

Statutory Financial Statements
December 31, 2023 and 2022



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Independent Auditor's Report

To the Board of Directors
Montana State Fund
Helena, Montana

Report on the Audit of the Statutory Financial Statements

Opinions

We have audited the accompanying statutory financial statements (financial statements) of Montana State Fund, which comprise the statutory statements of admitted assets, liabilities, and policyholders' equity as of December 31, 2023 and 2022, and the related statutory statements of income and changes in policyholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and policyholders' equity of Montana State Fund as of December 31, 2023 and 2022, and the results of its operations, changes in policyholders' equity, and its cash flows for the years then ended, on the basis of accounting described in Note 1.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter described in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles section of our report, the accompanying financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Montana State Fund as of December 31, 2023 and 2022, or the results of its operations or its cash flows for the years then ended.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Montana State Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 to the financial statements, Montana State Fund prepared these financial statements using accounting practices prescribed or permitted by the Montana State Auditor, Commissioner of Securities and Insurance, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the statutory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting practices prescribed or permitted by the Montana State Auditor, Commissioner of Securities and Insurance. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Montana State Fund's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Montana State Fund’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Eide Bailly LLP

Boise, Idaho
March 13, 2024

Montana State Fund
Statutory Statements of Admitted Assets, Liabilities, and Policyholders' Equity
December 31, 2023 and 2022

	2023	2022
Admitted Assets		
Cash and Invested Assets		
Bonds	\$ 1,163,990,835	\$ 1,176,200,260
Equity securities	171,852,146	174,891,790
Real estate occupied by the Company	21,869,593	22,400,478
Cash, cash equivalents, and short-term investments	52,838,554	42,403,205
Other invested assets	108,357,451	111,734,365
Receivables for securities	947,576	38
Securities lending collateral assets	22,534,493	12,435,928
Total cash and invested assets	1,542,390,648	1,540,066,064
Other Admitted Assets		
Investment income due and accrued	8,165,819	6,910,684
Receivables, net		
Uncollected premiums	5,561,022	5,627,899
Deferred premiums booked but not yet due	81,994,497	78,097,956
Accrued retrospective premiums	80,305	223,517
Funds deposited with reinsured companies	402,770	402,770
Reinsurance funds withheld	60,529,728	57,294,098
Electronic data processing equipment and software	387,573	539,855
Total other admitted assets	157,121,714	149,096,779
Total admitted assets	\$ 1,699,512,362	\$ 1,689,162,843
Liabilities and Policyholders' Equity		
Liabilities		
Unpaid losses	\$ 775,664,105	\$ 797,056,103
Unpaid loss adjustment expenses	126,759,104	127,336,382
Commissions payable	2,215,916	2,452,248
Other expenses payable	13,091,766	13,076,071
Unearned premium	63,223,057	60,733,363
Dividend declared and unpaid	200,612	5,968
Ceded reinsurance premium payable	124,386	110,400
Funds held by Company under reinsurance treaties	60,779,374	58,283,520
Amounts retained for account of others	1,137,454	1,366,368
Remittances and items not allocated	2,149,959	2,298,787
Provision for reinsurance	6,000	6,000
Payable to affiliates	164,129	169,355
Payable for securities	1,517,214	230,457
Securities lending liability	22,534,493	12,435,928
Retrospective premiums payable	603,716	505,748
Total liabilities	1,070,171,285	1,076,066,698
Policyholders' Equity		
Policyholders' equity	629,341,077	613,096,145
Total liabilities and policyholders' equity	\$ 1,699,512,362	\$ 1,689,162,843

Montana State Fund
Statutory Statements of Income and Changes in Policyholders' Equity
Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Net Premium Earned	\$ 176,149,567	\$ 168,470,070
Operating Expenses		
Losses incurred	109,038,989	96,586,956
Loss expenses incurred	27,378,887	28,826,213
Underwriting expenses incurred	<u>37,505,478</u>	<u>40,154,090</u>
Net underwriting gain	2,226,213	2,902,811
Net investment income earned	43,736,940	36,065,207
Net realized capital gains (losses)	15,783,426	(3,168,613)
Receivable balances charged off, net of recoveries of \$1,054,360 and \$547,285 respectively	(102,254)	(790,875)
Other expenses	<u>(2,187,595)</u>	<u>(2,259,781)</u>
Net Income Before Dividends	59,456,730	32,748,749
Policyholder Dividends	<u>(35,006,166)</u>	<u>(30,014,316)</u>
Net Income After Dividends	<u>\$ 24,450,564</u>	<u>\$ 2,734,433</u>
Changes in Policyholders' Equity		
Balance, Beginning of Year	\$ 613,096,145	\$ 646,425,178
Net income	24,450,564	2,734,433
Net unrealized losses on investments	(11,471,284)	(44,386,597)
Change in non-admitted assets	3,265,652	8,329,131
Other changes in policyholders' equity	<u>—</u>	<u>(6,000)</u>
Balance, End of Year	<u>\$ 629,341,077</u>	<u>\$ 613,096,145</u>

Montana State Fund
Statutory Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022
Cash from Operations		
Premiums collected, net of reinsurance	\$ 173,486,976	\$ 173,623,899
Net investment income	41,422,176	35,690,019
Miscellaneous expense	(5,525,479)	(3,050,656)
	209,383,673	206,263,262
Benefit and loss related payments	(130,430,987)	(110,241,891)
Loss adjustments and underwriting expenses paid	(65,682,280)	(72,976,066)
Dividends paid to policyholders	(34,811,522)	(30,009,202)
	(230,924,789)	(213,227,159)
Net Cash used for Operations	(21,541,116)	(6,963,897)
Cash from Investments		
Proceeds from investments sold, matured, or repaid		
Bonds	338,433,820	302,022,162
Equity securities	40,000,000	10,000,000
Other invested assets	618,716	9,993,494
Gain or loss on cash, cash equivalents, and short-term investments	123,297	(139,007)
Miscellaneous proceeds	1,286,757	464,866
Total investment proceeds	380,462,590	322,341,515
Cost of investments acquired		
Bonds	(339,636,988)	(294,103,374)
Equity securities	(10,207)	(5,056,291)
Other invested assets	(15,000,000)	(2,520,310)
Miscellaneous applications	(11,046,103)	(741,655)
Total investments acquired	(365,693,298)	(302,421,630)
Net Cash from Investments	14,769,292	19,919,885
Cash from Financing and Other Sources		
Cash provided		
Other sources	17,207,173	1,521,380
Net Cash from Financing and Other Sources	17,207,173	1,521,380
Net Increase in Cash, Cash Equivalents, and Short-Term Investments	10,435,349	14,477,368
Cash, Cash Equivalents, and Short-Term Investments - Beginning of Year	42,403,205	27,925,837
Cash, Cash Equivalents, and Short-Term Investments - End of Year	\$ 52,838,554	\$ 42,403,205

Note 1 - Nature of Operations and Significant Accounting Policies

Nature of Operations

The Montana State Fund (MSF or the Company) 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 as fully and completely as the governing body of a private mutual insurance carrier. MSF is allocated to the State of Montana, Department of Administration for administrative purposes only, and is reported as a component unit in the State's Annual Comprehensive Financial Reports.

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. State law requires MSF to set premiums at a level sufficient to ensure adequate funding of the insurance program during the period the rates will be in effect. MSF governs, operates, and completes its financial reporting as an insurance company domiciled in the State of Montana and is required to file its annual statement and audited financial report with the Insurance Department (MDOI) of the Montana State Auditor's Office (SAO).

During 1990, legislation passed establishing separate liabilities, 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 MSF. This report reflects only the operations of MSF. The State of Montana pays MSF an administrative fee to manage the remaining claims of the Old Fund and provides the funding for the Old Fund benefit payments.

Basis of Presentation

The accompanying financial statements of MSF have been prepared in conformity with accounting practices prescribed and permitted by the MDOI (Statutory Accounting Principles or SAP), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). Certain amounts in the notes to the financial statements have been rounded to the nearest thousand or million and such amounts are annotated with a "K" or "M", respectively.

The MDOI recognizes only statutory accounting practices prescribed or permitted by the State of Montana for determining and reporting the financial condition and results of operations of an insurance company. The National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures* manual (NAIC SAP) has been adopted as a component of prescribed or permitted practices by the State of Montana.

Differences of NAIC SAP from Generally Accepted Accounting Principles

Statutory accounting practices vary in some respects from U.S. generally accepted accounting principles (GAAP). Such significant differences include the following:

- a. Investments in bonds with an NAIC rating of 1 or 2 are carried at NAIC determined value or amortized cost, whereas bonds with an NAIC rating of 3 through 6 are assigned specific year-end values by the NAIC and are written down to Securities Valuation Office (SVO) assigned values (if less than amortized cost) by charging statutory equity. Under GAAP, bonds are classified into three categories: held to maturity, available for sale, or trading. Bonds held to maturity are stated at amortized cost; bonds available for sale are stated at fair value and the resulting unrealized gains or losses, net of applicable income taxes, are

charged or credited to equity; and bonds held for trading are reported at fair value and the resulting unrealized gains or losses are reported in earnings. The fair value of investments on a statutory basis is determined by the SVO, whereas for GAAP, the fair value of investments is determined based on the expected exit price.

For loan-backed and structured securities, if the Company determines that they intend to sell a security or no longer have the ability and intent to retain the investment for a period of time sufficient to recover the amortized cost, that security shall be written down to fair value. For statutory purposes, if the Company subsequently changes its assertion, and now believes it does not intend to sell the security and has the ability and intent to retain the investment for a period of time sufficient to recover the amortized cost, that security will continue to be carried at the lower of cost or market with any future decreases in fair value charged through operations until the security is disposed. For GAAP purposes, once the Company alters its assertion, that security's amortized cost basis will not be decreased for future reductions in fair value unless an other-than-temporary impairment is determined to have occurred.

Also, for GAAP purposes, other-than-temporary impairment losses related to debt securities are bifurcated between credit and non-credit with only the credit component charged to earnings, whereas for statutory purposes, the total other-than-temporary impairment loss is reported in earnings.

- b. Assets having economic value other than those that can be used to fulfill policyholder obligations are categorized as "non-admitted assets" and are not permitted to be included in the statutory financial statements of admitted assets, liabilities, and policyholders' equity, whereas for GAAP, these assets are recognized in the balance sheet, subject to any valuation allowances. Assets reported under NAIC SAP as "non-admitted" are excluded through a charge against unassigned policyholders' equity. Included with non-admitted assets are furniture, certain equipment and software, prepaid expenses, and certain receivables that do not meet statutory criteria for admitted assets.
- c. Receivables over 90 days outstanding are not admitted to the statutory financial statements and charged against statutory policyholders' equity, whereas, for GAAP, the Company assesses the collectability of premiums receivable and any charge for uncertain collection is made to the income statement.
- d. The statutory statement of admitted assets, liabilities, and policyholders' equity is presented net of the effects of reinsurance, whereas, for GAAP, the balance sheet is presented gross of the effects of reinsurance.
- e. Cash, cash equivalents, and short-term investments in the statement of cash flows represent cash balances and investments with initial maturities of one year or less. Under GAAP, the corresponding caption of cash and cash equivalents include cash balances and investments with initial maturities of three months or less.
- f. Commissions allowed by reinsurers on business ceded are reported as income when received rather than being deferred and, to the extent recoverable, amortized over the life of the policy, as required under GAAP.
- g. All leases are recorded as operating leases on the statutory financial statements, while under GAAP, leases are either operating or financing, based on certain criteria, with recognition of a right-of-use asset and a lease liability.
- h. Governmental pension accounting standards (GASB 68) require recognition of an allocation of the state's unfunded retirement plan liability at the agency level. Under SAP, the recording of a portion of the unfunded liability is not required for a reporting entity who participates in a plan sponsored by another entity, but is not directly liable for the obligations under the plan (SSAP No. 102 paragraph 86); however,

the amounts contributed to the plan by MSF are recorded as expense in the current period.

- i. Governmental other postemployment benefit (OPEB) accounting standards (GASB 75) require recognition of an allocation of the state's OPEB liability at the agency level. Under SAP, the recording of a portion of the liability is not required for a reporting entity who participates in a plan sponsored by another entity, but is not directly liable for the obligations under the plan (SSAP No. 92 paragraph 100).
- j. Governmental accounting standards (GASB 96) require certain subscription-based information technology arrangements (SBITAs) to be recognized as a right-to-use subscription asset and a corresponding liability, while under SAP, these arrangements are expensed when incurred.
- k. The statutory statement of cash flows differs in certain respects from the presentation required within GAAP literature, including presentation of changes of cash and short investments instead of cash and cash equivalents. In addition, GAAP requires a reconciliation of net income to net cash from operating activities. Short-term investments include securities with a maturity of one year or less and are included in the cash balance, whereas GAAP excludes short-term investments from cash. Both statutory and GAAP include cash equivalents in the cash balance. Cash equivalents are defined as highly liquid investments with a maturity of three months or less at acquisition.
- l. Comprehensive income is not determined for statutory reporting purposes, whereas, for GAAP, such income is presented.
- m. Incremental direct costs that result directly from and are essential to the contract acquisition transaction and would not have been incurred by the Company had the contract acquisition not occurred, are charged against statutory earnings as such costs are incurred, while, under GAAP, such costs, to the extent recoverable, would be deferred and amortized over the effective periods covered by the related policies.
- n. A statutory liability is calculated based on the age of the reinsurance recoverable and whether the reinsurer is authorized by the Company's state of domicile. This statutorily required provision for reinsurance is a direct charge to surplus. Under GAAP, no such liability is provided.
- o. The statutory financial statements are prepared in conformity with the Annual Financial Reporting Model Regulation # 205, which requires the audited financial statements to conform to the language and groupings used to prepare the Annual Statement filing as set out by the NAIC.

The differences between statutory accounting practices and GAAP are material. See Note 17 for a listing of significant differences.

MSF's financial statements are stated on a NAIC SAP basis except where certain differences are set out in the Montana Code Annotated. MCA references conformity with the Accounting Practices and Procedures Manual within section 33-2-701(1), and therefore, concludes that no legislation is necessary to adopt its use.

For the years ended December 31, 2023 and 2022, there were no differences of MSF's net income and policyholders' equity between NAIC SAP and practices prescribed and permitted by the State of Montana.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on net income or policyholders' equity.

Going Concern

MSF's management does not believe there is substantial doubt about the Company's ability to continue as a going concern.

Significant Statutory Accounting Policies

Cash and Cash Equivalents

Cash, cash equivalents, and short-term investments are stated at net asset value. Cash constitutes a medium of exchange that a bank or other similar financial institution will accept for deposit and allow an immediate credit to the depositor's account. Savings accounts and certificates of deposits with maturity dates of one year or less are also classified as cash. 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 change in value due to changes in interest rates. Only investments with original maturities of three months or less qualify, with the exception of money market mutual funds. Money market mutual funds registered under the Investment Company Act of 1940 and regulated under rule 2a-7 are accounted for and reported as cash equivalents. The Montana State Treasury and the Montana Board of Investments (BOI) hold MSF's cash and cash equivalent balances. At times during the year, MSF's cash balances are in excess of federally insured limits. The Company does not consider this a significant credit risk. MSF participates in the Short-Term Investment Pool (STIP) money market mutual fund, maintained by the BOI.

Short-Term Investments

Short-term investments are those investments with remaining maturities of one year or less at the time of acquisition, excluding those investments classified as cash equivalents. Short-term investments include but are not limited to bonds, commercial paper, money market instruments, repurchase agreements, and collateral and mortgage loans that meet the above criteria.

Investments

Equity securities, bonds, investments in partnerships and limited liability companies, and certificates of deposit with original maturities greater than one year are long-term investment securities. Long-term securities are held by BOI. State Street Bank is the custodial bank for BOI.

Equity securities held through mutual funds are valued at net asset value (NAV) of shares held by MSF at year end, which is used as a practical expedient for fair market value. The Montana Constitution allows investing in equity securities, with the restriction that equity securities cannot exceed 25% of total investment book value. The BOI approved a policy statement to maintain the allocation to public equities at no more than 15% of total portfolio market value. Investments in equity securities are carried at NAV as determined by the fund manager, and the related unrealized capital gains (losses) are reported in policyholders' equity.

Bonds, excluding residential and commercial mortgage-backed securities, are rated and valued in accordance with the NAIC Securities Valuation Office (SVO) rating guidelines. Bonds with a SVO rating of 1 and 2 are valued at amortized cost using the scientific (constant yield) interest method. Bonds with a SVO rating of 3 or higher are valued at the lower of amortized cost or market.

Investments in residential and commercial mortgage-backed securities not guaranteed by federal or federally-sponsored agencies utilize a financial model commissioned by the NAIC to determine credit ratings, and ultimately the NAIC designation/rating. This financial model requires a two-step process. MSF first determines the initial

rating designation based upon each security's amortized cost in relation to security-specific prescribed break points. This initial rating designation determines whether the security will be stated at amortized cost or fair value, based on the same criteria noted in the preceding paragraph. The lower the amortized cost relative to par, the higher the NAIC designation, and more likely the security will be carried at amortized cost. If the security is to be carried at fair value, MSF then determines the final rating designation based upon each security's fair value in relation to the same security's specific prescribed break points used in the first step. If the security is to be carried at amortized cost, the final designation remains the same as what was determined in the first step.

The final designation is used for risk-based capital (RBC) purposes as well as for NAIC designation disclosure.

Investments in partnerships and limited liability companies are valued based on the net asset value (NAV) of the investment pool which is used as a practical expedient for fair market value. The related unrealized capital gains (losses) are reported in policyholders' equity.

MSF has no derivative investments.

Investments in Real Estate are comprised of property occupied by the Company. These investments are recorded at depreciable cost net of related debt obligation, which was zero as of December 31, 2023 and 2022. Depreciation is calculated on a straight-line basis over the estimated useful life of the property. Land is valued at historical cost.

Investment income consists of interest and dividends, net of related investment expenses. Interest is recognized on an accrual basis and dividends are recorded as earned at the ex-dividend date. Realized capital gains and losses are determined using the first-in first-out method at the time of disposition.

Fair Values of Financial Instruments

Statement of Statutory Accounting Principles (SSAP) No. 100R, "Fair Value" defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance.

The Company classified its investments based upon an established fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. SSAP No. 100R describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value, which are the following:

- Level 1-Quoted prices in active markets for *identical* assets or liabilities.
- Level 2-Inputs other than Level 1 that are observable, either directly or indirectly; such as quoted prices for *similar* assets or liabilities, quoted prices in markets that are not active; or other inputs that can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3-Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value or for those assets not stated at fair value in the financial statements but whose estimated fair values are disclosed.

Bonds - Issuer Obligations, including Industrial and Miscellaneous - Valued based on market values. For those securities not actively traded, quoted market prices of comparable instruments or discounted cash flow analysis are used based upon inputs that are observable in the markets for similar securities. Inputs include benchmark yields, credit spreads, default rates, prepayments, and non-bonding broker quotes.

Bonds - Mortgage and Other Asset-Backed Bonds - Valued based on Commercial and Residential Mortgage-Backed Securities modeling file provided by Clearwater Analytics. The prepayment assumptions used for single class and multi-class mortgage-backed/asset-backed securities were obtained from broker/dealer survey values. These assumptions are consistent with the current interest rate and economic environment.

Equity Securities - Unaffiliated and Mutual Funds - Unit value is based on the quoted market value of the individual securities held by the fund less the liabilities of the fund. The NAV of the fund is used as a practical expedient for fair value.

Other Invested Assets - Value is based on appraised market values of the assets held by the investment company less liabilities. NAV of the investment is used as a practical expedient for fair value.

Cash and Cash Equivalents - NAV is determined by the market values of the underlying assets held in the money market mutual funds. The carrying amounts are reported at NAV as a practical expedient for fair value.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of the future fair values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Other-Than-Temporary Declines in Fair Value

The Company regularly reviews its investment portfolio for factors that may indicate that a decline in fair value of an investment is other-than-temporary. Some factors considered in evaluating whether or not a decline in fair value is other-than-temporary include: the Company's ability and intent to retain the investment for a period of time sufficient to allow for a recovery in value; the duration and extent to which fair value has been less than cost; and the financial condition and prospects of the issuer. When other-than-temporary impairments are recognized, the security is written down to an estimated fair value, and the amount of the write-down is recorded as a realized loss.

Cash Collateral and Liability for Securities on Loan

Under the provisions of state statutes, the Montana Board of Investments (BOI) has, by a Securities Lending Authorization Agreement, authorized the custodial bank, State Street Bank, to lend BOI's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, BOI receives a fee and the bank must initially receive collateral equal to 102% of the market value of the securities on loan and must maintain collateral of at least 100% of the market value of the loaned security. BOI retains all rights of ownership during the loan period.

The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the State Street Navigator Securities Lending Government Money Market Portfolio. The relationship between the average maturities of the investment pool and BOI's loans was affected by

the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which BOI could not determine. On December 31, 2023 and 2022, BOI had no credit risk exposure to borrowers.

Premium Receivable

Premium receivable balances with an amount due over 90 days are non-admitted assets. MSF evaluates the remaining admitted accounts receivable asset for impairment. If it is probable that any amounts are not collectible, the uncollectible receivable is written off and charged to income in the period the determination is made.

Computer Equipment and Software

Computer equipment is capitalized if the actual or estimated historical cost exceeds \$5,000. Software is capitalized if the actual or estimated historical cost exceeds \$100,000. Computer equipment is depreciated on a straight-line basis over an estimated useful life of three years. Software is amortized on a straight-line basis using a three-year life for operating software and a five year life, or less, for application software. In accordance with statutory accounting principles, computer equipment and operating software are admitted assets, although §33-2-501(11), MCA limits admission of this equipment to a maximum of 1% of admitted assets. Application software is a non-admitted asset.

Furniture, Equipment and Leasehold Improvements

Furniture and equipment are capitalized if the unit cost exceeds \$5,000, and are recorded at cost and depreciated on a straight-line basis using estimated useful lives, which range from five to ten years. There are no leasehold improvements. Statutory accounting principles require that furniture, equipment, and leasehold improvements be capitalized, depreciated, and non-admitted.

Other Assets

Other assets include advances for the Other States Coverage reinsurance contracts.

Risks and Uncertainties

Risks and uncertainties existing as of the date of the financial statements are as follows:

Credit Risk - 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, 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. MSF investment policy requires the investment-grade portion of its fixed income investments, at the time of purchase, to be rated investment grade as defined by Moody's (Baa3 or higher) and/or Standard & Poor's (BBB- or higher) rating services. The policy allows for investment in non-investment-grade fixed income securities, limited to 7% of the total portfolio. 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. The NAIC regards U.S. Treasuries and agencies and all A ratings as Class 1 (highest quality), BBB ratings as Class 2 (high quality), BB ratings as Class 3 (medium quality), B ratings as Class 4 (low quality), C ratings as Class 5 (lower quality), and D ratings as Class 6 (in or near default).

The credit quality of the bond portfolio at December 31, 2023 and 2022 are presented in the following chart:

	2023		2022	
	NAIC Admitted Value	Percentage	NAIC Admitted Value	Percentage
Class 1 - highest quality	\$ 931,152,388	80.00 %	\$ 916,067,531	77.88 %
Class 2 - high quality	186,383,043	16.01 %	208,634,908	17.74 %
Class 3 - medium quality	20,190,321	1.74 %	23,317,767	1.98 %
Class 4 - low quality	20,658,674	1.77 %	21,273,350	1.81 %
Class 5 - lower quality	5,495,326	0.47 %	6,822,920	0.58 %
Class 6 - in or near default	111,083	0.01 %	83,784	0.01 %
Total bonds	\$ 1,163,990,835	100.00 %	\$ 1,176,200,260	100.00 %

Custodial Credit Risk - Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a company 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 December 31, 2023 and 2022, all the fixed income securities were registered in the nominee name of BOI and held in the possession of BOI's custodial bank, State Street Bank. All equity index funds and real estate partnership and limited liability companies were purchased and recorded in BOI's name. The Company maintains its cash in a bank deposit account that exceeds federally insured limits. The Federal Deposit Insurance Corporation (FDIC) guarantees up to \$250k per depositor, per insured bank. The Company had approximately \$2.6M and \$4.4M in excess of FDIC-insured limits as of December 31, 2023 and 2022, respectively.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of a company's investment in a single issuer. The MSF Investment Policy requires credit risk to be limited to 3% of the total securities portfolio market value in any one name. Investments issued or explicitly guaranteed by the U.S. Government are excluded from the concentration of credit risk requirement.

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The MSF Investment Policy sets an average portfolio duration range within 20% of the duration for the Bloomberg Barclays Intermediate US Aggregate Bond Index. BOI uses the weighted effective duration method to calculate interest rate risk.

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

MSF investments are categorized in Note 2 to disclose credit and interest rate risk as of December 31, 2023 and 2022.

Uncertainty Due to Litigation - In the ordinary course of business, MSF is a defendant in various litigation matters. Although there can be no assurances, as of December 31, 2023 and 2022, in the opinion of MSF's management based on information currently available, the ultimate resolution of these legal proceedings would not be likely to have a material adverse effect on its statutory results of revenue and expenses, admitted assets, liabilities, and policyholders' equity or liquidity. For further discussion, refer to Note 14 (Contingencies and Uncertainties).

Vulnerability Due to Certain Concentrations - MSF conducts its business primarily within the State of Montana and is susceptible to risk based on the economy of the geographic territory it serves. As of December 31, 2023 and 2022, approximately 75% of total premium was written through appointed agency producers, and about 25% was written

directly by MSF. The Marsh & McLennan agency represented 37% and 38%, respectively, of MSF's total premium as of December 31, 2023 and 2022.

Use of Estimates - The preparation of financial statements in conformity with Statutory Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates. Material estimates susceptible to significant change include loss and loss adjustment expense reserves, the fair value of investments, investment impairments, and cost allocation processes.

Reinsurance Risk - Reinsurance contracts do not relieve the Company from its obligations to insureds. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. Management believes that any liability arising from this contingency would not be material to the Company's financial position.

Risk-Based Capital - Risk-based capital (RBC) is a method developed by the NAIC to measure the minimum amount of capital appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. The formulas for determining the amount of RBC specify various weighting factors that are applied to financial balances or various levels of activity based on the perceived degree of risk of such activities. The adequacy of the company's actual capital is measured by the RBC results as determined by the formulas. Companies below minimum RBC requirements are subject to specified corrective action. State law 33-2-1902(12), MCA requires that MSF have two times the capital level of other insurers as a more conservative measure to allow earlier regulatory intervention if necessary.

Administrative Cost Allocation

State law (Section 39-71-2352, MCA) requires MSF to separately determine and account for administrative expenses and benefit payments on claims for injuries resulting from accidents occurring before July 1, 1990 (Old Fund) from those occurring on or after July 1, 1990 (MSF). MSF received \$528K and \$498K from the State of Montana for the administration of the Old Fund for years ended December 31, 2023 and 2022, respectively.

Losses Incurred and Loss Adjustment Expense Estimates

Loss and loss adjustment expense (LAE) reserves are established to provide for the estimated ultimate settlement cost of all claims incurred. Loss reserves are 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. Because actual claim costs depend on such complex factors 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. There can be no assurance that the ultimate settlement of losses may not vary materially from the estimate recorded. Since liabilities are based on estimates, the ultimate liability may be in excess of, or less than, the amounts provided. Adjustments to these estimates of reserves will be reflected in the Statutory Statement of Income in future years.

A provision for inflation and the calculation of estimated future claim costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience.

Losses and loss adjustment expenses are presented at face value net of estimated reinsurance recoverable. For further discussion, refer to Note 8.

Reinsurance Recoverable on Paid and Unpaid Losses

Reinsurance recoverables are estimates of paid and unpaid losses collectible from MSF's reinsurers. The amounts ultimately collected may be more or less than these estimates. Any adjustments of these estimates are reflected in revenues and expenses as they are determined.

Premium Deficiency Reserve

Premium deficiency reserves and the related expense are recognized when it is probable that losses, loss adjustment expense and policy maintenance costs under a group of existing contracts will exceed net earned premium, reinsurance recoveries and anticipated investment income. No such reserves were required at December 31, 2023 and 2022.

Other Liabilities

- Funds Withheld - Funds withheld are premiums due to reinsurers on a contingent basis in accordance with the reinsurance contracts in place.
- Accounts Payable - Accounts payable includes liabilities incurred on behalf of claimants, refunds, dividends due to policyholders, and amounts due to vendors.
- Compensated Absences - MSF supports two leave programs, the State of Montana Leave Program, (Traditional Plan) and the MSF Personal Leave Program. Employees covered in the Traditional Plan 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 employees in the Traditional Plan. Employees in the Personal Leave Program accumulate personal leave and extended leave. MSF pays employees for 100% of unused personal leave and banked holiday leave upon termination but extended leave has no cash value at the time of termination.

Income and Premium Taxes Payable

MSF is a component unit of the State of Montana and is not subject to federal or state premium or income tax.

Prepaid Expenses

The Company recognizes costs that benefit several accounting periods as prepaid assets to the extent that an individual cost exceeds \$10,000. The Company immediately expenses those prepaid costs that do not exceed \$10,000. Prepaid expenses are amortized and expensed over the period of use. Prepaid expenses that are unamortized at the end of a financial reporting period are non-admitted and charged to policyholder equity in accordance with statutory accounting principles.

Restricted Assets

The Company reports assets which are not under the exclusive control of the Company. These assets represent funds deposited with reinsured companies. The balances at December 31, 2023 and 2022 were both \$403K.

Premium Revenue and Unearned Premium

Premiums are recognized as revenue on a pro-rata basis over the policy period, beginning on the effective date of the policy. MSF's Board of Directors approves premium rates annually.

Premiums received in advance are deferred until the effective date of the policy at which time they are recognized as revenue on a pro-rata basis over the term of the policy. Premium advances are refundable when the policyholder's coverage is canceled and MSF has credited all earned premiums. State of Montana agency premium is estimated and payments are applied quarterly in arrears based on the actual reported payroll.

Unearned premium reflects premium that has been written but not yet earned. The unearned premium was \$63.2M and \$60.7M at December 31, 2023 and 2022, respectively.

Retrospectively Rated Policies

MSF issues policies for which the premiums vary based on loss experience. Future premium adjustments for these retrospective policies are estimated and accrued at the end of each quarter. The premium adjustments are determined through the review of each individual retrospective rated policy, comparing actual losses with projected future losses, to arrive at the best estimates of return or additional retrospective premiums. MSF records retrospective premium accruals and receivables as written premium. Return premiums are recorded as liabilities and additional premiums are recorded as assets and 10% of all retrospective premium receivables are non-admitted in accordance with SSAP No. 66.

Policy Acquisition Costs

Expenses incurred in connection with acquiring new insurance business, including such acquisition costs as sales commissions, are charged to operations as incurred.

Advertising Costs

All advertising costs are expensed when incurred. Advertising expense was \$1.1M and \$1.0M for the years ended December 31, 2023 and 2022, respectively.

Policyholder Dividends

Dividends are discretionary and are accrued and expensed when declared and approved by the MSF Board of Directors. The aggregate amount of policyholders' dividends is based on the analysis of policyholder equity balances and the financial results for the policy year. For further discussion, refer to Note 10.

Note 2 - Investments

The investments of MSF at December 31, 2023 are as follows:

December 31, 2023	Total Investment Holdings	Percentage
Bonds:		
U.S. Government	\$ 255,473,493	16.56 %
U.S. Government residential mortgage-backed	41,178,048	2.67 %
All Other Government	4,999,712	0.32 %
U.S. Special Revenue	75,204,429	4.88 %
U.S. Special Revenue residential mortgage-backed	185,960,726	12.06 %
U.S. Special Revenue commercial mortgage-backed	27,704,705	1.80 %
Industrial and Miscellaneous	446,351,784	28.94 %
Industrial and Miscellaneous residential mortgage-backed	49,710,452	3.22 %
Industrial and Miscellaneous commercial mortgage-backed	57,846,274	3.75 %
Industrial and Miscellaneous other loan-backed	18,808,659	1.22 %
Hybrid Securities	63,848	— %
Bank Loans	688,705	0.04 %
Total bonds	1,163,990,835	75.46 %
Equity securities	171,852,146	11.14 %
Real estate occupied by the Company	21,869,593	1.42 %
Cash, cash equivalents and short-term investments	52,838,554	3.43 %
Other invested assets	108,357,451	7.03 %
Receivables for securities	947,576	0.06 %
Securities lending collateral	22,534,493	1.46 %
Total invested assets	\$ 1,542,390,648	100.00 %

The investments of MSF at December 31, 2022 are as follows:

December 31, 2022	Total Investment Holdings	Percentage
Bonds:		
U.S. Government	\$ 222,504,461	14.45 %
U.S. Government residential mortgage-backed	26,509,458	1.72 %
All Other Government	8,998,740	0.58 %
U.S. Special Revenue	87,830,054	5.70 %
U.S. Special Revenue residential mortgage-backed	172,458,396	11.20 %
U.S. Special Revenue commercial mortgage-backed	29,645,771	1.92 %
Industrial and Miscellaneous	486,845,504	31.61 %
Industrial and Miscellaneous residential mortgage-backed	54,107,528	3.51 %
Industrial and Miscellaneous commercial mortgage-backed	41,925,607	2.72 %
Industrial and Miscellaneous other loan-backed	43,030,454	2.79 %
Hybrid Securities	247,598	0.02 %
Bank Loans	2,096,689	0.14 %
Total bonds	1,176,200,260	76.36 %
Equity securities	174,891,790	11.36 %
Real estate occupied by the Company	22,400,478	1.45 %
Cash, cash equivalents and short-term investments	42,403,205	2.75 %
Other invested assets	111,734,365	7.26 %
Receivables for securities	38	— %
Securities lending collateral	12,435,928	0.81 %
Total invested assets	\$ 1,540,066,064	100.00 %

MSF has investments in five companies which have underlying characteristics of real estate and one company which has underlying characteristics of real assets, all of which are classified as other invested assets.

The cost or book/adjusted carrying value, gross unrealized gains, gross unrealized losses, and estimated fair value of invested assets are as follows at December 31, 2023:

December 31, 2023	Book/Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government	\$ 255,473,493	\$ 864,181	\$ (9,641,492)	\$ 246,696,182
U.S. Government residential mortgage-backed	41,178,048	277,847	(4,967,373)	36,488,522
All Other Government	4,999,712	—	(40,512)	4,959,200
U.S. Special Revenue	75,204,429	—	(2,761,960)	72,442,469
U.S. Special Revenue residential mortgage-backed	185,960,726	505,793	(24,738,245)	161,728,274
U.S. Special Revenue commercial mortgage-backed	27,704,705	—	(1,509,645)	26,195,060
Industrial and Miscellaneous	446,351,784	5,196,817	(13,734,856)	437,813,745
Industrial and Miscellaneous residential mortgage-backed	49,710,452	401,207	(2,983,799)	47,127,860
Industrial and Miscellaneous commercial mortgage-backed	57,846,274	—	(5,163,677)	52,682,597
Industrial and Miscellaneous other loan-backed	18,808,659	481	(479,677)	18,329,463
Hybrid Securities	63,848	6,236	—	70,084
Bank Loans	688,705	13,774	(24,177)	678,302
Total bonds valued at amortized cost	<u>\$ 1,163,990,835</u>	<u>\$ 7,266,336</u>	<u>\$ (66,045,413)</u>	<u>\$ 1,105,211,758</u>
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Money market mutual funds	\$ 49,883,657	\$ —	\$ —	\$ 49,883,657
Short-term investments	121,957	498	—	122,455
Equity securities	64,621,625	107,230,754	(233)	171,852,146
Other invested assets	104,379,324	6,088,199	(2,110,072)	108,357,451
Total securities valued at fair value	<u>\$ 219,006,563</u>	<u>\$ 113,319,451</u>	<u>\$ (2,110,305)</u>	<u>\$ 330,215,709</u>

The cost or book/adjusted carrying value, gross unrealized gains, gross unrealized losses, and estimated fair value of invested assets are as follows at December 31, 2022:

December 31, 2022	Book/Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government	\$ 222,504,461	\$ 295,269	\$ (19,698,970)	\$ 203,100,760
U.S. Government residential mortgage-backed	26,509,458	—	(5,521,154)	20,988,304
All Other Government	8,998,740	—	(116,500)	8,882,240
U.S. Special Revenue	87,830,054	1,269	(4,324,190)	83,507,133
U.S. Special Revenue residential mortgage-backed	172,458,396	—	(27,247,158)	145,211,238
U.S. Special Revenue commercial mortgage-backed	29,645,771	—	(2,107,524)	27,538,247
Industrial and Miscellaneous	486,845,504	774,392	(26,525,542)	461,094,354
Industrial and Miscellaneous residential mortgage-backed	54,107,528	260,506	(3,882,485)	50,485,549
Industrial and Miscellaneous commercial mortgage-backed	41,925,607	—	(5,165,170)	36,760,437
Industrial and Miscellaneous other loan-backed	43,030,454	643	(3,404,954)	39,626,143
Hybrid Securities	247,598	24,049	—	271,647
Bank Loans	2,096,689	7,372	—	2,104,061
Total bonds valued at amortized cost	<u>\$ 1,176,200,260</u>	<u>\$ 1,363,500</u>	<u>\$ (97,993,647)</u>	<u>\$ 1,079,570,113</u>
	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
Money market mutual funds	\$ 31,323,009	\$ —	\$ —	\$ 31,323,009
Short-term investments	6,399,176	—	(72,912)	6,326,264
Equity securities	71,532,357	103,364,434	(5,001)	174,891,790
Other invested assets	89,998,040	22,279,344	(543,019)	111,734,365
Total securities valued at fair value	<u>\$ 199,252,582</u>	<u>\$ 125,643,778</u>	<u>\$ (620,932)</u>	<u>\$ 324,275,428</u>

The gross unrealized losses and fair value of the Company's investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows at December 31, 2023:

December 31, 2023	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government	\$ 120,239,160	\$ (5,282,085)	\$ 55,350,830	\$ (4,359,407)	\$ 175,589,990	\$ (9,641,492)
U.S. Government residential mortgage-backed	703,984	(78,542)	18,759,675	(4,888,831)	19,463,659	(4,967,373)
All Other Government	—	—	4,959,200	(40,512)	4,959,200	(40,512)
U.S. Special Revenue	31,797,670	(1,479,328)	40,644,800	(1,282,632)	72,442,470	(2,761,960)
U.S. Special Revenue residential mortgage-backed	25,231,511	(2,888,109)	116,110,402	(21,850,136)	141,341,913	(24,738,245)
U.S. Special Revenue commercial mortgage-backed	—	—	26,195,059	(1,509,645)	26,195,059	(1,509,645)
Industrial and Miscellaneous	27,075,581	(387,213)	280,425,409	(13,347,643)	307,500,990	(13,734,856)
Industrial and Miscellaneous residential mortgage-backed	12,348,118	(717,820)	23,161,864	(2,265,979)	35,509,982	(2,983,799)
Industrial and Miscellaneous commercial mortgage-backed	9,720,389	(922,904)	42,962,208	(4,240,773)	52,682,597	(5,163,677)
Industrial and Miscellaneous other loan-backed	—	—	18,302,941	(479,677)	18,302,941	(479,677)
Bank Loans	—	—	40,088	(24,177)	40,088	(24,177)
Equity securities	—	—	16,157	(233)	16,157	(233)
Other invested assets	13,511,052	(2,110,072)	—	—	13,511,052	(2,110,072)
	<u>\$ 240,627,465</u>	<u>\$ (13,866,073)</u>	<u>\$ 626,928,633</u>	<u>\$ (54,289,645)</u>	<u>\$ 867,556,098</u>	<u>\$ (68,155,718)</u>

The gross unrealized losses and fair value of the Company's investments were as follows at December 31, 2022:

December 31, 2022	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government	\$ 97,524,265	\$ (11,685,724)	\$ 52,235,220	\$ (8,013,246)	\$ 149,759,485	\$ (19,698,970)
U.S. Government residential mortgage-backed	764,179	(105,900)	20,224,126	(5,415,254)	20,988,305	(5,521,154)
All Other Government	8,882,240	(116,500)	—	—	8,882,240	(116,500)
U.S. Special Revenue	78,958,249	(3,843,240)	4,527,574	(480,950)	83,485,823	(4,324,190)
U.S. Special Revenue residential mortgage-backed	54,100,324	(4,048,625)	91,110,913	(23,198,533)	145,211,237	(27,247,158)
U.S. Special Revenue commercial mortgage-backed	27,538,248	(2,107,524)	—	—	27,538,248	(2,107,524)
Industrial and Miscellaneous	389,217,533	(19,606,041)	46,078,157	(6,919,501)	435,295,690	(26,525,542)
Industrial and Miscellaneous residential mortgage-backed	13,353,118	(93,196)	29,898,267	(3,789,289)	43,251,385	(3,882,485)
Industrial and Miscellaneous commercial mortgage-backed	18,108,650	(2,314,177)	18,651,787	(2,850,993)	36,760,437	(5,165,170)
Industrial and Miscellaneous other loan-backed	32,084,453	(2,857,485)	7,509,029	(547,469)	39,593,482	(3,404,954)
Short-term investments	6,326,264	(72,912)	—	—	6,326,264	(72,912)
Equity securities	35,638	(5,001)	—	—	35,638	(5,001)
Other invested assets	2,274,249	(245,961)	2,182,732	(297,058)	4,456,981	(543,019)
	<u>\$ 729,167,410</u>	<u>\$ (47,102,286)</u>	<u>\$ 272,417,805</u>	<u>\$ (51,512,293)</u>	<u>\$1,001,585,215</u>	<u>\$ (98,614,579)</u>

MSF closely monitors its investment portfolio and considers relevant facts and circumstances in evaluating whether the impairment of a security is other than temporary. Relevant facts and circumstances that are considered include: (1) the length of time the fair value has been below cost; (2) the financial position and access to capital of the issuer, including the current and future impact of any specific events; and (3) MSF's ability and intent to hold the security to maturity or until it recovers in value. To the extent the Company determines that a security is deemed other-than-temporarily impaired, the difference between amortized cost and fair value is charged to earnings. Based on the Company's evaluation and ability and intent to hold these securities to maturity or market value recovery, the impairment of the securities identified above is deemed to be temporary.

The amortized cost and estimated statutory fair value of MSF's fixed maturity securities as of December 31, 2023, is shown below at effective 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. Maturities of mortgage-backed securities depend on the repayment characteristics and experience of the underlying mortgage loans.

The book/adjusted carrying value and estimated statutory fair value of MSF's fixed maturity securities as of December 31, 2023 was:

December 31, 2023	Book/Adjusted Carrying Value	Estimated Fair Value
Due one year or less (excludes STIP)	\$ 95,970,950	\$ 92,273,507
Due after one year through five years	401,678,861	381,645,418
Due after five years through ten years	373,579,989	356,617,902
Due after ten years through twenty years	163,634,916	151,972,746
Due after twenty years	129,126,119	122,702,185
	<u>\$ 1,163,990,835</u>	<u>\$ 1,105,211,758</u>

The book/adjusted carrying value and estimated statutory fair value of MSF's fixed maturity securities as of December 31, 2022 was:

December 31, 2022	Book/Adjusted Carrying Value	Estimated Fair Value
Due one year or less (excludes STIP)	\$ 112,501,863	\$ 107,741,310
Due after one year through five years	480,167,051	447,279,820
Due after five years through ten years	456,232,255	412,908,146
Due after ten years through twenty years	87,982,852	76,454,471
Due after twenty years	39,316,239	35,186,366
	<u>\$ 1,176,200,260</u>	<u>\$ 1,079,570,113</u>

Proceeds from sales of invested assets and gross realized gains and gross realized losses on the sales of invested assets were as follows for the years ended December 31, 2023 and 2022:

	2023	2022
Proceeds from sales of debt securities	\$ 338,433,820	\$ 302,022,162
Proceeds from sales of common stock	40,000,000	10,000,000
Proceeds from sales of other invested assets	618,716	9,993,494
Net gains (losses) on cash, cash equivalents, and short-term investments	123,297	(139,007)
Total proceeds from sales of invested assets	<u>\$ 379,175,833</u>	<u>\$ 321,876,649</u>
Gross realized gains of debt securities	\$ 3,549,293	\$ 672,198
Gross realized losses of debt securities	(20,844,928)	(13,951,481)
Gross realized gains of common stock	33,079,061	8,099,923
Gross realized gains of other invested assets	—	2,010,747
Net realized capital gains (losses) of invested assets	<u>\$ 15,783,426</u>	<u>\$ (3,168,613)</u>

Investment income and related expenses were as follows for the years ended December 31, 2023 and 2022:

	2023	2022
Investment income		
Interest		
Bonds	\$ 39,484,906	\$ 32,713,320
Cash and short-term investments	1,146,859	518,277
Real estate	1,971,612	1,971,612
Other invested assets	2,274,681	2,693,725
Securities lending income	343,326	134,954
Total investment income	45,221,384	38,031,888
Investment expenses		
Investment expenses	953,559	1,435,796
Depreciation on real estate	530,885	530,885
Total investment expenses	1,484,444	1,966,681
Net investment income	\$ 43,736,940	\$ 36,065,207

MSF's investment in property occupied by the Company is as follows at December 31:

	2023	2022
Land	\$ 1,139,460	\$ 1,139,460
Properties occupied by the Company, net	20,730,133	21,261,018
Total real estate	\$ 21,869,593	\$ 22,400,478

Note 3 - Cash Collateral and Liability for Securities on Loan

The following table presents the carrying and market values of the securities on loan and the total collateral held as of December 31, 2023 and 2022:

	2023	2022
Securities on loan - carrying value	\$ 257,138,276	\$ 93,296,786
Securities on loan - market value	258,692,611	85,897,833
Total cash collateral held	22,534,493	12,435,928
Total non-cash collateral held	249,548,655	76,790,325

Note 4 - Fair Value of Financial Instruments

Certain financial instruments are reported at fair value or net asset value as a practical expedient, and others are stated at cost or amortized cost, as shown below. For those assets carried at fair value or net asset value in the financial statements and for those assets not stated at fair value in the financial statements but whose estimated fair values are disclosed, the following table indicated the inputs used to estimate fair value measurements.

The statement values, fair values, and related inputs for financial instruments at December 31 are:

	2023					
	Statement Value	Fair Value	Level 1	Level 2	Level 3	NAV
Assets reported at amortized cost:						
Bonds	\$ 1,153,205,584	\$ 1,094,427,005	\$ 244,292,812	\$ 850,134,193	\$ —	\$ —
Assets reported at fair value:						
Bonds	\$ 10,907,208	\$ 10,907,208	\$ —	\$ 10,907,208	\$ —	\$ —
Money market mutual funds	49,883,657	49,883,657	—	—	—	49,883,657
Equity securities	171,852,146	171,852,146	—	—	—	171,852,146
Other invested assets	108,357,451	108,357,451	—	—	—	108,357,451
Total assets reported at fair value	<u>\$ 341,000,462</u>	<u>\$ 341,000,462</u>	<u>\$ —</u>	<u>\$ 10,907,208</u>	<u>\$ —</u>	<u>\$ 330,093,254</u>
	2022					
	Statement Value	Fair Value	Level 1	Level 2	Level 3	NAV
Assets reported at amortized cost:						
Bonds	\$ 1,144,259,934	\$ 1,047,556,875	\$ 207,070,210	\$ 840,486,665	\$ —	\$ —
Assets reported at fair value:						
Bonds	\$ 38,339,502	\$ 38,339,502	\$ —	\$ 38,339,502	\$ —	\$ —
Money market mutual funds	31,323,009	31,323,009	—	—	—	31,323,009
Equity securities	174,891,790	174,891,790	—	—	—	174,891,790
Other invested assets	111,734,365	111,734,365	—	—	—	111,734,365
Total assets reported at fair value	<u>\$ 356,288,666</u>	<u>\$ 356,288,666</u>	<u>\$ —</u>	<u>\$ 38,339,502</u>	<u>\$ —</u>	<u>\$ 317,949,164</u>

Equity mutual funds consist of institutional investment funds which invest in domestic and international equities and are structured to mimic the returns of the S&P 500 and All Country World Index ex-U.S. (ACWI) indices, respectively. Unit values are based on the fair market values of the underlying securities held in each fund. These funds are highly liquid, and units can be sold upon request.

Other invested assets consist of investments in limited partnership and limited liability companies that invest in core real estate or real assets. The core real estate investors make equity investments in operating and substantially-leased institutional quality real estate in traditional property types (apartments, office, retail, industrial, and hotel) via commingled funds. The real assets investors acquire transportation assets via commingled funds. In both cases, the primary investment objective of these funds is to generate income from predictable sources of revenue and not realize gains on the underlying assets. This investment type receives distributions of generated income and occasionally receives distributions through the liquidation of the underlying assets of the fund. Values are

determined through an independent appraisal process of the underlying assets and reflect MSF's ownership interest in the partners' capital of the fund. Redemption of these investments is restricted based on the availability of cash flow arising from investment transactions, sales, and other fund operations occurring in the ordinary course of business. Therefore, requested redemptions from a fund will be redeemed as funds become available.

There were no liabilities reported at fair value as of December 31, 2023 and 2022.

Note 5 - Cash, Cash Equivalents, and Short-Term Investments

MSF participates in the Short-Term Investment Pool (STIP), a money market mutual fund maintained by BOI. STIP balances are highly liquid investments. The STIP investments' credit risk is measured by investment grade ratings given individual securities. BOI's policy requires that STIP investments have the highest rating in the short-term category by one and/or any Nationally Recognized Statistical Rating Organizations (NRSRO). The three NRSRO's include Standard and Poor's, Moody's Investors Service, and Fitch, Inc. STIP is reported at NAV based on the underlying values of the assets held.

Cash, cash equivalents, and short-term investments consist of the following at December 31:

	2023	2022
Cash in bank	\$ 2,832,939	\$ 4,681,020
Money market funds	49,883,658	31,323,009
Short-term investments	121,957	6,399,176
	\$ 52,838,554	\$ 42,403,205

Note 6 - Receivables, Net

Net receivables consist of the following at December 31:

	2023	2022
Uncollected premiums	\$ 7,573,917	\$ 6,219,835
Nonadmitted uncollected premiums	(2,012,895)	(591,936)
Net uncollected premiums	\$ 5,561,022	\$ 5,627,899
Unbilled premiums and installments	\$ 76,550,146	\$ 73,326,553
Earned but unbilled premiums	6,049,279	5,301,559
Nonadmitted earned but unbilled premiums	(604,928)	(530,156)
Net unbilled premiums	\$ 81,994,497	\$ 78,097,956
Accrued retrospective premiums	\$ 89,228	\$ 248,352
Nonadmitted retrospective premiums	(8,923)	(24,835)
Net accrued retrospective premiums	\$ 80,305	\$ 223,517
Healthcare and other amounts receivable	\$ 1,422,772	\$ 1,403,565
Nonadmitted healthcare and other receivables	(1,422,772)	(1,403,565)
Net healthcare and other receivables	\$ —	\$ —

Note 7 - Equipment, Net

Equipment and software are recorded at cost net of accumulated depreciation and admitted or non-admitted in accordance with statutory accounting principles as follows:

December 31, 2023	Computer Equipment & Operating Software	Vehicles, Furniture & Office Equipment	Application Software	Total
Assets	\$ 3,384,780	\$ 3,548,666	\$ 36,805,973	\$ 43,739,419
Accumulated depreciation	(2,997,207)	(2,826,279)	(26,288,106)	(32,111,592)
Subtotal	387,573	722,387	10,517,867	11,627,827
Less: Net assets non-admitted	—	(722,387)	(10,517,867)	(11,240,254)
Net assets admitted	<u>\$ 387,573</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 387,573</u>
Depreciation expense	<u>\$ 105,978</u>	<u>\$ 173,389</u>	<u>\$ 5,610,689</u>	<u>\$ 5,890,056</u>

December 31, 2022	Computer Equipment & Operating Software	Vehicles, Furniture & Office Equipment	Application Software	Total
Assets	\$ 3,847,825	\$ 4,101,409	\$ 36,645,552	\$ 44,594,786
Accumulated depreciation	(3,307,970)	(3,261,242)	(20,683,687)	(27,252,899)
Subtotal	539,855	840,167	15,961,865	17,341,887
Less: Net assets non-admitted	—	(840,167)	(15,961,865)	(16,802,032)
Net assets admitted	<u>\$ 539,855</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 539,855</u>
Depreciation expense	<u>\$ 263,846</u>	<u>\$ 164,813</u>	<u>\$ 5,373,667</u>	<u>\$ 5,802,326</u>

Note 8 - Loss and Loss Adjustment Expense Reserves

Loss and loss adjustment expense (LAE) reserves are established to provide for the estimated ultimate settlement cost of all claims incurred. Willis Towers Watson, an external independent actuarial firm, prepares an actuarial study used to estimate liabilities and the ultimate cost of settling claims reported but not settled and IBNR as of December 31, 2023 and 2022. The study provides a range of potential costs associated with the reported claims, the future development of those claims, and IBNR. MSF management has recorded an estimate within that range as the estimated loss reserves. Because actual claim costs depend on such complex factors 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. No significant changes to the reserving methodology were made during the reporting period. The reserves are reported on an undiscounted basis.

The following analysis provides a reconciliation of the activity in the reserve for losses and loss adjustment expenses for the year ended December 31:

	2023 <u>(in 000s)</u>	2022 <u>(in 000s)</u>
At beginning of the period:		
Gross liability for unpaid losses and loss adjustment expenses	\$ 926,024	\$ 936,703
Less reinsurance recoverables	<u>(1,632)</u>	<u>(726)</u>
Net liability for unpaid losses and loss adjustment expenses	924,392	935,977
Losses and loss expenses incurred during the period related to:		
Current period	150,144	139,869
Prior years	<u>(13,726)</u>	<u>(14,456)</u>
Total losses and loss adjustment expenses incurred	136,418	125,413
Losses and loss expenses paid during the period related to:		
Current period	(41,777)	(37,254)
Prior years	<u>(116,610)</u>	<u>(99,744)</u>
Total losses and loss adjustment expenses paid	(158,387)	(136,998)
At end of the period:		
Gross liability for unpaid losses and loss adjustment expenses	903,254	926,024
Less reinsurance recoverables	<u>(831)</u>	<u>(1,632)</u>
Net liability for unpaid losses and loss adjustment expenses	<u>\$ 902,423</u>	<u>\$ 924,392</u>

Changes in the reserve for loss and loss adjustment expenses related to prior years are due to ongoing analysis of loss development trends, re-estimation of unpaid claims, impact from claim settlement activity, and reinsurance recovery adjustments.

Included in the amounts above are reserves for asbestos exposure. MSF's exposure to asbestos claims arose from the direct sale of workers' compensation policies to companies with incidental exposure to asbestos. There are no differences between the case reserving methodology used for asbestos claims and other claims. Case reserves related to these claims are as follows as of December 31:

	2023 <u></u>	2022 <u></u>
Beginning case reserves (including LAE)	\$ 408,714	\$ 1,337,620
Losses and LAE incurred	185,877	(223,422)
Payments for losses and LAE	<u>(52,936)</u>	<u>(705,484)</u>
Ending case reserves (including LAE)	<u>\$ 541,655</u>	<u>\$ 408,714</u>

Note 9 - Retirement Plans, Deferred Compensation and Postretirement Plans

MSF and its employees contribute to the Montana 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 multiemployer pension plan for the benefit of State employees that provides retirement, disability, and death benefits to plan members and their beneficiaries. MSF is only responsible for the current expense paid each year and has no legal obligation for future pension liabilities under this plan.

However, MSF is required to record an allocated amount of the DBRP's unfunded liability on its GAAP financial statements. The amount of that liability is \$26.8M and \$27.4M as of December 31, 2023 and 2022, respectively. As stated previously, NAIC SAP does not require the unfunded liability to be recognized in the statutory financial statements.

The second plan is the Defined Contribution Retirement Plan (DCRP), a multiemployer 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 and the investment earnings less administrative costs.

MSF contributed a total of \$2.4M and \$2.2M to the two plans during the years ended December 31, 2023 and 2022, respectively. The required employer contribution rate for both plans was 9.07% for the first half of the year ended December 31, 2023, and 9.17% for the second half. For the year ended December 31, 2022, the first half rate was 8.97% and the second half rate was 9.07%. The liability for unpaid contributions at December 31, 2023 and 2022 is \$98K and \$87K, which was paid in January 2024 and January 2023, respectively.

Other postemployment benefit (OPEB) obligations for retiree healthcare are sponsored and administered by the State of Montana. MSF is not financially responsible for the plan as retirees pay the full amount of required premiums. However, MSF is required to record an allocated amount of the plan's implied rate subsidy liability on its GAAP financial statements. The amount of that liability is \$0.8M and \$2.5M as of December 31, 2023 and 2022, respectively. NAIC SAP does not require the OPEB liability to be recognized in the statutory financial statements.

MSF and its employees are eligible to participate in the State of Montana Deferred Compensation Plan (457 plan) administered by the PERB. The Deferred Compensation plan is a voluntary, tax-deferred retirement plan designed as a supplement to other retirement plans. Under the plan, eligible employees elect to defer a portion of their salary until future time periods. MSF incurs no costs for this plan.

MSF employees and dependents are eligible to receive health care through the State Employee Group Benefits Plan administered by the State of Montana Department of Administration. The State of Montana provides optional post-employment medical, vision, and dental health care benefits to qualified employees and dependents that elect to continue coverage and pay administratively established premiums.

Note 10 - Policyholder Dividends

During the year ended December 31, 2023, the MSF Board of Directors authorized dividends of \$35M to eligible policies with effective dates between July 1, 2020 and December 31, 2021. As of December 31, 2023, only \$201K remains to be paid. During the year ended December 31, 2022, the MSF Board of Directors authorized dividends of \$30M to eligible policies with effective dates between July 1, 2019 and June 30, 2020, of which \$29.9M had been paid by December 31, 2022.

Note 11 - Reinsurance Assumed and Ceded

For the years ended December 31, 2023 and 2022, MSF ceded risk to reinsurance companies to limit the exposure arising from large losses. These arrangements consisted of excess of loss contracts that protect against occurrences over stipulated amounts, providing per-occurrence coverage up to \$100M with a \$10M maximum-any-one-loss clause. MSF's retention for each occurrence was \$20M for 2023 and \$10M for 2022.

In the event reinsurers are unable to meet their obligations under the excess of loss contracts, MSF would remain liable for all losses, as the reinsurance agreements do not discharge MSF from its primary liability to the policyholders.

During 2022, MSF commuted its aggregate stop loss contract covering the period of July 1, 2013 through June 30, 2014. The commutation had no impact on premiums, losses, or loss expenses. The reinsurers on the contract were Hannover Reinsurance Plc. and XL Re. Ltd.

Direct, assumed, and ceded activity included the following for the year ended December 31:

	2023	2022
	(in 000's)	(in 000's)
Written premiums:		
Direct	\$ 177,538	\$ 167,541
Assumed	2,740	3,066
Ceded	(1,639)	(2,003)
Net written premiums	<u>\$ 178,639</u>	<u>\$ 168,604</u>
Earned premiums:		
Direct	\$ 174,841	\$ 167,441
Assumed	2,947	3,032
Ceded	(1,639)	(2,003)
Net earned premiums	<u>\$ 176,149</u>	<u>\$ 168,470</u>
Unearned premiums:		
Direct	\$ 62,620	\$ 59,923
Assumed	603	810
Ceded	—	—
Net unearned premiums	<u>\$ 63,223</u>	<u>\$ 60,733</u>
Incurred losses and loss adjustment expenses		
Direct	\$ 132,092	\$ 125,676
Assumed	3,525	650
Ceded	801	(913)
Net incurred losses and loss adjustment expenses	<u>\$ 136,418</u>	<u>\$ 125,413</u>

MSF's historical ceded aggregate stop loss contracts contain a contingent commission that provides for additional or return commission based on the actual loss experience of the ceded business. The amount of accrued commission as of December 31, 2023 and 2022 is \$60.8M and \$58.3M, respectively.

Note 12 - Leases and Commitments

MSF leases office facilities and equipment under various operating leases that expire through August 2024. Rental expense for the years ended December 31, 2023 and 2022 was \$42K and \$53K, respectively.

MSF has a lease for 350 parking spaces in a parking garage built by the City of Helena adjacent to the MSF offices which expires in 2040. The cost of the parking spaces will be the same monthly rate as equivalent parking passes sold by the City. Parking costs for both years ended December 31, 2023 and 2022 were \$315K.

Future minimum rental payments are as follows for the years ending December 31:

2024	\$	379,374
2025		364,805
2026		358,301
2027		357,000
2028		357,000
Thereafter		3,927,000
	<u>\$</u>	<u>5,743,480</u>

Note 13 - Subsequent Events

Subsequent events were evaluated through March 13, 2024, which is the same date the audited financial statements were available to issue.

Note 14 - Contingencies and Uncertainties

Ginger Pittman et al. v. U.S. Minerals, Inc. et al.: Two plaintiffs filed this suit in the Montana Second Judicial District Court in Silver Bow County, Montana. The named defendants include U.S. Minerals, Inc.; and plant managers Tim Ledford and Don Haney. The suit alleges that the plaintiffs were contract workers of U.S. Minerals, Inc., which operated a slag processing facility in Anaconda, Montana. The suit pleads several causes of action stemming from the workers’ alleged toxic substance exposures while working at the facility. The exposures are alleged to have occurred between 2015 and 2021. Montana State Fund insured USM Acquisitions, Inc., a related entity of U.S. Minerals, Inc., from December 2, 2019, until July 15, 2021. The policy limit is \$1M. Given the number of plaintiffs and nature of the allegations, it is anticipated that the asserted aggregate value of the claims in this matter may exceed \$1M. The complaint in this action has not been served. MSF believes it has significant viable defenses to the claim and assesses the probability of recovery to be remote.

Lequis Vasquez Figueroa v. JAWC, LLC et al.: Plaintiff Lequis Figueroa filed suit in the Montana Eighteenth Judicial District Court in Gallatin County, Montana. The suit relates to a workplace injury Figueroa suffered on or about February 3, 2023. The named defendants include MSF policyholder JAWC, LLC. The suit alleges that JAWC was a contractor on the worksite and pleads two causes of action: common-law negligence and failure to provide a safe workplace under § 50-71-201, MCA. The EL per-accident coverage limit for the policy in question is \$1M. Given the alleged facts, it is anticipated that the asserted value of his claim may exceed \$1M. The complaint in this action has been served, and the matter is in the discovery phase. MSF believes it has significant viable defenses to the claim and assesses the probability of recovery against the State Fund to be remote.

At times Montana State Fund is involved in litigation in the areas of workers’ compensation and disputes with policyholders. These are of a generally routine nature and there are no other known matters at this time that will have a material adverse financial impact to the Company.

Note 15 - Related Party Transactions

Montana State Fund’s administrative attachment to the State of Montana requires that certain processes and transactions be conducted with various state agencies. The Constitution of the State of Montana, Part VIII, Article 13, requires that the Montana Board of Investments invest the assets of MSF. Under Montana statute, state agencies are required to purchase workers’ compensation insurance from MSF and the statutes define other administrative relationships that require MSF to pay specific services charges.

The following significant transactions occurred with state agencies during the year ended December 31:

	2023	2022
Income:		
State of Montana agencies		
Premium	\$ 10,853,656	\$ 9,755,602
Dividends	(2,266,070)	(1,931,749)
Old Fund administrative cost allocation	528,494	498,083
Net premium income from State of Montana agencies	\$ 9,116,080	\$ 8,321,936
Expenses:		
Department of Administration		
Support services costs	\$ 2,042,506	\$ 2,603,010
Benefits Bureau: group insurance	3,536,862	3,546,879
PERS retirement contributions	2,359,870	2,224,608
Department of Labor & Industry - unemployment insurance	52,261	64,017
Board of Investments - transaction fees	438,862	507,025
Department of Justice - workers' comp fraud investigation services	407,963	409,239
Commissioner of Securities and Insurance - regulation/exam fees	264,659	481,740
Legislative Audit Division - audit fees	—	41,855
Expenses paid to State of Montana agencies	\$ 9,102,983	\$ 9,878,373

MSF, under a group plan agreement with state agencies, writes policies for which the premiums vary based on loss experience. Future premium adjustments for these retrospective policies are estimated and accrued through a review comparing actual losses with projected future losses, to arrive at the estimate of return premium. The State of Montana agencies are considered a retrospectively rated group and the estimated accrual at both December 31, 2023 and 2022 was \$0. Other amounts due to and from other State of Montana agencies are settled regularly and were not material as of December 31, 2023 and 2022.

Note 16 - Policyholders' Equity - Change in Non-Admitted Assets

The following is an accounting of the changes in non-admitted assets included in the Statement of Changes in Policyholders' Equity for the year ended December 31, 2023:

	Balance of non- admitted assets, beginning of year	Balance of non- admitted assets, end of year	Change
Increase (decrease) in non-admitted assets			
Uncollected premiums	\$ 591,936	\$ 2,012,895	\$ 1,420,959
Deferred premiums	530,156	604,928	74,772
Accrued retrospective premiums	24,835	8,923	(15,912)
EDP and software	15,961,865	10,517,867	(5,443,998)
Furniture and equipment	840,167	722,387	(117,780)
Healthcare and other amounts receivable	1,403,565	1,422,772	19,207
Other non-admitted assets	1,231,633	2,028,733	797,100
Balance of non-admitted assets	<u>\$ 20,584,157</u>	<u>\$ 17,318,505</u>	<u>\$ (3,265,652)</u>

The following is an accounting of the changes in non-admitted assets included in the Statement of Changes in Policyholders' Equity for the year ended December 31, 2022:

	Balance of non- admitted assets, beginning of year	Balance of non- admitted assets, end of year	Change
Increase (decrease) in non-admitted assets			
Uncollected premiums	\$ 688,097	\$ 591,936	\$ (96,161)
Deferred premiums	393,896	530,156	136,260
Accrued retrospective premiums	21,149	24,835	3,686
EDP and software	24,148,467	15,961,865	(8,186,602)
Furniture and equipment	756,664	840,167	83,503
Healthcare and other amounts receivable	1,514,620	1,403,565	(111,055)
Other non-admitted assets	1,390,395	1,231,633	(158,762)
Balance of non-admitted assets	<u>\$ 28,913,288</u>	<u>\$ 20,584,157</u>	<u>\$ (8,329,131)</u>

Note 17 - Policyholders' Equity - Reconciliation of Statutory Equity to GASB Net Position

The following schedule reconciles statutory policyholders' equity calculated in accordance with NAIC SAP to GASB Net Position as determined by governmental accounting principles generally accepted in the United States of America at December 31, 2023 and 2022. The audited GASB financial statements were not available as of the date of this report, and, therefore the information below was prepared by management and is unaudited.

	2023	2022
Statutory policyholders' equity (NAIC)	\$ 629,341,077	\$ 613,096,145
Add:		
Non-admitted assets as shown above	17,318,505	20,584,157
Change in investment value of bonds to fair market value	(57,622,840)	(98,078,482)
Change in investment lot inventory method	15,655,834	612,165
Change in investment value of other invested assets to equity method	(8,870,696)	7,210,077
Change in allowance for doubtful accounts	(3,574,105)	(1,966,732)
Effect of differences in lease accounting standards on income and policyholders' equity	(67,479)	(32,093)
Effect of differences in IT subscription accounting standards on income and policyholders' equity	(27,978)	—
Effect of differences in pension accounting standards on income and policyholders' equity	(26,512,458)	(26,045,582)
Effect of differences in OPEB accounting standards on income and policyholders' equity	(1,567,625)	(1,458,857)
Provision for reinsurance	6,000	6,000
Rounding differences	(5)	(5)
GASB net position	\$ 564,078,230	\$ 513,926,793

Supplementary Information
December 31, 2023





Independent Auditor's Report on Supplementary Information

To the Board of Directors
Montana State Fund
Helena, Montana

We have audited the statutory financial statements (financial statements) of Montana State Fund as of and for the year ended December 31, 2023, and our report thereon dated March 13, 2024, which contained an unmodified opinion on the regulatory basis of accounting financial statements. Our audit was performed for the purpose of forming an opinion on the basic statutory-basis financial statements taken as a whole.

The Supplemental Schedule of Investment Risks Interrogatories and the Supplemental Summary Investment Schedule, and Supplemental Reinsurance Interrogatories are required to be presented to comply with the National Association of Insurance Commissioners' Annual Statement Instructions and the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual and are not a required part of the basic statutory-basis financial statements. Such information included in the schedules referred to above is the responsibility of management, is presented for purposes of additional analysis and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic statutory-basis financial statements taken as a whole.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Boise, Idaho
March 13, 2024

Basis of Presentation

The following supplemental disclosures present selected statutory-basis financial data as of December 31, 2023, and for the year then ended, for purposes of complying with the National Association of Insurance Commissioners' *Accounting Practices and Procedures Manual* and agree to or are included in the amounts reported in the Company's 2023 Statutory Annual Statement.

Supplemental Investment Risk Interrogatories

1. The Company's total admitted assets as of December 31, 2023 are \$1.7B.
2. The Company's ten largest exposures to a single issuer/borrower/investment are as follows:

	Amount	Percentage of Total Admitted Assets
Federal National Mortgage Association	\$ 133,296,597	7.84%
Federal Home Loan Mortgage Corporation	76,654,258	4.51%
Federal Farm Credit Banks Funding Corporation	53,861,662	3.17%
Bank of America Corporation	23,000,000	1.35%
Capital One Financial Corporation	19,999,578	1.18%
Mastercard Incorporated	18,978,285	1.12%
Starbucks Corporation	18,362,259	1.08%
Verizon Communications Inc.	18,046,038	1.06%
Federal Home Loan Banks	16,351,180	0.96%
The Goldman Sachs Group, Inc.	15,622,942	0.92%

3. The amounts and percentages of the Company's total admitted assets held in bonds by NAIC rating are as follows:

	Amount	Percentage of Total Admitted Assets
NAIC-1	\$ 931,152,388	54.79%
NAIC-2	186,383,043	10.97%
NAIC-3	20,190,321	1.19%
NAIC-4	20,658,674	1.22%
NAIC-5	5,617,283	0.33%
NAIC-6	111,083	0.01%
Total Bonds	\$ 1,164,112,792	68.51%

4. The amount of assets held in foreign investments is \$47.2M, which is 2.8% of the Company's total admitted assets. None of that amount is denominated in a foreign currency.
5. All of the assets held in foreign investments, \$47.2M, or 2.8% of total admitted assets, are held in countries designated as NAIC-1.

6. The largest foreign investment exposures by country, categorized by the country's NAIC sovereign designation are as follows:

December 31, 2023	Amount	Percentage of Total Admitted Assets
United Kingdom (NAIC 1)	\$ 17,796,551	1.05%
China (NAIC 1)	11,820,876	0.70%

7. The ten largest non-sovereign foreign issues as of December 31, 2023 were as follows:

	NAIC Designation	Amount	Percentage of Total Admitted Assets
Alibaba Group Holding Limited	1FE	\$ 11,820,876	0.70%
Diageo Capital plc	1FE	8,952,431	0.53%
UBS Group AG	1FE	5,542,819	0.33%
Mitsubishi UFJ Financial Group, Inc.	1FE	5,000,000	0.29%
Barclays PLC	2FE	4,996,223	0.29%
Shell International Finance B.V.	1FE	2,998,588	0.18%
HSBC Holdings plc	1FE	2,987,066	0.18%
Carnival Holdings (Bermuda) Limited	4FE	481,834	0.03%
VistaJet Malta Finance P.L.C.	4FE	309,793	0.02%
Altice France S.A.	4FE	266,602	0.02%

8. The amount of assets held in Canadian investments is less than 2.5% of the Company's total admitted assets.

9. The Company does not hold any assets with contractual sales restrictions.

10. The amounts and percentages of the Company's total admitted assets held in equity interests are as follows:

	Amount	Percentage of Total Admitted Assets
Blackrock	\$ 171,852,146	10.11%
Heitman America	20,909,486	1.23%
Prisa LP	20,828,983	1.23%
JP Morgan SPF	19,626,044	1.15%
American Realty Advisors	18,481,887	1.09%
ITE Rail Fund LP	15,000,000	0.88%
UBS Trumbull Property Fund	13,511,052	0.79%

11. The Company does not hold any privately placed equities. The Company's largest fund managers are as follows:

	<u>Total Invested</u>	<u>Diversified</u>	<u>Non-Diversified</u>
Blackrock	\$ 171,852,146	\$ 171,852,146	\$ —
Montana Board of Investments	48,820,119	48,820,119	—
Heitman America	20,909,486	—	20,909,486
Prisa LP	20,828,883	—	20,828,883
JP Morgan	19,626,044	—	19,626,044
American Realty Advisors	18,481,887	—	18,481,887
ITE Rail Fund LP	15,000,000	—	15,000,000
UBS Trumbull Property Fund	13,511,052	—	13,511,052
State Street	1,063,525	1,063,525	—

12. The Company does not hold any general partnership interests.
13. The Company does not hold any mortgage loans.
14. The amount of assets held in real estate is less than 2.5% of the Company's total admitted assets.
15. The Company does not hold any mezzanine real estate loans.
16. The amounts and percentages of the Company's total admitted assets subject to securities lending agreements are as follows:

	<u>Amount</u>	<u>Percentage of Total Admitted Assets</u>
Securities lending agreements	\$ 257,138,276	15.13%

17. The Company does not hold any warrants.
18. The Company does not have any exposure for collars, swaps, or forwards.
19. The Company does not have any exposure for futures contracts.

Montana State Fund
Summary Investment Schedule
December 31, 2023

	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement			
	Amount	%	Amount	Securities Lending Reinvested Collateral Amount	Total Amount	%
Long-term bonds:						
U.S. governments	\$ 296,651,541	19.23%	\$ 296,651,541	\$ —	\$ 296,651,541	19.23%
All other governments	4,999,712	0.32%	4,999,712	—	4,999,712	0.32%
U.S. special revenue and special assessment obligations, non-guaranteed	288,869,860	18.73%	288,869,860	—	288,869,860	18.74%
Industrial and miscellaneous	572,717,169	37.13%	572,717,169	—	572,717,169	37.13%
Hybrid securities	63,848	—%	63,848		63,848	—%
Certificates of deposit	—	—%	—	517,347	517,347	0.04%
Bank loans	688,705	0.04%	688,705		688,705	0.04%
Total long-term bonds	1,163,990,835	75.47%	1,163,990,835	517,347	1,164,508,182	75.50%
Common stocks:						
Mutual funds	171,852,146	11.14%	171,852,146	—	171,852,146	11.14%
Real estate:						
Properties occupied by the company	21,869,593	1.42%	21,869,593	—	21,869,593	1.42%
Cash, cash equivalents and short-term investments:						
Cash	2,832,939	0.18%	2,832,939	—	2,832,939	0.18%
Cash Equivalents	49,883,658	3.23%	49,883,658	12,785,881	62,669,539	4.06%
Short-term investments	121,957	0.01%	121,957	9,231,265	9,353,222	0.61%
Total cash, cash equivalents and short-term investments:	52,838,554	3.43%	52,838,554	22,017,146	74,855,700	4.85%
Other invested assets	108,357,451	7.03%	108,357,451	—	108,357,451	7.03%
Receivables for securities	947,576	0.06%	947,576	—	947,576	0.06%
Securities lending	22,534,493	1.46%	22,534,493	N/A	N/A	N/A
Total invested assets	<u>\$ 1,542,390,648</u>	<u>100.0%</u>	<u>\$ 1,542,390,648</u>	<u>\$ 22,534,493</u>	<u>\$ 1,542,390,648</u>	<u>100.0%</u>

The following interrogatories are included in accordance with SSAP No. 62R:

7.1 Has the reporting entity reinsured any risks under a quota share reinsurance contract with any other entity that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g. deductible, a loss ratio corridor, loss cap)? If yes, indicate the number of reinsurance contracts containing such provision and if the amount of reinsurance credit taken reflects the reduction in quota share coverage caused by any applicable limiting provision(s). Yes No

8.1 Has the reporting entity reinsured any risk with any other entity and agreed to release such entity from liability, in whole or in part, from any loss that may occur on this risk, or portion thereof, reinsured? Yes No

9.1 Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative UW result greater than 5% of prior year-end surplus as regards to policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:

- a. A contract term longer than two years and the contract is non-cancellable by the reporting entity during the contract term;
- b. A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;
- c. Aggregate stop loss reinsurance coverage;
- d. An unconditional or unilateral right by either party to commute the reinsurance contract, except for such provisions which are only triggered by a decline in the credit status of the other party;
- e. A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or
- f. Payment schedule, accumulating retention from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity. Yes No

9.2 Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or affiliates), excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under commune control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders or the reporting entity is a member, where:

- a. The written premium ceded to the reinsurer by the reporting entity or its affiliates represents 50% or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or
- b. 25% or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates. Yes No

- 9.4 Except for transactions meeting the requirements of paragraph 30 of SSAP No. 62R, has the reporting entity ceded any risk under any reinsurance contract during the period covered by the financial statements, and either:
- a. Accounted for that contract as reinsurance (either prospective or retroactive) under SAP and as a deposit under GAAP; or
 - b. Accounted for that contract as reinsurance under GAAP and as a deposit under SAP.
- Yes No

The accompanying schedules and interrogatories present selected statutory-basis financial data as December 31, 2023 and for the year then ended for the purpose of complying with paragraph 9 of the Annual Audited Financial Reports in the Annual Audited Report section of the National Association of Insurance Commissioners' Annual Statement Instructions and the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual and agree to or are included in the amounts reported in the Company's December 31, 2023 Statutory Annual Statement.