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IN THE WORKERS' COMPENSATION COURT
FOR THE STATE OF MONTANA
WC COURT NO. 2003-0840

CATHERINE E. SATTERLEE, **Petitioner,** vs. LUMBERMAN'S MUTUAL CASUALTY COMPANY, Respondent/Insurer for BUTTREY FOOD & DRUG, Employer.	**WC Claim No.: 788CU041791**
JAMES ZENAHLIK, **Petitioner,** vs. MONTANA STATE FUND, Respondent/Insurer for EAGLE ELECTRIC, Employer.	**WC Claim No.: 03-1997-06362-9**
JOSEPH FOSTER, **Petitioner,** vs. MONTANA STATE FUND, Respondent/Insurer for ALLEN ELECTRIC, Employer.	**WC Claim No.: 3-95-17425-3**

SATTERLEE'S MOTION AND BRIEF FOR AN ORDER ALLOWING DISCOVERY

MOTION

Satterlee moves this Court for an Order allowing it to conduct discovery on the issues presented in this matter. The affidavits filed by the Respondents are insufficient for this Court to rule on the Respondents' motion for summary judgment.

INTRODUCTION

The State Fund has exaggerated the economic impact of Satterlee. The insurers in this case have produced little, if any, evidence regarding the economic impact of Satterlee. Neither the State Fund nor other insurers have been challenged on their exaggerated figures.

Montana law requires the State Fund to maintain a surplus to secure itself "against various risks inherent in or affecting the business of insurance and not accounted for or only partially measured by the risk-based capital requirements." Mont. Code Ann. §39-71-2330. This Court should allow discovery so that Satterlee can challenge the State Fund's "sky is falling" argument.

Satterlee believes discovery is necessary to show the Court that the financial viability of the workers' compensation system is not at stake. The Respondents, and particularly the State Fund, have presented huge cost estimates in affidavits. However, as explained below, Satterlee has consistently argued that the Respondents greatly exaggerated the costs of the case. Because of the insurer's exaggerations, Satterlee asks for permission to conduct discovery. It is a fundamental premise of law that Satterlee should be allowed to challenge the Respondents' alleged costs. The appeal of this case should be based upon an accurate record. This Court should not allow unfounded financial scare tactics to go beyond the trial court without challenge.

BACKGROUND

The Respondent insurance companies, particularly the State Fund, have focused this case on the economic cost. As the State Fund observed at the oral argument, Satterlee "will bankrupt the State Fund, and it will bankrupt the system." *Transcript of Hearing*, p. 47. The State Fund admitted that the economic evidence was "pivotal" and the case should not "move forward without that information being part of the record..." *Id.*, p. 48.

The State Fund has been at the forefront of this cost argument in Satterlee and other common fund cases. This Court observed the State Fund's documented tendency toward exaggeration. For instance, in *Stavenjord*, the Workers' Compensation Court found that the State Fund exposure estimate was a "worst case scenario," and "not a realistic estimate." *Stavenjord* 2004 MTWCC 62, ¶ 30. Satterlee should be allowed to discover evidence to determine if the State Fund's claims are exaggerated here.

This Court noted the economic impact in both its original Order denying Satterlee's motion for summary judgment and its recent Order granting Satterlee's motion for reconsideration. *Order Granting Petitioner's Motion for Reconsideration, Continuing*

Respondents' Cross-Motion for Summary Judgment, and Granting Petitioners Leave to File a Motion and Brief Pursuant to Mont R.Civ.P. 56(f) {hereinafter *Order Granting Reconsideration*), ¶10. The Court recognized that "it is in the interest of all parties that this case is decided with all relevant evidence before the Court." *Id.*

In its decision, the Court found that providing Satterlee claimants PTD benefits would have "a general negative impact on the workers' compensation system." *Order Granting Reconsideration,* ¶15. Satterlee concedes that the financial impact will be significant, but this Court cannot be certain of the economic impact unless Satterlee is allowed discovery. To decide this case without further discovery deprives Satterlee of her right to contest untrue facts relevant to her equal protection challenge.

Satterlee believes she has found exaggerations in the affidavits produced by the State Fund. In light of this, it is logical to assume that other exaggerations exist which cannot be found without discovery.

An example of State Fund exaggeration is found in the "Second Affidavit of Daniel Gengler." In his second affidavit, Mr. Gengler purports to estimate the overall cost of Satterlee. Mr. Gengler wrongly used a payout amount when valuing the State Fund PTD claims. For the "Midpoint Estimate," Mr. Gengler asserted that a 50-year-old PTD claimant would cost $365,821.00. Mr. Gengler multiplied the number of benefit years (15.6) by the weekly permanent total rate ($450.41). Mr. Gengler claimed there would be 56.2 PTD claimants in 2005, so he argued that the State Fund's cost would be $20,600,000.00 (56.2 multiplied by $365,821.00 = $20,559,140.00). Mr. Gengler overstates the present value of the State Fund PTD claims, because Mr. Gengler calculates the Satterlee benefits will begin in 2005. But that is not true. Instead, Mr. Gengler should have calculated the present value of PTD payments, because they do not begin for 16 years. With this one unacceptable calculation, Mr. Gengler more than doubled the present value of the 2005 PTD claims. (*Exhibit 1*, Second Affidavit of David Johnson, CPA, ¶¶2,3, & 4 and Schedule 1).

This is not the only exaggeration by the State Fund. A second example involves Mr. Gengler's use of the longer life expectancy for females, rather than including the shorter life expectancy for males. (*Exhibit 1*, Second Affidavit of Johnson, ¶6). This is inaccurate according to the Department of Labor's website which shows that from 2000 to 2004, 38.4% of claims involved from females and 59.5% from males. *Exhibit 2*.

Gengler also used the highest PTD rate for each calculation.

Finally, Satterlee believes Gengler's calculations include settled claims in the estimate of future cost which are not actionable pursuant to *Dempsey*. Notably, the Respondents admit that the number of claims is unknown. In her affidavit, Christine E. McCoy of the State Fund indicated that a Satterlee review will have to identify claimants who may be affected by the decision and may include the review of a claim file with information stored on all media types. According to Ms. McCoy, claimants can be substantially identified by using complex computer queries to search the CMS and DB02 systems and that manually reviewing each file may be the only way of identifying affected claims. *See Affidavit of Cristine E. McCoy,* WCC#229 (8/8/05). These admissions by Ms. McCoy probably show that some or all of the damages claimed by the State Fund are based solely on estimates without a sufficient factual basis.

This Court should allow Satterlee to prove that the Respondents have exaggerated the cost of the case. Discovery would force the Respondents to identify the truth instead of allowing them to make unrealistic estimates in another round of "The Sky is Falling."

THE DISCOVERY PLAN

The Court asked Satterlee to specify the discovery she seeks. If the Court allows discovery, Satterlee may seek the permission of the Court to expand her discovery plan as she evaluates the evidence produced.

Initially, Satterlee will seek the following evidence through written discovery and depositions:

1. The identity of PTD claimants, their ages (or when they died), their compensation rates, and how these were identified.

2. The identity of the PTD cases that have been settled as compared to how many are currently open.

3. How the State Fund determines dividends to policyholders after it sets its surplus. This is relevant because, as set forth below, the State Fund has declared a dividend for the last 8 years from "unnecessary surpluses."

4. The State Fund's interest earnings on its assets and reserves. This is relevant because in determining the cost of Satterlee benefits, the State Fund did not discount these benefits nor did it consider that it would earn interest on its assets and surplus. This significantly increased the projected cost of Satterlee. *Exhibit 1, Second Affidavit of David Johnson, CPA*, ¶3.

THE DISPUTED ECONOMICS PRECLUDE SUMMARY JUDGMENT

In its *Order Granting Reconsideration,* ¶15, this Court stated it "will entertain Petitioners' arguments that the disputed economics may preclude summary judgment." Satterlee believes that because these economics are exaggerated and therefore significantly less than the State Fund claims, the Court should not grant summary judgment.

In its *Order Granting Reconsideration,* ¶10, this Court stated that Satterlee was "correct in pointing out that the Court's analysis did consider the financial impact in reaching its decision." The Court further stated that "it is in the interest of all parties that this case is decided with all relevant evidence before the Court." *Id.* The State Fund's exaggerated economic costs are relevant. Further, it is relevant whether the retroactive cost exceeds the State Fund's surplus.

Obviously, whether Satterlee would be applied retroactively impacts the cost of the case. In *Dempsey v. Allstate*, 2004 MT 391, 325 Mont. 207, 104 P.3d 483 (2004), the Montana Supreme Court applied the *Chevron* test – a three part test to determine retroactivity. *See Chevron v. Huson*, 404 U.S. 97, 106-107, 92 S.Ct. 349, 355 (1971). Satterlee submits that the financial data must be correct if the Court applies the *Chevron* test. Thus, Satterlee should be permitted to discover facts which will be used in the *Chevron* test.

The State Fund has a surplus for paying unaccounted risks such as the cost of Satterlee. Despite the State Fund's "Sky is Falling" claim, the evidence shows that the State Fund currently has substantial surplus from which to secure itself "against various risks inherent in or affecting the business of insurance and not accounted for or only partially measured by the risk-based capital requirements." *See* MCA §39-71-2330(2). According to the State Fund's 2005 Annual Report found on its website, it has equity or surplus of $148,353,871, which is a $14 million increase from the 2004 amount of $127,492,156. *Exhibit 3.*

According to an article found on its website, the State Fund has declared a dividend every year since 1998. *Exhibit 4.* The State Fund can declare a dividend only if there are "unnecessary surpluses." MCA §39-71-2311. "[D]ividends may not be paid until adequate actuarially determined reserves are set aside." MCA §39-71-2316(h).

MCA §39-71-2323 explains how dividends are determined:

> **Surplus in state fund -- payment of dividends.** Subject to the provisions of 39-71-2316, if at the end of any fiscal year there exists in the state fund account created by 39-71-2321 for claims for injuries resulting from accidents that occur on or after July 1, 1990, an excess of assets over liabilities, including necessary reserves and an appropriate surplus as determined by the board in accordance with 39-71-2330, and if the excess may be refunded safely, then the board, after consultation with the independent actuary engaged pursuant to 39-71-2330, may declare a dividend. The rules of the state fund must prescribe the manner of payment to those employers who have paid premiums into the state fund in excess of liabilities.

Satterlee believes that discovery will show that the State Fund exaggerated its figures, and that the cost of Satterlee will be less than the current surplus. If the Court decides to base its decision, at least in part, on "a general negative impact on the workers' compensation system," Satterlee submits discovery is appropriate to determine the true cost.

CONCLUSION

This Court's reasoning suggests that cost is important in the present equal protection challenge. Therefore, Satterlee asks the Court to allow her to present the true costs after discovery. In reality, cost is the only distinguishing factor between *Reesor* and *Satterlee.* In *Reesor*, the Montana Supreme Court held that it was a denial of equal protection to deny PPD benefits after age 65. Other than cost, there is no difference between PPD and PTD for equal protection purposes.

Prior to *Reesor*, the Legislature decided that injured workers were not eligible for PPD benefits after age 65. *Reesor* found the subject statute unconstitutional as a denial of equal protection. There is no equal protection difference, except cost, between PTD and PPD. The insurers say the cost is immense; whereas, Satterlee asks for permission to find out.

Given the State Fund's focus on cost and its overstated estimates, this Court should allow Satterlee to conduct discovery. This case is too important to Montana's injured workers to allow the Respondents to hide behind inflated numbers.

DATED this 1st day of August, 2006.

HUNT LAW FIRM

BY: _____
JAMES G. HUNT
Attorney for Petitioners

CERTIFICATE OF SERVICE

I hereby certify that on the 1st day of August, 2006, I served a copy of the foregoing **SATTERLEE'S MOTION AND BRIEF FOR AN ORDER ALLOWING DISCOVERY,** on the following:

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IN THE WORKERS' COMPENSATION COURT
FOR THE STATE OF MONTANA
WC COURT NO. 2003-0840

CATHERINE E. SATTERLEE, **Petitioner,** vs. LUMBERMAN'S MUTUAL CASUALTY COMPANY, Respondent/Insurer for BUTTREY FOOD & DRUG, Employer.	**WC Claim No.: 788CU041791**
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DORIS BOWERS, **Petitioner,** vs. PUTMAN & ASSOCIATES, Adjusters for ROYAL & SUNALLIANCE, Respondent/Insurer for TIDYMANS, Employer.	**WC Claim No.: 290044312000**

SECOND AFFIDAVIT OF DAVID JOHNSON, CPA

STATE OF MONTANA)
: ss.
County of Lewis & Clark)

DAVID JOHNSON, being first duly sworn upon his oath, deposes and says:

1. I have read the Second Affidavit of Mr. Daniel Gengler dated October 5, 2005. Included in the Affidavit were schedules that computed a low estimate, a midpoint estimate and high estimate results. At the request of Mr. James Hunt, I was asked to conduct an analysis of Daniel Gengler's midpoint estimate which showed the cost to the Old and New Funds to be $266 million.

2. To test Mr. Gengler's computation, I selected the 2005 group cost, shown in the amount of $20,600,000. This is the rounded result of multiplying 56.2 PT claims by a weighted average post-retirement PT rate of $450.41 times 52.14 weeks times 15.6 years ($20,589,223). This computation is shown at the top of Schedule 1 and results in a per individual cost of $366,023, which approximates Mr. Gengler's per individual cost of $365,821.

3. I next attempted to duplicate Mr. Gengler's results using present value/time value of money theory which is the generally accepted method for valuing future cash flows. This computation is made at Schedule 2. To approximate Mr. Gengler's results, I had to assume that payments would commence immediately (rather than in 2022). I also had to assume a 0% interest rate even though long-term US Treasury are yielding approximately 4.6%. By making these assumptions, I computed the present value to be approximately that computed by Mr. Gengler ($365,023).

4. To correctly compute the present value of the 2005 group of PTs, I assumed a benefit growth rate of 3% as did Mr. Gengler in his midpoint scenario. I also assumed that payments would start when the recipient reached age 66.1. This was based on Mr. Gengler's assumption that the average life expectancy of a recipient was 81.7 years and the recipient would receive 15.6 years of payments (age 81.7 less 15.6 years equals age 66.1). I assumed a risk-free interest rate of 5.5%. I used this assumption because interest rates are currently at a forty-year low and the fact that Mr. Gengler used a generous 3% COLA rate. The present value of per PT recipient was computed to be $161,475 at Schedule 3. We compared our results to Mr. Gengler's results at Schedule 1.

5. We computed the present value of the 2005 group to be $9,075,000 (56.2 times $161,475, rounded) versus the $20,600,000 computed by Mr. Gengler, an overstatement of cost of $11,525,000 for this one group. Mr. Gengler's computation included 24 groups.

6. Mr. Gengler's computations assume an average life expectancy of 81.7 years for persons aged 50 years in 2005. This life expectancy is for females. Males have a lower life expectancy. If the number of male and female PTs for 2005 are identified and used in the 2005 calculation, this would reduce Mr. Gengler's cost estimate further.

I declare under the penalty of perjury that the foregoing is a true and correct statement to the best of my knowledge.

DATED this 1st day of February, 2006.

ANDERSON ZURMUEHLEN & CO., P.C.

BY: _____
DAVID JOHNSON, CPA

SUBSCRIBED AND SWORN TO before me this 1 day of February, 2006.

_____
Notary Public for the State of Montana
Residing at Helena, Montana
My Commission Expires: 11/16/07

(NOTARIAL SEAL)

Schedule 1

Satterlee, et al. v. Montana State Fund

Per Daniel Gengler Affidavit:

	Entire Field	One 50 Year-Old PT
Non-settled PT cases per year	56.2	1
Accident years	1	1
	56.2	1.0
Average annual PT benefits	$23,463	$23,463
	$1,318,621	$23,463
Average lifespan after SS retirement benefit	15.6	15.6
Total	**$20,570,481**	$366,023

Comparison of Results:

Present value per Mr. Gengler	$ 365,821
Actual present value, 44% of Mr. Gengler's results (Schedule 3)	161,475
Overstatement of present value dollars by Mr. Gengler	$ 204,346
Percent overstatement by Mr. Gengler	227%

Schedule 2

Satterlee, et al. v. Montana State Fund

Computation of Present Value of 50 Year-Old PT Benefits in 2005, MSF Method:

Interest rate	0.0%
Benefit growth rate	3.0%
Net discount rate	-3.0%

Year	Age	Cumulative Time	Annual Benefit Amount	Annual Benefit	Present Value Factor	Present Value
2005	50	0	$ 18,476	18,476	1.0000	18,476
2006	51	1	19,031	19,031	1.0000	19,031
2007	52	2	19,602	19,602	1.0000	19,602
2008	53	3	20,190	20,190	1.0000	20,190
2009	54	4	20,795	20,795	1.0000	20,795
2010	55	5	21,419	21,419	1.0000	21,419
2011	56	6	22,062	22,062	1.0000	22,062
2012	57	7	22,724	22,724	1.0000	22,724
2013	58	8	23,405	23,405	1.0000	23,405
2014	59	9	24,107	24,107	1.0000	24,107
2015	60	10	24,831	24,831	1.0000	24,831
2016	61	11	25,576	25,576	1.0000	25,576
2017	62	12	26,343	26,343	1.0000	26,343
2018	63	13	27,133	27,133	1.0000	27,133
2019	64	14	27,947	27,947	1.0000	27,947
2020	65	15	28,786	17,271	1.0000	17,271
2021	66	16	29,649	-	1.0000	-
2022	67	17	30,539		1.0000	-
2023	68	18	31,455		1.0000	-
2024	69	19	32,398		1.0000	-
2025	70	20	33,370		1.0000	-
2026	71	21	34,371		1.0000	-
2027	72	22	35,403		1.0000	-
2028	73	23	36,465		1.0000	-
2029	74	24	37,559		1.0000	-
2030	75	25	38,685		1.0000	-
2031	76	26	39,846		1.0000	-
2032	77	27	41,041		1.0000	-
2033	78	28	42,273		1.0000	-
2034	79	29	43,541		1.0000	-
2035	80	30	44,847		1.0000	-
2036	81	31	46,192		1.0000	-
2037	82	32	47,578		1.0000	-
Total				$ 360,911		$ 360,911

Total per above	$ 360,911	-
Average annual PT benefit	23,135.32	-
Divide by 52.14 weeks, weekly benefit	443.72	-
Per Mr. Gengler's Affidavit	450.41	365,821
Difference, immaterial (1.5%)	$ 6.69	$ 4,910

Schedule 3

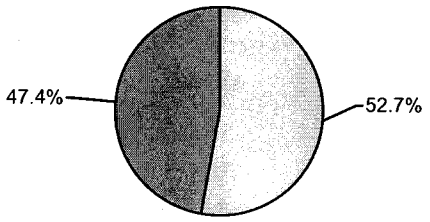
Satterlee, et al. v. Montana State Fund

Computation of Present Value of 50 Year-Old PT Benefits in 2005 Using Generally Accepted Method:

Interest rate	5.5%
Benefit growth rate	3.0%
Net discount rate	2.5%

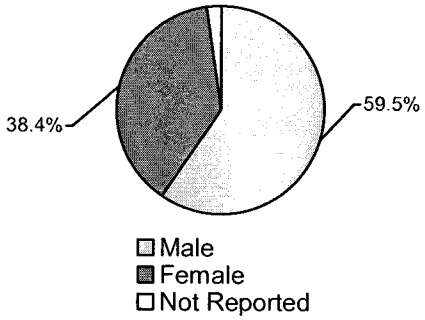
Year	Age	Cumulative Time	Annual Benefit Amount	Annual Benefit	Present Value Factor	Present Value
2005	50	0	$ 18,476	-	1.0000	$ -
2006	51	1	19,031	-	0.9479	-
2007	52	2	19,602	-	0.8985	-
2008	53	3	20,190	-	0.8516	-
2009	54	4	20,795	-	0.8072	-
2010	55	5	21,419	-	0.7651	-
2011	56	6	22,062	-	0.7252	-
2012	57	7	22,724	-	0.6874	-
2013	58	8	23,405	-	0.6516	-
2014	59	9	24,107	-	0.6176	-
2015	60	10	24,831	-	0.5854	-
2016	61	11	25,576	-	0.5549	-
2017	62	12	26,343	-	0.5260	-
2018	63	13	27,133	-	0.4986	-
2019	64	14	27,947	-	0.4726	-
2020	65	15	28,786	-	0.4479	-
2021	66	16	29,649	-	0.4246	-
2022	67	17	30,539	27,484.70	0.4024	$ 11,061
2023	68	18	31,455	31,454.72	0.3815	11,999
2024	69	19	32,398	32,398.36	0.3616	11,715
2025	70	20	33,370	33,370.31	0.3427	11,437
2026	71	21	34,371	34,371.42	0.3249	11,166
2027	72	22	35,403	35,402.56	0.3079	10,901
2028	73	23	36,465	36,464.64	0.2919	10,643
2029	74	24	37,559	37,558.58	0.2767	10,391
2030	75	25	38,685	38,685.33	0.2622	10,145
2031	76	26	39,846	39,845.89	0.2486	9,904
2032	77	27	41,041	41,041.27	0.2356	9,670
2033	78	28	42,273	42,272.51	0.2233	9,440
2034	79	29	43,541	43,540.68	0.2117	9,217
2035	80	30	44,847	44,846.90	0.2006	8,998
2036	81	31	46,192	46,192.31	0.1902	8,785
2037	82	32	47,578	33,304.66	0.1803	6,004
Total				$ 598,235		**$ 161,475**

Employed Population Composition[1] - FY04



According to the U.S. Department of Labor, the 2004 employed population in Montana was almost equally divided between male and female workers, with males at just over 52% of the total workforce.

Reported Claims - FY04



Despite a relatively balanced workforce, male claims accounted for almost 60% of the total reported injuries in 2004. There are only 11.2% more men in the workforce than women, yet men experienced almost 55% more claim-related injuries than women.

Reported Claims
By Gender and Fiscal Year of Injury

	FY00		FY01		FY02		FY03		FY04	
Gender	Count	Percent	Count	Percent	Count	Percent	Count	Percent	Count	Percent
Female	12,254	36.6%	13,544	36.6%	12,867	38.6%	12,986	39.1%	12,331	38.4%
Male	21,034	62.8%	21,414	62.8%	20,425	61.0%	19,719	59.4%	19,131	59.5%
Not Reported	207	0.6%	152	0.4%	105	0.3%	522	1.5%	678	2.1%
Total	***33,495***	***100%***	***35,110***	***100%***	***33,397***	***100%***	***33,230***	***100%***	***32,140***	***100%***

Notes:
[1] Based on total employed population of 452,000 (238,000 male and 214,000 female); figures provided by U.S. Department of Labor, Bureau of Labor Statistics, "*Employment status of the civilian noninstitutional population in states by sex, detailed age, race, and Hispanic origin*", http://stats.bls.gov/lau/home.htm
[2]Source: Office of Management and Budget, *Standard Industrial Classification Manual 1987.*
[3]Totals may not sum exactly due to rounding.
[4]NOC means Not Otherwise Classified.

MONTANA STATE FUND
2005 ANNUAL REPORT

Statutory Financial Statements

STATUTORY STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND EQUITY
As of June 30,

ADMITTED ASSETS

	2005	2004
INVESTMENTS		
Bonds	**$ 565,851,046**	$ 499,090,381
Equity Securities	**76,737,097**	72,138,374
Cash and Short-Term Investments	**32,157,356**	20,685,046
Other Investments - Collateral Securities on Loan	**101,859,456**	141,060,425
Total Investments and Cash	**776,604,955**	732,974,226
OTHER ADMITTED ASSETS		
Premium Receivables	**9,655,653**	7,818,889
Equipment (net)	**786,673**	962,632
Interest Receivable	**8,206,869**	7,520,657
Other Assets	**6,569,389**	532,037
Total Admitted Assets	**801,823,539**	749,808,441

LIABILITIES AND EQUITY

LIABILITIES		
Losses Incurred Reserves	**$ 464,564,000**	$ 410,090,000
Loss Adjustment Expense Reserves	**46,993,000**	42,025,000
Liability for Securities on Loan	**101,859,456**	141,060,425
Deferred Revenue	**4,925,828**	5,977,233
Other Liabilities	**35,127,384**	23,163,627
Total Liabilities	**653,469,668**	622,316,285
CONTINGENCIES AND SUBSEQUENT EVENTS		
EQUITY		
Policyholders' Equity	**148,353,871**	127,492,156
Total Liabilities and Equity	**$ 801,823,539**	$ 749,808,441

The accompanying notes are an integral part of these financial statements.

STATUTORY STATEMENTS OF REVENUE AND EXPENSES AND CHANGES IN EQUITY
For the Years Ended June, 30

	2005	2004
Net Premium Earned	**$ 189,378,858**	$ 139,360,612
Losses Incurred	**(152,545,131)**	(136,267,288)
Loss Expenses Incurred	**(20,185,786)**	(14,869,190)
Underwriting Expenses Incurred	**(21,638,784)**	(20,841,166)
Net Underwriting Loss	**$ (4,990,843)**	$ (32,617,032)
Net Investment Income Earned	**29,125,416**	26,562,859
Net realized Capital Gains	**1,041,886**	1,103,132
Premium Balances Charged Off	**(843,697)**	(1,200,914)
Other Income (Expenses)	**(496,036)**	(202,031)
Net Income (Loss) Before Dividends	**23,836,726**	(6,353,986)
Policyholder Dividends	**(5,004,416)**	(1,909,856)
Net Income (Loss) After Dividends	**18,832,310**	(8,263,842)
Prior Year End Equity	**127,492,156**	121,599,417
Net Unrealized Gains on Equity Securities	**4,598,723**	12,773,545
Change in Nonadmitted Assets	**(2,522,786)**	1,403,739
Aggregate Write In for Other Losses in Equity	**(46,532)**	(10,485)
Transfer Out	**-**	(10,218)
END OF PERIOD EQUITY	**$ 148,353,871**	$127,492,156

The accompanying notes are an integral part of these financial statements.

STATUTORY STATEMENTS OF CASH FLOWS
For the Years Ended June 30,

	2005	2004
CASH FLOWS FROM OPERATIONS		
Premiums Collected Net of Reinsurance	**$ 188,037,127**	$ 146,927,098
Loss and Loss Adjustment Expenses Paid	**(113,288,917)**	(112,421,478)
Underwriting Expenses Paid	**(25,803,577)**	(21,108,225)
Cash Provided by Underwriting	**48,944,633**	13,397,395
Net Investment Income	**29,754,246**	27,338,864
Other Income (Expenses):		
Agents' Balances Charged Off	**(843,697)**	(1,200,914)
Net Amount Withheld or Retained for Account of Others	**4,541,922**	4,015,088
Miscellaneous Income (Expense)	**51,368**	-
Cash Used for Other Income (Expense)	**3,749,593**	2,814,174
Dividends to Policyholder	**(5,004,416)**	(1,909,856)
Net Cash Provided by Operations	**77,444,056**	41,640,577
CASH FLOWS FROM INVESTMENTS		
Proceeds from Investments Sold, Matured or Repaid:		
Bonds	**91,939,366**	86,563,955
Collateral and Equity Securities	**2,438,833**	10,593,324
Total Investment Proceeds	**94,378,199**	97,157,279
Cost of Investment Acquired (long-term only):		
Bonds	**(155,380,802)**	(148,909,900)
Collateral and Equity Securities	**(2,247,180)**	-
Cost of Investment Acquired	**(157,627,982)**	(148,909,900)
Net Cash Used For Investment	**(63,249,783)**	(51,752,621)
CASH FLOWS FROM FINANCING AND MISCELLANEOUS SOURCES		
Cash Provided or (Applied):		
Transfers from Affiliates	**-**	(10,218)
Purchases of Equipment	**(2,721,963)**	(1,333,335)
Other Applications	**-**	(10,143)
Net Cash Used for Financing and Miscellaneous Sources	**(2,721,963)**	(1,353,696)
NET INCREASE (DECREASE) IN CASH AND SHORT TERM INVESTMENTS	**11,472,310**	(11,465,740)
CASH AND SHORT TERM INVESTMENT-BEGINNING OF YEAR	**20,685,046**	32,150,786
CASH AND SHORT TERM INVESTMENTS-END OF YEAR	**$ 32,157,356**	$ 20,685,046

The accompanying notes are an integral part of these financial statements.

MSF Board Authorizes 8th Consecutive Dividend

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The Montana State Fund (MSF) Board authorized a $5 million dividend payment to qualifying policyholders. This will be the eighth consecutive year MSF has rewarded customers with superior safety records. Over 18,000 policyholders of record for the period of July 1, 2003 – June 30, 2004 will be receiving dividends.

"Dividends reward policyholders who provide a safe workplace for their employees," said Ed Henrich, Chairman of the Board of Directors. "Besides being an added incentive to those employers who focus on safety, this is money that stays in Montana and is put back to work in our businesses and communities."

Since 1998, Montana State Fund has awarded $41 million in general dividend payments to deserving policyholders. Those who meet the criteria for a dividend will be notified by mail in late April/early May. Funds will be distributed by mid June.

Montana State Fund provides workers' compensation coverage to nearly 28,000 employers in the state, making it the largest workers' compensation insurance company in Montana.