

Pinnacol Assurance

Audited Statutory Financial Statements and Supplementary Information

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

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2025 Board of Directors**

Akasha N. Absher
Chair

Mowa Haile
Emily L. King
Angela A. Oakley
Mark D. Roellig
Andi G. Rugg
Jesus J. Salazar
Isaac Wanasika

**Pinnacol Assurance
2024 Board of Directors**

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Andi G. Rugg
Jesus J. Salazar
Isaac Wanasika

Members of the Legislative Audit Committee and
Pinnacol Assurance Board of Directors

We have completed the financial statement audit of Pinnacol Assurance as of and for the year ended December 31, 2024. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

We were engaged to conduct our audit pursuant to Section 8-45-121(2), C.R.S., which authorizes the State Auditor to conduct an annual financial audit of Pinnacol Assurance. In the conduct of the audit, the State Auditor may contract with an auditor or firm of auditors, having the specialized knowledge and experience. The audit was also conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct or cause to be conducted audits of special purpose entities defined in Section 24-77-102(15), C.R.S., which includes Pinnacol Assurance. The reports which we have issued as a result of this engagement are set forth in the table of contents which follows.



May 20, 2025

Pinnacol Assurance
Audited Statutory Financial Statements
and Supplementary Information
Years ended December 31, 2024 and 2023

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Pinnacol Assurance

Report Summary

Authority and Purpose/Scope of the Audit

This audit is conducted under the authority of Section 8-45-121(2) of the Colorado Revised Statutes (C.R.S.), which authorizes the State Auditor to conduct an annual financial audit of Pinnacol Assurance (Pinnacol or the Company) and contract with an auditor or firm of auditors, having the specialized knowledge and experience. The primary purpose of our engagement is to audit the statutory financial statements of Pinnacol as of and for the year ended December 31, 2024, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and to express an opinion on those statutory financial statements and the supplemental schedules of investment and reinsurance information. The objective of an audit conducted in accordance with such standards is to obtain reasonable, but not absolute, assurance about whether the statutory financial statements are free of material misstatement.

The financial statements of Pinnacol are prepared in accordance with statutory accounting principles prescribed or permitted by the Division of Insurance of the Department of Regulatory Agencies of the State of Colorado (hereinafter referred to as statutory financial statements, or financial statements in accordance with statutory accounting principles). Accordingly, they are not designed to present, and do not present, the financial position or results of operations in accordance with accounting principles generally accepted in the United States of America (GAAP).

In the course of our audit, we examined, on a test basis, evidence supporting the amounts and disclosures in Pinnacol's statutory financial statements as of and for the year ended December 31, 2024.

Audit Opinion and Report

As we are issuing an opinion on the statutory financial statements in conformity with accounting principles prescribed or permitted by the Division of Insurance of the Department of Regulatory Agencies of the State of Colorado, we have modified our financial statement opinion to include an adverse opinion on GAAP.

We issued a report on Pinnacol's compliance and internal control over financial reporting based on an audit of the financial statements performed in accordance with Government Auditing Standards. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be deficiencies, significant deficiencies, or material weaknesses. A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Summary of Current Year Findings and Recommendations

There were no reported findings and recommendations resulting from the audit for fiscal year 2024.

Summary of Prior Year Findings and Recommendations

There were no reported findings and recommendations resulting from the audit for fiscal year 2023.

Pinnacol Assurance

Management's Description of Pinnacol Assurance

December 31, 2024

Pinnacol Assurance (Pinnacol or the Company) was established as a political subdivision of the State of Colorado (the State) under provisions of the Workers' Compensation Act of Colorado (Title 8, Article 45 of the Colorado Revised Statutes, as amended) to operate as a domestic mutual insurance company for the benefit of injured employees and dependents of deceased employees in Colorado. As required under state law, Pinnacol provides an assured source of workers' compensation insurance to Colorado employers. Pinnacol shall not refuse to insure any Colorado employer or cancel any insurance policy due to the risk of loss or amount of premium, except as otherwise provided in Title 8, Article 45, C.R.S., as amended.

Pinnacol is controlled by a nine-member board of directors. As of December 31, 2024, the board was operating with eight members due to one vacant position, with members being appointed by the Governor with the consent of the Colorado Senate. The board of directors has control over all monies of Pinnacol and is restricted to use such monies only for the purposes provided in Title 8, Article 45, C.R.S., as amended. The board of directors appoints a chief executive officer who is vested with full power and jurisdiction over the administration of Pinnacol. Pinnacol is not an agency of state government. The State retains no liability on the part of Pinnacol and no State monies are used for Pinnacol operations.

Cake Insure, Inc. (Cake) was incorporated on September 20, 2017. Cake is a wholly owned subsidiary of Pinnacol and helps small businesses quote and purchase a workers' compensation insurance policy from Pinnacol. Cake created a digital platform designed to market, underwrite, and service small policyholders that are not considered high risk. Pinnacol is leveraging the innovations of Cake and continues to scale those innovations across both companies. With the launch of Cake, Pinnacol became subject to Title 10, Article 3, Part 8 of the C.R.S., Insurance Holding Company Systems, which requires additional report filings with the Division of Insurance of the Department of Regulatory Agencies of the State of Colorado. Pinnacol has 100% ownership of the voting shares in Cake. An "Insurance Holding Company System" is two or more affiliated persons, one or more of which is an insurer.

In 2023, Cake acquired an existing digital agent, Attune Insurance Services, LLC (Attune), as a wholly owned subsidiary with a technology platform to connect policyholders with other carriers that operate in multiple states. Attune is a licensed property and casualty insurance producer and principally acts as an agent for insurance companies. Attune built out the technology for a workers' compensation product offered on their platform underwritten by other carriers. As of December 31, 2024, the solution for workers' compensation is offered in 14 states.

In 2023, Cake formed a wholly owned subsidiary, EverPeak Insurance Services, LLC (EIS). EIS was established to support potential future strategic initiatives and currently does not have any operational activity.

Policyholders' Surplus

Pinnacol had policyholders' surplus of \$1,645,534,000 and \$1,548,988,000 as of December 31, 2024 and 2023, respectively. The increase in surplus was primarily related to current year net income.

Report of Independent Auditors

The Members of the Legislative Audit Committee and
Pinnacol Assurance Board of Directors

Opinions

We have audited the statutory financial statements of Pinnacol Assurance (the Company), which comprise the statutory statements of admitted assets, liabilities, and policyholders' surplus as of December 31, 2024 and 2023, and the related statutory statements of operations, changes in policyholders' surplus 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 present fairly, in all material respects, the admitted assets, liabilities, and policyholders' surplus of the Company as of December 31, 2024 and 2023, and the results of its operations and its cash flows for the years then ended, in accordance with 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 discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles (US GAAP) section of our report, the financial statements do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2024 and 2023, 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) and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 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, the Company prepared these financial statements using accounting practices prescribed or permitted by the Division of Insurance of the Department of Regulatory Agencies of the State of Colorado, 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 these statutory accounting practices 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 Division of Insurance of the Department of Regulatory Agencies of the State of Colorado. 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 the Company's ability to continue as a going concern within one year after the date the financial statements are 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 and Government Auditing Standards 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 and Government Auditing Standards, 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 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 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Supplemental Investment Risks Interrogatories, Summary Investment Schedule and Reinsurance Summary Supplemental Filing of the Company as of December 31, 2024, are presented for purposes of additional analysis and are not a required part of the financial statements but are supplementary information required by the Division of Insurance of the Department of Regulatory Agencies of the State of Colorado. Such information is the responsibility of management 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 additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, such schedules are fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 20, 2025 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Company's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Johnson Lambert LLP". The signature is written in a cursive, flowing style.

Vienna, Virginia
May 20, 2025

Pinnacle Assurance

Statutory Statements of Admitted Assets, Liabilities, and Policyholders' Surplus

As of December 31, 2024 and 2023

(in thousands)

	2024	2023
Admitted Assets		
Bonds (note 4)	\$ 2,223,127	\$ 2,169,441
Preferred stock (note 4)	7,617	2,009
Common stock (note 4)	382,087	381,410
Mortgage loans on real estate (note 4)	64,740	73,657
Real estate, net (note 1)	11,499	10,481
Cash, cash equivalents and short-term investments	219,889	193,356
Other invested assets (notes 4 and 9)	157,897	153,530
Receivable for securities	84	4
Total cash and invested assets	3,066,940	2,983,888
Uncollected premiums	31,243	31,205
Earned but unbilled premiums	27,145	28,035
Funds held by or deposited with reinsured companies	7,391	4,491
Electronic data processing equipment, net	812	1,232
Due from affiliate	1,231	452
Accrued investment income	23,172	21,289
Total admitted assets	\$ 3,157,934	\$ 3,070,592
Liabilities and Policyholders' Surplus		
Liabilities		
Reserve for unpaid losses (note 2)	\$ 741,705	\$ 763,487
Reserve for unpaid loss adjustment expenses (note 2)	110,425	110,334
Unearned premiums	69,108	67,147
Borrowed money and accrued interest	53,215	53,252
Advance premiums	3,674	9,245
Policyholder dividends payable	40,928	43,262
Commissions payable	35,846	30,640
Structured settlement liability (note 3)	408,961	401,000
Payable to affiliate	57	52
Credit balances due to policyholders	8,062	8,343
Payable for securities	7,079	-
Other liabilities	33,340	34,842
Total liabilities	1,512,400	1,521,604
Policyholders' Surplus		
Surplus notes (note 8)	45,000	45,000
Special surplus fund for unfunded pension benefits (notes 1 and 8)	207,348	179,112
Unassigned policyholders' surplus (note 8)	1,393,186	1,324,876
Total policyholders' surplus	1,645,534	1,548,988
Total liabilities and policyholders' surplus	\$ 3,157,934	\$ 3,070,592

See accompanying notes to the statutory financial statements.

Pinnacol Assurance

Statutory Statements of Operations

Years ended December 31, 2024 and 2023

(in thousands)

	2024	2023
Underwriting income		
Net premiums earned	\$ 554,927	\$ 532,171
Deductions		
Losses incurred, net (note 2)	299,419	273,922
Loss adjustment expenses incurred, net (note 2)	88,372	84,213
Other underwriting expenses, net (note 11)	170,449	161,405
Underwriting (loss) income	(3,313)	12,631
Investment income		
Net investment income earned (note 4)	138,044	114,551
Net realized loss on investments (note 4)	(3,100)	(4,377)
Net investment gain	134,944	110,174
Other income (loss)		
Provision for uncollectible premiums	(5,522)	(1,926)
Structured settlement expense (note 3)	(14,334)	(18,691)
Other (loss) income	(1,764)	1,310
Dividends to policyholders	(15,450)	(30,892)
Total other loss	(37,070)	(50,199)
Income before federal income taxes	94,561	72,606
Federal income tax (benefit) expense	(89)	127
Net income	\$ 94,650	\$ 72,479

See accompanying notes to the statutory financial statements.

Pinnacol Assurance

Statutory Statements of Changes in Policyholders' Surplus

Years ended December 31, 2024 and 2023
(in thousands)

	<u>2024</u>	<u>2023</u>
Policyholders' surplus at beginning of year	\$ 1,548,988	\$ 1,508,951
Net income	94,650	72,479
Change in net unrealized investment gains/losses	24,602	(22,082)
Change in nonadmitted assets	<u>(22,706)</u>	<u>(10,360)</u>
Policyholders' surplus at end of year	<u>\$ 1,645,534</u>	<u>\$ 1,548,988</u>

See accompanying notes to the statutory financial statements.

Pinnacol Assurance

Statutory Statements of Cash Flows

Years ended December 31, 2024 and 2023

(in thousands)

	2024	2023
Cash flows from operations		
Premiums collected, net	\$ 548,077	\$ 532,203
Loss and loss adjustment expenses paid, net of reinsurance and deductibles	(409,481)	(407,161)
Other underwriting expenses paid	(166,457)	(163,060)
Dividends paid	(17,785)	(17,214)
Federal and foreign income taxes paid	12	(49)
Investment income received, net of investment expenses paid	136,939	113,875
Miscellaneous proceeds	(1,764)	1,313
Net cash flows from operations	89,541	59,907
Cash flows from investing activities		
Proceeds from investments sold, matured or repaid:		
Bonds	554,198	263,472
Stocks	79,418	62,810
Mortgage loans on real estate	22,316	8,718
Other invested assets	10,436	9,104
Miscellaneous proceeds	7,088	2,593
Total investment proceeds	673,456	346,697
Cost of investments acquired:		
Bonds	(631,740)	(169,680)
Stocks	(39,005)	(84,368)
Mortgage loans on real estate	(13,399)	(11,092)
Other invested assets	(2,227)	(7,479)
Miscellaneous applications	(2,620)	(8,038)
Total investments acquired	(688,991)	(280,657)
Net cash flows from investments	(15,535)	66,040
Cash flows from financing and miscellaneous activities		
Borrowed funds and interest	(37)	55
Other miscellaneous activities	(47,436)	(10,186)
Net cash flows from financing and miscellaneous activities	(47,473)	(10,131)
Net change in cash and short-term investments	26,533	115,816
Cash, cash equivalents and short-term investments at beginning of year	193,356	77,540
Cash, cash equivalents and short-term investments at end of year	\$ 219,889	\$ 193,356

See accompanying notes to the statutory financial statements.

Pinnacol Assurance

Notes to Statutory Financial Statements

Years ended December 31, 2024 and 2023

Note 1 - Nature of Operations and Significant Accounting Policies

Organization

Pinnacol Assurance (Pinnacol or the Company) was established as a political subdivision of the State of Colorado (the State) under provisions of the Workers' Compensation Act of Colorado (Title 8, Article 45 of the Colorado Revised Statutes (C.R.S.), as amended) to operate as a domestic mutual insurance company for the benefit of injured employees and dependents of deceased employees in Colorado. Pinnacol offers insurance to employers operating within the State.

Pinnacol is controlled by a nine-member board of directors, currently operating with eight members due to one vacant position, which is appointed by the Governor with the consent of the Colorado Senate. In accordance with applicable statutes of the State, the administration of Pinnacol is under the direction of the chief executive officer, appointed by the board of directors. Pinnacol is not an agency of state government. The State retains no liability on the part of Pinnacol and no State monies are used for Pinnacol operations.

Cake Insure, Inc. (Cake) was incorporated on September 20, 2017. Cake is a wholly owned subsidiary of Pinnacol and helps small businesses quote and purchase a workers' compensation insurance policy from Pinnacol. Cake created a digital platform designed to market, underwrite, and service small policyholders that are not considered high risk. Pinnacol is leveraging the innovations of Cake and continues to scale those innovations across both companies.

On January 4, 2023, Cake acquired an existing digital agent, Attune Insurance Services, LLC (Attune), as a wholly owned subsidiary with a technology platform to connect policyholders with other carriers that operate in multiple states. Attune is a licensed property casualty insurance producer and principally acts as an agent for insurance companies. In 2023, Cake formed a wholly owned subsidiary, EverPeak Insurance Services, LLC. EverPeak currently does not have any operational activity.

Pinnacol Assurance

Notes to Statutory Financial Statements (Continued)

Note 1 - Nature of Operations and Significant Accounting Policies (Continued)

Basis of Presentation

The accompanying statutory financial statements have been prepared in accordance with accounting practices prescribed or permitted by the Division of Insurance of the Department of Regulatory Agencies of the State of Colorado (the Division). Prescribed statutory accounting practices (SAP) are those practices that are incorporated directly or by reference to state laws, regulations, and general administrative rules applicable to all insurance enterprises domiciled in a particular state. Colorado has adopted the National Association of Insurance Commissioners' (NAIC) SAP, which are codified in the NAIC's Accounting Practices and Procedures Manual (the Manual). Therefore, compliance with the Manual is a prescribed accounting practice. Colorado Statute §10-3-230 requires that the aggregate admitted other invested assets balance does not exceed certain thresholds. This is a departure from NAIC guidelines. There is no impact on net income. The total impact on surplus for amounts over the threshold is \$27,566,000 and \$40,746,000 for the years ended December 31, 2024 and 2023, respectively. Other than this application of Colorado law, in the preparation of the accompanying statutory financial statements, the Company has followed NAIC guidelines and has not utilized any practices considered to be permitted practices.

Statutory accounting practices contained in the Manual vary in some respects from accounting principles generally accepted in the United States of America (US GAAP). The more significant differences between NAIC SAP and US GAAP are as follows:

- Policy acquisition costs, such as commissions, premium surcharges, and other expenses directly related to the cost of acquiring new business, are expensed as incurred; while under US GAAP, they are deferred and amortized over the policy term to provide for proper matching of revenue and expense.
- Investments in debt securities are generally carried at amortized value; while under US GAAP, they would be carried at fair value. For US GAAP, changes in fair value in bonds go through net investment income. The impairment/credit loss model is different for statutory and US GAAP purposes.
- Pinnacol's investment in common stock of Cake, a non-insurance subsidiary, is carried at the equity basis, in conformity with Statements of Statutory Accounting Principles (SSAP) 97, Investments in Subsidiary, Controlled and Affiliated Entities. Equity basis is calculated using audited US GAAP equity of the subsidiary, adjusted to a limited statutory basis of accounting. Under US GAAP, Cake would be included as a consolidated entity within the financial statements, and all significant intercompany balances and transactions would be eliminated in consolidation.
- Short-term investments, which include investments with maturities at the time of acquisition of one year or less, are included with cash and cash equivalents in the accompanying statutory financial statements, while under US GAAP, only investments with maturities at the time of acquisition of three months or less are included with cash and cash equivalents.

Pinnacol Assurance

Notes to Statutory Financial Statements (Continued)

Note 1 - Nature of Operations and Significant Accounting Policies (Continued)

- Assets are reported under NAIC SAP at “admitted asset” value and “nonadmitted” assets, or those items not meeting the definition of an asset, are excluded through a charge against policyholders’ surplus; while under US GAAP, all assets are reported on the balance sheet, net of any required valuation allowance. Nonadmitted assets at December 31, 2024 and 2023 comprised the following (in thousands):

	2024	2023	Change
Other invested assets	\$ 27,566	\$ 40,746	\$ (13,180)
Receivables	15,223	16,633	(1,410)
Electronic data processing equipment and software	48,001	10,662	37,339
Prepays and receivables for securities not collected	4,538	4,581	(43)
Total nonadmitted assets	\$ 95,328	\$ 72,622	\$ 22,706

- The reserve for losses and loss adjustment expenses (LAE) is reported net of reinsurance, while under US GAAP these amounts are reported gross. The impairment/credit loss model is different for statutory and US GAAP purposes.
- The surplus note is reported as a component of surplus, increasing policyholders’ surplus under NAIC SAP. Under US GAAP, the surplus note is recorded as long-term debt. The related interest expense may not be accrued under NAIC SAP until approved for payment by the commissioner of the state of domicile; while under US GAAP, the interest expense is recorded as incurred.
- The statutory statements of cash flow does not classify cash flow consistent with US GAAP, and a reconciliation of net income to net cash provided by operating activities is not provided.

The financial statements are prepared in accordance with statutory accounting practices; however, other political subdivisions of the State may be required to prepare financial statements in accordance with Governmental Accounting Standards Board (GASB) standards. The more significant differences between statutory accounting practices and GASB for postemployment and pension benefits are as follows:

- Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions, requires employers that are part of a cost-sharing multiple-employer pension fund to record their portion of the unfunded liability; while under NAIC SAP, the employer must only record the cost of the contribution and any liability for any contributions due and unpaid.

Pinnacol Assurance

Notes to Statutory Financial Statements (Continued)

Note 1 - Nature of Operations and Significant Accounting Policies (Continued)

- GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, requires employers that are part of a cost-sharing multiple-employer Other Postemployment Benefit (OPEB) plan to record their portion of the net OPEB liability; while under NAIC SAP, the employer must only record the cost of the contribution and any liability for any contributions due and unpaid.

The effect of the differences between statutory basis of accounting and generally accepted accounting principles, although not reasonably determinable, is presumed to be material. Pinnacol is a political subdivision of the State and as such would follow all applicable GASB pronouncements.

Use of Estimates

The preparation of statutory financial statements in accordance with accounting practices prescribed by the Division 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 statutory financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates include the structured settlement liability, the reserves for unpaid losses and loss adjustment expenses, the earned but unbilled premiums asset, estimated fair value or net asset value of investments, as well as the contingency for uncollectible premiums, among others. Actual results could differ from those estimates and such differences could be significant.

Investments

Investments are recorded on the trade date. Bonds and preferred stocks are stated at amortized value or fair value, based on their NAIC designation, and are adjusted for other than temporary declines in fair value. Mortgage loans on real estate are carried at the outstanding principal balance, less any allowances for credit losses. Common stocks, mutual funds, and common trust funds are carried at fair value. Other invested assets, including partnerships, are recorded at the underlying audited equity value. Due to Colorado Revised Statutes limitations, the balance of other invested assets may not exceed 5% of admitted assets. Any amount exceeding that threshold is treated as a nonadmitted asset. For those investments in which the audited financial statements are not available in a timely manner, the unaudited equity value is used. Unrealized capital gains or losses on common stocks, preferred stocks, mutual funds, and common trust funds are reported as a direct adjustment to policyholders' surplus. Common stocks and preferred stocks in an unrealized loss position for both years are recorded as other-than-temporary impairments (OTTI) and are recorded as a realized loss in the statutory statement of operations in the period in which they occur.

Bond premium or discount is recognized using the effective-interest method taking into consideration specified interest and principal provisions over the life of the bond. Bonds containing call provisions are amortized to the call or maturity value or date that produces the lowest asset value.

Pinnacol Assurance

Notes to Statutory Financial Statements (Continued)

Note 1 - Nature of Operations and Significant Accounting Policies (Continued)

Federal Home Loan Bank (FHLB) of Topeka common stock shares are valued at par, which is presumed to be fair value as they are only redeemable at par and are not publicly traded.

Gains and losses on investments sold are realized in operations and are computed using the specific-identification method.

Prepayment assumptions for purposes of recognition of income and valuing of loan-backed bonds and structured securities were obtained from widely accepted models with inputs from major third-party data providers. Model assumptions are specific to asset class and collateral type and are regularly evaluated and adjusted where appropriate. The prospective-adjustment method is used to value all loan-backed securities.

Real estate includes land, the building on the land, and capitalized building improvements used in conducting the Company's business. Land is carried at cost. Building and capitalized building improvements are carried at cost less accumulated depreciation. Accumulated depreciation at December 31, 2024 and 2023 was \$25,327,000 and \$23,804,000, respectively. The cost of the building and capitalized improvements is depreciated over an estimated useful life of 30 years using the straight-line method. Depreciation expense was approximately \$1,523,000 and \$1,311,000 for the years ended December 31, 2024 and 2023, respectively, and is included in net investment income earned in the statutory statements of operations.

Investment in Subsidiary

Cake was incorporated on September 20, 2017 as a subsidiary of Pinnacol. Pinnacol purchased 2,000,000 voting shares of preferred stock in Cake on September 28, 2017. On January 3, 2023, Pinnacol converted its existing preferred shares to common shares. On January 4, 2023, Pinnacol purchased an additional 8,000,000 shares of common stock in Cake. On January 4, 2023, Cake acquired an existing digital agent, Attune, as a wholly owned subsidiary. On July 31, 2023, Cake formed a wholly owned subsidiary, EverPeak Insurance Services, LLC. Pinnacol's ownership percentage in Cake is 100%.

As disclosed above, Pinnacol does not consolidate its financial results with Cake. Pinnacol and Cake issue stand-alone financial statements.

Common stock of Cake is carried on the equity basis. Equity basis is calculated using audited US GAAP equity adjusted to a limited statutory basis of accounting. Cake common shares are not publicly priced.

Pinnacol Assurance

Notes to Statutory Financial Statements (Continued)

Note 1 - Nature of Operations and Significant Accounting Policies (Continued)

As of December 31, 2024 and 2023, Pinnacol recorded \$(2,053,000) and \$(13,451,000), respectively, for the carrying value of its investment in Cake, which is included in common stock in the statutory statements of admitted assets, liabilities, and policyholders' surplus. Unrealized losses related to Pinnacol's investments in Cake totaled \$87,090,000 and \$87,053,000 as of December 31, 2024 and 2023, respectively.

Cash, Cash Equivalents, and Short-Term Investments

For purposes of the statement of cash flow, cash, cash equivalents, and short-term investments include cash on deposit, money market funds, and other investments with maturities of one year or less at the date of acquisition.

As of December 31, 2024, cash, cash equivalents, and short-term investments of approximately \$219,889,000 include \$3,054,000 of cash, \$53,588,000 of cash equivalents, and \$163,247,000 of short-term investments. As of December 31, 2023, cash, cash equivalents, and short-term investments of approximately \$193,356,000 include \$(4,662,000) of book overdrafts, \$197,852,000 of cash equivalents, and \$166,000 of short-term investments.

Receivables for Securities Sold

As of December 31, 2024 and 2023, receivables for securities sold were approximately \$84,000 and \$4,000, respectively. Receivables for securities arise when sales of securities are recorded as of the trade date. A receivable due from the custodian is established when a security has been sold, but the proceeds from the sale have not yet been received. Receivables for securities not received within 15 days from the stated settlement date are nonadmitted. Nonadmitted receivables for securities sold totaled \$47,000 and \$0 in 2024 and 2023, respectively.

Risk and Uncertainties

The Company invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, liquidity and credit risk. Due to the level of the risk associated with certain investment securities, it is at least reasonably possible that changes in the fair values of investment securities may occur in the near term and those changes could materially affect the amounts disclosed or reported on the statutory statements of admitted assets, liabilities and policyholders' surplus.

Uncollected Premiums

Uncollected premiums are reported net of loss contingencies for uncollectible and nonadmitted balances. Certain receivables are not admissible for statutory accounting purposes.

All receivables for canceled policies and billed receivables that relate to balances outstanding for a period exceeding 90 days are not admissible according to the Manual. As of December 31, 2024 and 2023, nonadmitted uncollected premiums were \$12,173,000 and \$13,483,000, respectively.

Pinnacol Assurance

Notes to Statutory Financial Statements (Continued)

Note 1 - Nature of Operations and Significant Accounting Policies (Continued)

Pinnacol independently estimates the realizable amounts of premiums receivable and records a loss contingency for any uncollectible balances that were not already nonadmitted. During 2024 and 2023, Pinnacol recorded a provision of approximately \$5,523,000 and \$1,926,000, respectively, for premiums receivable due to the unlikelihood of ultimate collection thereof. These amounts are reflected as provision for uncollectible premiums in the accompanying statutory statements of operations.

A significant portion of Pinnacol's premium receivable balances at December 31, 2024 and 2023 were from companies operating in the construction and services industries in Colorado. The construction industry represents approximately 39% of premiums earned as of both December 31, 2024 and 2023. The services industry represents approximately 37% of active policy premiums as of both December 31, 2024 and December 31, 2023, with all other individual industries constituting the remainder of premiums receivable balances.

Earned But Unbilled Premiums

Earned but unbilled premiums represent a receivable or liability for changes in earned premium and audit premiums, which are amounts due from or to policyholders after the respective policy period has expired based on payroll audits performed by Pinnacol. Such amounts are estimated by Pinnacol based upon internal calculations using historical premium data. Pinnacol recorded a net estimated earned but unbilled premium receivable in 2024 and 2023 of approximately \$27,145,000 and \$28,035,000, respectively.

Credit Balances Due to Policyholders

Credit balances due to policyholders represent excess premiums or are amounts due to policyholders. Generally, credit balances due to policyholders are applied to future premium obligations of policyholders. For 2024 and 2023, such amounts are approximately \$8,062,000 and \$8,343,000, respectively.

Electronic Data Processing Equipment and Software

Electronic data processing (EDP) equipment is recorded at cost, less accumulated depreciation, and depreciated on a straight-line basis over an estimated useful life of three years. Accumulated depreciation at December 31, 2024 and 2023, respectively, was \$2,360,000 and \$2,035,000. Net book value of electronic data processing equipment at December 31, 2024 and 2023, respectively, was approximately \$812,000 and \$1,232,000. Operating software is recorded at cost, less accumulated depreciation, and depreciated on a straight-line basis over an estimated useful life of three years. Nonoperating software is recorded at cost, less accumulated depreciation, and depreciated on a straight-line basis over an estimated useful life of five years and nonadmitted. Net book value of nonadmitted EDP and software at December 31, 2024 and 2023, respectively, was approximately \$47,943,000 and \$10,564,000. Related depreciation expense of approximately \$678,000 and \$549,000 was incurred during 2024 and 2023, respectively, and is included in LAE and other underwriting expenses incurred in the statutory statements of operations.

Pinnacol Assurance

Notes to Statutory Financial Statements (Continued)

Note 1 - Nature of Operations and Significant Accounting Policies (Continued)

Office Equipment, Furniture, Art, and Leasehold Improvements

Office equipment, furniture, art, and leasehold improvements are recorded at cost and depreciated on a straight-line basis. Office equipment, furniture, and art are depreciated over an estimated useful life of five years. Leasehold improvements are depreciated over the shorter of the term of the lease or the useful life. In accordance with the Manual, these are nonadmitted assets. The net book value of these assets at December 31, 2024 and 2023 was approximately \$62,000 and \$98,000, respectively. Related depreciation expense of approximately \$58,000 and \$80,000 was incurred in 2024 and 2023, respectively, and is included in LAE and other underwriting expenses incurred in the statutory statements of operations.

Safety Group Dividend Program

Pinnacol has a safety group program whereby policyholders who are members of the program are entitled to a dividend based on established criteria. Pinnacol paid out safety group dividends of \$540,000 and \$854,000 in 2024 and 2023, respectively. As of December 31, 2024 and 2023, safety group dividends payable of \$1,515,000 and \$1,574,000, respectively, are included in dividends payable to policyholders in the statutory statements of admitted assets, liabilities, and policyholders' surplus. These dividends are not declared from surplus nor are they recorded as a direct reduction to policyholders' surplus. The dividends are recorded as dividends to policyholders in the statutory statements of operations.

Individual Loss Control Dividend Program

Pinnacol has an individual loss control dividend (ILCD) program that is designed for policyholders who are committed to effective loss control in their business operations. If the policyholder meets the minimum premium requirements and pays an additional 5% premium charge as a buy in to the plan, the policyholder may receive a reduction of premium based on the policy premium and the loss ratio. Pinnacol paid out ILCDs of \$18,157,000 and \$18,921,000 in 2024 and 2023, respectively. As of December 31, 2024 and 2023, ILCDs payable of \$24,051,000 and \$26,231,000, respectively, are included as dividends payable to policyholders in the statutory statements of admitted assets, liabilities, and policyholders' surplus. The dividends are recorded as a reduction of net premiums earned in the statutory statements of operations.

Pinnacol Assurance

Notes to Statutory Financial Statements (Continued)

Note 1 - Nature of Operations and Significant Accounting Policies (Continued)

General Policyholder Dividends

The board of directors, at its discretion, determines the amount of general policyholder dividends to be declared, based on Pinnacol's overall experience and financial condition. Pinnacol has declared policyholder dividends to its policyholders in good standing of approximately \$15,000,000 in 2024 and \$30,000,000 in 2023. These are included in dividends to policyholders. General policyholder dividends are accrued when declared by the board of directors. \$15,362,000 and \$15,458,000 of the declared dividends were unpaid and included as dividends payable to policyholders in the statutory statements of admitted assets, liabilities, and policyholders' surplus as of December 31, 2024 and 2023, respectively. The board of directors chose not to declare a general policyholder dividend in November 2022, delaying the consideration of, and, if applicable, the declaration of a general dividend until year-end 2022 financial results were available. On February 22, 2023, the board of directors declared a general policyholder dividend based on 2022 financial results paid in March 2023 of \$15,000,000. On November 1, 2023, the board of directors declared a general policyholder dividend based on 2023 projected results paid in March 2024 of \$15,000,000. On November 6, 2024, the board of directors declared a general policyholder dividend based on 2024 projected results to be paid in March 2025 of \$15,000,000. The dividends are recorded as dividends to policyholders in the statutory statements of operations.

Reserve for Unpaid Losses, Reserve for Unpaid Loss Adjustment Expenses and Structured Settlement Liability

The reserve for unpaid losses and loss adjustment expenses represents management's best estimate of ultimate net cost of all reported and unreported losses incurred through December 31, 2024 and 2023. The reserve for unpaid losses and loss adjustment expenses is estimated by management, which uses an independent third-party actuary to provide estimates based on individual case basis valuations and statistical analyses. Those estimates are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes the reserve for unpaid losses and loss adjustment expenses is adequate. These estimates are continually reviewed and adjusted, as necessary, as experience develops, or new information becomes known. Such adjustments are included in losses incurred or loss adjustment expenses incurred within the statutory statements of operations in the period such information becomes known. Subrogation claims (claims against third parties) are recognized as a reduction of losses incurred when collections are received.

Internal structured settlement liabilities represent obligations to claimants and dependents on cases that have been closed by contract. The discounted reserve for internal structured settlements is estimated by management, which uses an independent third-party actuary to provide estimates based on these obligations. Estimates are reported on the Statutory Statements of Operations as a component of other income.

Pinnacol Assurance

Notes to Statutory Financial Statements (Continued)

Note 1 - Nature of Operations and Significant Accounting Policies (Continued)

Reinsurance

Ceded reinsurance transactions are accounted for based on estimates of their ultimate cost. Losses incurred, loss adjustment expenses incurred, and the reserve for loss adjustment expenses are reported net of reinsured amounts in accordance with the Manual. Premiums earned are reported net of reinsurance (Note 6).

Commissions Payable

Pinnacol pays three types of commission to its brokers: regular or standard commissions, profit sharing commissions, and incentive bonuses. Base commissions are calculated monthly and unpaid amounts are accrued as of the end of the period. All other types are calculated and accrued quarterly.

Revenue Recognition and Unearned Premiums

For certain policies, earned premium is recorded on an installment basis to match the billing frequency stated in the policyholder contract with a provision for amounts earned but unbilled. Earned premium for all other contracts is recognized using the daily pro rata method over the period the policy is effective.

Unearned premiums represent amounts either collected or billed and due from policyholders at December 31, 2024 and 2023, but unearned at those dates as they pertain to subsequent policy periods. Unearned premiums billed, which relate to policy effective dates subsequent to December 31, 2024 and 2023, are not included in the unearned premiums balance but are included as advance premium if the related cash is collected. Unearned premiums are computed on a daily pro rata basis over the effective period of the policies.

Premium Deficiency Reserve

A premium deficiency reserve is recognized by recording an additional liability for the deficiency, which results when anticipated future loss, loss adjustment expense, commissions, other acquisition costs, and maintenance costs exceed the recorded unearned premium reserve, any future installment premiums on existing policies, and anticipated investment income. The change in this reserve is recorded as a component of other underwriting expenses.

Pinnacol recorded a premium deficiency reserve of \$0 at December 31, 2024 and 2023. Pinnacol considered anticipated investment income at 3.5% when evaluating the premium deficiency reserve for 2024 and 2023.

Multiemployer Pension Plans and Other Postretirement Benefits

Pinnacol participates in the State Division Trust Fund (SDTF), a cost-sharing multiple-employer defined-benefit pension and healthcare trust fund plan administered by the Public Employees' Retirement Association (PERA). SDTF provides retirement, disability, and survivor benefits. All employees of Pinnacol are members of the SDTF.

Pinnacol Assurance

Notes to Statutory Financial Statements (Continued)

Note 1 - Nature of Operations and Significant Accounting Policies (Continued)

Pinnacol participates in the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer defined-benefit OPEB plan administered by PERA. The HCTF provides a healthcare premium subsidy to eligible participating PERA benefit recipients and retirees who choose to enroll in one of the PERA healthcare plans; however, the subsidy is not available if only enrolled in the dental and/or vision plan(s).

As a participant in a multiple-employer pension plan and HCTF, Pinnacol recognizes as net pension cost and net postretirement benefit cost the required contribution for the period and as a liability any contributions due and unpaid.

Taxes

As a political subdivision of the State of Colorado, Pinnacol is generally not subject to federal or state income taxes under a specific exemption granted under Section 501(c) of the Internal Revenue Code; nor is Pinnacol subject to property tax or sales and use taxes. However, Pinnacol is subject to income taxes on any net income that is derived from a trade or business regularly carried on and not in furtherance of the purposes for which it was granted exemption.

The Inflation Reduction Act (the Act) was enacted in 2022. Pinnacol has determined that it is not liable for the Corporate Alternative Minimum Tax (CAMT) in 2024 or 2023.

Pinnacol recognized a \$89,000 federal tax benefit and \$127,000 of federal tax expense that is attributable to investment income that is considered unrelated business income in 2024 and 2023, respectively. Pinnacol recorded an estimated federal tax liability of approximately \$0 and \$77,000 at December 31, 2024 and 2023, respectively. This is included in other liabilities. Pinnacol is not aware of any uncertain tax positions.

Pinnacol is not subject to a premium tax pursuant to Section 8-45-117(3), C.R.S. However, Pinnacol is subject to a surcharge on premiums pursuant to Section 8-44-112(1)(a), C.R.S. The surcharge is based on a rate established by the Colorado Department of Labor and Employment Division of Workers' Compensation annually, approximately 1.43% at December 31, 2024 and 2023. Such amounts are included in other underwriting expenses incurred.

Surplus Note

Pinnacol issued a \$100,000,000 surplus note on June 25, 2014 with a maturity date of June 25, 2034. Before issuing this debt, the Company obtained approval from the Commissioner of the Division for the transaction and approval to classify the debt as a component of policyholders' surplus. Prior to January 1, 2023, Pinnacol repurchased \$55,000,000 of the outstanding notes. Pinnacol did not repurchase any of its outstanding surplus note during the years ended December 31, 2024 and 2023.

Pinnacol Assurance

Notes to Statutory Financial Statements (Continued)

Note 1 - Nature of Operations and Significant Accounting Policies (Continued)

Special Surplus Fund for Unfunded Pension Benefits and OPEB Benefits

Pinnacol participates in a cost-sharing multiple-employer defined-benefit pension plan administered by PERA. PERA has a net pension liability, which represents the unfunded pension benefits. Statutory accounting does not allow Pinnacol's portion of the net pension liability to be recorded as a liability but allows a company to establish a special surplus fund to provide for contingencies. Pinnacol has identified its portion of the PERA net pension liability within this special surplus fund. PERA provides Pinnacol with the audited schedule of employers' allocations and net pension liability. The total pension liability used to calculate the net pension liability is determined by an actuarial valuation as of December 31, 2022. PERA uses standard update procedures to roll forward the total pension liability to December 31, 2023. A discount rate of 7.25% is being used. PERA also provides the employer allocation percentage for purposes of calculating Pinnacol's proportionate share of the collective net pension liability.

Pinnacol participates in the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer defined-benefit Other Postemployment Benefit (OPEB) plan administered by PERA. Although not required under statutory accounting to record its share of the HCTF liability, the Company has also identified its portion of the HCTF liability within the same special surplus fund established for unfunded pension benefits.

Application of Recent Statutory Accounting Pronouncements

During 2024, there were no substantive revisions to statutory accounting that were applicable to Pinnacol, and therefore, there were no substantive revisions adopted by the Company.

Note 2 - Unpaid Losses and Loss Adjustment Expenses

Unpaid losses and LAE (both allocated and unallocated) represent management's best estimate of the ultimate medical and indemnity net cost of all losses and loss adjustment expenses that are incurred but unpaid at year-end. Such estimates are based on individual case estimates for reported claims and actuarial estimates for losses that have been incurred but not reported. Any change in probable ultimate liabilities is reflected in losses incurred or loss adjustment expenses incurred within the statutory statements of operations and changes in policyholders' surplus in the period such determination is made.

Pinnacol Assurance

Notes to Statutory Financial Statements (Continued)

Note 2 - Unpaid Losses and Loss Adjustment Expenses (Continued)

The estimated ultimate cost of losses is based on historical patterns and the expected impact of current socioeconomic trends. The ultimate settlement of claims will not be known in many cases for years after the time a policy expires. Court decisions and federal and state legislation between the time a policy is written, and the time associated claims are ultimately settled, among other factors, may dramatically impact the ultimate cost. Due to these factors, among others, the process to estimate loss and loss adjustment reserves at a point in time cannot provide an exact forecast of future payments. Rather, it produces a best estimate of liability as of a certain date. Management believes the currently estimated reserves to be adequate. While the ultimate liability may differ from the current estimate, management does not believe the difference will have a material effect, either adverse or favorable, on Pinnacol's financial position or results of operations.

Activity in the liability for unpaid losses and LAE for the years ended December 31, 2024 and 2023 is summarized as follows (in thousands):

	<u>2024</u>	<u>2023</u>
Balance as of January 1	\$ 873,821	\$ 922,847
Additional amounts incurred related to:		
Current year	427,467	436,470
Prior years	<u>(39,676)</u>	<u>(78,335)</u>
Total incurred	387,791	358,135
Reductions relating to payments for:		
Current year	130,470	139,839
Prior years	<u>279,012</u>	<u>267,322</u>
Total paid	<u>409,482</u>	<u>407,161</u>
Balance at December 31	<u><u>\$ 852,130</u></u>	<u><u>\$ 873,821</u></u>

Pinnacol Assurance

Notes to Statutory Financial Statements (Continued)

Note 2 - Unpaid Losses and Loss Adjustment Expenses (Continued)

The estimated liability related to prior years decreased by \$39,676,000 and \$78,335,000 in 2024 and 2023, respectively. The decrease during both years is generally the result of ongoing analysis of recent loss development trends and better than expected development. Pinnacol's claims continue the trend of favorable development that has been evident for a number of calendar years. When the actual selected ultimate cost of an accident year's claims is less than the original estimate, favorable development is recorded. This favorable development resulted from initiatives to improve claims handling practices and reduce claims handling expenses when prudent and a reduction of ultimate claim frequency in Colorado. Pinnacol management continually evaluates the estimated ultimate cost of all accident years and on a calendar year basis adjusts to the best estimate available, favorable or unfavorable, in the current period. The amount of reserve credit recorded for high deductibles on unpaid losses was \$6,704,000 and \$6,838,000 as of December 31, 2024 and 2023, respectively. Such reduction is collateralized generally with letters of credit, surety bonds, or loss deposit security agreements for the benefit of Pinnacol. Pinnacol received \$8,008,000 and \$7,107,000 in subrogation as of December 31, 2024 and 2023, respectively. There were no significant changes in methodologies or assumptions used in calculating the reserves.

Note 3 - Internal Structured Settlements

Pinnacol has an internal structured settlement program in which it retains the liability for settlements to claimants rather than purchasing annuities from third parties. This liability has mortality risk and is discounted using a market rate. The internal structured settlement liability is actuarially valued. The internal structured settlement liability is reported as a financing liability separate from unpaid losses and loss adjustment expenses on the statutory statements of admitted assets, liabilities, and policyholders' surplus.

Activity in the liability for internal structured settlements for the years ended December 31, 2024 and 2023 is summarized as follows (in thousands):

	2024	2023
Beginning balance	\$ 401,000	\$ 381,982
Amounts incurred:		
Change in valuation	14,334	18,691
Amounts paid	(30,361)	(29,628)
New internal structured settlements	23,988	29,955
Ending balance	\$ 408,961	\$ 401,000

Pinnacol uses an annuity quote that is based upon an estimated discount rate as a basis for the paid claim amount. As such, the liability should be discounted at a long-term market rate. The discount rate applied to internal structured settlement liabilities is 2.5% at December 31, 2024 and 2023.

Pinnacol Assurance

Notes to Statutory Financial Statements (Continued)

Note 3 - Internal Structured Settlements (Continued)

The amount of the discount for unpaid internal structured settlements as of December 31, 2024 and 2023 is approximately \$143,604,000 and \$143,084,000, respectively. The discount amounts for internal structured settlement reserves at December 31, 2024 and 2023 are distributed over the years in which the losses were incurred as follows (in thousands):

2024		2023	
Loss Year	Discount	Loss Year	Discount
Prior	\$ 92,127	Prior	\$ 93,979
2014	7,175	2013	4,390
2015	4,940	2014	6,962
2016	8,705	2015	5,165
2017	5,412	2016	9,056
2018	4,276	2017	4,819
2019	4,262	2018	4,597
2020	2,477	2019	4,370
2021	7,447	2020	1,943
2022	4,139	2021	5,396
2023	1,464	2022	2,125
2024	<u>1,180</u>	2023	<u>282</u>
Total	<u>\$ 143,604</u>	Total	<u>\$ 143,084</u>

Note 4 - Investments

Estimated fair value of investments in bonds and equities is based on quotations provided by widely accepted third-party data providers. In 2024 and 2023, Reuters (Refinitiv), and Interactive Data Corporation (IDC) were used to obtain fair market values. Prior month price is used only when information is limited or unavailable.

Bonds

The NAIC's Securities Valuation Office (SVO) assigns designations of bonds from 1 to 6. Bonds with designations of 1-2 are stated at amortized value using the interest method. Bonds with designations of 3-6 require the bond to be carried at the lower of amortized value or fair value, with any related unrealized loss reported in policyholders' surplus.

During 2024 and 2023, Pinnacol had investments in long-term bonds, which the NAIC's SVO assigned a 3 or higher designation. Carrying values are equal to the lower of amortized value or fair value for these bonds.

Pinnacol Assurance

Notes to Statutory Financial Statements (Continued)

Note 4 - Investments (Continued)

The carrying value and the fair value of investments in long-term bonds in 2024 and 2023 are summarized as follows (in thousands). The carrying value includes investment grade bonds that are reported at amortized value and low rated bonds that are reported at the lower of cost or fair value.

	2024			
	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Government obligations:				
Nonloan-backed bonds	\$ 90,140	\$ 2	\$ (8,860)	\$ 81,282
Loan-backed bonds	603	3	-	606
U.S. political subdivision:				
Nonloan-backed bonds	14,093	-	(1,089)	13,004
U.S. special revenue:				
Nonloan-backed bonds	58,671	-	(6,886)	51,785
Loan-backed bonds	231,415	10	(37,218)	194,207
Industrial and miscellaneous:				
Nonloan-backed bonds	1,277,671	7,777	(99,501)	1,185,947
Loan-backed bonds	544,532	3,605	(23,334)	524,803
Hybrid securities:				
Nonloan-backed bonds	6,002	90	(39)	6,053
Total	<u>\$ 2,223,127</u>	<u>\$ 11,487</u>	<u>\$ (176,927)</u>	<u>\$ 2,057,687</u>

Pinnacol Assurance

Notes to Statutory Financial Statements (Continued)

Note 4 - Investments (Continued)

	2023			
	<u>Carrying Value</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Government obligations:				
Nonloan-backed bonds	\$ 95,661	\$ 51	\$ (9,014)	\$ 86,698
Loan-backed bonds	755	5	(2)	758
U.S. political subdivision:				
Nonloan-backed bonds	14,111	-	(1,073)	13,038
U.S. special revenue:				
Nonloan-backed bonds	61,723	17	(5,674)	56,066
Loan-backed bonds	306,444	23	(38,846)	267,621
Industrial and miscellaneous:				
Nonloan-backed bonds	1,239,978	10,855	(89,700)	1,161,133
Loan-backed bonds	445,019	3,016	(28,603)	419,432
Hybrid securities:				
Nonloan-backed bonds	<u>5,750</u>	<u>115</u>	<u>(116)</u>	<u>5,749</u>
Total	<u>\$ 2,169,441</u>	<u>\$ 14,082</u>	<u>\$ (173,028)</u>	<u>\$ 2,010,495</u>

The carrying value and estimated fair value of investments in long-term bonds including short-term investments, at December 31, 2024, by contractual maturity, are shown in the following table (in thousands). Contractual maturities for investments such as mortgage-backed securities may differ from actual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<u>Carrying Value</u>	<u>Fair Value</u>
Due in one year or less	\$ 226,311	\$ 226,101
Due after one year through five years	414,990	406,230
Due after five years through ten years	279,124	268,890
Due after ten years	689,400	600,107
Loan-backed and/or structured securities	<u>776,550</u>	<u>719,616</u>
Total	<u>\$ 2,386,375</u>	<u>\$ 2,220,944</u>

Proceeds from sales of investments in long-term bonds during 2024 and 2023 were approximately \$501,161,000 and \$171,529,000, respectively. Realized gains on long-term bonds of approximately \$2,042,000 and \$1,743,000 and realized losses of approximately \$(23,719,000) and \$(3,198,000) were recognized during 2024 and 2023, respectively.

Pinnacol Assurance

Notes to Statutory Financial Statements (Continued)

Note 4 - Investments (Continued)

The following table provides the length of impairment for those investments in long-term bonds with an unrealized loss as of December 31, 2024 (in thousands):

	Less than twelve months		Twelve months or greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2024						
Government obligations	\$ 22,133	\$ (916)	\$ 57,347	\$ (7,944)	\$ 79,480	\$ (8,860)
U.S. political subdivision	8,787	(3)	4,217	(1,086)	13,004	(1,089)
U.S. special revenue	26,624	(830)	218,522	(43,274)	245,146	(44,104)
Industrial and miscellaneous	505,659	(17,152)	686,665	(108,396)	1,192,324	(125,548)
Hybrid securities	3,231	(26)	2,085	(17)	5,316	(43)
Total	<u>\$ 566,434</u>	<u>\$ (18,927)</u>	<u>\$ 968,836</u>	<u>\$ (160,717)</u>	<u>\$ 1,535,270</u>	<u>\$ (179,644)</u>

The following table provides the length of impairment for those investments in long-term bonds with an unrealized loss as of December 31, 2023 (in thousands):

	Less than twelve months		Twelve months or greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2023						
Government obligations	\$ 1,842	\$ (56)	\$ 83,376	\$ (8,960)	\$ 85,218	\$ (9,016)
U.S. political subdivision	8,758	(32)	4,280	(1,041)	13,038	(1,073)
U.S. special revenue	30,938	(638)	288,152	(43,882)	319,090	(44,520)
Industrial and miscellaneous	73,061	(1,174)	1,144,516	(121,347)	1,217,577	(122,521)
Hybrid securities	75	-	5,113	(123)	5,188	(123)
Total	<u>\$ 114,674</u>	<u>\$ (1,900)</u>	<u>\$ 1,525,437</u>	<u>\$ (175,353)</u>	<u>\$ 1,640,111</u>	<u>\$ (177,253)</u>

Loan-Backed and Structured Securities

Loan-backed securities are stated at amortized value or fair value based on their NAIC designation. The prospective method is used to value mortgage-backed securities. Prepayment assumptions for single class and multiclass mortgage-backed/asset-backed securities were obtained from widely accepted models with inputs from major third-party data providers. Any loan-backed and structured securities in an unrealized loss position were reviewed to determine whether an other-than temporary impairment (OTTI) should be recognized at year-end.

There was no new recognized OTTI for loan-backed securities in 2024.

Pinnacol Assurance

Notes to Statutory Financial Statements (Continued)

Note 4 - Investments (Continued)

Pinnacol recognized approximately \$622,000 in OTTI on loan-backed securities in 2023. The loan-backed securities with a recognized OTTI for the year ended December 31, 2023 are as follows (in thousands):

CUSIP	Book/Adjusted Carrying Value Amortized	Present Value of Projected Cash Flows	Recognized OTTI	Amortized	Fair Value at time of OTTI	Date of Financial Statement Where Reported
	Cost Before Current Period OTTI			Cost After OTTI		
3137BS-P7-2	\$ 1,999	\$ 1,895	\$ 104	\$ 1,895	\$ 1,895	03/31/2023
3137BS-RE-5	\$ 3,042	\$ 2,884	\$ 158	\$ 2,884	\$ 2,884	03/31/2023
3137BT-UM-1	\$ 5,089	\$ 4,843	\$ 250	\$ 4,838	\$ 4,838	03/31/2023
3137FB-BX-3	\$ 2,087	\$ 1,977	\$ 110	\$ 1,977	\$ 1,977	03/31/2023

Loan-backed and structured securities in an unrealized loss position as of year-end, stratified based on length of time continuously in these unrealized loss positions, are as follows (in thousands):

	2024		2023	
	Aggregate amount of <u>unrealized loss</u>	Aggregate fair value of securities with <u>unrealized loss</u>	Aggregate amount of <u>unrealized loss</u>	Aggregate fair value of securities with <u>unrealized loss</u>
Less than 12 months	\$ (571)	\$ 59,193	\$ (732)	\$ 47,754
12 months or longer	(59,981)	322,395	(66,719)	506,929
	<u>\$ (60,552)</u>	<u>\$ 381,588</u>	<u>\$ (67,451)</u>	<u>\$ 554,683</u>

Pinnacol Assurance

Notes to Statutory Financial Statements (Continued)

Note 4 - Investments (Continued)

Equities

Unrealized (losses) gains on investments in common stocks and mutual funds are reported as a component of policyholders' surplus. For any decline in the fair value of equities, which is determined to be other than temporary, the resulting OTTI loss is recognized in the statement of operations. OTTI of common stocks and mutual funds result in the establishment of a new, adjusted cost basis for such investments. The Company's investment in Cake is included in common stock for the year ended December 31, 2024 and 2023 within the statutory statements of admitted assets, liabilities and policyholders' surplus (see Note 1 for details). The original cost, adjusted cost, net unrealized (losses) gains (measured against adjusted cost), and fair value of common stocks and mutual funds are summarized as follows (in thousands):

	<u>Original cost</u>	<u>Adjusted cost</u>	<u>Net unrealized gains (losses)</u>	<u>Fair value</u>
December 31, 2024	\$ 392,269	\$ 384,282	\$ (2,195)	\$ 382,087
December 31, 2023	\$ 415,531	\$ 407,231	\$ (25,821)	\$ 381,410

The Company is a member of the Federal Home Loan Bank (FHLB) of Topeka. Through its membership, the Company conducted business activity (borrowings) with the FHLB by utilizing the overnight line of credit. The Company used these funds to retire surplus notes. The Company has determined the borrowing capacity as approximately \$94,848,000 based on current securities pledged. The Company was provided this amount by the FHLB as of December 31, 2024. As a requirement of the membership and conducting business activities with FHLB, Pinnacol owns FHLB Class A and Class B Capital Stock totaling approximately \$600,000 and \$1,989,000, respectively, in both 2024 and 2023.

Mortgage Loans on Real Estate

The Company held approximately \$64,740,000 and \$73,657,000 of commercial mortgage loans at December 31, 2024 and 2023, respectively. Mortgage loans on real estate consist entirely of domestic commercial collateralized loans and are carried at their unpaid principal balances adjusted for any unamortized premiums or discounts, origination fees, provision allowances, and foreign currency translations. Interest income is accrued on the unpaid principal balance for all loans, except for loans on nonaccrual status. Premiums, discounts, and origination fees are amortized to net investment income using the effective-interest method.

The maximum and minimum lending rates for mortgage loans issued during the year ended December 31, 2024 were 10.08% and 7.88%, respectively. The maximum and minimum lending rates for mortgage loans issued during the year ended December 31, 2023 were 9.02% and 8.72%, respectively. The maximum percentage of any one loan to the value of security at the time of the loan was 67.71% and 70.69% during the years ended December 31, 2024 and 2023, respectively.

Pinnacol Assurance

Notes to Statutory Financial Statements (Continued)

Note 4 - Investments (Continued)

A third-party manager actively manages the Company's mortgage loan portfolio by completing ongoing comprehensive analysis of factors, such as debt service coverage ratios, loan-to-value ratios, payment status, default or legal status, collateral property evaluations, and general market conditions. On a quarterly basis, the Company reviews any provided credit quality risk indicators in its internal assessment of loan impairment and credit loss.

Management's periodic evaluation and assessment for mortgage impairments is based on delinquency status, internally derived fair value, as well as credit concern status based on known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the fair value of the underlying collateral, composition of the loan portfolio, current economic conditions, loss experience, and other relevant factors. Risk is mitigated primarily through first lien collateralization, guarantees, loan covenants, and borrower reporting requirements. Since the Company does not hold uncollateralized mortgages, loans are generally deemed to be collectible. Any remaining unrecoverable amounts are written off during the final stage of the foreclosure process.

Loan balances are considered delinquent when payment has not been received based on contractually agreed-upon terms. The accrual of interest is discontinued when concerns exist regarding the realization of loan principal or interest. The Company resumes interest accrual on loans when a loan returns to current status or under new terms when loans are restructured or modified.

At December 31, 2024 and 2023, the Company did not have any troubled, impaired, or delinquent mortgage loans, or any reason to believe payments would be uncollectible on any existing loans.

Pinnacol Assurance

Notes to Statutory Financial Statements (Continued)

Note 4 - Investments (Continued)

Other Invested Assets

Investments in partnerships are stated at the underlying audited equity value. For those investments in which the audited financial statements were not available by the March 1, 2025 statutory annual statement filing deadline, the unaudited equity value was used. Other invested assets total approximately \$185,463,000 and \$194,276,000 in 2024 and 2023, respectively, with \$181,970,000 and \$190,770,000 relating to investments in partnerships. Due to Colorado Revised Statutes limitations, the balance of other invested assets may not exceed 5% of admitted assets. At December 31, 2024 and 2023, approximately \$27,566,000 and \$40,746,000 was nonadmitted due to this requirement, respectively. The Company has contributed \$129,439,000 in net capital (capital contributions, less capital distributions) since investing in partnerships and is responsible for up to an additional \$58,146,000 as of December 31, 2024. The terms of these investment vehicles place certain limitations on redemption of the holdings, which can include but are not limited to: requiring General Partner approval prior to the Company being able to redeem its interests; limits on the timing of when the redemptions can be made; and the Company being able to locate an eligible buyer as the investments are not all redeemable directly with the investment fund. Due to these factors and penalties that may be imposed by the investment vehicle for early withdrawal, the Company may not be able to redeem its interests in the funds at its share of the US GAAP basis equity as reported in the financial statements. The Company does not anticipate a need for early withdrawal.

Impairment of Investments

The Company writes securities down to fair value that it deems to be OTTI in the period the securities are deemed to be so impaired. The Company records write-downs as realized capital losses and adjusts the cost basis of the securities, accordingly. The Company does not adjust the revised cost basis for subsequent recoveries in value.

The assessment of whether an OTTI occurred is based upon management's case-by-case evaluation of the underlying reasons for the decline in fair value. Management considers a wide range of factors, as described below, regarding the security issuer and uses its best judgment in evaluating the cause of the decline in its estimated fair value and in assessing the prospects for near term recovery. Inherent in management's evaluation of the security are assumptions and estimates about the operations and future earnings potential of the issuer.

Considerations used by the Company in the impairment evaluation process include, but are not limited to, the following:

- Fair value is significantly below cost.
- The decline in fair value is attributable to specific adverse conditions affecting a particular instrument, its issuer, an industry, or geographic area.
- The decline in fair value has existed for an extended period of time.
- A debt security has been downgraded by a credit rating agency.
- The financial condition of the issuer has deteriorated.
- A change in future expected cash flows has occurred.

Pinnacol Assurance

Notes to Statutory Financial Statements (Continued)

Note 4 - Investments (Continued)

- Dividends have been reduced or eliminated or scheduled interest payments have not been made.
- The ability and intent to hold investments until recovery, including consideration of the investment manager's discretion to sell securities.
- The present value of projected cash flows expected to be collected is less than amortized value of loan-backed and structured securities.

While all available information is taken into account, it is difficult to predict the ultimate recoverable amount from a distressed or impaired security.

At December 31, 2024 and 2023, 5.50% and 5.28% of long-term bonds held by the Company were rated non-investment grade, respectively. At December 31, 2024 and 2023, the Company had approximately \$179,644,000 and \$177,253,000, respectively, of unrealized losses related to its long-term bonds. The unrealized losses on securities are primarily attributable to fluctuations in market interest rates and changes in credit spreads since the securities were acquired.

Other-Than-Temporary Impairment

During 2024 and 2023, the Company recognized approximately \$1,538,000 and \$9,908,000, respectively, in OTTI on long-term bonds, and \$274,000 and \$145,000, respectively, in OTTI on common stocks, preferred stocks, and mutual funds. The Company also recognized OTTI on other invested assets of approximately \$0 and \$8,000 in 2024 and 2023, respectively.

Fair Value Measurements

The Company has categorized its assets and liabilities that are reported on the statutory statements of admitted assets, liabilities, and policyholders' surplus at fair value into the three-level fair value hierarchy. The three-level fair value hierarchy is based on the degree of subjectivity inherent in the valuation method by which fair value was determined. The three levels are defined as follows.

- Level 1 – Quoted prices in active markets for identical assets and liabilities: This category, for items measured at fair value on a recurring basis includes common stocks, preferred stocks, and money market mutual funds. The estimated fair value of the equity securities within this category are based on quoted prices in active markets and are thus classified as Level 1.
- Level 2 – Significant other observable inputs: This category for items measured at fair value on a recurring basis includes bonds and common stocks, which are not exchange traded. The estimated fair values of some of these items were determined by independent pricing services using observable inputs. Others were based on quotes from markets, which were not considered actively traded.
- Level 3 – Significant unobservable inputs: This category for items measured at fair value includes common stocks, common stock warrants, preferred stocks, and bonds. The estimated fair value of these items was determined by internal ratings in the absence of observable inputs.

Pinnacle Assurance

Notes to Statutory Financial Statements (Continued)

Note 4 - Investments (Continued)

The following table represents (in thousands) information about the Company's financial assets measured at fair value in Level 3 as of December 31, 2024.

	Fair value measurements - Level 3 December 31, 2024						
	Beginning balance, January 1, 2024	Amortization accretion	Current realized net income (loss)	Change in unrealized surplus	Purchases/ transfers into Level 3	Sales/ settlements/ transfers out of Level 3	Ending balance December 31, 2024
Assets							
Bonds - private placements	\$ 1,552	\$ -	\$ -	\$ 56	\$ -	\$ (1,082)	\$ 526
All other bonds	115	-	(326)	(391)	298	307	3
Common stocks - industrial and miscellaneous	3,799	-	(189)	(22)	701	(466)	3,823
Preferred stocks	-	-	57	1	15	(68)	5
Total assets	<u>\$ 5,466</u>	<u>\$ -</u>	<u>\$ (458)</u>	<u>\$ (356)</u>	<u>\$ 1,014</u>	<u>\$ (1,309)</u>	<u>\$ 4,357</u>

The following table represents (in thousands) information about the Company's financial assets measured at fair value in Level 3 as of December 31, 2023.

	Fair value measurements - Level 3 December 31, 2023						
	Beginning balance, January 1, 2023	Amortization accretion	Current realized net income (loss)	Change in unrealized surplus	Purchases/ transfers into Level 3	Sales/ settlements/ transfers out of Level 3	Ending balance December 31, 2023
Assets							
Bonds - private placements	\$ 2,522	\$ -	\$ -	\$ 33	\$ -	\$ (1,003)	\$ 1,552
All other bonds	-	-	330	3	119	(337)	115
Common stocks - industrial and miscellaneous	3,921	-	(75)	(63)	297	(281)	3,799
Total assets	<u>\$ 6,443</u>	<u>\$ -</u>	<u>\$ 255</u>	<u>\$ (27)</u>	<u>\$ 416</u>	<u>\$ (1,621)</u>	<u>\$ 5,466</u>

Pinnacol Assurance

Notes to Statutory Financial Statements (Continued)

Note 4 - Investments (Continued)

The following tables present (in thousands) information about the Company's financial assets measured at fair value on a recurring basis for accounting purposes as of December 31, 2024 and 2023, respectively, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value, excluding the \$(2,053,000) and \$(13,451,000) investment in Cake in 2024 and 2023, respectively, as it is accounted for under the equity method:

Fair value measurement - recurring basis December 31, 2024				
Assets	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Common stocks:				
Industrial and miscellaneous	\$ 71,585	\$ -	\$ 3,823	\$ 75,408
Mutual funds	<u>308,732</u>	<u>-</u>	<u>-</u>	<u>308,732</u>
Total common stocks	380,317	-	3,823	384,140
Perpetual preferred stocks	935	-	-	935
Money market mutual funds	<u>34,084</u>	<u>-</u>	<u>-</u>	<u>34,084</u>
Total assets	<u>\$ 415,336</u>	<u>\$ -</u>	<u>\$ 3,823</u>	<u>\$ 419,159</u>

Fair value measurement - recurring basis December 31, 2023				
Assets	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Common stocks:				
Industrial and miscellaneous	\$ 75,240	\$ -	\$ 3,799	\$ 79,039
Mutual funds	<u>315,821</u>	<u>-</u>	<u>-</u>	<u>315,821</u>
Total common stocks	391,061	-	3,799	394,860
Perpetual preferred stocks	705	-	-	705
Money market mutual funds	<u>42,928</u>	<u>-</u>	<u>-</u>	<u>42,928</u>
Total assets	<u>\$ 434,694</u>	<u>\$ -</u>	<u>\$ 3,799</u>	<u>\$ 438,493</u>

Certain assets are measured at fair value on a nonrecurring basis quarterly or more frequently if events dictate that the carrying value of the asset may not be recovered. These assets include bonds held at fair value with an NAIC designation of 3-6 and redeemable preferred stocks held at fair value with an NAIC designation of RP3-RP6. There were bonds with these designations where the fair value was less than amortized value, which resulted in an unrealized loss of \$2,716,000 at December 31, 2024 and \$4,226,000 at December 31, 2023.

Pinnacol Assurance

Notes to Statutory Financial Statements (Continued)

Note 4 - Investments (Continued)

The following tables reflect (in thousands) the fair values and admitted values of all admitted assets and liabilities that are financial instruments, excluding those accounted for under the equity method as of December 31, 2024 and 2023, respectively. The \$(2,053,000) and \$(13,451,000) investment in Cake in 2024 and 2023, respectively, is accounted for under the equity method and therefore excluded. The fair values are also categorized into the three-level fair value hierarchy as described above.

December 31, 2024					
Class of Security	Carrying Value	Level 1	Level 2	Level 3	Fair Value
Long-term bonds:					
CDOs/CBOs/CLOs	\$ 224,150	\$ -	\$ 213,861	\$ 11,760	\$ 225,621
Private placements	215,879	-	928	204,290	205,218
All other bonds	<u>1,783,098</u>	<u>-</u>	<u>1,571,183</u>	<u>55,665</u>	<u>1,626,848</u>
Total long-term bonds	2,223,127	-	1,785,972	271,715	2,057,687
Preferred stocks:					
Perpetual preferred	935	935	-	-	935
Redeemable preferred	<u>6,682</u>	<u>-</u>	<u>-</u>	<u>6,723</u>	<u>6,723</u>
Total preferred stocks	7,617	935	-	6,723	7,658
Common stocks					
Industrial and miscellaneous	75,408	71,585	-	3,823	75,408
Mutual funds	<u>308,732</u>	<u>308,732</u>	<u>-</u>	<u>-</u>	<u>308,732</u>
Total common stocks	384,140	380,317	-	3,823	384,140
Mortgage loans	64,740	-	-	64,575	64,575
Cash, cash equivalents, and short-term investments	<u>219,889</u>	<u>56,643</u>	<u>163,243</u>	<u>15</u>	<u>219,901</u>
Total assets	<u>\$ 2,899,513</u>	<u>\$ 437,895</u>	<u>\$ 1,949,215</u>	<u>\$ 346,851</u>	<u>\$ 2,733,961</u>

Pinnacol Assurance

Notes to Statutory Financial Statements (Continued)

Note 4 - Investments (Continued)

December 31, 2023					
Class of Security	Carrying Value	Level 1	Level 2	Level 3	Fair Value
Long-term bonds:					
CDOs/CBOs/CLOs	\$ 202,556	\$ -	\$ 202,798	\$ -	\$ 202,798
Private placements	200,154	-	1,063	186,002	187,065
All other bonds	<u>1,766,731</u>	<u>-</u>	<u>1,563,041</u>	<u>57,590</u>	<u>1,620,631</u>
Total long-term bonds	2,169,441	-	1,766,902	243,592	2,010,494
Preferred stocks:					
Perpetual preferred	705	705	-	-	705
Redeemable preferred	<u>1,304</u>	<u>-</u>	<u>-</u>	<u>1,339</u>	<u>1,339</u>
Total preferred stocks	2,009	705	-	1,339	2,044
Common stocks					
Industrial and miscellaneous	79,039	75,240	-	3,799	79,039
Mutual funds	<u>315,821</u>	<u>315,821</u>	<u>-</u>	<u>-</u>	<u>315,821</u>
Total common stocks	394,860	391,061	-	3,799	394,860
Mortgage loans	73,657	-	-	73,619	73,619
Cash, cash equivalents, and short-term investments	<u>193,356</u>	<u>38,266</u>	<u>155,113</u>	<u>-</u>	<u>193,379</u>
Total assets	<u>\$ 2,833,323</u>	<u>\$ 430,032</u>	<u>\$ 1,922,015</u>	<u>\$ 322,349</u>	<u>\$ 2,674,396</u>

Pinnacol Assurance

Notes to Statutory Financial Statements (Continued)

Note 4 - Investments (Continued)

Investment Income

Major categories of net investment income (expense) for the years ended December 31, 2024 and 2023 are summarized as follows (in thousands):

	<u>2024</u>	<u>2023</u>
Investment income (expense):		
Corporate and miscellaneous bonds	\$ 99,105	\$ 94,125
U.S. government bonds	1,730	2,510
Cash and other investments	12,422	4,989
Real estate	5,513	5,513
Other invested assets	15,090	11,891
Mortgage loans	5,718	6,173
Equity securities	16,128	10,461
Surplus note and FHLB interest expense	(6,759)	(6,670)
Investment expenses	<u>(10,903)</u>	<u>(14,441)</u>
Net investment income earned	138,044	114,551
Net realized capital (losses) gains:		
Corporate and miscellaneous bonds	(23,103)	(7,655)
U.S. government bonds	(581)	(3,708)
Cash and other investments	7	4
Equity securities	20,570	6,990
Other invested assets	<u>7</u>	<u>(8)</u>
Net realized capital losses	<u>(3,100)</u>	<u>(4,377)</u>
Net investment income	<u>\$ 134,944</u>	<u>\$ 110,174</u>

Interest income due and accrued was \$23,172,000 and \$21,289,000 as of December 31, 2024 and 2023, respectively, and is included in accrued investment income on the statements of admitted assets, liabilities, and policyholders' surplus. No amounts were nonadmitted.

There was \$38,000 and \$0 of aggregate deferred interest or paid-in-kind (PIK) interest as of December 31, 2024 and 2023, respectively.

Pinnacol Assurance

Notes to Statutory Financial Statements (Continued)

Note 5 - Borrowings

Pinnacol is a member of the Federal Home Loan Bank (FHLB) of Topeka. Through its membership, the Company has conducted business activity (borrowings) with the FHLB by utilizing the Overnight Line of Credit advance. The Company must deliver qualifying collateral to FHLB in an amount that provides a collateral coverage level sufficient to cover its extensions of credit. FHLB assigns the appropriate borrowing capacity to each security according to the security type and then determines the total borrowing capacity as a percentage of the market value of the securities pledged.

The following table summarizes the FHLB pledge and borrowing (in thousands):

	2024	2023
Borrowing capacity as of reporting date	\$ 94,848	\$ 62,828
Collateral amount pledged:		
Fair value	105,338	67,327
Carrying value	130,105	80,819
Borrowing	53,000	53,000
Accrued interest	215	252
Total	\$ 53,215	\$ 53,252

The Company drew on the FHLB line of credit beginning on November 18, 2022. Overnight Line of Credit advances mature daily, with automatic daily renewals of the outstanding balance subject to FHLB's discretion not to renew. Members can adjust their outstanding balance daily; however, Overnight Line of Credit advances are not prepayable on the date of the draw. As of December 31, 2024 and 2023, the Face Value/Carrying Value of the Overnight Line of Credit advance was \$53,000,000. Interest is payable at a rate that is adjusted and reset by FHLB on a daily basis. As of December 31, 2024, the interest rate was set at 4.57% with year-to-date interest paid of \$2,662,000 and interest accrued of \$215,000. As of December 31, 2023, the interest rate was set at 5.55% with year-to-date interest paid of \$2,537,000 and interest accrued of \$252,000.

The Company is subject to compliance with the terms of the FHLB membership program including providing reports as FHLB may require and notices for specified events such as defaults, mergers, and changes in charter. As of December 31, 2024, the Company is in compliance with all FHLB membership terms.

Pinnacol Assurance

Notes to Statutory Financial Statements (Continued)

Note 6 - Reinsurance

Ceded Reinsurance

Pinnacol purchases excess of loss reinsurance with two layers and terrorism coverage. The reinsurance coverage for individual workers' compensation accidents was as follows:

- Layer 1 – Limit of \$20,000,000 in excess of retention of \$20,000,000 per occurrence
- Layer 2 – Limit of \$40,000,000 in excess of retention of \$40,000,000 per occurrence
- Terrorism Only – Limit of \$50,000,000 in excess of retention of \$80,000,000 per occurrence

Management is not aware of any loss nor did the Company record any loss great enough to attach to these layers during any of the prior policy periods. Therefore, no provision for reinsurance has been recorded as of December 31, 2024 and 2023.

Reinsurance contracts do not relieve Pinnacol of its obligations, and a failure of the reinsurer to honor its obligations could result in losses unreimbursed to Pinnacol. Pinnacol evaluates and monitors the financial condition of its reinsurers to minimize its exposure to loss from reinsurer insolvency. Management of Pinnacol believes its reinsurers are financially sound and will continue to meet their contractual obligations.

Pinnacol uses Lloyd's Syndicates as part of its ceded reinsurer program. The Syndicates are given an "A" rating by AM Best. The remaining reinsurers had the following AM Best ratings at December 31, 2024:

Reinsurer	AM Best Rating
Allied World Assurance Company, Limited	A
Arch Reinsurance Company	A+
Markel Bermuda Limited	A+
Convex Insurance UK Limited	A-
XL Re Europe	A+
Munich Reinsurance America	A+
Sompo International Re	A+
Houston Casualty Company UK Limited	A++

Pinnacol Assurance

Notes to Statutory Financial Statements (Continued)

Note 6 - Reinsurance (Continued)

Assumed Reinsurance

Pinnacol has entered into assumed reinsurance contracts that allow the Company to provide insurance coverage under the workers' compensation provisions of other states for the employees of Colorado companies who work outside of Colorado (Multi State Coverage). Effective March 1, 2004, Pinnacol executed a reinsurance contract with Argonaut Insurance Company for Multi State Coverage. The contract was canceled in 2010; however, Pinnacol will continue to pay existing claims in accordance with this reinsurance agreement until these claims are closed or these risks are transferred. As the Company entered into a reinsurance agreement in 2010 with Zurich American Insurance Company, there were no gaps in coverage. This agreement was still in effect as of December 31, 2024. The Multi State Coverage contracts are designed as 100% quota share arrangements with Pinnacol acting as the assuming company. Premium revenue is recognized pro rata over the period the policy is effective.

Funds have been placed on deposit as collateral with Argonaut Insurance Company and Zurich American Insurance Company in the amount of \$7,391,000 and \$4,491,000 in 2024 and 2023, respectively.

A Letter of Credit has been posted to Argonaut Insurance Company in the amount of \$3,350,000 and \$4,235,000 in 2024 and 2023, respectively, along with \$10,000,000 in pledged assets.

Assets have been pledged in a trust to Zurich American Insurance Company in the amount of \$61,642,000 and \$56,047,000 in 2024 and 2023, respectively.

Pinnacol held unearned premium reserves related to assumed business of \$1,784,000 and \$1,564,000 for the years ended December 31, 2024 and 2023, respectively. Pinnacol had loss and loss adjustment expense reserves related to assumed business of \$30,206,000 and \$27,651,000 for the years ended December 31, 2024 and 2023, respectively.

Pinnacol Assurance

Notes to Statutory Financial Statements (Continued)

Note 6 - Reinsurance (Continued)

The following reinsurance activity has been recorded in the accompanying statutory financial statements (in thousands):

	<u>2024</u>	<u>2023</u>
Direct premiums written	\$ 535,310	\$ 515,536
Premiums ceded	(1,351)	(1,338)
Premiums assumed	<u>22,928</u>	<u>20,788</u>
Net premiums written	<u>\$ 556,887</u>	<u>\$ 534,986</u>
Direct premiums earned	\$ 533,569	\$ 513,185
Premiums ceded	(1,351)	(1,338)
Premiums assumed	<u>22,709</u>	<u>20,324</u>
Net premiums earned	<u>\$ 554,927</u>	<u>\$ 532,171</u>
Direct losses incurred	\$ 284,126	\$ 261,505
Losses ceded	-	-
Losses assumed	<u>15,293</u>	<u>12,417</u>
Net losses incurred	<u>\$ 299,419</u>	<u>\$ 273,922</u>
Direct loss adjustment expenses incurred	\$ 85,595	\$ 81,061
Loss adjustment expenses assumed	<u>2,777</u>	<u>3,152</u>
Net loss adjustment expenses incurred	<u>\$ 88,372</u>	<u>\$ 84,213</u>

Note 7 - Employee Benefits

Defined-Benefit Pension Plan through the State of Colorado

Pensions – Pinnacol participates in the State Division Trust Fund (SDTF), a cost-sharing multiple-employer defined-benefit pension fund administered by the Public Employees' Retirement Association of Colorado (PERA). The net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position (FNP) and additions to/deductions from the FNP of the SDTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments held by the SDTF are reported at fair value.

Pinnacol Assurance

Notes to Statutory Financial Statements (Continued)

Note 7 - Employee Benefits (Continued)

Plan description – All Pinnacol employees are provided with pensions through the SDTF – a cost-sharing multiple-employer defined-benefit pension plan administered by PERA. Plan benefits are specified in Title 24, Article 51 of the Colorado Revised Statutes (C.R.S.), administrative rules set forth at 8 C.C.R. 1502 1, and applicable provisions of the federal Internal Revenue Code. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available annual comprehensive financial report (ACFR) that can be obtained at <https://www.copera.org/investments/pera-financial-reports>.

Benefits provided – PERA provides retirement, disability, and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structure(s) under which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is specified in tables set forth at C.R.S. § 24-51-602, 604, 1713, and 1714.

The lifetime retirement benefit for all eligible retiring employees under the PERA benefit structure is the greater of the:

- Highest average salary multiplied by 2.5% and then multiplied by years of service credit.
- Value of the retiring employee's member contribution account plus a 100% match on eligible amounts as of the retirement date. This amount is then annuitized into a monthly benefit based on life expectancy and other actuarial factors.

In all cases, the service retirement benefit is limited to 100% of highest average salary and also cannot exceed the maximum benefit allowed by federal Internal Revenue Code.

Members may elect to withdraw their member contribution accounts upon termination of employment with all PERA employers; waiving rights to any lifetime retirement benefits earned. If eligible, the member may receive a match of either 50% or 100% on eligible amounts depending on when contributions were remitted to PERA, the date employment was terminated, whether five years of service credit has been obtained, and the benefit structure under which contributions were made.

Pinnacol Assurance

Notes to Statutory Financial Statements (Continued)

Note 7 - Employee Benefits (Continued)

Upon meeting certain criteria, benefit recipients who elect to receive a lifetime retirement benefit generally receive post-retirement cost-of-living adjustments, referred to as annual increases in the C.R.S. Subject to the automatic adjustment provision (AAP) under C.R.S. § 24-51-413, eligible benefit recipients under the PERA benefit structure who began membership before January 1, 2007, will receive the maximum annual increase (AI) or AI cap of 1.00% unless adjusted by the AAP. Eligible benefit recipients under the PERA benefit structure who began membership on or after January 1, 2007, will receive the lesser of an annual increase of the 1.00% AI cap or the average increase of the Consumer Price Index for Urban Wage Earners and Clerical Workers for the prior calendar year, not to exceed a determined increase that would exhaust 10% of PERA's Annual Increase Reserve (AIR) for the SDTF. The AAP may raise or lower the aforementioned AI cap by up to 0.25% based on the parameters specified in C.R.S. § 24-51-413.

Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability. The disability benefit amount is based on the retirement benefit formula(s) shown above considering a minimum 20 years of service credit, if deemed disabled.

Survivor benefits are determined by several factors, which include the amount of earned service credit, highest average salary of the deceased, the benefit structure(s) under which service credit was obtained, and the qualified survivor(s) who will receive the benefits.

Pinnacol Assurance

Notes to Statutory Financial Statements (Continued)

Note 7 - Employee Benefits (Continued)

Contributions – Eligible employees of Pinnacol and the State are required to contribute to the SDTF at a rate set by Colorado statute. The contribution requirements for the SDTF are established under C.R.S. § 24-51-401, et seq. and § 24-51-413. Eligible employees were required to contribute 10.50% of their PERA-includable salary until June 30, 2022; thereafter, the contribution increased to 11.00% of PERA-includable salary. The employer contribution requirements for Pinnacol are summarized in the table below:

	For the year ended December 31		
	2024	2023	2022
Employer contribution rate (includes 1.02% allocation to the Health Care Trust Fund) ¹	11.40 %	11.40 %	11.40 %
Amortization equalization Disbursement (AED) as specified in C.R.S. §24-51-411 ¹	5.00	5.00	5.00
Supplemental amortization Equalization disbursement (SAED) as specified in C.R.S., §24-51-411 ¹	5.00	5.00	5.00
Defined Contribution Supplement as specified in C.R.S. §24-51-415	0.21	0.17	0.10
Total employer contribution rate ¹	<u>21.61 %</u>	<u>21.57 %</u>	<u>21.50 %</u>

¹ Contribution rates for the SDTF are expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42).

Employer contributions are recognized by the SDTF in the period in which the compensation becomes payable to the member and Pinnacol is statutorily committed to pay the contributions to the SDTF. Employer contributions recognized by the SDTF from Pinnacol were \$17,415,000 and \$16,908,000, for the years ended December 31, 2024 and 2023, respectively. These contributions met the contribution requirement for each year.

Pinnacol Assurance

Notes to Statutory Financial Statements (Continued)

Note 7 - Employee Benefits (Continued)

As specified in C.R.S. § 24-51-414, the State is required to contribute \$225,000,000 each year to PERA starting on July 1, 2018. A portion of the direct distribution payment is allocated to the SDTF based on the proportionate amount of annual payroll of the SDTF to the total annual payroll of the SDTF, School Division Trust Fund, Judicial Division Trust Fund, and Denver Public Schools (DPS) Division Trust Fund. The direct distribution from the State was suspended in 2020. To compensate PERA for the suspension, C.R.S. § 24-51-414(6-8) required restorative payment by providing an accelerated payment in 2022. In 2022, the State Treasurer issued repayment for the direct distribution of \$225,000,000 plus an additional amount of \$380,000,000. Due to the advanced payment made in 2022, the State reduced the distribution in 2023 to \$35,000,000. Additionally, the newly added C.R.S. § 24-51-414(9) provided compensatory payment of \$14,561,000 for 2023 only. The State distributed \$225,000,000 to PERA on July 1, 2024 without any reductions.

Voluntary Tax Deferred Retirement Plans

Plan description – Employees of Pinnacol that are also members of the SDTF may voluntarily contribute to the Voluntary Investment Program (PERAPlus 401(k) Plan), an Internal Revenue Code Section 401(k) defined-contribution plan administered by PERA. Title 24, Article 51, Part 14 of the C.R.S., as amended, assigns the authority to establish the Plan provisions to the PERA Board of Trustees. PERA issues a publicly available ACFR which includes additional information on the PERAPlus 401(k) Plan. That report can be obtained at <https://www.copera.org/investments/pera-financial-reports>.

Funding policy – The PERAPlus 401(k) Plan is funded by voluntary member contributions up to the maximum limits set by the Internal Revenue Service, as established under Title 24, Article 51, Section 1402 of the C.R.S., as amended. In addition, Pinnacol has agreed to match employee's elective contributions into the PERA 401(k) Plan at 50% up to the first 6% of employees' elected deferrals. Employees are immediately vested in their own contributions, employer contributions, and investment earnings. For the years ended December 31, 2024 and 2023, Pinnacol contributed approximately \$2,046,000 and \$1,845,000, respectively, in matching contributions to the PERA 401(k) Plan. Pinnacol also offers a 457 deferred compensation plan.

Defined-Benefit Other Postemployment Benefit (OPEB) Plan

OPEB plan – Pinnacol participates in the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer defined-benefit OPEB plan administered by PERA.

Plan description – The HCTF is established under Title 24, Article 51, Part 12 of the C.R.S., as amended, and sets forth a framework that grants authority to the PERA Board to contract, self-insure, and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of the premium subsidies. Colorado State law provisions may be amended by the Colorado General Assembly. PERA issues a publicly available ACFR that can be obtained at <https://www.copera.org/investments/pera-financial-reports>.

Pinnacol Assurance

Notes to Statutory Financial Statements (Continued)

Note 7 - Employee Benefits (Continued)

Benefits provided – The HCTF provides a healthcare premium subsidy to eligible participating PERA benefit recipients and retirees who choose to enroll in one of the PERA healthcare plans; however, the subsidy is not available if only enrolled in the dental and/or vision plan(s). The healthcare premium subsidy is based upon the benefit structure under which the member retires and the member's years of service credit. The basis for the amount of the premium subsidy funded by each trust fund is the percentage of the member contribution account balance from each division, as it relates to the total member contribution account balance from which the retirement benefit is paid.

C.R.S. § 24-51-1202 et seq. specifies the eligibility for enrollment in the healthcare plans offered by PERA and the amount of the premium subsidy. The law governing a benefit recipient's eligibility for the subsidy and the amount of the subsidy differs slightly depending under which benefit structure the benefits are calculated. All benefit recipients under the PERA benefit structure are eligible for a premium subsidy, if enrolled in a healthcare plan under PERACare.

Enrollment in the PERACare health benefits program is voluntary and is available to benefit recipients and their eligible dependents, certain surviving spouses, and divorced spouses and guardians, among others. Eligible benefit recipients may enroll into the program upon retirement, upon the occurrence of certain life events, or on an annual basis during an open enrollment period.

PERA benefit structure – The maximum service-based premium subsidy is \$230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare; the maximum service-based subsidy is \$115 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The maximum service-based subsidy, in each case, is for benefit recipients with retirement benefits based on 20 or more years of service credit. There is a 5% reduction in the subsidy for each year less than 20. The benefit recipient pays the remaining portion of the premium to the extent the subsidy does not cover the entire amount.

For retirees who have not participated in Social Security and who are not otherwise eligible for premium-free Medicare Part A for hospital-related services, C.R.S. § 24-51-1206(4) provides an additional subsidy. According to the statute, PERA cannot charge premiums to benefit recipients without Medicare Part A that are greater than premiums charged to benefit recipients with Part A for the same plan option, coverage level, and service credit. Currently, for each individual PERACare enrollee, the total premium for Medicare coverage is determined assuming plan participants have both Medicare Part A and Part B and the difference in premium cost is paid by the HCTF on behalf of benefit recipients not covered by Medicare Part A.

Pinnacol Assurance

Notes to Statutory Financial Statements (Continued)

Note 7 - Employee Benefits (Continued)

Contributions – Pursuant to Title 24, Article 51, Section 208(1) (f) of the C.R.S., as amended, certain contributions are apportioned to the HCTF. PERA-affiliated employers are required to contribute at a rate of 1.02% of PERA-includable salary into the HCTF. Pinnacol's contribution is included in the total employer contribution rate of 21.61% and 21.57% as of December 31, 2024 and 2023, respectively. No member contributions are required to the HCTF. The contribution requirements for Pinnacol are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. For the years ended December 31, 2024 and 2023, Pinnacol contributions to the HCTF were approximately \$822,000 and \$799,000, respectively, equal to the required contributions for each year.

Other

Health and Welfare Trust – Effective January 1, 2010, Pinnacol entered into certain self-funded benefit programs with its vendors for healthcare, dental care, and vision care and established a separate legal trust for administrative purposes. In 2019, Pinnacol also entered into a guaranteed cost program with one of its two healthcare vendors. Pinnacol withholds monthly premium from its employee participants' payroll checks and uses these premiums and the employer contribution amounts to fund the trust account. These premiums are used to reimburse medical claims paid by the third-party vendors for the self-funded programs or pay premiums to the healthcare vendor for the guaranteed cost program. Employer contributions in 2024 and 2023 were \$9,122,000 and \$7,958,000, respectively.

Accrued Paid Leave – Pinnacol employees may accrue paid time off based on their length of service subject to certain limitations on the amount that will be paid upon termination or taken in future periods. Paid time off is recorded as an expense and a liability at the time the paid time off is earned. The estimated liability for cumulative accrued paid time off of approximately \$5,034,000 and \$4,698,000 at December 31, 2024 and 2023, respectively, is included in other liabilities in the statutory statements of admitted assets, liabilities, and policyholders' surplus.

Note 8 - Policyholders' Surplus

On February 22, 2023, the board of directors declared a general policyholder dividend of \$15,000,000 which was paid in March 2023 to policyholders in good standing. On November 1, 2023, the board of directors declared a general policyholder dividend of \$15,000,000 which was paid in March 2024 to policyholders in good standing. On November 6, 2024, the board of directors declared a general policyholder dividend of \$15,000,000 which was paid in March 2025 to policyholders in good standing.

The Division monitors a company's "risk-based capital" in assessing the financial strength of an insurance company. Pinnacol's level of surplus exceeds the "company action level" of risk-based capital, which is approximately \$197,537,000 for the year ended December 31, 2024, and \$204,889,000 for the year ended December 31, 2023.

Pinnacol Assurance

Notes to Statutory Financial Statements (Continued)

Note 8 - Policyholders' Surplus (Continued)

A surplus note in the amount of \$100,000,000 was issued on June 25, 2014 with a maturity date of June 25, 2034, to an unaffiliated third party in exchange for cash. Each payment of principal and interest on the surplus note may be made only with the prior approval of the Division and only to the extent Pinnacol has sufficient policyholders' surplus to make such payment. The interest on the unpaid principal amount of this note will be paid in semiannual installments at the rate of 8.625% per annum. Prior to January 1, 2023, Pinnacol repurchased \$55,000,000 of the outstanding notes. In 2024 and 2023, \$3,881,000 of interest was paid on the note and recorded as investment expense. The note, which is subordinate to the prior payment of all other liabilities of the Company, will be due and payable twenty years from the issuance date, with an optional prepayment date in whole or part in fifteen years with no penalty. The surplus note was issued to partially cover Pinnacol's estimated proportionate share of PERA's unfunded liability for vested service of Pinnacol employees and retirees. This liability is not required to be recorded in the statutory financial statements as of December 31, 2024 and 2023, but is reported as a component of surplus in the amount of \$45,000,000, and reduces the capital adequacy assessments of outside rating agencies, such as A.M. Best. In accordance with the note agreement, Pinnacol may apply the proceeds for general corporate purposes.

The surplus note agreement contains customary affirmative and negative covenants and requires that Pinnacol maintain certain specified ratios and thresholds. Among others, these covenants include maintaining a maximum writing ratio, debt to capitalization ratio, and interest coverage ratio. Management believes that Pinnacol is in compliance with such covenants, ratios, and thresholds at 2024 and 2023.

As discussed in Note 1, the Company participates in the SDTF, a costsharing multiple-employer defined-benefit pension fund administered by PERA. The funded portion of the SDTF's total pension liability as of December 31, 2023 is 66.2%. The Company has a special surplus fund to identify its portion of the unfunded pension benefits. The discount rate is 7.25%. Based on information provided by PERA on July 1, 2024, the Company's special surplus fund for the unfunded pension benefits has increased by \$28,885,000 from \$173,402,000 in 2023 to a new balance of \$202,287,000 for 2024. There are no limitations for using the special surplus fund for policyholders, injured workers, or other creditors.

As discussed in Note 1, the Company participates in the Health Care Trust Fund (HCTF) administered by PERA. The Company has identified its portion of the HCTF liability in a special surplus fund in the same manner as the PERA net pension liability obligation. The HCTF liability has decreased by \$649,000 from \$5,710,000 in 2023 to a new balance of \$5,061,000 for 2024.

Pinnacol Assurance

Notes to Statutory Financial Statements (Continued)

Note 9 - Commitments and Contingencies

Pinnacol has made the following commitments:

<u>Total Contingent Liabilities</u>	<u>2024</u>
Pinnacol has committed to fund partnership investments	\$ 58,145,882
Pinnacol has committed to rated note investments	30,187,994
Pinnacol has committed to mortgage loan investments	<u>2,026,646</u>
Total	<u>\$ 90,360,522</u>

Lawsuits arise against the Company in the normal course of business. Contingent liabilities arising from litigation and other matters are not considered material in relation to the financial position of the Company.

At December 31, 2024 and 2023, respectively, Pinnacol had a letter of credit for the benefit of Argonaut Insurance Company under an assumed reinsurance agreement for approximately \$3,350,000 and \$4,235,000. This reinsurance agreement allows Argonaut Insurance Company to draw upon the letter of credit, which is 100% collateralized, at any time to secure any of Pinnacol's obligations under the agreement. Included in long-term bonds and money market securities are amounts held as collateral for the letter of credit of approximately \$10,321,000 and \$10,063,000, compared to a requirement of \$3,350,000 and \$4,235,000, as of December 31, 2024 and 2023, respectively.

At December 31, 2024 and 2023, Pinnacol had a trust for the benefit of Zurich American Insurance Company under an assumed reinsurance agreement. This reinsurance agreement allows Zurich American Insurance Company, the beneficiary, to claim the trust assets at any time to secure any of Pinnacol's obligations under the agreement. Included in long-term bonds and cash are amounts held in the trust of approximately \$61,642,000 and \$56,047,000 as of December 31, 2024 and 2023. These bonds and the cash held in trust had a total market value of approximately \$57,171,000 and \$51,836,000 as of December 31, 2024 and 2023, respectively, which Zurich American Insurance Company deemed sufficient to secure Pinnacol's obligations under the agreement.

As of December 31, 2024, Pinnacol is contingently liable for approximately \$27,218,000 of claims closed by the purchase of annuities from life insurers for structured settlements. Pinnacol has not purchased annuities from life insurers under which the Company is payee, and therefore, no balances are due from such annuity insurers.

Pinnacol Assurance

Notes to Statutory Financial Statements (Continued)

Note 9 - Commitments and Contingencies (Continued)

Pinnacol is aware of an unfunded net pension liability. If Pinnacol were to partially or fully leave the PERA program, the unfunded net pension liability for the vested service of Pinnacol employees and retirees would become immediately due to PERA. Title 24, Article 51, Section 316 of the C.R.S. requires a company to calculate the reserve transfer necessary when an employer disaffiliates from PERA. The formula to calculate the termination liability differs significantly from the formula used to calculate Pinnacol's share of the unfunded pension obligation under GASB Statement No. 68. Therefore, the amount of a possible future termination liability is unknown but is expected to exceed \$200,000,000. Currently, the possibility of the Company partially or fully leaving the PERA program is remote and would require legislative action.

Note 10 - Related-Party Transactions

Pinnacol purchased preferred stock in a non-insurance subsidiary, Cake, on September 28, 2017. In 2019, Pinnacol recognized OTTI on the full balance of its investment in Cake's preferred stock and recorded a realized loss. On January 3, 2023, Pinnacol converted its existing preferred shares to common shares. On January 4, 2023, Pinnacol purchased an additional 8,000,000 shares of common stock in Cake. As of December 31, 2024 and 2023, Pinnacol recognizes their investment in Cake under the equity basis, using audited US GAAP equity adjusted to a limited statutory basis of accounting. During the years ended December 31, 2024 and 2023, changes in valuation are recognized as unrealized gains (losses) within the statement of changes in policyholders' surplus. Losses reported by Cake do not have an impact on Pinnacol's other investments. The losses are summarized in the table below:

2024					
Entity	Pinnacol's share of net income (loss)	Accumulated share of net income (losses)	Pinnacol's share of equity, including negative equity	Guaranteed obligation commitment for financial support (yes/no)	Reported value
Cake Insure, Inc.	\$(81,501,000)	\$(81,501,000)	\$ (2,053,000)	Yes	\$ (2,053,000)

2023					
Entity	Pinnacol's share of net income (loss)	Accumulated share of net income (losses)	Pinnacol's share of equity, including negative equity	Guaranteed obligation commitment for financial support (yes/no)	Reported value
Cake Insure, Inc.	\$(55,189,000)	\$(55,189,000)	\$(13,451,000)	Yes	\$(13,451,000)

Pinnacol Assurance

Notes to Statutory Financial Statements (Continued)

Note 10 - Related Party Transactions (Continued)

Under a program administrator agreement approved by the Division, Cake writes policies for Pinnacol through its digital platform that potential policyholders can utilize to receive a quote and bind a policy. Pinnacol pays Cake program administration fees on premium that Cake generates with Pinnacol and makes payments to Cake monthly as policies are generated. During 2024 and 2023, Pinnacol incurred \$557,000 and \$706,000 in program administrator fees, respectively.

Under a management service agreement approved by the Division, Pinnacol provides certain personnel services to its subsidiary for a variable monthly fee and receives reimbursement for costs Cake incurred. During 2024 and 2023, Pinnacol received \$2,967,000 and \$2,450,000, respectively, in management fees and reimbursed costs from its subsidiary. The management fees offset various expenses in the income statement.

In 2023, Cake acquired an existing digital agent, Attune, with a technology platform, to connect policyholders with other carriers that operate in multiple states. Attune is a licensed property casualty insurance producer and principally acts as an agent for insurance companies. Under a management service agreement approved by the Division, Cake provides certain personnel services including management, operating, marketing, cyber and technology, and risk and vendor management, to its subsidiary Attune and receives reimbursement for costs Attune incurred.

At December 31, 2024 and 2023, respectively, Pinnacol reported \$57,000 and \$52,000 due to subsidiary for commissions due to Cake as an agent. Pinnacol also reported \$1,231,000 and \$452,000, respectively, due from subsidiary for management fees and reimbursable expenses under the management service agreement.

Throughout 2024 and 2023, respectively, Pinnacol made additional capital contributions to Cake in the amount of \$11,434,000 and \$33,603,000. Pinnacol also made a guarantee to provide up to \$90,000,000 in funding to support Cake's strategic initiatives through 2025; \$35,037,000 of the capital contributions were provided from this guarantee. Pinnacol purchased Attune's internally developed software in 2024 for \$25,000,000, which is recorded as a nonadmitted asset with a value of \$22,085,000 as of December 31, 2024.

There were no transactions with affiliates in amounts that exceeded 0.5% of the total admitted assets of Pinnacol outside of those transactions noted above.

Pinnacol Assurance

Notes to Statutory Financial Statements (Continued)

Note 11 - Other Underwriting Expenses

The significant components of other underwriting expenses, net during 2024 and 2023 were as follows (in thousands):

	2024	2023
Commission and brokerage	\$ 82,090	\$ 74,804
Allowances to managers and agents	200	324
Advertising	1,361	1,832
Boards, bureaus and associations	1,764	1,715
Audit of assureds' records	566	620
Salaries and related items	49,947	48,842
Employee relations and welfare	6,285	5,825
Insurance	208	209
Guaranty Fund expense	32	25
Travel and travel items	803	818
Rent and rent items	2,867	2,871
Equipment	416	562
Cost or depreciation of EDP equipment and software	4,871	4,322
Printing and stationery	65	66
Postage, telephone, exchange and express	502	535
Legal and auditing	6,626	6,444
Taxes, licenses and fees	7,907	7,646
Other	3,939	3,945
Total other underwriting expenses, net	\$ 170,449	\$ 161,405

Note 12 - Restricted Assets

The following table discloses quantitative information about the Company's restricted assets by category of restricted asset for the year ended December 31, 2024 (in thousands). Because the Company is a property and casualty insurance company, it does not hold assets that would be required to be held in a separate account. Accordingly, no distinction is made between general account and separate account restricted assets in the following tables.

<u>Restricted Asset Category</u>	<u>Total Current Year Admitted Asset</u>	<u>Total Prior Year Admitted Asset</u>	<u>Increase/ (Decrease)</u>	<u>Restricted to Total Assets</u>	<u>Restricted to Total Admitted Assets</u>
FHLB capital stock (Notes 4 and 5)	\$ 2,589	\$ 2,589	\$ -	0 %	0 %
Pledged as collateral to FHLB (Notes 4 and 5)	130,105	80,819	49,286	4 %	4 %
Pledged as collateral not captured in other categories (Note 6)	71,964	66,335	5,629	2 %	2 %
Total restricted assets	\$ 204,658	\$ 149,743	\$ 54,915	6 %	6 %

Pinnacol Assurance

Notes to Statutory Financial Statements (Continued)

Note 13 - Subsequent Events

On March 31, 2025, Pinnacol executed an agreement for an investment with Audax Direct Lending Solutions Fund III-C Rated Feeder, L.P, a rated private debt fund. Pinnacol's total commitment is \$40,000,000, with its first funding expected by year end.

On May 6, 2025, subsequent to the balance sheet date, Pinnacol entered into a Loan Agreement with its subsidiary, Cake, 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.

Subsequent events have been evaluated through May 20, 2025, the date these statutory financial statements were issued.

Supplementary Information

Pinnacol Assurance
Supplemental Investment Risks Interrogatories
Year ended December 31, 2024
(In thousands)

1. Pinnacol's total admitted assets as reported on page 2 of its annual statement are: \$ 3,157,934
2. The following are the ten largest exposures to a single issuer/borrower/investment by investment category, excluding: (i) U.S. government securities, U.S. government agency securities, and those U.S. government money market funds listed in the Appendix to the Purposes and Procedures Manual of the NAIC Investment Analysis Office as exempt, (ii) property occupied by Pinnacol, (iii) policy loans, and (iv) all SEC and foreign registered funds (open-end, closed-end, UIT and ETFs) and common trust funds that are diversified within the meaning of the Investment Company Act of 1940 (Section 5(b) (1)).

Issuer	Description of exposure	Amount	Percentage of total admitted assets
2.01 Federal National Mortgage Association	MBS	\$ 168,520	5.336%
2.02 NB Pinnacol Assurance Fund LP	Sch BA-Joint Venture	112,276	3.555
2.03 Federal Home Loan Mortgage Corporation	CMO, MBS	62,895	1.992
2.04 Deerpath Newbury Partners LLC	ABS, Sch BA-Joint Venture	25,220	0.799
2.05 First Eagle DL V-A Funding Lic	Bonds, Sch BA-Joint Venture	17,605	0.557
2.06 Lending Ark Asia Secured Private Debt	Bonds, Sch BA-Joint Venture	16,723	0.530
2.07 NB Strategic Co-Investment Partners III, LP	Sch BA-Joint Venture	10,445	0.331
2.08 JPMorgan Chase & Co.	Bonds, Preferred Stock	10,074	0.319
2.09 Bank of America Corporation	Bonds, Preferred Stock	10,050	0.318
2.10 Union Pacific Corporation	Bonds	10,034	0.318

3. Pinnacol's total admitted assets held in bonds and preferred stocks by NAIC designation are:

NAIC Designation	Amount	Percentage of total admitted assets
Bonds:		
NAIC-1	\$ 1,566,316	49.599%
NAIC-2	697,636	22.092
NAIC-3	61,097	1.935
NAIC-4	42,873	1.358
NAIC-5	16,362	0.518
NAIC-6	2,092	0.066
Preferred stocks:		
P/RP-1	6,678	0.211
P/RP-2	125	0.004
P/RP-3	351	0.011
P/RP-4	459	0.015
P/RP-5	0	—
P/RP-6	5	—
	<u>\$ 2,393,994</u>	

4. Assets held in foreign investments are \$442,097 and assets held in foreign-currency-denominated investments are \$0, which is approximately 14.0% and 0% of Pinnacol's total admitted assets, respectively.

5. The following represents aggregate foreign investment exposure categorized by NAIC sovereign designation:

Foreign Investment assets		Amount	Percentage of total admitted assets
NAIC Designation			
Countries designated NAIC-1		\$ 410,501	12.999%
Countries designated NAIC-2		25,352	0.803
Countries designated NAIC-3 or below		6,245	0.198
		<u>\$ 442,098</u>	

Pinnacol Assurance
Supplemental Schedule of Investment Information
Investment Risks Interrogatories
Year ended December 31, 2024
(In thousands)

6. The following represents the largest foreign investment exposures by country, categorized by the country's NAIC sovereign designation:

Foreign investment assets			
NAIC Designation	Country	Amount	Percentage of total admitted assets
Countries designated NAIC-1:			
Country 1:	Cayman Islands	\$ 197,513	6.255%
Country 2:	United Kingdom	61,624	1.951
Countries designated NAIC-2:			
Country 1:	Mexico	15,885	0.503
Country 2:	Philippines	7,000	0.222
Countries designated NAIC-3 or below:			
Country 1:	Virgin Islands, British	4,498	0.142
Country 2:	Jamaica	1,600	0.051
		<u>\$ 288,120</u>	

7. Aggregate unhedged foreign currency exposure is \$0, which is approximately 0% of Pinnacol's total admitted assets.

8. The following represents aggregate unhedged foreign currency exposure categorized by NAIC sovereign designation:

Foreign-currency-denominated investment assets			
NAIC Designation	Amount	Percentage of total admitted assets	
Countries designated NAIC-1	\$ 0	—%	
Countries designated NAIC-2	0	—	
Countries designated NAIC-3 or below	0	—	
	<u>\$ 0</u>		

9. The following represents the largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign designation:

Foreign-currency-denominated investment assets			
NAIC Designation	Country	Amount	Percentage of total admitted assets
Countries designated NAIC-1:			
Country 1:		\$	—%
Country 2:			—
Countries designated NAIC-2:			
Country 1:			—
Country 2:			—
Countries designated NAIC-3 or below:			
Country 1:			—
Country 2:			—
		<u>\$ 0</u>	

10. The following represents the ten largest nonsovereign (i.e., nongovernmental) foreign issues:

Issuer	NAIC Designation	Amount	Percentage of total admitted assets
10.01 Lending Ark Asia Secured Private Debt	1PL, Sch BA-Joint Venture	\$ 16,723	0.530%
10.02 HSBC Holdings plc	1FE, 2FE	9,983	0.316
10.03 Macquarie Group Limited	1FE	8,500	0.269
10.04 BAE Systems plc	2FE	7,965	0.252
10.05 UBS Group AG	1FE	7,000	0.222
10.06 Barclays PLC	2FE, 3FE	6,105	0.193
10.07 Aker BP ASA	2FE	5,977	0.189
10.08 Vodafone Group Public Limited Company	2FE, 3FE	5,867	0.186
10.09 Fomento Económico Mexicano, S.A.B. de C.V.	2FE	5,138	0.163
10.10 Aptiv PLC	2FE	5,066	0.160

Pinnacol Assurance
Supplemental Schedule of Investment Information
Investment Risks Interrogatories
Year ended December 31, 2024
(In thousands)

11. Assets held in Canadian investments are less than 2.5% of Pinnacol's total admitted assets.
12. Amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions:
- 12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? Yes [] No [X]
- 12.02 Aggregate statement value of investments held in investments with contractual sales restrictions \$ 146,604 4.642%
- Largest three investments held in investments with contractual sales restrictions:
- 12.03 NB Pinnacol Assurance Fund LP \$ 112,276 3.555%
- 12.04 First Eagle DL V-A Funding LLC 17,605 0.557
- 12.05 Lending Ark Asia Secured Private Debt Fund I, LP 16,723 0.530
13. The following are the ten largest equity interests (including investments in the shares of mutual funds, preferred stocks, publicly traded equity securities, and other equity securities and excluding money market and bond mutual funds listed in the Purposes and Procedures Manual of the NAIC Investment Analysis Office as exempt or NAIC Class 1):

Issuer	Amount	Percentage of total admitted assets	
13.02 NB Pinnacol Assurance Fund LP	\$ 112,276	3.555%	
13.03 Fidelity 500 Index Fund	108,020	3.421	
13.04 T. Rowe Price U.S. Equity Research Fund	65,259	2.067	
13.05 MFS International Growth Fund	53,611	1.698	
13.06 Goldman Sachs GQG Partners International Opportunities Fund	52,270	1.655	
13.07 Vanguard International High Dividend Yield ETF	51,065	1.617	
13.08 Vanguard High Dividend Yield ETF	20,374	0.645	
13.09 T. Rowe Price Institutional Small-Cap Stock Fund	20,109	0.637	
13.10 NB Strategic Co-Investment Partners III LP	10,445	0.331	
13.11 Vanguard International Explorer Fund	9,462	0.300	
14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:			
14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets?	Yes [X]	No []	
14.02 Aggregate statement value of investments held in nonaffiliated, privately placed equities		—%	
Largest three investments held in nonaffiliated, privately placed equities:			
14.03		—%	
14.04		—%	
14.05		—%	
<u>Ten Largest Fund Managers</u>	<u>Total Invested</u>	<u>Diversified</u>	<u>Nondiversified</u>
14.06 Fidelity 500 Index Fund	108,020	108,020	—
14.07 T. Rowe Price Equity Funds	65,368	65,368	—
14.08 Vanguard Funds	80,901	80,901	—
14.09 MFS International Growth Fund	53,611	53,611	—
14.10 Goldman Sachs GQG Partners International Opportunities Fund	52,270	52,270	—
14.11 State Street Institutional Investment Trust - State Street Institutional Treasury Plus Money Market Fund	33,901	33,901	—
14.12 Wells Fargo Funds Trust - Treasury Plus Money Market Fund	19,688	19,688	—
14.13			
14.14			
14.15			

Items 15 through 19 are not applicable.

See accompanying independent auditors' report.

Summary Investment Schedule

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement			
	1 Amount	2 Percentage of Column 1 Line 13	3 Amount	4 Securities Lending Reinvested Collateral Amount	5 Total (Col. 3 + 4) Amount	6 Percentage of Column 5 Line 13
1. Long-Term Bonds (Schedule D, Part 1):						
1.01 U.S. governments	70,763,923	2.287	70,763,923		70,763,923	2.307
1.02 All other governments	17,454,119	0.564	17,454,119		17,454,119	0.569
1.03 U.S. states, territories and possessions, etc. guaranteed	2,525,568	0.082	2,525,568		2,525,568	0.082
1.04 U.S. political subdivisions of states, territories, and possessions, guaranteed	14,093,019	0.455	14,093,019		14,093,019	0.460
1.05 U.S. special revenue and special assessment obligations, etc. non-guaranteed	290,085,427	9.374	290,085,427		290,085,427	9.458
1.06 Industrial and miscellaneous	1,822,202,690	58.885	1,822,202,690		1,822,202,690	59.414
1.07 Hybrid securities	6,002,659	0.194	6,002,659		6,002,659	0.196
1.08 Parent, subsidiaries and affiliates		0.000				0.000
1.09 SVO identified funds		0.000				0.000
1.10 Unaffiliated bank loans		0.000				0.000
1.11 Unaffiliated certificates of deposit		0.000				0.000
1.12 Total long-term bonds	2,223,127,406	71.841	2,223,127,406		2,223,127,406	72.487
2. Preferred stocks (Schedule D, Part 2, Section 1):						
2.01 Industrial and miscellaneous (Unaffiliated)	7,617,459	0.246	7,617,459		7,617,459	0.248
2.02 Parent, subsidiaries and affiliates		0.000				0.000
2.03 Total preferred stocks	7,617,459	0.246	7,617,459		7,617,459	0.248
3. Common stocks (Schedule D, Part 2, Section 2):						
3.01 Industrial and miscellaneous Publicly traded (Unaffiliated)	741,892	0.024	741,892		741,892	0.024
3.02 Industrial and miscellaneous Other (Unaffiliated)	3,227,565	0.104	3,227,565		3,227,565	0.105
3.03 Parent, subsidiaries and affiliates Publicly traded		0.000				0.000
3.04 Parent, subsidiaries and affiliates Other	(2,052,948)	(0.066)	(2,052,948)		(2,052,948)	(0.067)
3.05 Mutual funds	308,731,501	9.977	308,731,501		308,731,501	10.066
3.06 Unit investment trusts		0.000				0.000
3.07 Closed-end funds		0.000				0.000
3.08 Exchange traded funds	71,438,569	2.309	71,438,569		71,438,569	2.329
3.09 Total common stocks	382,086,580	12.347	382,086,580		382,086,580	12.458
4. Mortgage loans (Schedule B):						
4.01 Farm mortgages		0.000				0.000
4.02 Residential mortgages		0.000				0.000
4.03 Commercial mortgages	64,739,974	2.092	64,739,974		64,739,974	2.111
4.04 Mezzanine real estate loans		0.000				0.000
4.05 Total valuation allowance		0.000				0.000
4.06 Total mortgage loans	64,739,974	2.092	64,739,974		64,739,974	2.111
5. Real estate (Schedule A):						
5.01 Properties occupied by company	11,498,884	0.372	11,498,884		11,498,884	0.375
5.02 Properties held for production of income		0.000				0.000
5.03 Properties held for sale		0.000				0.000
5.04 Total real estate	11,498,884	0.372	11,498,884		11,498,884	0.375
6. Cash, cash equivalents and short-term investments:						
6.01 Cash (Schedule E, Part 1)	3,054,332	0.099	3,054,332		3,054,332	0.100
6.02 Cash equivalents (Schedule E, Part 2)	53,588,334	1.732	53,588,334		53,588,334	1.747
6.03 Short-term investments (Schedule DA)	163,247,327	5.275	163,247,327		163,247,327	5.323
6.04 Total cash, cash equivalents and short-term investments	219,889,993	7.106	219,889,993		219,889,993	7.170
7. Contract loans		0.000				0.000
8. Derivatives (Schedule DB)		0.000				0.000
9. Other invested assets (Schedule BA)	185,462,839	5.993	157,896,720		157,896,720	5.148
10. Receivables for securities	83,537	0.003	83,537		83,537	0.003
11. Securities Lending (Schedule DL, Part 1)		0.000		XXX	XXX	XXX
12. Other invested assets (Page 2, Line 11)		0.000				0.000
13. Total invested assets	3,094,506,671	100.000	3,066,940,552		3,066,940,552	100.000

Pinnacol Assurance

Reinsurance Summary Supplemental Filing

December 31, 2024

As of December 31, 2024, the Company's reinsurance program does not include any contracts with risk limiting features identified in paragraphs 114 through 119 of Statement of Statutory Accounting Principles No. 62, Property and Casualty Reinsurance.

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Independent Auditor's Report

The Members of the Legislative Audit Committee and
Pinnacol Assurance Board of Directors

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Pinnacol Assurance (the Company), which comprise the statutory statement of admitted assets, liabilities, and policyholders' surplus as of December 31, 2024, and the related statutory statements of operations, changes in policyholders' surplus, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 20, 2025. Our report on the financial statements includes an adverse opinion on U.S. generally accepted accounting principles because the financial statements are prepared using statutory accounting practices prescribed or permitted by the Division of Insurance of the Department of Regulatory Agencies of the State of Colorado, which is a basis of accounting other than U.S. generally accepted accounting principles. Our report on the financial statements also includes an unmodified opinion on the financial statements in accordance with statutory accounting practices prescribed or permitted by the Division of Insurance of the Department of Regulatory Agencies of the State of Colorado, which is a basis of accounting other than U.S. generally accepted accounting principles.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Company's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the the Company's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Johnson Lambert LLP". The signature is written in a cursive, flowing style with large loops and flourishes.

Vienna, Virginia
May 20, 2025



Pinnacol Assurance

2024 Audit

Required Communications

May 20, 2025

We have audited the financial statements of Pinnacol Assurance (Pinnacol or the Company) as of and for the year ended December 31, 2024 and have issued our report thereon dated May 20, 2025.

We are pleased to present this report related to our audit. This report summarizes matters required by professional standards to be communicated to you in your oversight responsibility for the Company's financial reporting process. This report is intended solely for the information and use of the Board of Directors and management and is not intended and should not be used by anyone other than those specified parties.

We appreciate the cooperation and courtesies extended to us by the Company's personnel. Please do not hesitate to contact us if you would like clarification on these or any other matters. We appreciate the opportunity to continue to be of service to the Company.

A handwritten signature in black ink that reads 'Johnson Lambert LLP'. The signature is written in a cursive, flowing style.

Vienna, Virginia

Required Communications

The auditor is responsible for forming and expressing an opinion about whether the financial statements, that have been prepared by management with the oversight of those charged with governance, are presented fairly in all material respects, in conformity with accounting practices prescribed or permitted by the Division of Insurance of the Department of Regulatory Agencies of the State of Colorado (statutory accounting practices). The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

The auditor is also responsible for communicating significant matters related to the financial statement audit that are, in the auditor's professional judgment, relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Auditing standards generally accepted in the United States of America (GAAS) and generally accepted government auditing standards (GAGAS) do not require the auditor to design procedures for the purpose of identifying other matters to communicate with those charged with governance.

In accordance with our professional standards, we would like to share the following:

Independence

We have complied with all relevant ethical requirements regarding independence.

Significant Accounting Policies and Their Application

Management is responsible for the selection and use of appropriate accounting policies. As is the case with most organizations, the Company has available alternative accounting principles from which to choose. The significant accounting policies followed by the Company are described in Note 1 to the financial statements.

The accounting policies selected and applied by the Company are appropriate under the circumstances and are consistent with those used by other similar organizations.

There were no significant accounting policies that were initially selected and no changes in significant accounting policies or their application during the year ended December 31, 2024.

We noted no transactions entered into by the Company during the year for which there is lack of authoritative guidance or consensus. We noted no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Significant Risks Identified

A significant risk is an identified risk of material misstatement (i) for which the assessment of inherent risk is close to the upper end of the spectrum of inherent risk due to the degree to which inherent risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement should that misstatement occur, or (ii) that is to be treated as a significant risk in accordance with GAAS.

The determination of significant risks allows the auditor to focus more attention on financial statement areas with greater inherent risk through the performance of certain required responses. Our communication about significant risks may assist those charged with governance in fulfilling their responsibility to oversee the financial reporting process.

We have identified the following significant risks:

- **Revenue recognition** – Presumed significant risk under GAAS
- **Management override of controls** - Presumed significant risk under GAAS
- **Reserves for unpaid losses and loss adjustment expenses** – Sensitive accounting estimate, see below
- **Structured settlement liability** – Sensitive accounting estimate, see below
- **Valuation of alternative investments** – Sensitive accounting estimate, see below
- **Acquisition of Attune software** – Significant unusual transaction, see below

Sensitive Accounting Estimates and Related Disclosures

Accounting estimates and related disclosures are an integral part of the financial statements prepared by management and are based upon management's current judgments. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. The financial statements contain the following sensitive estimates:

Reserves for Unpaid Losses and Loss Adjustment Expenses & Structured Settlement Liability

The estimates for reserves for unpaid losses and loss adjustment expenses and structured settlement liabilities are based on management's best estimate, using the assistance of an independent consulting actuary. The estimates for reserves for unpaid losses and loss adjustment expenses are based primarily on the historical data of the Company, supplemented with industry data. The structured settlement liabilities are based on mortality risk. Significant judgment is required by the actuary in estimating reserves and structured settlement liabilities, and it is management's responsibility to review the actuarial work performed and record these amounts at their best estimate. In order to evaluate the actuarially determined estimates, we relied on the work of an independent consulting actuary engaged by the Company in accordance with Statement on Auditing Standards AU-C 501, Audit Evidence- Specific Considerations for Selected Items. We also relied on the work of an independent auditor-engaged consulting actuary, FTI Consulting, Inc. in accordance with Statement on Auditing Standards AU-C 620, Using the Work of an Auditor's Specialist. Management discounts its estimate for structured settlement liabilities by 2.5% as of December 31, 2024 and 2023. The discounting of these liabilities creates additional risk and uncertainty.

We gathered sufficient appropriate audit evidence to support the reasonableness of management's estimates.

Valuation of Alternative Investments

Management's estimate of the fair value of private placement bonds and mortgage loans is based on the work of a valuation specialist. We gathered sufficient appropriate audit evidence to support the reasonableness of management's estimates, including reliance upon the work of the independent valuation specialist in accordance with GAAS.

Management's estimate of the value of limited partnerships and limited liability companies is based on accounting principles generally accepted in the United States (GAAP) equity balances, which is in accordance with statutory accounting principles. We gathered sufficient appropriate audit evidence to support the reasonableness of management's estimate.

Management's estimate of the value of the Company's investment in Cake Insure, Inc. (Cake) is based on equity method valuation using the most recent available audited financial statements of Cake in conformity with Statements of Statutory Accounting Principles (SSAP) 97, Investments in Subsidiary, Controlled and Affiliated Entities. We gathered sufficient appropriate audit evidence to support the reasonableness of management's estimate.

Fair Value Measurements for Non-Alternative Investments

The fair value measurements for investments are based on management's best estimate. Management estimates and records the fair value of investments using prices obtained from the investment reporting manager. If prices are not available from this source, management obtains pricing information based on the work of a valuation specialist. In order to evaluate fair value measurements, we compared the fair value and hierarchy level of a sample of securities to an independent pricing source. We gathered sufficient appropriate audit evidence to support the reasonableness of management's estimate.

Financial Statement Disclosures

The financial statement disclosures are neutral, consistent and clear. Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Company's financial statements relate to: Note 2 – Unpaid Losses and Loss Adjustment Expenses, Note 3 – Internal Structured Settlements and Note 4 – Investments.

Related Party Relationships and Transactions

An **objective of the audit** is to obtain an understanding of such matters sufficient **to be able to recognize fraud risk factors** that are relevant to the identification and assessment of the risks of material misstatement due to fraud and conclude whether the financial statements, insofar as they are affected by those relationships and transactions, achieve fair presentation.

Another objective of the audit is to obtain sufficient appropriate audit evidence about **whether related party relationships and transactions have been appropriately identified, accounted for and disclosed in the financial statements**. Notes 1 and 10 of the financial statements includes the disclosure of significant related party transactions.

Significant Unusual Transactions

We are required to communicate significant unusual transactions identified during our audit. Significant unusual transactions are defined as significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual due to their timing, size, or nature.

The following significant unusual transaction was identified:

- The Company purchased the internally developed software from Attune (a wholly owned subsidiary of Cake) for \$25,000,000 on June 14, 2024 to support its strategic initiatives at the subsidiary level. The software is recorded as a nonadmitted asset with a value of \$22,083,000 as of December 31, 2024. The related amortization expense is reported as an “other expense” within the Statutory Statements of Operations, an accounting position that was approved by the Colorado Division of Insurance.

Audit Adjustments and Uncorrected Misstatements

No audit adjustments were recorded.

We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.

Matters that Affect the Form and Content of the Auditor’s Report

We are required to communicate any circumstances that affect the form and content of our auditor’s report:

Modification of the Auditor’s Report

We have made the following modification to our auditor’s report:

- Statutory General Use – Our auditor’s report expresses an unmodified opinion on a regulatory basis of accounting indicating that the financial statements are prepared using statutory accounting principles prescribed or permitted by the Division of Insurance of the Department of Regulatory Agencies of the State of Colorado. Our statutory auditor’s report also includes an adverse opinion indicating the financial statements are not prepared in accordance with GAAP.

Observations About the Audit Process

Management Representations

We have requested certain representations from management that are included in the management representation letter.

Disagreements with Management, Including Matters Discussed and Resolved

We are required to report any disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the Company's financial statements or the auditor's report.

There were no disagreements with management.

Significant Difficulties Performing the Audit

No significant difficulties were encountered in performing the audit.

Significant Issues Discussed or Subject to Correspondence with Management

The following significant issue was discussed or subject to correspondence with management:

- Acquisition of Attune Software (see Significant Unusual Transactions section above for further details)

Other Matters - Omitted Disclosure

SSAP 41, Surplus Notes, requires the disclosure of the holder of surplus notes, or if public, the names of the underwriter and trustee. Management has elected not to disclose the holder of the Company's surplus note within the audited financial statements. The omission of this disclosure is considered immaterial to the audited financial statements.

Management's Consultations with Other Accountants

We are aware of management's use of other accounting firms for direct assistance in executing the Company's internal audit plans. We are not aware of any other consultations with other accountants regarding accounting or auditing matters.

Other Information Included in Annual Reports

Our responsibility as auditors for other information, whether financial or nonfinancial, included in the Company's annual report that contains, accompanies, or incorporates by reference the audited financial statements, does not extend beyond the information identified in the audit report, and we are **not required to perform any procedures to corroborate such other information.**

However, in accordance with such standards, we are required to **read the information contained in the annual report** and consider whether such information is materially consistent with the audited financial statements.