



PINNACOL ASSURANCE

Statutory-Basis Financial Statements and
Supplemental Schedules of Investment and Reinsurance Information

December 31, 2022 and 2021

(With Independent Auditors' Report Thereon)

**LEGISLATIVE AUDIT COMMITTEE
2023 MEMBERS**

Senator Robert Rodriguez
Chair

Representative Lisa Frizell
Vice Chair

Representative Andrew Boesenecker
Representative Gabe Evans
Senator Rhonda Fields
Representative Dafna Michaelson Jenet
Senator Rod Pelton
Senator Kevin Van Winkle

Office of the State Auditor Staff

Kerri L. Hunter
State Auditor

Marisa Edwards
Deputy State Auditor

Crystal Dorsey
Contract Monitor

KPMG LLP
Contract Auditors

An electronic version of this report is available at
www.Colorado.gov/auditor

A bound report may be obtained by calling the
Office of the State Auditor
303.869.2800

Please refer to report number 2210F
when requesting this report

**PINNACOL ASSURANCE
2023 BOARD OF DIRECTORS**

*Mark D. Goodman
Chair*

*Akasha N. Absher
Howard L. Carver
Celia M. Dietrich
Mowa Haile
Emily L. King
Andi G. Rugg
Jesus J. Salazar
Isaac Wanasika*

**PINNACOL ASSURANCE
2022 BOARD OF DIRECTORS**

*Joseph A. Hoff
Chair*

*Akasha N. Absher
Howard L. Carver
Ellen J. Golombek
Mark D. Goodman
Mowa Haile
Andi G. Rugg
Jesus J. Salazar*

PINNACOL ASSURANCE

Table of Contents

	Page(s)
Report Summary	1–2
Description of Pinnacol Assurance	3
Independent Auditors' Report	4–6
Statutory-Basis Financial Statements as of and for the years ended December 31, 2022 and 2021:	
Statutory-Basis Statements of Admitted Assets, Liabilities, and Policyholders' Surplus	7
Statutory-Basis Statements of Operations and Changes in Policyholders' Surplus	8
Statutory-Basis Statements of Cash Flow	9
Notes to the Statutory-Basis Financial Statements	10–44
Supplemental Schedules of Investment and Reinsurance Information	
Investment Risks Interrogatories	45–47
Summary Investment Schedule	48–49
Reinsurance Interrogatories	50
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	51–52
Required Communications to Legislative Audit Committee	53–56

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-basis financial statements of Pinnacol as of and for the year ended December 31, 2022, 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-basis 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-basis 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-basis 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 U.S. generally accepted accounting principles.

In the course of our audit, we examined, on a test basis, evidence supporting the amounts and disclosures in Pinnacol's statutory-basis financial statements as of and for the year ended December 31, 2022.

Audit Opinion and Report

As we are issuing an opinion on the statutory-basis 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 accounting principles generally accepted in the United States of America (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 2022.

Summary of Prior Year Findings and Recommendations

There were no reported findings and recommendations resulting from the audit for fiscal year 2021.

PINNACOL ASSURANCE

Description of Pinnacol Assurance

December 31, 2022

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, which is 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. All revenue, monies, and assets of Pinnacol belong solely to Pinnacol. The State of Colorado has no claim to, nor any interest in, such revenue, monies, and assets and shall not borrow, appropriate, or direct payments from such revenue, monies, and assets for any purpose.

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 is a digital platform designed to market, underwrite, and service small policyholders that are not considered high risk. 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 holds 100% of the voting shares ownership in Cake. An "Insurance Holding Company System" is two or more affiliated persons, one or more of which is an insurer.

Policyholders' Surplus

Pinnacol had policyholders' surplus of \$1,508,951,000 and \$1,628,060,000 as of December 31, 2022 and 2021, respectively. The decrease in surplus was primarily due to decreased equity markets and rising interest rates causing a decline in market-valued securities as well as repurchasing surplus notes.



KPMG LLP
Suite 800
1225 17th Street
Denver, CO 80202-5598

Independent Auditors' Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of Pinnacol Assurance (the Company), which comprise the statutory-basis statements of admitted assets, liabilities, and policyholders' surplus as of December 31, 2022 and 2021, and the related statutory-basis statements of operations and changes in policyholders' surplus, and cash flow for the years then ended, and the related notes to the financial statements.

Unmodified Opinion on Statutory 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, 2022 and 2021, and the results of its operations and its cash flow for the years then ended in accordance with accounting practices prescribed or permitted by the Division of Insurance of the Department of Regulatory Agencies of the State of Colorado 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 section of our report, the financial statements do not present fairly, in accordance with U.S. generally accepted accounting principles, the financial position of the Company as of December 31, 2022 and 2021, 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 Auditors' 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 financial statements are prepared by the Company 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 U.S. generally accepted accounting principles. Accordingly, the financial statements are not intended to be presented in accordance with U.S. generally accepted accounting principles. The effects on the financial statements of the variances between the statutory accounting practices described in Note 1 and U.S. generally accepted accounting principles, 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 the financial statements in accordance with 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 for one year after the date that the financial statements are issued.

Auditors' 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 auditors' 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 audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included in the Investment Risks Interrogatories, Summary Investment Schedule



and Reinsurance Interrogatories is presented for purposes of additional analysis and is not a required part of the financial statements but is 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 audits 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 GAAS. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2023 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.

KPMG LLP

Denver, Colorado
May 17, 2023

PINNACOL ASSURANCE

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

December 31, 2022 and 2021

(In thousands)

Admitted Assets	2022	2021
	<u> </u>	<u> </u>
Cash and invested assets:		
Bonds at adjusted carrying value, fair value of \$2,037,758 in 2022 and \$2,450,971 in 2021 (note 4)	\$ 2,266,895	2,322,842
Preferred stock at adjusted carrying value, fair value of \$2,006 in 2022 and \$754 in 2021 (note 4)	1,973	752
Common stock at fair value, actual cost of \$378,692 in 2022 and \$331,772 in 2021 (note 4)	381,883	456,309
Mortgage loans on real estate (note 4)	71,283	68,554
Real estate at cost – net of accumulated depreciation of \$22,493 in 2022 and \$21,178 in 2021	11,615	12,847
Cash, cash equivalents, and short-term investments	77,540	53,272
Other invested assets (notes 4 and 9)	152,246	156,972
Receivables for securities sold	<u>2,595</u>	<u>26</u>
Total cash and invested assets	2,966,030	3,071,574
Uncollected premiums	30,789	28,559
Earned but unbilled premiums	22,250	15,575
Funds held by or deposited with reinsurers	4,491	4,491
Electronic data processing equipment – at cost – net of accumulated depreciation of \$1,989 in 2022 and \$2,677 in 2021	442	570
Receivables from subsidiaries and affiliates	81	74
Accrued investment income	<u>20,836</u>	<u>18,595</u>
Total admitted assets	<u>\$ 3,044,919</u>	<u>3,139,438</u>
Liabilities and Policyholders' Surplus		
Reserve for unpaid losses and loss adjustment expenses:		
Reserve for unpaid losses (note 2)	\$ 810,187	802,573
Reserve for unpaid loss adjustment expenses (note 2)	<u>112,660</u>	<u>105,898</u>
Total reserve for unpaid losses and loss adjustment expenses	922,847	908,471
Unearned premiums	64,333	69,787
Borrowed money and interest thereon	53,197	—
Advance premiums	1,408	9,628
Dividends payable to policyholders	29,584	70,878
Commissions payable	32,135	30,396
Structured settlement liability (note 3)	381,982	381,815
Payable to subsidiaries and affiliates	52	64
Credit balances due policyholders	7,073	9,111
Payable for securities purchased	7,862	341
Other liabilities	<u>35,495</u>	<u>30,887</u>
Total liabilities	1,535,968	1,511,378
Surplus notes (note 8)	45,000	92,000
Special surplus fund for unfunded pension benefits (notes 1 and 8)	135,098	192,211
Unassigned policyholders' surplus (note 8)	<u>1,328,853</u>	<u>1,343,849</u>
Total liabilities and policyholders' surplus	<u>\$ 3,044,919</u>	<u>3,139,438</u>

See accompanying notes to the statutory-basis financial statements.

PINNACOL ASSURANCE

Statutory-Basis Statements of Operations and Changes in Policyholders' Surplus

Years ended December 31, 2022 and 2021

(In thousands)

	2022	2021
Underwriting income:		
Premiums earned	\$ 530,224	548,807
Deductions:		
Losses incurred (note 2)	314,737	306,712
Loss adjustment expenses incurred (note 2)	91,175	80,358
Other underwriting expenses incurred	160,863	155,531
Total underwriting deductions	566,775	542,601
Net underwriting gain (loss)	(36,551)	6,206
Investment income:		
Net investment income earned (note 4)	94,262	91,173
Net realized capital gain (note 4)	25,093	49,417
Total investment income	119,355	140,590
Other income (loss):		
Provision for uncollectible premiums	(1,505)	(2,397)
Structured settlement expense (note 3)	(9,264)	(2,286)
Software impairment	—	(6,142)
Other income	1,438	599
Dividends to policyholders	(10,614)	(90,919)
Net income before federal income taxes	62,859	45,651
Less federal income taxes incurred	(159)	(564)
Net income	62,700	45,087
Change in net unrealized gains (losses) on investments	(138,343)	73,682
Change in nonadmitted assets	3,534	(40,519)
Change in surplus note	(47,000)	(8,000)
Policyholders' surplus – beginning of year	1,628,060	1,557,810
Policyholders' surplus – end of year	\$ 1,508,951	1,628,060

See accompanying notes to the statutory-basis financial statements.

PINNACOL ASSURANCE

Statutory-Basis Statements of Cash Flow

Years ended December 31, 2022 and 2021

(In thousands)

	<u>2022</u>	<u>2021</u>
Cash flow from operations:		
Premiums collected – net of reinsurance	\$ 506,972	530,646
Losses and loss adjustment expenses paid – net of reinsurance and deductibles	(391,536)	(388,548)
Other underwriting expenses paid	(155,773)	(153,694)
Dividends paid to policyholders	(51,907)	(51,701)
Federal and foreign income taxes paid	(319)	(405)
Investment income received, net of investment expenses paid	94,981	96,039
Miscellaneous proceeds (expenses)	1,441	(5,543)
Net cash provided by operations	<u>3,859</u>	<u>26,794</u>
Cash flow from investments:		
Proceeds from sale, maturity, or redemption of investments:		
Bonds	331,802	486,129
Stocks	293,702	90,776
Mortgage loans on real estate	18,309	11,935
Other invested assets	12,938	8,112
Miscellaneous proceeds	7,520	45
Total proceeds from sale or redemption of investments	<u>664,271</u>	<u>596,997</u>
Cost of investments acquired:		
Bonds	(293,496)	(551,823)
Stocks	(310,426)	(14,567)
Mortgage loans on real estate	(21,038)	(35,423)
Other invested assets	(12,690)	(28,317)
Miscellaneous applications	(2,653)	(4,346)
Total investments acquired	<u>(640,303)</u>	<u>(634,476)</u>
Net cash provided by (used in) investments	<u>23,968</u>	<u>(37,479)</u>
Cash flow provided by (used in) financing and miscellaneous sources:		
Cash from repurchase of surplus notes	(47,000)	(8,000)
Cash from borrowed funds and interest thereon	53,197	—
Cash provided by (used in) other miscellaneous sources	(9,756)	1,626
Net cash used in financing and miscellaneous sources	<u>(3,559)</u>	<u>(6,374)</u>
Net increase (decrease) in cash, cash equivalents, and short-term investments	24,268	(17,059)
Cash, cash equivalents, and short-term investments – beginning of year	<u>53,272</u>	<u>70,331</u>
Cash, cash equivalents, and short-term investments – end of year	\$ <u><u>77,540</u></u>	\$ <u><u>53,272</u></u>

See accompanying notes to the statutory-basis financial statements.

PINNACOL ASSURANCE

Notes to Statutory-Basis Financial Statements

December 31, 2022 and 2021

(1) Nature of Operations and Significant Accounting Policies

(a) Organization

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

Pinnacol is controlled by a nine-member board of directors, which is appointed by the Governor with the consent of the Colorado Senate. In accordance with the applicable statutes of the State, the administration of Pinnacol is under the direction of a chief executive officer, appointed by the board of directors. Pinnacol is not an agency of the State and the State retains no liability on behalf of Pinnacol and no State moneys 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 obtain quotes 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.

(b) Basis of Presentation

The accompanying statutory-basis financial statements of Pinnacol 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. In the preparation of the accompanying statutory-basis 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 (GAAP). The more significant differences between NAIC SAP and 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 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 GAAP, they would be carried at fair value. For GAAP, changes in fair value in bonds go through net investment income.

PINNACOL ASSURANCE

Notes to Statutory-Basis Financial Statements

December 31, 2022 and 2021

- Pinnacol’s investment in preferred stock of Cake, a subsidiary, is reported at the lower of cost or fair value. Under GAAP, it would be included in the consolidated 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-basis financial statements, while under GAAP, only investments with maturities at the time of acquisition of three months or less are included with cash and cash equivalents.
- 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 GAAP, all assets are reported on the balance sheet, net of any required valuation allowance. Nonadmitted assets at December 31, 2022 and 2021 comprised the following (in thousands):

	2022	2021
Other invested assets	\$ 42,927	45,772
Receivables	14,214	15,089
Fixed assets	859	360
Prepays	4,262	4,575
Total nonadmitted assets	\$ 62,262	65,796

- The reserve for losses and loss adjustment expenses (LAE) is reported net of reinsurance, while under GAAP these amounts are reported gross.
- The surplus note is reported as a component of surplus, increasing policyholders’ surplus under NAIC SAP. Under 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 GAAP, the interest expense is recorded as incurred.
- 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.
- 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.

PINNACOL ASSURANCE

Notes to Statutory-Basis Financial Statements

December 31, 2022 and 2021

(c) Use of Estimates

The preparation of statutory-basis 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-basis financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates include the structured settlement liability, the reserves for unpaid losses and loss adjustment expenses, the earned but unbilled premiums asset, estimated fair 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.

(d) 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-basis 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.

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. 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 \$1,315,000 and \$1,313,000 for the years ended

PINNACOL ASSURANCE

Notes to Statutory-Basis Financial Statements

December 31, 2022 and 2021

December 31, 2022 and 2021, respectively, and is included in net investment income earned in the statutory-basis statements of operations and changes in policyholders' surplus.

(e) 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. Pinnacol's ownership percentage in Cake is 100%.

As disclosed in note 1(b), Pinnacol does not consolidate its financial results with Cake. Pinnacol and Cake issue stand-alone financial statements.

Perpetual preferred stock of Cake is reported at the lower of book value or fair value. Cake preferred shares are not publicly priced. As of December 31, 2022 and 2021, Pinnacol recorded \$0 for the carrying value of its investment.

(f) 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, 2022, cash, cash equivalents, and short-term investments of approximately \$77,540,000 include (\$2,383,000) of book overdrafts, \$79,773,000 of cash equivalents, and \$150,000 of short-term investments. As of December 31, 2021, cash, cash equivalents, and short-term investments of approximately \$53,272,000 include (\$7,992,000) of book overdrafts, \$61,264,000 of cash equivalents, and \$0 of short-term investments.

(g) Receivables for Securities Sold

As of December 31, 2022 and 2021, receivables for securities sold were approximately \$2,595,000 and \$26,000, 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. There were no nonadmitted receivables for securities sold in 2022 or 2021.

(h) 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, 2022 and 2021, nonadmitted uncollected premiums were \$11,714,000 and \$13,339,000, respectively.

Pinnacol independently estimates the realizable amounts of premiums receivable and records a loss contingency for any uncollectible balances that were not already nonadmitted. During 2022 and 2021, Pinnacol recorded a provision of approximately \$1,505,000 and \$2,397,000, respectively, for premiums receivable due to the unlikelihood of ultimate collection thereof. These amounts are reflected as

PINNACOL ASSURANCE

Notes to Statutory-Basis Financial Statements

December 31, 2022 and 2021

provision for uncollectible premiums in the accompanying statutory-basis statements of operations and changes in policyholders' surplus.

A significant portion of Pinnacol's premium receivable balances at December 31, 2022 and 2021 were from companies operating in the construction and services industries in Colorado. The construction industry represents approximately 38% of premiums earned as of December 31, 2022 and 2021. The services industry represents approximately 37% of active policy premiums as of December 31, 2022 and 38% as of December 31, 2021, with all other individual industries constituting the remainder of premiums receivable balances.

(i) 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 2022 and 2021 of approximately \$22,250,000 and \$15,575,000, respectively.

(j) Credit Balances Due Policyholders

Credit balances due policyholders represent excess premiums or are amounts due to policyholders. Generally, credit balances due policyholders are applied to future premium obligations of policyholders. For 2022 and 2021, such amounts are approximately \$7,073,000 and \$9,111,000, respectively.

(k) 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. Net book value of electronic data processing equipment at December 31, 2022 and 2021 was approximately \$442,000 and \$570,000, respectively. 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 EDP and software at December 31, 2022 and 2021 was approximately \$729,000 and \$190,000, respectively. Related depreciation expense of approximately \$604,000 and \$517,000 was incurred during 2022 and 2021, respectively, and is included in LAE and other underwriting expenses incurred in the statutory-basis statements of operations and changes in policyholders' surplus.

Internal-use software implementation costs were impaired and written down from \$6,142,000 to \$0 in 2021, based on a significant change in the manner and timeframe in which the software is expected to be used. The software was previously recorded as a nonadmitted asset in 2020 and, thus, had no impact on surplus in 2021. The software impairment was recorded in the other income (loss) section of the statutory-basis statements of operations and changes in policyholders' surplus. There were no internal-use software implementation costs incurred in 2022.

PINNACOL ASSURANCE

Notes to Statutory-Basis Financial Statements

December 31, 2022 and 2021

(l) 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, 2022 and 2021 was approximately \$131,000 and \$170,000, respectively. Related depreciation expense of approximately \$84,000 and \$95,000 was incurred in 2022 and 2021, respectively, and is included in LAE and other underwriting expenses incurred in the statutory-basis statements of operations and changes in policyholders' surplus.

(m) 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 \$1,182,000 in 2022 and \$1,507,000 in 2021. As of December 31, 2022 and 2021, safety group dividends payable of \$1,529,000 and \$2,072,000, respectively, are included in dividends payable to policyholders. 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-basis statements of operations and changes in policyholders' surplus.

(n) 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 \$19,562,000 in 2022 and \$18,962,000 in 2021. As of December 31, 2022 and 2021, ILCDs payable of \$27,179,000 and \$28,196,000, respectively, are included as dividends payable to policyholders in the statutory-basis statements of operations and changes in policyholders' surplus.

(o) 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 or accrued policyholder dividends to its policyholders in good standing of approximately \$9,994,000 in 2022 and \$89,953,000 in 2021. These are included in dividends to policyholders. General policyholder dividends are accrued when declared by the board of directors. 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 to be paid in March 2023 of \$15,000,000.

(p) Reserve for Unpaid Losses and 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, 2022 and 2021. 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

PINNACOL ASSURANCE

Notes to Statutory-Basis Financial Statements

December 31, 2022 and 2021

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-basis statements of operations and changes in policyholders' surplus 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.

(g) 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, 2022 and 2021, 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, 2022, 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.

(r) 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 deductions.

Pinnacol recorded a premium deficiency reserve of \$0 at December 31, 2022 and 2021. Pinnacol considered anticipated investment income at 2.8% and 2.5% when evaluating the premium deficiency reserve for 2022 and 2021, respectively.

(s) 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 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

PINNACOL ASSURANCE

Notes to Statutory-Basis Financial Statements

December 31, 2022 and 2021

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.

(t) 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).

(u) 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 during the reporting period on August 16, 2022. Pinnacol has determined that it does not expect to be liable for the Corporate Alternative Minimum Tax (CAMT) in 2023.

Pinnacol incurred \$159,000 and \$564,000 of federal tax expense that is attributable to investment income that is considered unrelated business income in 2022 and 2021, respectively. Pinnacol recorded an estimated federal tax liability of approximately \$0 and \$159,000 at December 31, 2022 and 2021. 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% and 1.45% at December 31, 2022 and 2021, respectively. Such amounts are included in other underwriting expenses incurred.

(v) Surplus Note

Pinnacol issued a \$100,000,000 surplus note on June 25, 2014. 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. Upon obtaining approval from the Commissioner of the Division, Pinnacol repurchased \$8,000,000 of its outstanding surplus notes on October 28, 2021 and \$47,000,000 of its outstanding surplus notes on December 5, 2022, by paying the noteholder cash consideration equal to 131% and 108%, respectively, of the principal repurchased plus accrued interest.

PINNACOL ASSURANCE

Notes to Statutory-Basis Financial Statements

December 31, 2022 and 2021

(w) Special Surplus Fund for Unfunded Pension 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. 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, 2020. PERA uses standard update procedures to roll forward the total pension liability to December 31, 2021. 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 liability, 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.

(x) Application of Recent Statutory Accounting Pronouncements

During 2022, there were no substantive revisions to statutory accounting that were applicable to Pinnacol, and therefore, there were no substantive revisions adopted by the Company.

(2) Unpaid Losses and Loss Adjustment Expenses

Unpaid losses and loss adjustment expenses (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-basis statements of operations and changes in policyholders' surplus in the period such determination is made.

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.

PINNACOL ASSURANCE

Notes to Statutory-Basis Financial Statements

December 31, 2022 and 2021

Unpaid Losses and Loss Adjustment Expenses

Activity in the liability for unpaid losses and loss adjustment expenses in 2022 and 2021 is summarized as follows (in thousands):

	Unpaid losses and loss adjustment expenses	
	2022	2021
Balance at January 1	\$ 908,471	909,949
Additional amounts incurred related to:		
Current year	461,010	433,373
Prior years	(55,098)	(46,303)
Total incurred	<u>405,912</u>	<u>387,070</u>
Reductions relating to payments for:		
Current year	142,952	133,658
Prior years	248,584	254,890
Total paid	<u>391,536</u>	<u>388,548</u>
Balance at December 31	<u>\$ 922,847</u>	<u>908,471</u>

During the year ended December 31, 2022, the provision for unpaid losses and loss adjustment expenses for insured events of prior years was reduced by \$303,682,000 to \$604,789,000. This reduction includes payments for unpaid losses and loss adjustment expenses of approximately \$248,584,000 and a \$55,098,000 reduction in reserves for prior year unpaid losses and loss adjustment expense. This decrease 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 \$5,740,000 and \$6,011,000 as of December 31, 2022 and 2021, respectively. Such reduction is collateralized generally with letters of credit for the benefit of Pinnacol. Pinnacol received \$8,460,000 and \$6,907,000 in subrogation as of December 31, 2022 and 2021, respectively. There were no significant changes in methodologies or assumptions used in calculating the reserves.

PINNACOL ASSURANCE

Notes to Statutory-Basis Financial Statements

December 31, 2022 and 2021

(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-basis statements of admitted assets, liabilities, and policyholders' surplus.

Activity in the liability for internal structured settlements in 2022 and 2021 is summarized as follows (in thousands):

	<u>2022</u>	<u>2021</u>
Beginning balance	\$ 381,815	383,881
Amounts incurred:		
Change in valuation	9,264	2,286
Amounts paid	(28,960)	(27,597)
New internal structured settlements	<u>19,863</u>	<u>23,245</u>
Ending balance	<u>\$ 381,982</u>	<u>381,815</u>

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, 2022 and 2021.

PINNACOL ASSURANCE

Notes to Statutory-Basis Financial Statements

December 31, 2022 and 2021

The amount of the discount for unpaid internal structured settlements as of December 31, 2022 and 2021 is approximately \$138,176,000 and \$136,364,000, respectively. The discount amounts for internal structured settlement reserves at December 31, 2022 and 2021 are distributed over the years in which the losses were incurred as follows (in thousands):

2022		2021	
Loss year	Discount	Loss year	Discount
Prior	\$ 95,923	Prior	\$ 99,072
2012	3,156	2011	5,152
2013	4,718	2012	3,383
2014	6,571	2013	5,185
2015	4,825	2014	6,906
2016	9,442	2015	4,919
2017	3,950	2016	2,892
2018	4,304	2017	2,789
2019	2,220	2018	3,900
2020	860	2019	1,249
2021	2,207	2020	560
2022	—	2021	357
Total	\$ <u>138,176</u>	Total	\$ <u>136,364</u>

(4) Investments

Estimated fair value of investments in bonds and equities is based on quotations provided by widely accepted third-party data providers. In 2022 and 2021, Reuters (Refinitiv), and Interactive Data Corporation (IDC) were used to obtain fair market values. Additionally, in 2021, the fair value of certain common trust funds was primarily determined by net asset value and common stock warrants were primarily determined by a widely accepted third-party vendor, followed by a hierarchy using broker/dealer quotes, including Bloomberg, and Yield Book analytic model. Prior month price is used only when information is limited or unavailable.

(a) 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 2022 and 2021, 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-Basis Financial Statements

December 31, 2022 and 2021

The carrying value and the fair value of investments in long-term bonds in 2022 and 2021 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:

	2022			
	Carrying value	Gross unrealized gains	Gross unrealized losses	Fair value
Government obligations:				
Nonloan-backed bonds	\$ 152,489	116	(14,565)	138,040
Loan-backed bonds	904	21	(1)	924
U.S. political subdivisions:				
Nonloan-backed bonds	17,914	7	(1,600)	16,321
Loan-backed bonds	—	—	—	—
U.S. special revenue:				
Nonloan-backed bonds	65,290	—	(9,030)	56,260
Loan-backed bonds	338,444	29	(44,643)	293,830
Industrial and miscellaneous:				
Nonloan-backed bonds	1,270,248	3,701	(122,933)	1,151,016
Loan-backed bonds	415,884	548	(40,660)	375,772
Hybrid securities:				
Nonloan-backed bonds	5,722	80	(207)	5,595
Loan-backed bonds	—	—	—	—
	<u>\$ 2,266,895</u>	<u>4,502</u>	<u>(233,639)</u>	<u>2,037,758</u>

PINNACOL ASSURANCE

Notes to Statutory-Basis Financial Statements

December 31, 2022 and 2021

					2021			
					Carrying	Gross	Gross	Fair value
					value	unrealized	unrealized	
						gains	losses	
Government obligations:								
	Nonloan-backed bonds	\$	190,336		9,025	(427)		198,934
	Loan-backed bonds		1,145		159	—		1,304
U.S. political subdivisions:								
	Nonloan-backed bonds		16,412		1,186	(43)		17,555
	Loan-backed bonds		—		—	—		—
U.S. special revenue:								
	Nonloan-backed bonds		63,980		7,892	(116)		71,756
	Loan-backed bonds		365,412		7,002	(4,140)		368,274
Industrial and miscellaneous:								
	Nonloan-backed bonds		1,290,923		106,652	(3,645)		1,393,930
	Loan-backed bonds		388,645		5,942	(1,947)		392,640
Hybrid securities:								
	Nonloan-backed bonds		5,989		589	—		6,578
	Loan-backed bonds		—		—	—		—
		\$	<u>2,322,842</u>		<u>138,447</u>	<u>(10,318)</u>		<u>2,450,971</u>

The book/adjusted carrying value and estimated fair value of investments in long-term bonds at December 31, 2022, 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 the borrower may have the right to call or prepay obligations with or without call or prepayment penalties.

			2022	
			Book/adjusted	Fair value
			carrying value	
	Due in one year or less	\$	51,585	51,359
	Due after one year through five years		506,120	483,602
	Due after five years through ten years		488,213	446,009
	Due after ten years		465,745	386,263
	Loan-backed and/or structured securities		755,232	670,525
		\$	<u>2,266,895</u>	<u>2,037,758</u>

Proceeds from sales of investments in long-term bonds during 2022 and 2021 were approximately \$196,892,000 and \$176,071,000, respectively. Realized gains on long-term bonds of approximately \$3,777,000 and \$11,677,000 and realized losses of approximately \$(4,613,000) and (\$941,000) were recognized during 2022 and 2021, respectively.

PINNACOL ASSURANCE

Notes to Statutory-Basis Financial Statements

December 31, 2022 and 2021

The following table provides the length of impairment for those investments in long-term bonds with an unrealized loss as of December 31, 2022 (in thousands):

Description of securities	Less than 12 months		12 months or greater		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Government obligations	\$ 130,068	(12,155)	6,096	(2,410)	136,164	(14,565)
U.S. political subdivisions	13,230	(1,108)	1,559	(492)	14,789	(1,600)
U.S. special revenue	207,606	(21,968)	141,261	(31,705)	348,867	(53,673)
Industrial and miscellaneous	1,126,361	(115,639)	253,389	(58,330)	1,379,750	(173,969)
Hybrid securities	5,317	(224)	—	—	5,317	(224)
Total	<u>\$ 1,482,582</u>	<u>(151,094)</u>	<u>402,305</u>	<u>(92,937)</u>	<u>1,884,887</u>	<u>(244,031)</u>

The following table provides the length of impairment for those investments in long-term bonds with an unrealized loss as of December 31, 2021 (in thousands):

Description of securities	Less than 12 months		12 months or greater		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Government obligations	\$ 8,077	(427)	—	—	8,077	(427)
U.S. political subdivisions	2,007	(43)	—	—	2,007	(43)
U.S. special revenue	207,780	(4,257)	—	—	207,780	(4,257)
Industrial and miscellaneous	326,284	(5,236)	36,715	(1,084)	362,999	(6,320)
Hybrid securities	198	(2)	—	—	198	(2)
Total	<u>\$ 544,346</u>	<u>(9,965)</u>	<u>36,715</u>	<u>(1,084)</u>	<u>581,061</u>	<u>(11,049)</u>

PINNACOL ASSURANCE

Notes to Statutory-Basis Financial Statements

December 31, 2022 and 2021

(b) 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. At December 31, 2022 and 2021, Pinnacol recognized approximately \$0, respectively, in OTTI on loan-backed securities. 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):

	2022	
	Aggregate amount of unrealized loss	Aggregate fair value of securities with unrealized loss
Less than 12 months	\$ (30,848)	363,703
12 months or longer	(54,454)	275,544
	<u>\$ (85,302)</u>	<u>639,247</u>

(c) Equities

Unrealized gains on investments in common stocks, mutual funds, and common trust 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, mutual funds, and common trust funds result in the establishment of a new, adjusted cost basis for such investments. The original cost, adjusted cost, net unrealized gains (measured against adjusted cost), and fair value of common stocks, mutual funds, and common trust funds are summarized as follows (in thousands):

	Original cost	Adjusted cost	Net unrealized gains	Fair value
December 31, 2022	\$ 379,496	378,692	3,191	381,883
December 31, 2021	337,664	331,772	124,537	456,309

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 \$64,342,000 based on current securities pledged. The Company was provided this amount by the FHLB as of December 31, 2022. As a requirement of

PINNACOL ASSURANCE

Notes to Statutory-Basis Financial Statements

December 31, 2022 and 2021

the membership and conducting business activities with FHLB, Pinnacol owns FHLB Class A and Class B Capital Stock. In 2022, these assets totaled approximately \$537,000 and \$1,959,000 respectively. In 2021, these assets totaled approximately \$500,000 and \$30,500 respectively.

(d) Mortgage Loans on Real Estate

The Company held approximately \$71,283,000 and \$68,554,000 of commercial mortgage loans at December 31, 2022 and 2021, 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.

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, 2022, 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.

(e) 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, 2023 statutory annual statement filing deadline, the unaudited equity value was used. Other invested assets total approximately \$195,173,000 and \$202,744,000 in 2022 and 2021, respectively, with \$191,658,000 and \$199,224,000 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, 2022 and 2021, approximately \$42,927,000 and \$45,772,000 was nonadmitted due to this requirement, respectively. The Company has contributed \$139,274,000 in net capital (capital contributions, less

PINNACOL ASSURANCE

Notes to Statutory-Basis Financial Statements

December 31, 2022 and 2021

capital distributions) since investing in partnerships and is responsible for up to an additional \$58,131,000.

(f) 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.
- 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, 2022 and 2021, 5.01% and 5.19% of long-term bonds held by the Company were rated noninvestment grade, respectively. At December 31, 2022 and 2021, the Company had approximately \$244,031,000 and \$11,049,000, 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.

PINNACOL ASSURANCE

Notes to Statutory-Basis Financial Statements

December 31, 2022 and 2021

(g) *Other-Than-Temporary Impairment*

During 2022 and 2021, the Company recognized approximately \$5,498,000 and \$902,000, respectively, in OTTI on long-term bonds, and \$2,143,000 and \$10,000, respectively, in OTTI on common stocks, preferred stocks, and mutual funds. The Company also recognized OTTI on other invested assets of approximately \$15,000 in 2022.

(h) *Fair Value Measurements*

The Company has categorized its assets and liabilities that are reported on the statutory-basis 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 common stock warrants and bonds was determined by internal ratings in the absence of observable inputs.

The following table represents (in thousands) information about the Company's financial assets measured at fair value in Level 3 as of December 31, 2022.

Assets	Fair value measurements – Level 3 December 31, 2022						
	Beginning balance, January 1, 2022	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, 2022
Bonds – private placements \$	—	—	—	(475)	8,527	(5,530)	2,522
All other bonds	—	—	(117)	(11)	239	(111)	—
Common stocks – industrial and miscellaneous	771	—	(76)	142	3,084	—	3,921
Total assets \$	<u>771</u>	<u>—</u>	<u>(193)</u>	<u>(344)</u>	<u>11,850</u>	<u>(5,641)</u>	<u>6,443</u>

PINNACOL ASSURANCE

Notes to Statutory-Basis Financial Statements

December 31, 2022 and 2021

The following table represents (in thousands) information about the Company's financial assets measured at fair value in Level 3 as of December 31, 2021.

Fair value measurements – Level 3 December 31, 2021							
Assets	Beginning balance, January 1, 2021	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, 2021
Bonds – private placements \$	—	—	25	(386)	2,297	(1,936)	—
All other bonds	1,217	—	3	33	—	(1,253)	—
Common stocks – industrial and miscellaneous	650	—	9	28	100	(16)	771
Total assets	\$ 1,867	—	37	(325)	2,397	(3,205)	771

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, 2022 and 2021, respectively, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value:

Fair value measurements – recurring basis December 31, 2022				
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	\$ 248	—	3,921	4,169
Mutual funds	377,714	—	—	377,714
Total common stocks	377,962	—	3,921	381,883
Perpetual preferred stocks	668	—	—	668
Money market mutual funds	13,037	—	—	13,037
Total assets	\$ 391,667	—	3,921	395,588

PINNACOL ASSURANCE

Notes to Statutory-Basis Financial Statements

December 31, 2022 and 2021

Fair value measurements – recurring basis				
December 31, 2021				
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	\$ 525	—	771	1,296
Common trust funds	—	124,396	—	124,396
Mutual funds	257,694	72,922	—	330,616
Total common stocks	258,219	197,318	771	456,308
Perpetual preferred stocks	652	—	—	652
Money market mutual funds	19,975	—	—	19,975
Total assets	\$ 278,846	197,318	771	476,935

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 \$10,393,000 at December 31, 2022 and \$730,000 at December 31, 2021.

PINNACOL ASSURANCE

Notes to Statutory-Basis Financial Statements

December 31, 2022 and 2021

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, 2022 and 2021, respectively. The fair values are also categorized into the three-level fair value hierarchy as described above.

Type of financial instrument	December 31, 2022				
	Fair value	Admitted value	Level 1	Level 2	Level 3
Financial instruments – assets:					
Long-term bonds:					
CDOs/CBOs/CLOs	\$ 200,915	210,245	—	200,915	—
Private placements	169,666	189,160	—	986	168,680
All other bonds	1,667,177	1,867,490	—	1,609,326	57,851
Total long-term bonds	<u>2,037,758</u>	<u>2,266,895</u>	<u>—</u>	<u>1,811,227</u>	<u>226,531</u>
Preferred stocks:					
Perpetual preferred	668	668	668	—	—
Redeemable preferred	1,338	1,305	—	—	1,338
Total preferred stocks	<u>2,006</u>	<u>1,973</u>	<u>668</u>	<u>—</u>	<u>1,338</u>
Common stocks:					
Industrial and miscellaneous	4,169	4,169	248	—	3,921
Mutual funds	377,714	377,714	377,714	—	—
Total common stocks	<u>381,883</u>	<u>381,883</u>	<u>377,962</u>	<u>—</u>	<u>3,921</u>
Mortgage loans	71,104	71,283	—	—	71,104
Cash, cash equivalents, and short-term investments	77,541	77,540	77,390	151	—
Total assets	<u>\$ 2,570,292</u>	<u>2,799,574</u>	<u>456,020</u>	<u>1,811,378</u>	<u>302,894</u>

PINNACOL ASSURANCE

Notes to Statutory-Basis Financial Statements

December 31, 2022 and 2021

Type of financial instrument	December 31, 2021				
	Fair value	Admitted value	Level 1	Level 2	Level 3
Financial instruments – assets:					
Long-term bonds:					
CDOs/CBOs/CLOs	\$ 191,937	190,055	—	191,937	—
Private placements	138,948	134,476	—	—	138,948
All other bonds	2,120,086	1,998,311	—	2,039,648	80,438
Total long-term bonds	2,450,971	2,322,842	—	2,231,585	219,386
Preferred stocks:					
Perpetual preferred	754	752	754	—	—
Total preferred stocks	754	752	754	—	—
Common stocks:					
Industrial and miscellaneous	1,297	1,297	525	—	771
Common trust funds	124,396	124,396	—	124,396	—
Mutual funds	330,616	330,616	257,695	72,922	—
Total common stocks	456,309	456,309	258,220	197,318	771
Mortgage loans	68,511	68,554	—	—	68,511
Cash, cash equivalents, and short-term investments	53,273	53,272	53,273	—	—
Total assets	\$ 3,029,818	2,901,729	312,247	2,428,903	288,668

PINNACOL ASSURANCE

Notes to Statutory-Basis Financial Statements

December 31, 2022 and 2021

(i) Investment Income

Major categories of net investment income (expense) for the years ended December 31, 2022 and 2021 are summarized as follows (in thousands):

	<u>2022</u>	<u>2021</u>
Investment income (expense):		
Corporate and miscellaneous bonds	\$ 80,292	73,119
U.S. government bonds	3,469	4,147
Cash and other investments	801	12
Real estate	5,513	5,646
Other invested assets	12,996	11,031
Mortgage loans	3,861	2,526
Equity securities	10,348	13,400
Surplus note interest expense	(12,365)	(11,101)
Investment expenses	<u>(10,653)</u>	<u>(7,607)</u>
Net investment income earned	<u>94,262</u>	<u>91,173</u>
Net realized capital gain (loss):		
Corporate and miscellaneous bonds	(6,575)	9,834
U.S. government bonds	241	—
Equity securities	31,442	39,583
Other invested assets	<u>(15)</u>	<u>—</u>
Net realized capital gains	<u>25,093</u>	<u>49,417</u>
Net investment income	\$ <u>119,355</u>	\$ <u>140,590</u>

PINNACOL ASSURANCE

Notes to Statutory-Basis Financial Statements

December 31, 2022 and 2021

(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):

	<u>2022</u>	<u>2021</u>
Borrowing capacity as of reporting date	\$ 64,342	—
Collateral amount pledged		
Fair value	66,079	—
Carrying value	80,083	—
Borrowing	53,000	—
Accrued interest	<u>197</u>	<u>—</u>
Total borrowing and accrued interest	<u>\$ 53,197</u>	<u>—</u>

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, 2022, 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, 2022 the interest rate was set at 4.48% with year-to-date interest paid of \$78,000 and interest accrued of \$197,000.

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, 2022, the Company is in compliance with all FHLB membership terms.

(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

PINNACOL ASSURANCE

Notes to Statutory-Basis Financial Statements

December 31, 2022 and 2021

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.

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, 2022:

Reinsurer	AM Best rating
Allied World Assurance Company, Limited	A
Arch Reinsurance Company	A+
Markel Bermuda Limited	A
Endurance Specialty Insurance Limited	A+
Convex Insurance UK Limited	A-
XL Re Europe	A+

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 (Other States Coverage). Effective March 1, 2004, Pinnacol executed a reinsurance contract with Argonaut Insurance Company for Other States 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, 2022. The Other States 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 \$4,491,000 in 2022 and 2021.

A Letter of Credit has been posted to Argonaut Insurance Company in the amount of \$4,235,000 and \$4,715,000 in 2022 and 2021, respectively.

Assets have been pledged in a trust to Zurich American Insurance Company in the amount of \$56,046,000 and \$20,755,000 in 2022 and 2021, respectively.

Pinnacol held unearned premium reserves related to assumed business of \$1,101,000 and \$884,000 for the years ended December 31, 2022 and 2021, respectively. Pinnacol had loss and loss adjustment expense reserves related to assumed business of \$25,526,000 and \$19,645,000 for the years ended December 31, 2022 and 2021, respectively.

PINNACOL ASSURANCE

Notes to Statutory-Basis Financial Statements

December 31, 2022 and 2021

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

	2022	2021
Direct premiums written	\$ 511,941	539,424
Premiums ceded	(1,369)	(1,427)
Premiums assumed	14,199	10,096
Net premiums written	\$ 524,771	548,092
Direct premiums earned	\$ 517,611	540,261
Premiums ceded	(1,369)	(1,427)
Premiums assumed	13,982	9,973
Net premiums earned	\$ 530,224	548,807
Direct losses incurred	\$ 291,838	300,175
Losses ceded	—	—
Losses assumed	22,899	6,538
Net losses incurred	\$ 314,737	306,712
Direct loss adjustment expenses incurred	\$ 88,938	79,193
Loss adjustment expenses ceded	—	—
Loss adjustment expenses assumed	2,237	1,165
Net loss adjustment expenses incurred	\$ 91,175	80,358

(7) Employee Benefits

(a) *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.

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>.

PINNACOL ASSURANCE

Notes to Statutory-Basis Financial Statements

December 31, 2022 and 2021

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.

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.

Contributions – Eligible employees of Pinnacle 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

PINNACOL ASSURANCE

Notes to Statutory-Basis Financial Statements

December 31, 2022 and 2021

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		
	2022	2021	2020
Employer contribution rate (includes 1.02% allocation to the Health Care Trust Fund – see note 6c) ¹	11.40 %	10.90 %	10.90 %
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	0.10	0.05	—
Total employer contribution rate ¹	21.50 %	20.95 %	20.90 %

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 \$15,075,000 and \$13,590,000, for the years ended December 31, 2022 and 2021, respectively. These contributions met the contribution requirement for each year.

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. In addition to the \$225,000,000 direct distribution due July 1, 2022, House Bill (HB) 22-1029 instructs the State treasurer to issue a warrant to PERA in the amount of \$380,000,000, upon enactment, with reductions to future direct distributions scheduled to occur July 1, 2023, and July 1, 2024.

PINNACOL ASSURANCE

Notes to Statutory-Basis Financial Statements

December 31, 2022 and 2021

(b) 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, 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 Voluntary Investment Program. That report can be obtained at <https://www.copera.org/investments/pera-financial-reports>.

Funding policy – The Voluntary Investment Program 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, 2022 and 2021, Pinnacol contributed approximately \$1,683,000 and \$1,564,000, respectively, in matching contributions to the PERA 401(k) Plan. Pinnacol also offers a 457 deferred compensation plan.

(c) 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>.

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.

PINNACOL ASSURANCE

Notes to Statutory-Basis Financial Statements

December 31, 2022 and 2021

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.

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 contribution rate of 21.5% in note 6(a). 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, 2022 and 2021, Pinnacol contributions to the HCTF were approximately \$724,000 and \$662,000, respectively, equal to the required contributions for each year.

(d) 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 2022 and 2021 were \$7,551,000 and \$7,182,000, 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 \$4,391,000 and \$4,262,000 at December 31, 2022 and 2021, respectively, is included in other liabilities in the statutory-basis statements of admitted assets, liabilities, and policyholders' surplus.

(8) Policyholders' Surplus

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

PINNACOL ASSURANCE

Notes to Statutory-Basis Financial Statements

December 31, 2022 and 2021

results were available. 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 3, 2021, the Board of Directors declared a general policyholder dividend to be paid in March 2022 of approximately \$40,000,000. On February 23, 2022, the Board of Directors determined the final amount of the general policyholder dividend paid in March 2022 to be \$50,000,000 based on year-end 2021 financial results.

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 \$203,679,000 for 2022.

A surplus note in the amount of \$100,000,000 was issued on June 25, 2014, 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. Upon obtaining approval from the Commissioner of the Division, Pinnacol repurchased \$8,000,000 of its outstanding surplus notes on October 28, 2021 and \$47,000,000 of its outstanding surplus notes on December 5, 2022 by paying the noteholder cash consideration equal to 131% and 108%, respectively, of the principal repurchased plus accrued interest. In 2022, \$12,089,000 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-basis financial statements as of December 31, 2022, but it 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 December 31, 2022.

As discussed in note 1(w), the Company participates in the State Division Trust Fund (SDTF), a cost-sharing multiple-employer defined-benefit pension fund administered by PERA. The funded portion of the SDTF's total pension liability as of December 31, 2021 is 64.0%. 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 as of July 2022, the Company's special surplus fund for the unfunded pension benefits has decreased by \$56,358,000 from \$185,612,000 in 2021 to a new balance of \$129,254,000 for 2022. There are no limitations for using the special surplus fund for policyholders, injured workers, or other creditors.

As discussed in note 1(w), 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 \$756,000 from \$6,600,000 in 2021 to a new balance of \$5,844,000 for 2022.

PINNACOL ASSURANCE

Notes to Statutory-Basis Financial Statements

December 31, 2022 and 2021

(9) Commitments and Contingencies

Pinnacol has made the following commitments:

Total Contingent Liabilities	2022
Pinnacol has committed to fund partnerships investments	\$ 58,131,000
Pinnacol has committed to rated note investments	5,528,000
Pinnacol has committed to mortgage loan investments	<u>22,274,000</u>
Total	<u>\$ 85,933,000</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, 2022 and 2021, Pinnacol had a letter of credit for the benefit of Argonaut Insurance Company under an assumed reinsurance agreement for approximately \$4,235,000 and \$4,715,000, respectively. 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 \$10,074,000 and \$10,085,000, compared to a requirement of \$4,235,000 and \$4,715,000, as of December 31, 2022 and 2021, respectively.

At December 31, 2022 and 2021, 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 are amounts held in the trust of approximately \$56,046,000 and \$20,755,000 as of December 31, 2022 and 2021. These bonds had a total market value of approximately \$51,584,000 and \$21,833,000 as of December 31, 2022 and 2021, which Zurich American Insurance Company deemed sufficient to secure Pinnacol's obligations under the agreement.

Pinnacol is contingently liable for approximately \$30,952,000 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 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.

PINNACOL ASSURANCE

Notes to Statutory-Basis Financial Statements

December 31, 2022 and 2021

(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. Losses reported by Cake do not have an impact on Pinnacol's other investments. The losses are summarized in the table below:

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.	\$ (9,593,000)	(9,593,000)	2,302,000	No	—

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 organically or through a referral program with Pinnacol and makes payments to Cake monthly as policies are generated. During 2022, Pinnacol incurred \$771,000 in program administrator fees.

Pinnacol is currently leveraging Cake's research and software development to transform Pinnacol's business and reimagine enterprise-wide systems. The use of this technology will allow Pinnacol to operate a digital platform for multiple distribution channels while continuing to build digital capabilities for all policies.

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 2022, Pinnacol received \$429,000 in management fees and reimbursed costs from its subsidiary. The management fees offset various expenses in the income statement.

At December 31, 2022, Pinnacol reported \$52,000 due to subsidiary for commissions due to Cake as an agent. Pinnacol also reported \$81,000 due from subsidiary for management fees and reimbursable expenses under the management service agreement.

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

(11) Subsequent Events

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 of \$15,000,000 which was paid in March 2023 to policyholders in good standing.

PINNACOL ASSURANCE

Notes to Statutory-Basis Financial Statements

December 31, 2022 and 2021

On January 4, 2023, Pinnacol's subsidiary Cake exercised its right to convert 2,000,000 preferred stock shares to 2,000,000 common stock shares. Pinnacol purchased an additional 8,000,000 common stock shares at \$5 per share for a total additional investment of \$40,000,000. With this additional investment, Cake acquired an existing managing general agent (MGA) as a wholly-owned subsidiary. In March 2023, Pinnacol made an additional \$10,000,000 capital contribution to Cake.

Subsequent events have been evaluated through May 17, 2023, the date these statutory-basis financial statements were available to be issued.

**SUPPLEMENTAL SCHEDULES OF INVESTMENT AND
REINSURANCE INFORMATION**
(See Independent Auditors' Report)

PINNACOL ASSURANCE

Supplemental Schedule of Investment Information
Investment Risks Interrogatories

Year ended December 31, 2022

(In thousands)

1. Pinnacol's total admitted assets as reported on page 2 of its annual statement are: \$ 3,044,919
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	\$ 227,406	7.468%
2.02 Federal Home Loan Mortgage Corporation	CMO, MBS	111,037	3.647
2.03 NB Pinnacol Assurance Fund LP	Sch BA-Joint Venture	98,208	3.225
2.04 Deerpath Newbury Partners LLC	Bonds, Sch BA-Joint Venture	25,238	0.829
2.05 Lending Ark Asia Secured Private Debt Fund I, LP	Bonds, Sch BA-Joint Venture	22,668	0.744
2.06 First Eagle DL V-A Funding LLC	Bonds, Sch BA-Joint Venture	15,852	0.521
2.07 GCM Grosvenor Opportunistic Credit Fund V, LTD	Sch BA-Joint Venture	12,620	0.414
2.08 GCM Grosvenor Special Opportunities Fund, LTD	Sch BA-Joint Venture	11,668	0.383
2.09 NB Strategic Co-Investment Partners III, LP	Sch BA-Joint Venture	10,769	0.354
2.10 Warburg Pincus Private Equity XII, LP	Sch BA-Joint Venture	10,604	0.348

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	\$ 1,563,117	51.335%
NAIC-2	603,025	19.804
NAIC-3	48,361	1.588
NAIC-4	39,852	1.309
NAIC-5	11,243	0.369
NAIC-6	1,448	0.048
Preferred stocks:		
P/RP-1	1,304	0.043
P/RP-2	206	0.007
P/RP-3	462	0.015
P/RP-4	0	—
P/RP-5	0	—
P/RP-6	0	—
	<u>\$ 2,269,018</u>	

4. Assets held in foreign investments are \$403,464 and assets held in foreign-currency-denominated investments are \$0, which is approximately 13.3% 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		
NAIC Designation	Amount	Percentage of total admitted assets
Countries designated NAIC-1	\$ 367,685	12.075%
Countries designated NAIC-2	27,674	0.909
Countries designated NAIC-3 or below	8,105	0.266
	<u>\$ 403,464</u>	

PINNACOL ASSURANCE
Supplemental Schedule of Investment Information
Investment Risks Interrogatories
Year ended December 31, 2022

(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	\$ 195,774	6.430%
Country 2:	United Kingdom	35,453	1.164
Countries designated NAIC-2:			
Country 1:	Mexico	16,283	0.535
Country 2:	Panama	6,031	0.198
Countries designated NAIC-3 or below:			
Country 1:	Virgin Islands, British	4,489	0.147
Country 2:	Aruba	1,800	0.059
		<u>\$ 259,830</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	\$ 22,668	0.744%
10.02 Macquarie Group Limited	1FE	8,500	0.279
10.03 HSBC Holdings plc	1FE	7,006	0.230
10.04 Fomento Económico Mexicano, S.A.B. de C.V.	2FE	5,145	0.169
10.05 Aptiv PLC	2FE	5,095	0.167
10.06 Shell International Finance B.V.	1FE	5,072	0.167
10.07 Arch Capital Group Ltd.	2FE	5,062	0.166
10.08 Nippon Life Insurance Company	1FE	5,005	0.164
10.09 The Royal Bank of Scotland plc	1FE	5,000	0.164
10.10 Société Générale Société anonyme	2FE	5,000	0.164

PINNACOL ASSURANCE
Supplemental Schedule of Investment Information
Investment Risks Interrogatories
Year ended December 31, 2022
(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 \$ 182,975 6.009%
- Largest three investments held in investments with contractual sales restrictions:
- 12.03 NB Pinnacol Assurance Fund LP \$ 98,208 3.225%
- 12.04 Lending Ark Asia Secured Private Debt Fund I, LP 22,668 0.744
- 12.05 First Eagle DL V-A Funding LLC 15,852 0.521
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 Fidelity 500 Index Fund	\$ 101,219	3.324%	
13.03 NB Pinnacol Assurance Fund LP	98,208	3.225	
13.04 MFS International Growth Fund	55,560	1.825	
13.05 Goldman Sachs GQG Partners International Opportunities Fund	55,259	1.815	
13.06 Vanguard International High Dividend Yield Fund	53,987	1.773	
13.07 T. Rowe Price U.S. Equity Research Fund	50,830	1.669	
13.08 Vanguard High Dividend Yield Index Fund	21,157	0.695	
13.09 T. Rowe Price Institutional Small-Cap Stock Fund	19,943	0.655	
13.10 GCM Grosvenor Opportunistic Credit Fund V, LTD	12,620	0.414	
13.11 GCM Grosvenor Special Opportunities Fund, LTD	11,668	0.383	
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>			
14.06 Fidelity 500 Index Fund	<u>Total Invested</u> 101,219	<u>Diversified</u> 101,219	<u>Nondiversified</u> —
14.07 Vanguard High Dividend Yield Funds	84,308	84,308	—
14.08 T. Rowe Price Funds	70,773	70,773	—
14.09 Wells Fargo Funds Trust - Treasury Plus Money Market Fund	66,902	66,902	—
14.10 MFS International Growth Fund	55,560	55,560	—
14.11 Goldman Sachs GQG Partners International Opportunities Fund	55,259	55,259	—
14.12 State Street Institutional Investment Trust - International Treasure Plus Money Market Fund	12,871	12,871	—
14.13 Diamond Hill Small-Mid Cap Fund	10,596	10,596	—
14.14			
14.15			

Items 15 through 19 are not applicable.

See accompanying independent auditors' report.

PINNACOL ASSURANCE

Supplemental Schedule of Investment Information
Summary Investment Schedule

December 31, 2022

(In thousands)

Investment categories	Gross investment holdings*		Admitted assets as reported in the annual statement	
	Amount	Percentage of gross investment holdings	Amount	Percentage of total admitted assets
Long-term bonds:				
U.S. governments	\$ 131,602	4.4 %	\$ 131,602	4.4 %
All other governments	21,791	0.7	21,791	0.7
U.S. states, territories and possessions	2,526	0.1	2,526	0.1
U.S. political subdivisions of states, territories, and possessions	15,388	0.5	15,388	0.5
U.S. special revenue and special assessment obligations	403,733	13.4	403,733	13.6
Industrial and miscellaneous	1,686,133	56.0	1,686,133	56.8
Hybrid securities	5,722	0.2	5,722	0.2
Parent, subsidiaries, and affiliates	—	—	—	—
SVO identified funds	—	—	—	—
Unaffiliated bank loans	—	—	—	—
Preferred stocks:				
Industrial and miscellaneous (unaffiliated)	1,973	0.1	1,973	0.1
Parent, subsidiaries, and affiliates	—	—	—	—
Common stocks:				
Industrial and miscellaneous publicly traded (unaffiliated)	811	—	811	—
Industrial and miscellaneous other (unaffiliated)	3,288	0.1	3,288	0.1
Parent, subsidiaries, and affiliates publicly traded	—	—	—	—
Parent, subsidiaries, and affiliates other	—	—	—	—
Mutual funds	377,714	12.6	377,714	12.7
Unit investment trusts	—	—	—	—
Closed-end funds	70	—	70	—

PINNACOL ASSURANCE

Supplemental Schedule of Investment Information
Summary Investment Schedule

December 31, 2022

(In thousands)

Investment categories	Gross investment holdings*		Admitted assets as reported in the annual statement	
	Amount	Percentage of gross investment holdings	Amount	Percentage of total admitted assets
Mortgage loans:				
Farm mortgages	\$ —	— %	\$ —	— %
Residential mortgages	—	—	—	—
Commercial mortgages	71,283	2.4	71,283	2.4
Mezzanine real estate loans	—	—	—	—
Real estate:				
Property occupied by Company	11,615	0.4	11,615	0.4
Property held for production of income	—	—	—	—
Property held for sale	—	—	—	—
Cash, cash equivalents, and short-term investments:				
Cash	(2,383)	(0.1)	(2,383)	(0.1)
Cash equivalents	79,773	2.7	79,773	2.7
Short-term investments	150	—	150	—
Contract loans	—	—	—	—
Derivatives	—	—	—	—
Other invested assets (Schedule BA)	195,173	6.5	152,246	5.1
Receivables for securities	2,595	0.1	2,595	0.1
Securities lending	—	—	—	—
Other invested assets	—	—	—	—
Total invested assets	<u>\$ 3,008,957</u>	<u>100 %</u>	<u>\$ 2,966,030</u>	<u>100 %</u>

* Gross investment holdings as valued in compliance with NAIC *Accounting Practices and Procedures Manual*.

Note: Reinsurance Interrogatories are excluded as they are not applicable.

See accompanying independent auditors' report.

PINNACOL ASSURANCE

Reinsurance Interrogatories

December 31, 2022

1. Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results: Yes No
- (a) A contract term longer than two years and the contract is noncancelable by the reporting entity during the contract term;
- (b) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;
- (c) Aggregate stoploss reinsurance coverage;
- (d) A unilateral right by either party (or both parties) to commute the reinsurance contract, whether conditional or not, except for such provisions, which are only triggered by a decline in the credit status of the other party;
- (e) A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or
- (f) Payment schedule, accumulating retentions from multiple years, or any features inherently designed to delay timing of the reimbursement to the ceding entity?
2. Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), for which it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders? This disclosure is limited to reinsurance contracts with written premium cessions or loss and loss expense reserve cessions described in paragraph 116 of SSAP No. 62R, *Property and Casualty Reinsurance*. This disclosure excludes cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member. Yes No
- (a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or
- (b) Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in a separate reinsurance contract?
3. If yes to 1 or 2, please provide the following information in the Reinsurance Summary Supplemental Filing: Yes No N/A
- (a) The aggregate financial statement impact gross of all such ceded reinsurance contracts on the balance sheet and statement of income;
- (b) A summary of the reinsurance contract terms and indicate whether it applies to the contracts meeting the criteria in 1 or 2; and
- (c) A brief discussion of management's principle objectives in entering into the reinsurance contract, including the economic purpose to be achieved.
4. Except for transactions meeting the requirements of paragraph 31 of SSAP No. 62R, *Property and Casualty Reinsurance*, has the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either: Yes No
- (a) Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles (SAP) and as a deposit under generally accepted accounting principles (GAAP); or
- (b) Accounted for that contract as reinsurance under GAAP and as a deposit under SAP?
5. If yes to 4, explain in the Reinsurance Summary Supplemental Filing why the contract(s) is treated differently for GAAP and SAP. Yes No N/A
6. Does the reporting entity have any risks reinsured under a quota share reinsurance contract with any other entity that includes a provision that would limit the reinsurer's losses below the stated quota share percentage? Yes No

See accompanying independent auditors' report.



KPMG LLP
Suite 800
1225 17th Street
Denver, CO 80202-5598

Independent Auditors' 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

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, which comprise the statutory-basis statements of admitted assets, liabilities, and policyholders' surplus as of December 31, 2022, and the related statutory-basis statements of operations and changes in policyholders' surplus, and cash flow for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 17, 2023. 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 Pinnacol Assurance'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 Pinnacol Assurance's internal control. Accordingly, we do not express an opinion on the effectiveness of Pinnacol Assurance'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 Pinnacol Assurance'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 entity'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.

KPMG LLP

Denver, Colorado
May 17, 2023



KPMG LLP
Suite 800
1225 17th Street
Denver, CO 80202-5598

May 17, 2023

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

Ladies and Gentlemen:

We have audited the financial statements of Pinnacol Assurance (the Company), 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, as of December 31, 2022 and 2021 and for each of the years then ended, and issued our report thereon under date of May 17, 2023. Under our professional standards, we are providing you with the accompanying information related to the conduct of our audits.

Our Responsibility Under Professional Standards

We are responsible for forming and expressing an opinion about whether the financial statements, that have been prepared by management with the oversight of the Pinnacol Assurance Risk and Audit Committee of the Board of Directors (Pinnacol Risk and Audit Committee), 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, which practices differ from the U.S. generally accepted accounting principles. We have a responsibility to perform our audit of the financial statements in accordance with auditing standards generally accepted in the United States of America (AICPA) and the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the financial statements are detected. Our audit does not relieve management or the Pinnacol Risk and Audit Committee of their responsibilities.

In addition, in planning and performing our audit of the financial statements, we considered 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control. We also have a responsibility to communicate significant matters related to the financial statement audit that are, in our professional judgment, relevant to the responsibilities of the Pinnacol Risk and Audit Committee in overseeing the financial reporting process. We are not required to design procedures for the purpose of identifying other matters to communicate to you.

Significant Unusual Transactions

In connection with our audit of the Company's financial statements, no significant unusual transactions were identified.



Uncorrected and Corrected Misstatements

Uncorrected Misstatement and Financial Statement Presentation and Disclosure Omissions

In connection with our audit of the Company's financial statements, we have discussed with management a financial statement misstatement related to accounts and disclosures that has not been corrected in the Company's books and records as of and for the year ended December 31, 2022. We have reported such misstatement to management on a Summary of Audit Misstatements and have received written representations from management that the effect of the uncorrected financial statement misstatement related to accounts and disclosures is immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Uncorrected immaterial misstatements, or matters underlying them, could potentially cause future-period financial statements to be materially misstated. The impact of the uncorrected misstatement is an overstatement of total assets of \$5,200,000, total liabilities of \$5,120,000, and surplus and net income of \$140,000.

Corrected Misstatements

In connection with our audit of the Company's financial statements, no corrected financial statement misstatements in the Company's books and records were identified as of and for the year ended December 31, 2022.

Significant Accounting Policies and Practices

In connection with our audit of the Company's financial statements, no new, or changes in, significant accounting policies and practices were identified.

Qualitative Aspects of Accounting Practices

We have discussed with the Pinnacol Assurance Risk and Audit Committee and management our judgments about the quality, not just the acceptability, of the Company's accounting policies as applied in its financial reporting. The discussions generally included such matters as the consistency of the Company's accounting policies and their application and the understandability and completeness of the Company's financial statements, which include related disclosures.

Significant Accounting Estimates and Significant Financial Statement Disclosures

The preparation of the financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Significant accounting estimates reflected in the Company's 2022 statutory-basis financial statements included the following:

Reserve for Unpaid Losses and Loss Adjustment Expenses is based on an analysis of historical paid and incurred claims. To assist management in estimating the liability for unpaid losses and loss adjustment expenses, the Company retains the assistance of an actuarial consulting firm. We evaluated the key factors and assumptions used to develop the reserve for unpaid losses and loss adjustment expenses, including possible management bias in developing the estimate, in determining that the reserve for unpaid losses and loss adjustment expenses is reasonable in relation to the financial statements as a whole.

Internal Structured Settlement Liability is based on mortality risk and discounted using a market rate. The Company discounts internal structured settlement liabilities on a tabular basis using a discount rate of 2.5% for 2022. The discount rate is based on an estimate of expected investment yield and considers the risk of adverse deviation in the future from such yield. To assist management in estimating the internal structured settlement



The Members of the Legislative Audit Committee and
Pinnacol Assurance Board of Directors
Page 55 of 56

liability, the Company retains the assistance of an actuarial consulting firm. We evaluated key factors and assumptions used to develop the structured settlement liability, including possible management bias in developing the estimate, in determining that the structured settlement liability is reasonable in relation to the financial statements as a whole.

Fair Value of Investments is based on quotations provided by widely accepted third-party providers, the net asset value or in limited instances prior month prices. We evaluated the pricing methods used by management, including possible management bias in estimating fair value, in determining that the fair value of investments is reasonable in relation to the financial statements as a whole.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing the Company's financial statements and our auditors' report thereon does not extend beyond the financial information identified in our auditors' report, and we have no obligation to perform any procedures to corroborate other information contained in these documents.

Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Significant Issues Discussed, or Subject to Correspondence, with Management

We generally discuss a variety of matters, including the application of accounting principles and auditing standards with the Pinnacol Risk and Audit Committee and management each year prior to our retention by the Legislative Audit Committee as the Company's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Management's Consultation with Other Accountants

To the best of our knowledge, management has not consulted with other accountants during the year ended December 31, 2022.

Difficult or Contentious Matters for Which We Consulted

In connection with our audit of the Company's financial statements, we did not consult outside of the engagement team for any difficult or contentious matters.

Disagreements with Management

There were no disagreements with management on financial accounting and reporting matters that individually or in the aggregate could be significant to the Company's financial statements, or our report.

Written Communications

The following written communications between management and us have been provided:

1. Internal legal letter
2. Management representation letter



The Members of the Legislative Audit Committee and
Pinnacol Assurance Board of Directors
Page 56 of 56

Independence

We are not aware of any additional circumstances or relationships between our firm and the Company and persons in a financial reporting oversight role at the Company that may reasonably be thought to bear on independence.

Affirmation of Independence

We hereby affirm that as of May 17, 2023, we are independent accountants with respect to the Company under all relevant professional and regulatory standards.

* * * * *

This letter to the Legislative Audit Committee and Pinnacol Risk and Audit Committee is intended solely for the information and use of Legislative Audit Committee and Pinnacol Risk and Audit Committee, management and the Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties. However, upon release by the Legislative Audit Committee, the report is a public document.

Very truly yours,

KPMG LLP