee to certain government agencies such as Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (FHLMC-Freddie Mac). Given the explicit guarantee extension, Montana State Fund had no concentration of credit risk exposure to Fannie Mae and Freddie Mac.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Montana State Fund policy sets an average portfolio duration range of 2-5 years for fixed income securities except in extraordinary circumstances where a shorter

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duration may be advisable. In accordance with GASB Statement No. 40, the Board has selected the effective duration method to disclose interest rate risk. This method, as provided by our analytics software, is "An option-adjusted measure of a bond's (or portfolio's) sensitivity to changes in interest rates. Duration is defined as the average percentage change in a bond's price for a given change in interest rates. Prices move inversely to interest rates. The effective duration method incorporates the effect of the embedded options for bonds and changes in prepayments for mortgage-backed securities (including pass-throughs, CMOs and ARMs)."

The Montana State Fund does not hold any synthetic Collateralized Debt Obligations (CDO). A CDO is a security backed by a pool of bonds, loans or other assets. CDOs do not specialize in one type of debt but are often non-mortgage loans or bonds. The Montana State Fund portfolio does not hold any structured financial instruments known as REMICs (Real Estate Mortgage Investment Conduits). REMICs are pass-through vehicles for multiclass mortgage-backed securities. The REMIC securities are based on separate or combined cash flows from principal and interest payments on underlying mortgages.

Corporate asset-backed securities are based on cash flows from principal and interest payments on underlying auto loan receivables, credit card receivables, or other assets. These securities, while sensitive to prepayments due to interest rate changes, have less credit risk than securities not backed by pledged assets.

As of June 30, 2014, the Montana State Fund portfolio held four variable rate corporate and U.S. government agency bonds. Interest payments on these securities are based on an underlying reference rate, e.g. LIBOR (London Interbank Offered Rate).

Montana State Fund investments are categorized below to disclose credit and interest rate risk as of June 30, 2014 and June 30, 2013. Credit risk reflects the bond quality rating, by investment type, as of the June 30 report date. If a bond investment type is unrated, the quality type is indicated by NR (not rated). Interest rate risk is disclosed using effective duration. The credit quality ratings have been calculated excluding cash equivalents.

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Credit Quality Rating and Effective Duration as of June 30, 2014

Security Investment Type	Fair Value	Credit Quality Rating	Effective Duration
Corporate Bonds (Rated)	684,224,608	A	3.68
Corporate Bonds (Unrated)	968,750	NR	NA
Sovereign Bonds	20,856,220	AA-	5.51
U.S. Government Direct Obligations	177,850,509	AA+	5.02
U.S. Government Agency	254,373,775	AA+	3.89
STIP (Unrated)	30,992,117	NR	0.12
Total Fixed Income Investments	$ 1,169,265,979	AA-	3.97
Direct Investments			
Equity Index Fund-Domestic	147,383,599		
Equity Index Fund-International	20,131,615		
Total Equity Index Funds	$ 167,515,214		
Core Real Estate	74,072,988		
Total Direct Investments	$ 241,588,202		
Total Investments	$ 1,410,854,181		

Legal and Credit Risk

As of June 30, 2014 and 2013, the Federal National Mortgage Association and Federal Home Loan Mortgage Corp. remain in conservatorship from September 7, 2008.

On September 15, 2008, Lehman Brothers filed for bankruptcy protection. Montana State Fund held two positions of Lehman Brothers Holdings, Inc., $5 million par, 0.0%, 05/25/2010 and $4 million par, 5%, 01/14/2011. During fiscal year 2009, the Board wrote down the par value of these bonds. As of June 30, 2011, these securities, due to write downs, reported a book value of 20% of their original par value. The Board sold the $4 million position in Lehman Brothers Holdings, Inc. 5% rate, January 14, 2011 maturity at a price of $26 on December 6, 2011. Because the bonds were previously written down to a price of $20, this sale generated a gain of $257,840. For the remaining $5 million position in Lehman Brothers Holdings, Inc. the Board applied $259,560 in principal from the October 2013 bankruptcy payment resulting in a book value of $1 as of June 30, 2014. The $27,965 October 2013 payment balance and the April 2014 payment of $319,103 were recorded to gain.

In August 2011, S&P downgraded the U.S. AAA bond rating to AA+.

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The following table presents the market values of the securities on loan and the total collateral held for fiscal years ended June 30, 2014 and 2013:

	2014	2013
Securities on Loan - Market Value	206,786,455	253,069,509
Total Collateral Held	210,697,944	258,260,798

Income earned related to securities on loan for MSF for the fiscal years ended June 30, 2014 and 2013 was $678K (thousand) and $932K, respectively. Expenses related to securities on loan for MSF for the fiscal years ended June 30, 2014 and 2013 were $66K and $246K, respectively.

MSF is allowed by Montana Constitution to invest in equity securities, with the restriction that equity securities cannot exceed 25% of total investment book value. The BOI policy for MSF maintains equities in the 8% to 12% range. As of June 30, 2014, the value of equity securities in MSF's portfolio was $80.4M at cost, increased by $87.2M in market value appreciation. As of June 30, 2013, the value of equity securities in MSF's portfolio was $91.4M at cost, increased by $63.2M in market value appreciation.

MSF's Investment Policy Statement allows for investment in core real estate, with a targeted allocation of 5% of the total portfolio market value and an acceptable range of 3% to 7%. As of June 30, 2014, the value of core real estate in MSF's portfolio was $70.0M at cost, increased by $4.1M in market value appreciation. As of June 30, 2013, the value of core real estate in MSF's portfolio was $35.8M at cost, increased by $346K in market value appreciation. Additional investment information can be found in Note 2.

Receivables

At June 30, 2014, MSF had a net receivable balance of $63.1M. The gross receivables for billed premium and claim benefits overpayments is $9.2M, which is then reduced by the estimated uncollectible receivables reported as an allowance for doubtful accounts of $2.5M. Other receivables include $41.5M in unbilled premium, $9.6M in investment income due, $139K in retrospective premium and $276K in notes receivable, all of which are short term. Accounts receivable also includes $4.9M at June 30, 2013 for premium that has been earned but unbilled (EBUB).

At June 30, 2013, MSF had a net receivable balance of $63.2M. The gross receivables for billed premium and claim benefits overpayments are $9.1M, which is then reduced by the estimated uncollectible receivables reported as an allowance for doubtful accounts of $3.0M. Other receivables include $41.6M in unbilled premium, $10.3M in investment income due, $150K in retrospective premium and $194K in notes and loans receivable, all of which are short term. Accounts receivable also includes $4.8M at June 30, 2013 for EBUB.

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Reinsurance Receivables

As part of the aggregate stop loss reinsurance program, MSF records a receivable for each contract year's funds withheld amount until the loss performance for that contract year is known. The receivable is increased as interest accrues and decreased with the development of recoverable or in the event of a commutation. The reinsurance receivables were $45.9M at June 30, 2014 and $53.1M at June 30, 2013.

Equipment, Accumulated Depreciation and Intangible Assets

Equipment and intangible assets are capitalized if the actual or estimated historical cost exceeds $5K and $100K, respectively. Depreciation expense is computed on a straight-line basis for equipment over a period of three to five years and amortization of intangible assets is computed on a straight-line basis over four years. Amortization of intangible assets is recorded directly to the asset balance. All fixed assets are recorded in the MSF Statement of Net Position and shown net of depreciation.

Other Assets

Other assets include advances and prepaid expenses.

Land and Buildings

For the fiscal year ended June 30, 2014, MSF financial statements include $1.1M in land and $25.8M in buildings, net of depreciation. For the fiscal year ended June 30, 2013, MSF financial statements include $1.1M in land and $26.3M in buildings, net of depreciation.

Accounts Payable

Accounts payable is a short term liability account reflecting amounts owed for goods and services received by MSF.

Estimated Claims Payable

The estimated claims payable, also called loss reserves, is established to provide for the estimated ultimate settlement cost of all claims incurred. Estimated claims payable is based on reported aggregate claim cost estimates combined with estimates for future development of such claim costs and estimates of incurred but not reported (IBNR) claims. Towers Watson, an external actuarial firm, prepares an actuarial study that provides a range of potential costs associated with reported claims, the future development of those claims and IBNR. MSF management has selected central estimates within that range as the estimated claims payable for MSF. For additional disclosure related to the estimated claims payable, refer to Note 4.

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Unearned Premium

Unearned premium reflects premium that has been written but not yet earned. The unearned premium was $48.1M at both June 30, 2014 and 2013.

Policyholder Deposits

Policyholder deposits consist of security deposits required for deposit-type policies and secure the policy with cash, letter of credit or certificate of deposit.

Reinsurance Funds Withheld

Reinsurance funds withheld represents the reinsurance funds held on behalf of the reinsurer, a requirement of MSF's aggregate stop loss reinsurance contract. Additional information regarding the funds withheld account can be found in Note 3.

Net Position

Net Position consists of the net excess or deficit of assets over liabilities. Net Position increased from $432.7M in FY13 to $500.1M in FY14.

Premiums

The MSF Board of Directors approves premium rates annually. Generally, policies are effective for the term of the policy period not to exceed 12 months. Premium revenue is recognized over the term of the fiscal year, which runs from July 1 through June 30, as it is earned or when MSF is liable for coverage.

Policyholders are contractually obligated to pay certain premiums to MSF in advance of the period the premiums are earned. Premium advances are refundable when the policyholder's coverage is canceled and all earned premiums have been credited by MSF.

Basis of Presentation

The financial statements are presented in accordance with generally accepted accounting principles as prescribed by the GASB. MSF insurance operations are classified as an enterprise fund, proprietary fund type. MSF comprises only a part of the State of Montana's enterprise funds. The financial statements in this report reflect the financial position and results of operations and cash flows of MSF.

An enterprise fund is used to account for operations: (a) financed and operated in a manner similar to private business enterprises, where the legislature intends that the entity finance or

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recover costs primarily through user charges; (b) where the legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' costs of providing services be recovered with fees and charges rather than with taxes or similar revenues.

Investments are presented in accordance to GASB Statement Number 31, "Accounting and Financial Reporting for Certain Investments and External Investment Pools." STIP is considered an external investment pool, which is defined as an arrangement that pools the monies of more than one legally separate entity and invests, on the participant's behalf, in an investment portfolio. STIP is also classified as a "2a7-like" pool. A 2a7-like pool is an external investment pool that is not registered with the Securities and Exchange Commission (SEC) as an investment company but operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. If certain conditions are met, 2a7-like pools are allowed to use amortized cost rather than fair value to report net position to compute unit values. The BOI has adopted a policy to treat STIP as a 2a7-like pool. See Note 1, Basis of Accounting – Investments and Note 2 for further discussions of the effect of GASB 31.

Upcoming Pension Accounting Changes

In June of 2012, GASB issued Statement 68, Accounting and Financial Reporting for Pensions. This Statement will require MSF to record pension accounting entries as well as financial statement disclosures. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014. The Montana Public Employee Retirement Administration is implementing GASB Statement 67, Financial Reporting for Pension Plans, as of June 30, 2014 and actuarial evaluations to determine total net pension liabilities are in progress. MSF will implement GASB 68 in FY15 and record its proportionate share of the pension liability and pension expense based on changes in the accounting standards. Management believes the amount attributable to MSF will be significant, once the State of Montana completes its valuation.

2. Investments

The amortized cost and market value of MSF's fixed maturity and equity securities as of June 30, 2014, and 2013, is as follows:

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June 30, 2014	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Market Value
Government Direct-Indirect	$ 427,636,052	$ 19,400,211	$ 1,240,214	$ 445,796,049
Government Mortgage-Backed	6,777,437	507,018	-	7,284,455
Corporate Securities Asset-Backed	60,247,345	528,464	97,462	60,678,347
Other Corporate Securities	589,312,193	35,491,502	288,684	624,515,011
Other Securities	339,731	-	-	339,731
Equity Securities	80,352,292	87,162,922	-	167,515,214
Core Real Estate	70,000,000	4,072,988	-	74,072,988
STIP	30,652,386	-	-	30,652,386
Total	$ 1,265,317,436	$ 147,163,105	$ 1,626,360	$ 1,410,854,181

June 30, 2013	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Market Value
Government Direct-Indirect	$ 400,749,366	$ 25,039,872	$ 2,572,138	$ 423,217,100
Government Mortgage-Backed	9,995,423	637,774	-	10,633,197
Corporate Securities Asset-Backed	38,159,061	888,759	91,596	38,956,224
Other Corporate Securities	582,085,632	34,689,464	2,271,705	614,503,391
Other Securities	636,877	-	-	636,877
Equity Securities	91,441,172	63,187,105	-	154,628,277
Core Real Estate	35,750,000	345,610	-	36,095,610
STIP	48,406,686	-	-	48,406,686
Total	$ 1,207,224,217	$ 124,788,584	$ 4,935,439	$ 1,327,077,362

The amortized cost and estimated market value of MSF's fixed maturity securities as of June 30, 2014 and 2013 are shown below at contractual maturity. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

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June 30, 2014

	Amortized Cost	Market Value
Due one year or less	$ 113,065,307	$ 114,723,028
Due after one year through five years	594,164,941	629,268,286
Due after five years through ten years	400,735,635	417,192,855
Due after ten years	6,999,261	8,081,810
Total	$ 1,114,965,144	$ 1,169,265,979

June 30, 2013

	Amortized Cost	Market Value
Due one year or less	$ 145,165,397	$ 147,211,356
Due after one year through five years	556,292,747	594,569,403
Due after five years through ten years	373,807,216	388,818,418
Due after ten years	4,767,685	5,754,299
Total	$ 1,080,033,045	$ 1,136,353,476

During the fiscal year ending June 30, 2014, MSF realized gross gains from sales of securities of $14.4M and gross realized losses of ($146K). During the fiscal year ending June 30, 2013, MSF realized gross gains from sales of securities of $11.1M and gross realized losses of ($26K).

As discussed in Note 1, GASB 31 requires governmental entities to report their investments at fair value. Fair value is defined as the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The adjustment to fair value is reflected as an increase or decrease in investment income.

During fiscal year 2014, investment income for MSF was $80.9M, which includes an unrealized gain on investments in the amount of $25.7M. Investment income for fiscal year 2013 was $44.6M, which includes an unrealized loss on investments of $7.6M.

3. Reinsurance

For the fiscal years ended June 30, 2014 and 2013, MSF ceded premiums to other reinsurance companies to limit the exposure arising from large losses. These arrangements consist of excess of loss contracts that protect against individual occurrences over stipulated amounts and an aggregate stop loss contract which protects MSF against the potential that aggregate losses will exceed expected levels expressed as a percentage of premium.

The excess of loss contract provides coverage up to $100 million with an MSF retention of $5 million on the first layer of coverage. The excess of loss protection applies to an

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individual occurrence with a maximum of $5 million on any one life. The coverage for fiscal years 2014 and 2013 is as follows:

Contract Period	Reinsurance Coverage
2014	Workers' compensation accidents of up to $5M in excess of $5M, maximum of $5M per any one claimant.
	Workers' compensation accidents of up to $20M in excess of $10M, maximum of $5M per any one claimant.
	Workers' compensation accidents of up to $70M in excess of $30M, maximum of $5M per any one claimant.
2013	Workers' compensation accidents of up to $5M in excess of $5M, maximum of $5M per any one claimant.
	Workers' compensation accidents of up to $20M in excess of $10M, maximum of $5M per any one claimant.
	Workers' compensation accidents of up to $70M in excess of $30M, maximum of $5M per any one claimant.

The term of the current aggregate stop loss contract is July 1, 2013 through June 30, 2014. The contract provides coverage based on MSF's premium levels, not to exceed 15% of the subject net earned premium. In the event reinsurers are unable to meet their obligations under either the excess of loss contracts or aggregate stop loss contract, MSF would remain liable for all losses, as the reinsurance agreements do not discharge MSF from its primary liability to the policyholders.

Premium revenue is reduced by premiums paid for reinsurance coverage of $9.5M and $8.5M in fiscal years 2014 and 2013, respectively. The aggregate stop loss contract requires that MSF maintain a funds withheld liability account which represents the basic premium portion of the total premium paid for aggregate stop loss coverage. The funds withheld liability account at June 30, 2014 is $66.7M for contracts in place from July 1, 2002 to June 30, 2014. The funds withheld liability account at June 30, 2013 was $77.0M for contracts in place from July 1, 2002 to June 30, 2013. Interest must be accrued on the funds withheld account which resulted in accrued interest of $4.1M for fiscal year 2014 and $3.7M for fiscal year 2013.

Estimated claim reserves were reduced by $12.3M and $12.1M for fiscal years 2014 and 2013, respectively, for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due to the excess of loss reinsurance contract. In fiscal year 2014 the estimated claim reserves were reduced by an additional $20.6M and in fiscal year 2013 an additional $23.7M for the amount of reinsurance estimated to be ultimately recoverable on incurred losses due to the aggregate stop loss contract.

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As part of the aggregate stop loss reinsurance program, MSF records a reinsurance receivable for each contract year's funds withheld amount until the loss performance for that contract year is known. The receivable is increased as interest accrues and decreased with the development of the recoverable or in the event of a commutation. The reinsurance receivables were $45.9M at June 30, 2014 and $53.1M at June 30, 2013.

MSF also has assumed reinsurance relationships with Zurich American Insurance Company, Argonaut Insurance Company and Legion Insurance Company related to Other States Coverage (OSC). MSF assumes risk related to Montana domiciled businesses with operations in other states, which are then covered under MSF's ceded reinsurance contract. Assumed premium is $2.3M and $2.0M for fiscal years 2014 and 2013, respectively. The incurred losses from OSC benefits were $589K and $1.7M for fiscal years 2014 and 2013, respectively. The assumed liability for OSC claims is $2.6M and $4.2M for fiscal years 2014 and 2013, respectively.

4. Risk Management

MSF provides liability coverage to employers for injured employees that are insured under the Workers' Compensation and Occupational Disease Acts of Montana. Workers' compensation claims occurring on or after July 1, 1990, are reported in the MSF financials. At June 30, 2014, approximately 24,500 active policies were insured by MSF. At June 30, 2013, approximately 24,400 active policies were insured by MSF.

MSF is a self-supporting, competitive state fund and functions as the guaranteed market insurer for employers since workers' compensation insurance is mandatory in Montana. Employers may obtain coverage through private carriers, through MSF or through self-insurance if they meet certain criteria. Public entities may self-insure or insure through MSF.

Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other social and economic factors. Towers Watson, an external actuarial firm, prepares an actuarial study used to estimate liabilities and the ultimate cost of settling claims reported but not settled and claims incurred but not reported (IBNR) for MSF as of June 30, 2014 and 2013. Because actual claim costs depend on such complex factors such as inflation and changes in the law, claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation is implicit in the calculation of estimated future claim costs because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience.

Towers Watson provides a range of potential costs associated with reported claims, the

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future development of those claims and IBNR. MSF management has selected a central estimate within that range as the estimated claims payable, consisting of unpaid claims and claim adjustment expenses, for fiscal years 2014 and 2013. The MSF estimated unpaid claims and claims adjustment expenses payable presented at face value, net of estimated reinsurance recoverable were $924.6M and $902.8M, as of June 30, 2014 and 2013, respectively. The estimated claims payable increased $21.8M from 2013 to 2014 primarily due to the addition of the new accident year. The Statement of Net Position displays this total separated as current and noncurrent estimated claims payable.

State law (Section 39-71-2311, MCA) requires MSF to set premiums at least annually at a level sufficient to ensure adequate funding of the insurance program during the period the rates will be in effect. Anticipated investment income is considered when computing premium rate levels. State law also requires the MSF Board of Directors to establish surplus above risk based capital requirements to secure MSF against risks inherent in the business of insurance.

<u>Changes in Claims Liabilities for the Past Two Years</u>

The following table presents changes in the aggregate liabilities for MSF for the past two years, net of estimated reinsurance recoverable. The information presented has not been discounted.

	2014	2013
Unpaid claims and claim adjustment expenses at beginning of year	$ 902,847,929	$ 889,940,574
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	150,940,418	139,204,766
Increase(Decrease) in provision for events in prior years	(18,620,073)	(12,036,281)
Total incurred claims and claim adjustment expenses	132,320,345	127,168,485
Payments:		
Claims and claim adjustment expenses attributable to insured events of CY	(26,807,999)	(25,706,480)
Claims and claim adjustment expenses attributable to insured events of PY	(83,762,695)	(88,554,650)
Total payment	(110,570,694)	(114,261,130)
Total unpaid claims and claim adjustment expenses at end of the year	$ 924,597,580	$ 902,847,929

5. Administrative Cost Allocation

State law (Section 39-71-2352, MCA) requires MSF to separately determine and account for

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administrative expenses and benefit payments for claims for injuries resulting from accidents occurring before July 1, 1990 (Old Fund) from those occurring on or after July 1, 1990 (MSF). The law also limits annual administrative costs of claims associated with the Old Fund to \$1.25M. MSF allocated \$820K and \$870K in administration costs to the Old Fund in fiscal years 2014 and 2013, respectively. The administration costs are recorded in non-operating revenue as a payment from the State of Montana. Beginning in June 2011, the State of Montana General Fund began making transfers to cover the cost of administering and paying the Old Fund claim benefits.

6. MSF Distributions

During the fiscal year ended June 30, 2014, the MSF Board of Directors authorized a dividend to policyholders. MSF paid dividends to eligible policyholders in the amount of \$12.0M for the policy year 2011. MSF paid a dividend of \$10.0M in fiscal year 2013 for the policy year 2010.

7. Compensated Absences

MSF supports two leave programs, the State of Montana Leave Program, (Traditional Plan) and the MSF Personal Leave Program, implemented in January 2002. The State of Montana Leave Program covers union represented employees who have elected to remain in the plan. These employees accumulate both annual leave and sick leave and MSF pays employees 100% of unused annual leave and 25% of unused sick leave upon termination. MSF also pays 100% of unused compensatory leave credits upon termination to non-exempt employees in the Traditional Plan. The MSF Personal Leave Program covers all non-union employees, union employees hired before July 26, 2006 who have elected to adopt the plan, and all employees hired after July 25, 2007. Employees in the Personal Leave Program accumulate personal leave and extended leave. MSF pays employees for 100% of unused personal leave upon termination but extended leave has no cash value at the time of termination.

The total MSF compensated absences liability is \$2.8M as of June 30, 2014 and \$2.7M as of June 30, 2013.

8. Retirement Plans

MSF and its employees contribute to the Public Employees' Retirement System (PERS), which offers two types of retirement plans administered by the Public Employees' Retirement Board (PERB). The first plan is the Defined Benefit Retirement Plan (DBRP), a multiple-employer, cost-sharing plan that provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service and highest average compensation. Vesting occurs once membership service totals five years. Benefits are established by state law and can only be amended by the legislature.

The second plan is the Defined Contribution Retirement Plan (DCRP), created by the 1999

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legislature and available to all active PERS members effective July 1, 2002. This plan is a multiple-employer, cost-sharing plan that also provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on the balance in the member's account, which includes the total contributions made, the length of time the funds have remained in the plan, the investment earnings less administrative costs.

Eligible PERS members choose to participate in either the DBRP or DCRP but may not be active members of both plans. During fiscal year 2014, MSF employees are required to contribute 7.9% of annual compensation regardless of hire date. During fiscal year 2013, MSF employees hired prior to July 1, 2011 were required to contribute 6.9% of annual compensation and those hired on or after July 1, 2011 were required to contribute 7.9%. The employer (MSF) is required to contribute 8.17% of annual compensation in fiscal year 2014 and 7.17% in fiscal year 2013 regardless of the hire date of the employee. MSF's contributions amounted to $1.4M for both fiscal years 2014 and 2013. MSF and its employees paid one hundred percent of required contributions to PERS and there are no unpaid contributions as of June 30, 2014. The PERS financial information is reported in the Public Employees' Retirement Board *Comprehensive Annual Financial Report* for the fiscal year-end. This information is available on the MPERA website at www.mpera.mt.gov, or by phone at (406) 444-3154.

MSF and its employees are eligible to participate in the State of Montana 457(b) Deferred Compensation Plan administered by the PERB. The Deferred Compensation plan is a voluntary, tax-deferred supplemental retirement plan sponsored by the Montana Public Employee Retirement Board and held in trust for the exclusive benefit of public employees and their beneficiaries. The Plan is authorized by IRC Section 457(b) and is subject to specific Internal Revenue Service's laws and requirements. It allows employees to voluntarily contribute a portion of their compensation on a pre-tax basis. The amount invested, plus interest credited on any fixed options and any gain on the variable options, is not taxable until withdrawn at a future date. MSF incurs no costs for this plan.

9. Leases and Commitments

MSF leases office facilities outside of Helena under various operating leases that expire through February 2019.

MSF leases 350 parking spaces from the City of Helena in a parking garage adjacent to the MSF facility. The cost of the parking spaces is the same monthly rate as equivalent parking passes sold by the City and has the potential to change based on parking rates assigned by the Helena Parking Commission until the lease expires on June 30, 2040.

Rental expenses for FY14 of $343K include $272K for the parking garage lease, $53K for office facility leases and $18K for minor office equipment. Rental expenses for FY13 of $331K include $265K for the parking garage lease, $52K for office facility leases and $14K for minor office equipment.

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The future minimum rental payments for office and parking space are as follows:

Fiscal Year	Amount
2015	$ 317,935
2016	316,475
2017	300,419
2018	297,869
2019	289,271
Thereafter	5,713,596
	$7,235,565

10. Other Post-Employment Benefits (OPEB)

Beginning with the fiscal year ending June 30, 2008, the State of Montana implemented Governmental Accounting Standards Board (GASB) Statement 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions. This statement requires the disclosure of employer liability for retiree medical subsidies and other post-employment benefits. The OPEB liability is $4.6M and $3.9M at June 30, 2014 and 2013, respectively.

Post-employment Healthcare Plan Description:

MSF employees and dependents are eligible to receive health care through the State Group Benefits Plan administered by the Montana Department of Administration. In accordance with section 2-18-704, MCA, the State provides optional post-employment medical, vision and dental health care benefits to the following employees and dependents who elect to continue coverage and pay administratively established premiums: (1) employees and dependents who retire under applicable retirement provisions and (2) surviving dependents of deceased employees. For GASB 45 reporting, the State Group Benefits Plan is considered an agent multiple-employer plan and MSF is considered to be a separate employer participating in the plan.

In addition to the employee benefits described in Note 8 Retirement Plans, the following post-employment benefits are provided. Montana Department of Administration established retiree medical premiums vary between $299 and $1,109 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Retirees pay 100 percent of the premiums for medical, dental, and vision. Administratively established monthly dental premiums vary between $17.50 and $60.00; monthly vision hardware premiums vary between $5.76 and $16.76; both premiums vary depending on the coverage selected. Basic life insurance in the amount of $14,000 is provided until age 65 at a cost of $1.90 per month. The State Benefit Plans reimburse

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all validated medical claims net of member obligations (annual deductibles and coinsurance of the members' selected medical plan). Dental claims are reimbursed at 50% to 100% of the allowable charges, depending on the services provided. The State acts as secondary payer for retired Medicare-eligible claimants.

Benefits Not Included in the Actuarial Valuation:

The dental and vision benefits are fully-insured and retirees pay 100 percent of the cost for both dental and vision, therefore, no liability for these benefits is calculated in the actuarial valuation. Continuation of the life insurance benefit is not available as an employer-provided group insurance benefit for retirees, therefore, no liability for life insurance is calculated in this valuation.

Funding Policy:

The following estimates were prepared based on an actuarial evaluation prepared as of the year ending December 31, 2013 for the Department of Administration and the resulting State of Montana Actuarial Valuation of Other Post-Employment Benefits Plan (plan) contains the MSF data and is available through:

Montana Department of Administration
State Accounting Bureau
Room 255, Mitchell Bldg.
125 N Roberts St
PO Box 200102
Helena, MT 59620-0102

GASB 45 requires the plan's participants, including MSF, to report the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year of retiree health care costs and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The 2013 ARC is calculated for all the State plan's participants and then allocated to individual participants. The MSF 2014 allocated portion of the ARC is estimated at $751K and is based on the plan's current ARC rate of 5.69% percent of participants' annual covered payroll. The MSF 2014 ARC is equal to an annual amount required each year to fully fund the liability over thirty years.

Actuarial Methods and Assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions

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used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information that shows the actuarial value of plan assets and liabilities. As of the January 1, 2013, actuarial valuation date, the projected unit cost funding method is used. The actuarial assumptions did not include an investment rate of return since no assets meet the definition of plan assets under GASB 43 or 45. Annual healthcare cost trend rates of 10 percent were used for both medical and prescription claims. The unfunded actuarial accrued liability is amortized following a 30-year level percent of pay amortization on an open basis, using a 4.25 percent discount rate and a 2.50 percent payroll growth rate assumption.

The State finances claims on a pay-as-you-go basis and does not advance-fund the OPEB liability. While this liability is disclosed for financial statement purposes it does not represent a legal liability of the State of Montana or MSF. Therefore, the following cost information shows no value for Plan Assets made by MSF.

<u>Annual Other Post Employment Benefits (OPEB) Cost</u>:

MSF's allocated annual OPEB cost was $783K and $740K for the years ending June 30, 2014 and 2013, respectively. For the current year, the components of OPEB cost and changes in net OPEB obligation are as follows:

Annual required contribution	$ 751,408
Interest on net OPEB obligation	169,687
Adjustment to annual required contribution	(137,783)
Annual OPEB cost	783,312
Contributions made	(150,793)
Increase in net OPEB obligation	632,518
Net OPEB obligation - beginning of year	3,930,710
Net OPEB obligation - end of year	$ 4,563,229

The MSF annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2014 and prior are as follows:

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Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2012*	731,348	9.35%	3,299,207
6/30/2013*	739,778	11.99%	3,930,710
6/30/2014	783,312	19.25%	4,563,229

*Restated due to change in calculation of annual OPEB cost.

Funded Status and Funding Progress:

The most recent actuarial valuation available that was completed by the State of Montana was as of January 1, 2013 for the year ending December 31, 2013. This actuarial evaluation is completed every two years with the next valuation to be completed as of January 1, 2015 for the year ending December 31, 2015.

The MSF allocation of the plan as of the year ending December 31, 2013 was as follows:

Actuarial Accrued Liability (AAL)	$7,288,059
Actuarial Value of Plan Assets	$0
Unfunded Actuarial Accrued Liability (UAAL)	$7,288,059
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%
Covered Payroll (Active Plan Members)	$18,899,275
UAAL as a Percentage of Covered Payroll	38.56%

11. Contingencies

Victory Insurance Company, Inc. v. Montana State Fund et al. Victory filed its Amended Complaint in this action on March 29, 2011, in which it asserts various tort claims against Montana State Fund. No specific amount of damages was stated in the complaint. In October 2012, the district court granted Montana State Fund's motion for summary judgment, and dismissed State Fund from the case. However, the plaintiff refiled the suit against Montana State Fund. Montana State Fund filed a second motion for summary judgment, and the district court granted judgment to Montana State Fund on December 26, 2013. The judgment was wholly in State Fund’s favor, and the case was dismissed. An appeal has been filed with no decision yet on the appeal. Based on the district court’s decision, State Fund anticipates the chances are remote that State Fund has potential liability with this matter.

Susan Hensley v. Montana State Fund Montana State Fund received a Petition for Hearing that was filed before the Workers’ Compensation Court in October 2013. The matter is Susan Hensley vs. Montana State Fund, WCC No. 2013-3235. Under HB 334, as passed by the

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legislature in 2011 and codified in 39-71-703 (2), MCA, when a claimant receives a Class I impairment, it is not payable unless the claimant has an actual wage loss as a result of the compensable injury or occupational disease. The law was effective July 1, 2011 and applicable to claims that occurred on or after that date. The petitioner in this matter is challenging the constitutionality of 39-71-703 (2), MCA. State Fund anticipates the chances are remote, but as with any litigated matter there is the possibility of an adverse decision. Should the statute be held unconstitutional, determined to be applicable to other claims and also determined to be retroactively applicable, potential liability is estimated to be at least $2.2 million per year, as based on NCCI initial pricing, and current estimated business volumes.

Montana State Fund also is involved in a great deal of litigation in the areas of workers' compensation and disputes with policyholders. These are of a generally routine nature and there are no known matters at this time that will have a large and widespread financial impact.

12. Subsequent Events

The Montana State Fund Board of Directors declared a $20 million dividend at its meeting on November 14, 2014. The dividend will be paid during fiscal year 2015 to eligible policyholders for the 2012 policy year.

REQUIRED SUPPLEMENTARY INFORMATION

Other Post-Employment Benefits (Financial Statement Note 10)

As of June 30, 2014, the most recent actuarial valuation available that was completed by the State of Montana was as of January 1, 2013 for the year ending December 31, 2013. This actuarial evaluation is completed every two years with the next valuation to be completed as of January 1, 2015 for the year ending December 31, 2015.

The State of Montana finances claims on a pay-as-you-go basis and does not advance fund the OPEB liability. Therefore, the funded ratio remains at 0% at June 30, 2014.

SCHEDULE OF FUNDING PROGRESS

Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll (B-A)/C)
1/1/2007	$0	$8,079,405	$8,079,405	0.00%	$16,805,676	48.08%
1/1/2009	$0	$6,985,326	$6,985,326	0.00%	$16,766,753	41.66%
1/1/2011	$0	$6,355,058	$6,355,058	0.00%	$19,544,196	32.52%
1/1/2013	$0	$7,288,059	$7,288,059	0.00%	$18,899,275	38.56%

Risk Management

The following table illustrates how the earned revenues of MSF plus investment income compare to related costs of loss and other expenses assumed by MSF for fiscal years 2005 through 2014. In addition, cumulative amounts related to estimated and actual paid claims are presented. The information allows for comparison of actual and estimated claims and is a basis for developing revenue and claims information. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is used to evaluate the accuracy of incurred claims currently recognized for less mature policy years.

Risk Management Trend Information

(In Thousands)	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
1. Premiums and Investment Revenue										
Earned	245,302	270,086	310,162	294,711	259,618	220,500	215,334	181,179	178,087	186,242
Ceded	6,788	13,618	14,856	14,676	13,702	13,224	11,286	11,501	8,459	9,460
Net Earned	238,514	256,469	295,306	280,035	245,916	207,276	204,048	169,678	169,628	176,782
2. Unallocated expenses including overhead	39,078	40,548	41,947	47,778	49,215	44,188	57,282	49,557	49,515	46,206
3. Estimated losses and expenses, end of accident year										
Incurred	134,290	155,057	170,652	177,100	159,229	137,507	142,989	118,066	128,522	139,145
Ceded	-	-	-	-	-	-	9,769	1,099	-	-
Net Incurred	134,290	155,057	170,652	177,100	159,229	137,507	133,220	116,967	128,522	139,145
4. Net paid (cumulative) as of:										
End of policy year	25,721	30,977	32,708	31,002	29,009	25,475	27,902	24,729	25,706	26,808
One year later	57,239	66,063	67,928	67,034	60,009	52,701	56,502	54,982	50,574	
Two years later	72,229	84,014	85,646	86,268	74,132	66,235	69,918	70,487		
Three years later	82,647	94,091	98,427	95,612	83,737	74,028	76,385			
Four years later	88,236	100,189	104,967	103,337	89,431	78,884				
Five years later	93,682	105,815	109,569	109,144	93,622					
Six years later	96,539	109,993	112,562	113,630						
Seven years later	98,621	113,366	115,195							
Eight years later	101,327	115,181								
Nine years later	103,846									
5. Re-estimated ceded losses and expenses	-	-	-	5,539	-	-	8,044	3,375	-	-
6. Re-Estimated net incurred losses and expense:										
End of policy year	134,290	155,057	170,652	177,100	159,229	137,507	133,220	116,967	128,522	139,145
One year later	136,235	157,711	171,783	174,279	152,886	139,554	134,175	130,507	123,912	
Two years later	138,447	163,433	170,786	173,808	151,738	135,833	133,652	130,281		
Three years later	144,484	164,358	172,038	172,888	151,303	135,253	133,796			
Four years later	143,820	165,313	171,987	172,570	150,212	134,681				
Five years later	145,839	164,613	170,997	167,166	149,230					
Six years later	145,031	164,248	169,555	166,367						
Seven years later	142,443	163,824	168,400							
Eight years later	142,420	162,406								
Nine years later	142,387									
7. Increase (decrease) in estimated net incurred losses and expenses from end of policy year	8,097	7,349	(2,252)	(10,732)	(9,999)	(2,826)	575	13,314	(4,610)	-

MONTANA STATE FUND

STATE FUND RESPONSE

MONTANA STATEFUND

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Customer Service 1-800-332-6102
Fraud Hotline 1-888-682-7463 (888-MT-CRIME)

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JAN 05 2015
LEGISLATIVE AUDIT DIV.

January 2, 2015

Ms. Tori Hunthausen, Legislative Auditor
Legislative Audit Division
Room 160, State Capitol Building
Helena, MT 59620-1705

Dear Ms. Hunthausen:

Montana State Fund (MSF) appreciates the professionalism of the Legislative Audit Division staff in completing the financial-compliance audit of our governmental financial statements. We are pleased with your issuance of an unmodified (formerly known as "unqualified") opinion with no recommendations.

The management and staff of MSF are very proud of our accomplishments and prioritize high-level service to Montana employers and employees. We continually strive to improve our operations to ensure Montanans will benefit from a strong Montana State Fund many years into the future. Thank you for your assistance and assurance.

Sincerely,

Laurence A. Hubbard
President/CEO