PINNACOL
ASSURANCE

7501 E. Lowry Blvd. / Denver, CO 80230
303.361.4000 / 800.873.7242
pinnacol.com

Memorandum

Date: 7/9/2025

To: Crystal Dorsey
Local Government Audit Manager, Colorado Office of the State Auditor

From: Alicia Allen
Associate Vice President - Finance

Re: **Cake Insure, Inc. 2024 Audited Financial Statements**

In accordance with Sections 29-1-601 and 602, C.R.S., please find attached the 2024 Audited Financial Statements of Cake Insure, Inc. (Cake), a subsidiary of Pinnacol Assurance.

Consistent with prior year submissions, we are filing Cake's audit via email and we request that Cake's audit remain confidential.

Please let us know if you have any questions or if you need anything further.

JohnsonLambert LLP
cpas + consultants

Cake Insure, Inc. dba EverPeak

Audited Consolidated Financial Statements

Years ended December 31, 2024 and 2023
with Report of Independent Auditors

Cake Insure, Inc. dba EverPeak

Audited Consolidated Financial Statements

Years ended December 31, 2024 and 2023

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Report of Independent Auditors

Board of Directors
Cake Insure, Inc. dba EverPeak

Opinion

We have audited the consolidated financial statements of Cake Insure, Inc. dba EverPeak (the Company), which comprise the consolidated balance sheet as of December 31, 2024, and the related consolidated statements of operations, changes in shareholder's equity and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2024, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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 the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

The consolidated financial statements of the Company for the year ended December 31, 2023 were audited by another auditor who expressed an unmodified opinion on those statements on May 1, 2024.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company'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.

Johnson Lambert LLP

Vienna, Virginia
May 14, 2025

Cake Insure, Inc. dba EverPeak

Consolidated Balance Sheets

As of December 31, 2024 and 2023

	2024	2023
Current assets		
Cash and cash equivalents	$ 8,115,031	$ 4,731,908
Restricted cash	21,175,525	22,558,524
Receivables:		
Accounts receivable - related party - net	123,523	74,670
Other receivables	80,339	5,124
Premiums, commissions, and service fees receivable - net	37,284,106	44,657,909
Other current assets	1,199,418	998,423
Total current assets	67,977,942	73,026,558
Acquired and internally developed technology - net	-	23,514,418
Goodwill	17,814,644	17,814,644
Other intangible assets - net	1,480,000	1,615,000
Total assets	$ 87,272,586	$ 115,970,620
Liabilities and Shareholder's Equity		
Current liabilities		
Accounts payable:		
Premiums and commissions payable	$ 44,511,184	$ 59,170,355
Accounts payable - related party	1,230,501	451,581
Sliding scale commissions payable	14,554,948	12,363,447
Other accounts payable	3,117,345	5,383,798
Deferred revenue	2,478,562	2,358,826
Contract liability - related party	-	168,978
Accrued expenses:		
Payroll taxes payable	590,459	287,470
Accrued compensation	5,176,183	5,460,278
Other accrued liabilities	179,450	14,350
Total current liabilities	71,838,632	85,659,083
Total liabilities	71,838,632	85,659,083
Shareholder's equity:		
Common stock no par value; 20,000,000 shares authorized; 10,000,000 shares issued and outstanding	50,000,000	50,000,000
Additional paid-in capital	49,363,770	37,929,274
Accumulated deficit	(83,929,816)	(57,617,737)
Total shareholder's equity	15,433,954	30,311,537
Total liabilities and shareholder's equity	$ 87,272,586	$ 115,970,620

See accompanying notes to the consolidated financial statements.

Cake Insure, Inc. dba EverPeak

Consolidated Statements of Operations

Years ended December 31, 2024 and 2023

	2024	2023
Revenues		
Commissions - net	$ 28,173,201	$ 17,373,369
Service fees - related party	780,710	732,715
Service fees	5,182,263	4,703,089
Total revenues	34,136,174	22,809,173
Sub-producer commission expense	22,429,894	23,372,585
Revenue (deficit) - net of commission expense	11,706,280	(563,412)
Operating expenses		
General and administrative expenses	7,099,337	7,339,142
Employee compensation and benefits	27,003,221	26,573,089
Technology data and software	6,247,013	8,822,040
Depreciation and amortization expense	1,477,130	2,690,670
Total operating expenses	41,826,701	45,424,941
Operating loss	(30,120,421)	(45,988,353)
Nonoperating income		
Interest income	934,505	309,239
Other income	2,876,387	83,250
Total nonoperating income	3,810,892	392,489
Loss before income taxes	(26,309,529)	(45,595,864)
State income tax expense	2,550	-
Net loss	$ (26,312,079)	$ (45,595,864)

See accompanying notes to the consolidated financial statements.

Cake Insure, Inc. dba EverPeak

Consolidated Statements of Changes in Shareholder's Equity

Years ended December 31, 2024 and 2023

	Common Stock	Preferred Stock	Treasury Stock	Additional Paid-in Capital	Accumulated Deficit	Total Shareholder's Equity
Balance at January 1, 2023	$ 111,111	$ 10,000,000	$ (111,111)	$ 4,326,364	$ (12,021,873)	$ 2,304,491
Issuance of common stock	40,000,000	-	-	-	-	40,000,000
Conversion of preferred stock to common stock	10,000,000	(10,000,000)	-	-	-	-
Retirement of treasury stock	(111,111)	-	111,111	-	-	-
Additional capital contributions	-	-	-	33,602,910	-	33,602,910
Net loss	-	-	-	-	(45,595,864)	(45,595,864)
Balance at December 31, 2023	$ 50,000,000	$ -	$ -	$ 37,929,274	$ (57,617,737)	$ 30,311,537
Additional capital contributions	-	-	-	11,434,496	-	11,434,496
Net loss	-	-	-	-	(26,312,079)	(26,312,079)
Balance at December 31, 2024	$ 50,000,000	$ -	$ -	$ 49,363,770	$ (83,929,816)	$ 15,433,954

See accompanying notes to the consolidated financial statements.

Cake Insure, Inc. dba EverPeak

Consolidated Statements of Cash Flows

Years ended December 31, 2024 and 2023

	2024	2023
Cash from operating activities:		
Net loss	$ (26,312,079)	$ (45,595,864)
Adjustments to reconcile net loss to net cash, cash equivalents, and restricted cash from operating activities:		
Depreciation and amortization	1,477,130	2,690,670
Gain on sale of software	(2,827,590)	-
Changes in operating assets and liabilities:		
Accounts receivable - related party - net	(48,853)	1,841
Interest income receivable	(75,215)	2,739
Premiums, commissions, and service fees receivable - net	7,373,803	(13,163,830)
Other current assets	(200,995)	(34,719)
Premiums and commissions payable	(14,659,171)	13,431,041
Accounts payable - related party	778,920	297,022
Sliding scale commissions payable	2,191,501	12,363,447
Other accounts payable	(2,266,453)	(12,786,587)
Deferred revenue	119,736	267,907
Contract liability - related party	(168,978)	(26,048)
Payroll taxes payable	302,989	287,470
Accrued compensation	(284,095)	4,092,843
Accrued and other liabilities	164,978	7,050
Net cash from operating activities	(34,434,372)	(38,165,018)
Cash from investing activities:		
Sale of software	25,000,000	-
Internal-use software development costs	-	(770,088)
Acquisition of attune - net of cash acquired	-	(9,878,306)
Net cash from investing activities	25,000,000	(10,648,394)
Cash from financing activities:		
Issuance of common stock to parent	-	40,000,000
Contributions of additional paid-in capital	11,434,496	33,602,910
Net cash from financing activities	11,434,496	73,602,910
Net change in cash, cash equivalents and restricted cash	2,000,124	24,789,498
Cash, cash equivalents and restricted cash, beginning of year	27,290,432	2,500,934
Cash and cash equivalents and restricted cash, end of year	$ 29,290,556	$ 27,290,432
Supplemental cash flow information:		
Cash and cash equivalents	$ 8,115,031	$ 4,731,908
Restricted cash	$ 21,175,525	$ 22,558,524

See accompanying notes to the consolidated financial statements.

Note 1 - Organization and Significant Accounting Policies

Organization
Cake Insure, Inc. dba EverPeak (the Company or Cake), a Colorado corporation, was incorporated on September 20, 2017 (inception). The Company is a subsidiary of Pinnacol Assurance (Pinnacol) and helps Colorado's small businesses quote and purchase a workers' compensation insurance policy from Pinnacol. Cake created a digital platform designed to market, underwrite, and service small direct policyholders with annual premiums of less than approximately $10,000 that are not considered high risk. While current policy holders remain on the platform, all potential new policy holders are referred back to Pinnacol.

The Company's digital platform, launched on October 10, 2017, is a website that is accessible on both mobile devices and desktops. It provides policyholders with a simple digital experience that offers easy policy management; elimination of paper forms and signatures; electronic certificates of insurance and notifications. The Cake platform has allowed Pinnacol to retire its existing direct application platform and has shortened the time for most policyholders to quote and purchase a policy to less than five minutes.

On January 4, 2023, Cake acquired 100% ownership of Attune Holdings, LLC (Attune), which includes its subsidiaries, Attune Insurance Services, Inc., and Attune Underwriting Services, LLC. Attune is a Delaware-domiciled limited liability company conducting business as an insurance producer licensed in all 50 states and the District of Columbia.

In 2023, Cake formed a wholly owned subsidiary, EverPeak Insurance Services, LLC (EIS). EIS was established to support potential future strategic initiatives. EIS did not have any operational activity during the years ended December 31, 2024 and 2023.

Attune is a licensed property/casualty insurance producer. Attune principally acts as a digital agent for insurance companies. For some insurance products, Attune may act as a licensed surplus lines producer with authority from an eligible surplus lines insurer. Attune maintains insurance producer and surplus lines insurance producer licenses in all 50 states and the District of Columbia.

Attune represents insurance companies in the solicitation and sale of insurance products. Attune's business is generated from retail, wholesale and digital brokers (often called producers), who represent insured clients.

Attune maintains the Attune Portal, a proprietary online platform owned by Pinnacol Assurance. Access is granted to licensed producers with an Attune contract or other authorization. The Attune Portal allows producers to submit business and complete insurance transactions with Attune for their clients. For assistance with inquiries or transactions not completed through the portal, Attune operates a customer care center for producers and other third parties.

Note 1 - Organization and Significant Accounting Policies (Continued)

Attune does not accept claim notices or service of legal process on behalf of the insurance companies it represents, nor does it adjust claims. Attune is not a claim service company.

Attune receives compensation in the form of commissions paid by an insurance company, calculated as a percentage of premiums, pursuant to separately negotiated arrangements with the insurance company.

These commissions are for the service Attune performs in placing and servicing insurance policies on the insurance company's behalf. Some of the servicing of policies include tracking premium receivables, invoicing timely on an installment schedule and maintaining software used to track policies. A portion of the commission is paid to retail, wholesale and digital brokers that represent the insured carriers.

Principles of Consolidation
The consolidated financial statements include the accounts of Cake and its wholly owned subsidiaries, Attune Holdings, LLC, Attune Insurance Services, Inc., Attune Underwriting Services, LLC, and EverPeak Insurance Services, LLC. All significant intercompany transactions and balances have been eliminated upon consolidation.

Risks and Uncertainties
The Company is subject to various risks and uncertainties frequently encountered by companies in the early stages of development. Such risks and uncertainties include, but are not limited to, its limited operating history, competition from other software providers, limited access to additional funds, and dependence on key personnel. To address these risks, the Company must, among other things, develop its customer base; implement and successfully execute its business and marketing strategy; develop follow-on products; provide superior customer service; and attract, retain, and motivate qualified personnel. There can be no guarantee that the Company will be successful in addressing these or other such risks.

Contingencies
Lawsuits arise against the Company in the normal course of business. In the opinion of management, resolution of these claims is not expected to have a material adverse effect on the financial position or results of operations of the Company.

Note 1 - Organization and Significant Accounting Policies (Continued)

Liquidity and Management's Plans
The Company incurred net losses of $26,312,079 and $45,595,864 in 2024 and 2023, respectively, and negative cash flows from operations. These conditions present certain liquidity challenges for the Company in the foreseeable future. Pinnacol, the Company's parent, has made a guarantee to Cake to provide funding to support its strategic initiatives totaling $90 million, which includes funding Cake's near-term operating losses. Pinnacol has existing commitments remaining of approximately $55 million to cover expected net losses in 2025 and thereafter. Management has concluded that the guarantee provides the Company with sufficient liquidity through at a minimum May 2026 to fund its expected obligations.

Basis of Presentation
The consolidated financial statements of the Company have been prepared on the basis of accounting principles generally accepted in the United States (GAAP).

Use of Estimates
The preparation of consolidated financial statements in conformity with GAAP 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents
The Company considers all highly-liquid fixed maturity investments with a maturity of three months or less when purchased to be cash equivalents. The Company's cash equivalents consist of highly liquid money market funds. The carrying amount reported in the consolidated balance sheet for cash and cash equivalents approximates fair value due to the short-term nature of these investments. Cash and cash equivalent balances held in the name of the Company are insured by the Federal Deposit Insurance Corporation, up to limits prescribed by law. During the years ended December 31, 2024 and 2023, the Company's cash and cash equivalent balances exceeded such limits. Management believes there is minimal credit risk relative to its cash and cash equivalent balances.

Restricted Cash
In its capacity as an insurance producer, Attune collects premiums from its clients and, after deducting its commission and/or fees, remits these premiums to the respective insurance companies. Unremitted insurance premiums are held in a fiduciary capacity until disbursed by Attune and these funds cannot be used for general operating purposes. At December 31, 2024 and 2023, fiduciary assets included cash of $21,175,525 and $22,558,524, respectively, which is included in restricted cash on the consolidated balance sheets.

Note 1 - Organization and Significant Accounting Policies (Continued)

Credit Losses
The Company measures expected credit losses on financial assets held at amortized cost, and records an allowance for credit loss when management determines a credit loss exists. Allowances for credit losses are recorded as contra-assets that reduce the corresponding financial assets on the balance sheet, with the offset recorded as a credit loss income (expense) within the consolidated statements of operation. As the estimate of expected credit losses changes with subsequent evaluations, those increases and decreases are recognized in current operations. The Company writes off uncollectible amounts against the allowance for credit losses when it determines that a financial asset is partially or fully uncollectible.

Premiums, Commissions and Service Fees Receivable and Payable
The Company holds receivable balances for amounts due from policyholders, including premiums, commissions and service fees. For certain carriers, the Company collects the premiums from policies written and will remit to the carrier net of commissions. Premiums written and uncollected are recognized as premiums receivable, and premiums written and owed to carriers are recognized as premiums payable in the consolidated balance sheets. For digital carriers, the carrier is responsible for the collection of premiums from policyholders, and commissions will be remitted back to the Company upon collection of the premium. Attune also contracts with digital carrier customers with a standard contract. The main difference between digital carrier partner contracts and those previously noted is that digital carrier contracts do not grant Attune the authority to bind insurance policies or collect payment on behalf of the carriers.

The Company recognizes commissions receivable and service fees receivable for amounts owed to the Company for earned commissions and service fee revenue. These trade receivables are reported net of an allowance for credit losses and cancellations. The Company measures the allowance for credit losses and cancellations on a collective basis through the review of aging schedules and historical cancellations activity, and on an individual basis when more relevant. An expected credit loss and cancellation allowance is calculated based on the Company's ongoing review of amounts outstanding and historical loss data, including cancellations, delinquencies and write offs, and is then adjusted for current conditions, and reasonable and supportable forecasts. There was no allowance for credit losses and cancellations on service fees receivable as of December 31, 2024 and 2023. The following table details the activity and ending balances for the allowance for credit losses and cancellations on commissions receivable during the years ended December 31, 2024 and 2023:

	2024	2023
Beginning balance	$ 648,851	$ -
Provision for expected credit losses and cancellations	2,057,775	2,570,308
Writeoffs for uncollectible amounts	(2,181,229)	(1,921,457)
Ending balance	$ 525,397	$ 648,851

Note 1 - Organization and Significant Accounting Policies (Continued)

The Company pays commissions to sub-producers pursuant to arrangements with each producer. Amounts incurred and owed to sub-producers are recognized as commissions payable in the consolidated balance sheets.

Major Customers
During the years ended December 31, 2024 and 2023, respectively, approximately 60% and 61% of the Company's operating revenue was derived from commissions revenue obtained through writing policies for an unaffiliated third-party single carrier. The Company has an exclusive program administration agreement (PPA) in place to represent the insurance company in the solicitation and sale of insurance products. Loss of this contract could result in a loss of sales, which could adversely affect operations.

The Company signed an agreement on April 16, 2024 to transition this business starting in 2025 and beyond to a new carrier. A fronting agreement is in place between carriers as part of the transition.

Intangible Assets
Acquired intangible assets subject to amortization are stated at cost and are amortized using the straightline method over the estimated useful lives of the assets. Intangible assets that are subject to amortization are reviewed for potential impairment whenever events or circumstances indicate that carrying amounts may not be recoverable. Assets not subject to amortization are tested for impairment at least annually. The Company also capitalizes significant costs incurred in the development of software for internal use, including the costs of the software, materials, consultants, interest, payroll, and payroll-related costs for employees incurred in developing internal use computer software once final selection of the software is made. Costs incurred prior to the final selection of software and costs not qualifying for capitalization are charged to expense.

	Useful Life - Years
Capitalized software development costs	5-10
Distribution network	14
Trade name	10

Goodwill
The recorded amount of goodwill from the business combination described in Note 2 is based on management's best estimates of the fair values of assets acquired and liabilities assumed at the date of acquisition. Goodwill is not amortized but rather is assessed at least on an annual basis for impairment, if it is more likely than not that the carrying value is higher than the fair value.

Note 1 - Organization and Significant Accounting Policies (Continued)

In accordance with GAAP, an impairment charge is recognized when the carrying value of a reporting unit exceeds its fair value. Any excess of carrying value over fair value is written down as an impairment. This evaluation is performed annually, during the fourth quarter or more frequently if facts and circumstances warrant. An impairment loss would be recognized if, and to the extent that, the carrying value of goodwill exceeded the implied value.

No impairment charge was recognized during the years ended December 31, 2024 and 2023.

Revenue Recognition
The core principle of ASC 606, *Revenue from Contracts with Customers*, is that a company will recognize revenue when it transfers promised goods or services to a customer in an amount to which the company expects to be entitled for the goods or services.

Commissions Revenue
Attune represents insurance companies in the solicitation and sale of insurance products and receives compensation in the form of commissions paid by an insurance company. Revenue is earned on the policy effective date of each underlying policy net of an estimate for expected cancellations and credit losses which is projected based on historical policy cancellation trends and credit losses. Revenue is presented as commissions - net on the consolidated statements of operations.

Attune pays commissions to sub-producers, calculated as a percentage of premiums, pursuant to arrangements with each producer. Sub-producer commission expense is presented as a separate line item on the consolidated statements of operations.

Identification of the Contract
The Company contracts with customers (insurance carriers) with a standard contract or program administration agreement (PAA). All contracts are entered into on an agency basis in which Attune acts as an agent for insurance carriers in performing marketing, solicitation and receipt of insurance applications, acceptance, rating, quoting, binding of policies, and billing and collection of premiums and other amounts due on policies for the insurance carriers. Attune's platform is used by a network of sub-producers to receive quotes and bind policies with Attune's insurance carrier partners.

Note 1 - Organization and Significant Accounting Policies (Continued)

Determining the Performance Obligations
The Company has determined it has a single performance obligation related to commissions revenue, which is to perform agency services on behalf of the insurance carrier. The insurance partner agreements include soliciting, transmission of quotes, accept, rate, bind, decline, write, or endorse policies and collect premiums and other amounts due on the policies. The Company does not perform any claims handling assistance or other significant services to the policyholder on behalf of the insurance company underwriting the insurance policies, as these are typically handled through the sub-producers. Any activities performed on behalf of the insurance carrier after the policy effective date are generally perfunctory and insignificant. Installment billings provided to the policyholder after the policy effective date are considered a separate contract with the policyholder in which the Company charges additional fees to cover the cost of these administrative activities, which are described further below.

Determination of the Transaction Price
The Company receives a stated commission from the insurance carriers based on the type of underlying business and whether the business is considered new or renewal business, as established in the producer agreement. The stated commission is subject to variable consideration, which the Company must estimate, as further described below.

The underlying insurance policies on which the Company's commission is based are subject to cancellation by the policyholder prior to the effective date, cancellation by the insurance carrier for nonpayment, adjustments to coverage changes made subsequent to the binding of the policy and the policy effective date, and other circumstances that can affect the amount of commission income the Company is expected to be entitled to. Each of these circumstances can result in future downward adjustments to expected amounts receivable for commission income, which must be estimated at the time of binding the policy. The Company estimates the expected amount to be received and records an allowance for variable consideration based on historical patterns and current trends and circumstances.

The Company's commission is also subject to a sliding scale commission adjustment based on the underwriting results of the related book of business being underwritten. The sliding scale provision of the contract with one of the carrier partners can result in amounts due back to the carrier for underwriting results that are in excess of established loss ratios. The Company makes an estimate based on all available data for any amounts expected to be due back to the carrier under the sliding scale commission provision and records a liability and a reduction to commission income at each reporting period. The sliding scale commission reduction to commission income was $2,191,501 and $6,541,382 during the years ended December 31, 2024 and 2023, respectively. The sliding scale commission is included in commissions - net in the consolidated statements of operations. Any unpaid amounts are included in sliding scale commissions payable in the consolidated balance sheets.

Note 1 - Organization and Significant Accounting Policies (Continued)

The Company has also entered into an agreement with one of the insurance carriers, which guarantees a minimum volume of business placed and supports the insurance carrier's minimum deposit premiums with its reinsurer. In the event the volume of business is not sufficient to cover the required deposit premium, the Company is required to fund the shortfall and make a payment to the insurance carrier. The Company also makes an estimate based on all available data for any amounts expected to be due back to the carrier under the excess of loss minimum volume of business required and records a liability and a related reduction to commission income at each reporting period for any estimated shortfall. The excess of loss commission reduction to commission income was $2,358,784 and $6,087,749 during the years ended December 31, 2024 and 2023, respectively. The excess of loss commission adjustment is included in commissions - net in the consolidated statements of operations. Unpaid amounts of $0 and $940,526 as of December 31, 2024 and 2023, respectively, are included in other accounts payable in the consolidated balance sheets.

Timing of Recognition of Revenue
Under current business practice, the policy bind date is the point at which a contract is created, while the policy effective date drives the point at which revenue is recognized as the Company has no significant remaining obligation to the insurance carrier. Any amounts recorded prior to the policy effective date are recorded as deferred revenue until the policy effective date passes. Once the policy effective date occurs, all previously recorded deferred revenue is recognized at that point in time.

Service Fees
Service fees consist of miscellaneous agent fees that are separate from the single performance obligation to the customer for which commission revenue is recognized. The Company is allowed to assess these miscellaneous agent fees to the policyholder in accordance with the PAA. These fees are as follows:

- Installment fees - Charged to policyholders for collecting premiums on an installment basis, which is a flat fee
- Technology fees - Charged on policies for the binding process/service fee, which is fee revenue exclusively to the Company
- Late fees
- Reinstatement fees
- Insufficient funds

All respective fees above are billed and recognized as the Company provides the related services generally on a monthly or quarterly basis. Typically, the Company refunds service fees solely in cases of flat or underwriting cancellations. For other fees, including credit card and installment fees, a refund is usually a one-time courtesy, often due to initial misunderstanding of new product payment terms.

Note 1 - Organization and Significant Accounting Policies (Continued)

Service Fees - Related Party
Prior to October 2024, the Company generated revenue as an insurance agent for its parent by providing comprehensive services for small direct workers' compensation policies, including marketing, underwriting, and ongoing policy servicing. The Company determined that only one performance obligation exists for this revenue with amounts paid for each policy. Revenue under this arrangement was recognized over the life of the policy with no refunds after the policy effective date. Effective October 2024, the Company's service model shifted to exclude policy servicing beyond the effective date, and its commission structure was adjusted. As a result, the Company's performance obligation is now met at the policy's inception, leading to revenue recognition at that time. For these initial services, the Company receives program administration fees calculated at 6% of the total premium.

Software Development Costs
The Company accounts for costs incurred in the development of computer software as software research and development costs until the preliminary project stage is completed. Direct costs in the development of software are capitalized after the preliminary project stage is completed during the application development stage once management has committed to funding the project. The Company ceases capitalization of development costs once the software has been substantially completed and is ready for its intended use. Costs associated with upgrades and enhancements that result in additional functionality are capitalized. Capitalized software development costs are amortized over their estimated useful lives of four years.

The Company capitalized $0 and $770,088 of internal use software development costs during the years ended December 31, 2024 and 2023, respectively. Amortization expense for capitalized software development costs was $38,504 and $25,670 for the years ended December 31, 2024 and 2023. On June 15, 2024, the Company sold the internal use software to Pinnacol. See additional information about the sale in Note 4.

Income Taxes
The Company recognizes deferred tax liabilities and assets based on the differences between the tax basis of assets and liabilities and their reported amounts in the financial statements that will result in taxable or deductible amounts in future years. The Company's temporary differences result primarily from net operating losses and book-to-tax basis differences relating to recognition of contract liabilities and amortization expense on capitalized software development costs.

The Company recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Recognized income tax positions are measured at the largest amount that is greater than 50 percent likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

Note 1 - Organization and Significant Accounting Policies (Continued)

Reclassifications
Certain amounts in the 2023 financial statements have been reclassified to conform to the current year presentation. Such reclassifications had no impact on reported net loss, shareholder's equity or changes in shareholder's equity.

Subsequent Events
The Company has evaluated subsequent events for disclosure and recognition through May 14, 2025, the date on which these financial statements were available to be issued.

See Note 10 for additional information about subsequent events identified.

Note 2 - Business Combinations

On January 4, 2023, the Company acquired 100 percent of the outstanding membership interest of Attune Holdings, LLC. The primary reason for the acquisition was to broaden managing general agent functions and leverage the distribution network established by Attune.

The following table summarizes the fair value of the consideration transferred as part of the acquisition of Attune:

Cash	$ 27,997,500

The following table summarizes the acquisition-date fair values of the assets acquired and liabilities assumed:

Cash and cash equivalents	$ 18,119,194
Premiums and commissions receivable, net	37,316,144
Prepaid expenses and other current assets	961,577
Identifiable intangible assets	27,050,000
Financial liabilities	(73,264,059)
Total identifiable net assets	10,182,856
Goodwill	17,814,644
Total	$ 27,997,500

The fair value of financial assets includes accounts receivable with a fair value of $37,316,144. The gross amount due totals $39,465,789, of which $2,149,645 is expected to be uncollectible.

Note 2 - Business Combinations (Continued)

Acquisition-related costs, which include legal, accounting, and valuation fees, totaled $345,889 for the year ended December 31, 2023 and have been included in general and administrative expenses in the accompanying consolidated statements of operations.

The acquired goodwill is expected to be tax deductible.

Note 3 - Acquired and Developed Intangible Assets and Goodwill

Intangible assets of the Company at December 31, 2024 and 2023 are summarized as follows:

December 31, 2024	Gross Carrying Amount	Accumulated Amortization	Weighted-average Useful Life - Years
Amortized intangible assets:			
Broker relationships	$ 1,400,000	$ 200,000	14
Trade name	350,000	70,000	10
Total amortized intangible assets	$ 1,750,000	$ 270,000	

December 31, 2023	Gross Carrying Amount	Accumulated Amortization	Weighted-average Useful Life - Years
Amortized intangible assets:			
Attune purchased software	$ 25,300,000	$ 2,530,000	10
Broker relationships	1,400,000	100,000	14
Trade name	350,000	35,000	10
Workers compensation MGA software	770,088	25,670	5
Total amortized intangible assets	$ 27,820,088	$ 2,690,670	

Amortization expense for intangible assets totaled $1,477,009 and $2,690,670 for the years ended December 31, 2024 and 2023, respectively.

Note 3 - Acquired and Developed Intangible Assets and Goodwill (Continued)

Estimated amortization expense for the years ending December 31 is as follows:

Years Ending	Amount
2025	$ 135,000
2026	135,000
2027	135,000
2028	135,000
2029	135,000
Thereafter	805,000
Total	$ 1,480,000

The recorded amount of goodwill is $17,814,644 as of both December 31, 2024 and 2023.

Note 4 - Related Party Transactions

The following is a description of transactions between the Company and related parties:

Master Services Agreement
The Company has entered into an amended master services agreement with Pinnacol effective January 1, 2019, which extends on a month-to-month basis unless terminated by agreement of both parties. The master service agreement was amended and restated on March 16, 2023, May 3, 2024 and November 11, 2024. The Company pays actual salary, benefits, and other employee-related costs to Pinnacol for personnel services, including part-time finance, legal, human resources, marketing, and other overhead-type services. Under this agreement, actual costs are allocated to the Company based upon the utilization of Pinnacol employees. For the years ended December 31, 2024 and 2023, the total related party management fees were $858,817 and $915,528, respectively, which are included within other general and administrative expenses on the consolidated statements of operations. The Company also reimburses Pinnacol for costs incurred to provide full-time services of Cake's dedicated personnel and any out-of-pocket costs incurred by Pinnacol for payments made to vendors providing goods or services to the Company. The fees are payable to Pinnacol on or before the 15th of the subsequent month in which services were provided. As of December 31, 2024 and 2023, the Company owed Pinnacol $105,885 and $97,142, respectively, for management fees and $1,124,616 and $280,750, respectively, for reimbursable costs, which are recognized under accounts payable - related party in the consolidated balance sheets.

Note 4 - Related Party Transactions (Continued)

Program Administrator Agreement
The Company has entered into a program administrator agreement with Pinnacol where the Company receives program administration fees. The fees are earned based upon the insurance risks accepted by Pinnacol and are calculated as a percentage of the policy's annual premium. For the years ended December 31, 2024 and 2023, total related party administrator fees earned that are distinct and separately identifiable were $626,894 and $581,582, respectively. As of December 31, 2024 and 2023, related party administrator fees due to the Company were $123,523 and $74,670, respectively, which are recognized under accounts receivable - related party - net in the consolidated balance sheets.

Software License Agreement
Cake developed intellectual property including program source code and system configuration for the purpose of establishing a software and data platform to be used for the marketing and servicing of workers' compensation insurance to small businesses. The Company entered into a software licensing agreement with Pinnacol on February 29, 2020 where Cake assigned the intellectual property to Pinnacol and Cake obtains a license to use the intellectual property for purposes particular to Cake. Pinnacol has granted to Cake a royalty-free, transferable license to use and create derivative works, improvements and other modifications to the software. All right, title, and interest to any derivative works and improvements that are made by Cake remain with Pinnacol.

Sale of Attune Software
On June 15, 2024, the Company sold the acquired and internally developed Attune software to Pinnacol. In return, the Company received $25,000,000 as well as a royalty-free, non-transferable, and non-assignable license to use the platform. The carrying value of the software was $22,172,410 at the time of sale as there was accumulated amortization of $3,897,678 with an original cost of $26,070,088. The Company recognized a gain for the excess of the consideration over the carrying value of $2,827,590 as a result of this transaction. The gain is included in other income in the consolidated statements of operations.

Note 5 - Premiums, Commissions and Services Fees Receivable and Payable

Premiums, commissions, and service fees receivable is comprised of the following as of December 31, 2024 and 2023:

	2024	2023
Premiums receivable	$ 26,844,595	$ 35,220,816
Commissions receivable gross	10,497,563	9,722,152
Commissions receivable credit and cancellation allowance	(525,397)	(648,851)
Commissions receivable, net of allowance for credit losses and cancellations	9,972,166	9,073,301
Service fees receivable	467,345	363,792
Premiums, commissions and service fees receivable - net	$ 37,284,106	$ 44,657,909

Premiums and commissions payable is comprised of the following as of December 31, 2024 and 2023:

	2024	2023
Premiums payable	$ 39,406,306	$ 55,103,359
Commissions payable gross	5,262,220	4,468,024
Commissions payable allowance	(157,342)	(401,028)
Commissions payable, net	5,104,878	4,066,996
Premiums and commissions payable - net	$ 44,511,184	$ 59,170,355

Note 6 - Income Taxes

The components of the income tax provision included in the consolidated statements of operations are all attributable to continuing operations and are detailed as follows:

	2024	2023
Current income tax expense	$ -	$ -
Deferred income tax expense (benefit)	(7,802,862)	(11,160,044)
Change in valuation reserve	7,802,862	11,160,044
Total income tax expense	$ -	$ -

Note 6 - Income Taxes (Continued)

The details of the net deferred tax asset (liability) are as follows:

	2024	2023
Deferred tax assets:		
Allowance for doubtful accounts	$ 436,591	$ 621,870
Bonus accrual	1,122,633	1,133,395
Intangible assets	8,975	198,336
Net operating loss and tax credit carryforward	17,536,913	12,849,590
Charitable contributions	2,423	-
Commissions ceding sliding scale allowance	3,562,469	-
Gross deferred tax asset	22,670,004	14,803,191
Valuation allowance recognized for deferred tax assets	(22,337,121)	(14,534,259)
Net deferred tax asset	332,883	268,932
Deferred tax liabilities - Goodwill amortization	(332,883)	(268,932)
Net deferred tax asset (liability)	$ -	$ -

At December 31, 2024 and 2023, the Company had net operating loss carryforwards of approximately $71,600,000 and $52,500,000, respectively, which may be used to offset future taxable income. Utilization of the net operating loss carryforwards, of which $1,647,000 will expire in 2037 and the balance of $69,953,000 is not subject to expiration, may be subject to certain limitations under Section 382 of the Internal Revenue Code of 1986, as amended.

A valuation allowance has been provided for the full amount of the Company's net deferred tax asset at December 31, 2024 and 2023 because, based on the weight of all available evidence, positive and negative, management believes that it is more likely than not that such benefits will not be realized.

As a result of the Company's net operating losses, no provision for income taxes for the years ended December 31, 2024 and 2023 has been provided, and the expected benefit from applying the statutory rate to the Company's pretax net income (loss) differs from the provision in the accompanying financial statements due to changes in the valuation allowance. The Company files a consolidated tax return with its wholly owned subsidiaries.

Note 7 - Shareholder's Equity

Preferred Stock
On September 20, 2017, the Company's authorized shares were 10,000,000 in which the board of directors authorized the issuance of 2,000,000 shares of preferred stock at $5 per share to Pinnacol, for a total of $10,000,000. Each share of preferred stock had one vote with regard to all matters submitted to the holders of the Company's stock for approval and could be converted at any time into one share of common stock. In January 2023, all 2,000,000 outstanding shares were converted into 2,000,000 shares of common stock. After the conversion, no shares of preferred stock are authorized.

Common Stock
In January 2023, the Company increased the number of common stock authorized to 20,000,000 shares, and Pinnacol made a contribution of $40,000,000 in exchange for 8,000,000 shares of common stock.

Additional Paid-in Capital
During 2024 and 2023, Pinnacol made additional contributions of $11,434,496 and $33,602,910, respectively, to additional paid-in capital. The aforementioned contributions were made to support ongoing operations of the new business.

Note 8 - Employee Retirement Plan

Attune maintains a 401(k) plan covering all employees with at least one month of service. Under the 401(k) plan, the first 4 percent of a participant's contribution will be eligible for a discretionary employer match of 100 percent for each dollar contributed. The maximum employer match is 4 percent of a participant's annual compensation, subject to IRS thresholds. The Company's contributions to the 401(k) plan for the years ended December 31, 2024 and 2023 were $659,031 and $546,820, respectively, and are included in employee compensation and benefits in the consolidated statements of operations.

Cake maintains a 401(k) plan covering all employees with at least one month of service. Under the 401(k) plan, the first 6 percent of a participant's contribution will be eligible for a discretionary employer match of 100 percent for each dollar contributed. The maximum employer match is 6 percent of a participant's annual compensation, subject to IRS thresholds. The Company's contributions to the 401(k) plan for the years ended December 31, 2024 and 2023 were $74,161 and $9,839, respectively, and are included in employee compensation and benefits in the consolidated statements of operations.

Note 9 - Contract Assets and Liabilities

As a result of its contracts with customers, the Company has certain contract assets and liabilities. The beginning and ending balances of these accounts for the years ended December 31, 2024 and 2023 are as follows:

	January 1, 2023	December 31, 2023	December 31, 2024
Accounts receivable - related party	$ 76,511	$ 74,670	$ 123,523
Premiums, commissions and service fees receivable - net	-	44,657,909	37,284,106
Total contract assets	$ 76,511	$ 44,732,579	$ 37,407,629
Premiums and commissions payable	$ -	$ 59,170,355	$ 44,511,184
Sliding scale commissions payable	-	12,363,447	14,554,948
Deferred revenue	-	2,358,826	2,478,562
Contract liability - related party	195,026	168,978	-
Total contract liabilities	$ 195,026	$ 74,061,606	$ 61,544,694

Note 10 - Subsequent Events

On May 6, 2025, subsequent to the balance sheet date, Cake entered into a loan agreement with its parent, Pinnacol, effective January 1, 2025. Under this agreement, Pinnacol agreed to make available to Cake a credit facility in the amount of $75,000,000. The loan bears no interest on the outstanding principal, and no payments are required until the maturity date of January 1, 2035. Cake may prepay the loan in whole or in part without penalty.