Department of Regulatory Agencies

REPORT OF FINANCIAL EXAMINATION

AS OF DECEMBER 31, 2009

PINNACOL ASSURANCE

7501 East Lowery Blvd.
Denver, CO 80230

NAIC Company Code 41190

Conducted by:

COLORADO DIVISION OF INSURANCE

Fin 11-01

CERTIFICATE OF COPY

I, **John J. Postolowski**, Interim Commissioner of Insurance of the State of Colorado, do hereby certify that the attached is a true and correct copy of the Financial Examination Report as of December 31, 2009 for **Pinnacol Assurance** now on file as a record of this office.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal of office at the City and County of Denver on this 5th day of January 2011.

John J. Postolowski

John J. Postolowski
Interim Commissioner of Insurance

REPORT OF FINANCIAL EXAMINATION

OF

PINNACOL ASSURANCE

7501 East Lowry Blvd.
Denver, CO 80230

AS OF

DECEMBER 31, 2009

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Denver, Colorado
October 14, 2010

Honorable Marcy Morrison, Commissioner
Division of Insurance
State of Colorado
1560 Broadway, Suite 850
Denver, Colorado 80202

Commissioner:

Pursuant to your instructions and in compliance with Section 8-45-121(4), C.R.S., an examination has been made of the financial condition and affairs of:

PINNACOL ASSURANCE
7501 East Lowry Blvd.
Denver, Colorado 80230

and the report thereon is respectfully submitted.

Pinnacol Assurance, hereinafter referred to as the "Company," was last examined as of December 31, 2006. That examination, as well as the current examination, was conducted by the Colorado Division of Insurance hereinafter referred to as the "Division".

All recommendations contained in the prior examination report have been addressed.

SCOPE OF EXAMINATION

We have performed our single state examination of the Company. The last examination was completed as of December 31, 2006. This examination covers the period of January 1, 2007 through December 31, 2009.

We conducted our examination in accordance with the Colorado Examiners Handbook and the NAIC Financial Condition Examiners Handbook “Handbook”. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. Additional factors included an analytical review of financial data, the Company's financial performance during the examination period, prior examination findings and materiality. Consideration was also given to the use of audit work performed by the Company’s independent accounting firm. All phases of the examination were conducted to determine compliance with the insurance laws and regulations of the State of Colorado. Specific details pertaining to the various phases of the examination are set forth under the appropriate caption in subsequent sections of this report.

The determination to reflect financial adjustments in the financial statements was dependent upon: the materiality of a particular adjustment; the materiality of the total of all immaterial adjustments; and/or compliance with pertinent laws and regulations. Materiality was determined based on the Company’s surplus, admitted assets and/or operating results.

This examination does not address market conduct issues related to policy forms or rates, policyholder treatment and claims settlement practices. These issues are addressed in separate market conduct examinations conducted periodically by the Division.

SUMMARY OF SIGNIFICANT FINDINGS

1. The results of this examination disclosed that as of December 31, 2009, the Company had admitted assets of $2,016,666,435, liabilities of $1,284,139,248 and capital and surplus of $732,527,187. As a result of this examination, there was no adjustment to the capital and surplus, as reported in the Company’s 2009 Annual Statement.

SUBSEQUENT EVENTS

On June 7, 2010, the results of a performance audit of the Company were presented to the Legislative Audit Committee (LAC) with 14 recommendations included in the report. On September 27, 2010, the Company again came before the LAC to present the progress made on the recommendations. Six recommendations have been implemented, seven will be implemented by December 31, 2010 and one recommendation will be implemented in 2011.

On August 10, 2010, the Division filed a Notice of Hearing for a hearing to be held on August 25-26, 2010. The Division was calling the hearing with regard to the Company's rate filings. On August 24, 2010, the Company and the Division signed a Stipulation for Entry of Final Agency Order regarding those rate matters. The stipulation sets out the following:

- The Company is permitted to maintain $10,000 as the minimum premium for a policyholder to qualify for scheduled rating;
- The Company will use the loss cost multiplier applicable to each policy classification in determining scheduled rating eligibility on a prospective basis, in a manner that remains revenue neutral to the schedule rating plan. This change is to be filed by the Company with an effective date of January 1, 2011;
- The Company will discontinue using loss history and financial history as schedule rating factors in its scheduled rating plan. This change is to be filed by the Company with an effective date of January 1, 2011;
- The Company used unfiled rating factors in its scheduled rating plan for the period 2002-2009. Therefore, the Company agrees to pay $15M from surplus to policyholders as a credit over one year beginning January 1, 2011. The payments shall be based on a ratio of total credit to the total expected premium for 2011. The payments may exceed the $15M, but may not be less than $15M. An invoice or other document identifying the credit shall be sent to policyholders advising the policyholders that the credit is being paid as a result of this settlement with the Division.
- The Company shall pay an $80,000 penalty, with an additional surcharge on the penalty (or $87,500 total) within 30 days of the date of issuance of the Final Agency Order. The surcharge will be used to fund the development, implementation and maintenance of consumer outreach and education.

COMPANY HISTORY

History

The Company was created on August 1, 1915, by the General Assembly under the provisions of the Workmen's Compensation Act of Colorado. It was then known as the "State Compensation Insurance Fund." In 1987, the General Assembly created the State Compensation Insurance Authority, which assumed the responsibilities of the State Compensation Insurance Fund. On July 1, 1990, the Company's name changed to "Colorado Compensation Insurance Authority." Effective July 1, 2002, the General Assembly repealed and reenacted the substantive provisions of the Workers' Compensation Act of Colorado, creating "Pinnacol Assurance" which assumed the powers, duties, and functions of the Colorado Compensation Insurance Authority. The Company's primary purpose is to offer workers' compensation and employer's liability insurance to Colorado employers.

Pursuant to Section 8-45-101, C.R.S., the Company is a political subdivision of the state and operates as a domestic mutual insurance company except as otherwise provided by law. The Company is not an agency of state government, nor is it subject to administrative direction by any state agency except as provided in the provisions of Title 8, Article 45, C.R.S. The Company 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 allowed by statute.

Capital

The Company is a statutorily created political subdivision of the State of Colorado pursuant Section 8-45-101 C.R.S. and thus has no authorized stock or outstanding stock. In addition, the Company does not pay shareholder dividends.

Dividends to Policyholders

Beginning in 2005, the Company paid general policyholder dividends out of excess surplus. The Company has no restrictions placed on the portion of surplus that is paid, as long as Risk-Based Capital "RBC" has been met. The Company's board of directors, at its discretion, determines the amount of policyholder dividends to be declared, based on the Company's overall experience and financial condition. The Company paid general policyholder dividends to its policyholders in good standing, which totaled $237,603,252 over the examination period, as follows:

Year	Amount Paid
2007	$60,641,917
2008	$54,361,530
2009	$122,599,805

CORPORATE RECORDS

As a political subdivision of the State of Colorado, the Company does not have Articles of Incorporation, but is subject to the statutes that created the Company, Section 8-45-101, et al., C.R.S. Effective June 1, 2009, an amendment to the statutes added Section 8-45-125, C.R.S., creating a legislative interim committee to study the operations of the Company.

Per the Company's by-laws, the powers of Company is vested in the board of directors, with the qualifications of each director outlined in Section 8-45-101(2)(a), C.R.S.

Board of Directors Meetings

Regular meetings of the board shall be held at such times as the board may from time to time determine at the principal office of the Company or at such other places as the board may from time to time determine.

Special meetings of the board may be called at any time, at any place and for any purpose by the chairman of the board, by any two members of the board, or by the chief executive officer of the Company.

During the examination period, the board met on a monthly basis 36 times, had 3 special meetings and 1 board retreat.

Committee Meetings

The board may establish committees for the performance of delegated or designated functions to the extent permitted by law, each committee to consist of one or more directors of the Company and may include one or more persons who are not board members. Each committee shall consist of a majority of persons who are members of the board; however such majority of directors is not required to constitute a quorum.

MANAGEMENT AND CONTROL

Board of Directors

Section 8-45-101(2)(a), C.R.S. states that the number of directors shall be nine and all are to be appointed by the Governor, with the consent of the Senate. Of the nine members, four shall be employers whose liability for workers compensation is covered by the Company, with one of such employers to be a farmer or rancher. Three of the nine members shall be employees of employers whose liability is covered by the Company. One of the nine members shall be experienced in the management and operation of insurance companies as defined in section 10-1-102(6), C.R.S. Such member shall not concurrently serve as an owner, a shareholder, an officer, an employee, an agent of, or in any other capacity with any business which competes with the Company. One of the nine members shall be experienced in finance or investments, but shall not be an employer whose liability is insured by the Company. The term of office for each such member shall be five years. The appointees may serve on a temporary basis if the Senate is not in session when they are appointed until the Senate is in session and is able to confirm such appointments. Vacancies on the board shall be filled by appointment of the Governor for the remainder of any unexpired terms. The board shall elect a chairman annually from its membership. As of the examination date, only eight directors were appointed to the board.

Directors appointed and serving at December 31, 2009, together with their state of residence and principal occupation, as follow:

Name & Address	Principal Occupation
Gary O. Johnson, Chairman Lakewood, CO *Insurance Representative*	President Strategic Insurance Consultants, Inc.
Bonnie Dean Greeley, CO *Employer Representative*	Owner Bonnie Dean Associates

Name & Address	Principal Occupation
David W. Green Fort Collins, CO *Employee Representative*	Human Resources Manager Platte River Power Authority
Ryan L. Hettich Colorado Springs, CO *Employer Representative*	Owner Sundance Capital Inc
Robert J. Jolly Kit Carson, CO *Employer Farm and Ranch Rep.*	Co-owner and Manager Barbara Jolly & Sons Ranch, LLC
Debra E. Lovejoy Colorado Springs, CO *Employee Representative*	Vice President Employers Resources of Colorado
David L. Stevens, Vice Chairman Englewood, CO *Financial & Investments Representative*	President Irongate Financial Services
Paul J. Suss Aurora, CO *Employer Representative*	President Suss Pontiac GMC, Inc.

As of May 2010 three of the above directors, Bonnie Dean, David Green and David Stevens, were replaced by the following individuals, who were approved by the Governor:

Name & Address	Principal Occupation
Holman F. Carter Westminster, CO *Employee Representative*	President ATU Local 1001
Robert C. McDaniel Denver, CO *Finance & Investments Representative*	Managing Director Metrix Advisors, LLC
Dr. Richard Rivera Pueblo, CO *Employer Representative*	Doctor Emergi-Medica Center
Nonie Rivale Willisch Denver, CO *Employee Representative*	CRS Insurance Brokerage

One of the above employee representatives filled the vacant position.

Officers

Pursuant to Section 8-45-101(2)(a), C.R.S., the board shall annually elect a chairman of the board from its membership. The by-laws also provide for the election of a vice chairman from the board's membership.

In addition, Section 8-45-101(5)(a), C.R.S., requires that the board appoint a chief executive officer who may appoint and/or hire such other staff as is deemed necessary.

The CEO may appoint and remove vice presidents or other officers as may be necessary or desirable for the efficient operation of the Company. Each vice president, if any, will perform such functions as may be presented by the CEO.

The officers and serving at the date of this report follow:

Name	Title
Gary O. Johnson	Chairman of the Board
David L. Stevens	Vice Chairman of the Board
Kenneth Ross	President and Chief Executive Officer
Jeff N. Tetrick	Vice President, Treasurer and Chief Financial Officer
Don Collins	Vice President, Underwriting and Chief Marketing Officer
Robert H. Norris	Vice President, Strategic Development and Chief Information Officer
Daniel F. O'Neil	Vice President, Claims and General Counsel
Carole Sumption	Vice President, Human Resources and Corporate Services

Effective June 2010, Debra Lovejoy replaced David Stevens as vice chairman of the board. There were no other changes in officers as of the date of this report.

Committee Members

Per the Company's by-laws, the board may establish committees for the performance of delegated or designated functions to the extent permitted by law, each committee to consist of one or more directors of the Company and may include one or more persons who are not board members. Each committee shall consist of a majority of persons who are members of the board, however such majority of directors is not required to constitute a quorum.

Audit Committee:

Name	Title
Ryan Hettich – CHAIR	Board Member
Mark Eagleton	Non-Board Member/Outside Advisor
Gary Johnson	Board Member
RJ Jolly	Board Member
Jim Nussbaum	Non-Board Member/Outside Advisor
Paul Suss	Board Member

Compensation Committee:

Name	Title
Bonnie Dean – CHAIR	Board Member
Gary Johnson	Board Member
RJ Jolly	Board Member
Debra Lovejoy	Board Member
Dave Stevens	Board Member

Governance and Ethics Committee:

Name	Title
Debra Lovejoy – CHAIR	Board Member
Bonnie Dean	Board Member
Mark Eagleton	Non-Board Member/Outside Advisor
Dave Green	Board Member
RJ Jolly	Board Member
Dave Stevens	Board Member

Investment Committee:

Name	Title
Dave Stevens – CHAIR	Board Member
Bob Bush	Non-Board Member/Outside Advisor
Dave Green	Board Member
Ryan Hettich	Board Member
Larry Howes	Non-Board Member/Outside Advisor
Gary Johnson	Board Member
Ken Ross	Non-Board Member/Management
Paul Suss	Board Member
Jeff Tetrick	Non-Board Member/Management

Conflict of Interest

The Company has a procedure to disclose any conflicts of interest on the part of its employees, officers and directors. Annually, the Company's employees, officers and directors are required to complete a conflict of interest questionnaire and to indicate compliance with the "Company's Business Ethics and Conflict of Interest" policy for officers and employees and the "Business Ethics and Conflicts of Interest Policies and Procedures of the Board of Directors of Pinnacol Assurance."

There were no conflicts of interest noted in the review of the current statements for officers and directors in the Company's files. No discrepancies were noted in the response to the General Interrogatories regarding conflicts of interest as reflected in the Company's annual statements for the period under examination.

Fidelity Bonds and Other Insurance

Per the requirements of Colorado Regulation 3-1-1, the Company is to have a minimum of $1,750,000 of fidelity insurance. The policy, for which the Company is the named insured, has a single loss limit of liability of $10,000,000 per loss with a $100,000 loss deductible.

The Company is also covered by a package policy, an automobile policy and an umbrella policy, all with an insurer authorized in Colorado. The Company is covered for workers compensation insurance by one of its own policies. The Company self-insures itself for Director and Officers/ Employment Practices Liability/ Errors and Omissions coverage.

Employees' and Agents' Welfare

The Company's employees are provided a full range of benefits including health, dental, vision, basic life, short-term disability, and long-term disability insurance on a contributory basis. All employees participate in the Public Employees' Retirement Association (PERA) pension plan. Employees may also participate in PERA's 401(k) plan, as well as a 457(b) savings plan. The Company does not provide benefits to its agents.

Service and Management Agreements

The Company was party to the following service and/or management agreements:

Conning Asset Management:

On December 1, 2004, the Company entered into an agreement with Conning for investment advisory services, portfolio management, and investment accounting and reporting services. Pursuant to this agreement, the Company pays a fee of sliding scale basis points on the market value of the investment portfolio at the end of each quarter. In 2009, the Company paid Conning $1,509,095 for services provided.

Mairs and Power Investment Advisor:

In September 2006, the Company entered into an investment advisory agreement with Mairs and Power for the supervision and recommendation of investments in accordance with the Company's investment objectives. Annual fees are based on the market value of all assets covered by the agreement and are billed quarterly based on 25% of what the calculated annual fee would be at that point in time. During 2009, the Company paid Mairs and Power $94,619.

E&Y Internal Audit:

Dated July 14, 2008, the Company has retained E&Y for all services formerly performed by the Company's internal audit department. The engagement letter indicates that E&Y will perform in an advisory capacity to complete reviews of the processes normally assessed by a company's internal auditors. The fee for these services is $600,000 per year, invoiced in 10 monthly installments of $60,000, as well as actual expenses incurred. In addition, E&Y grants the Company credits of $2,500 per quarter for 3 years. In 2009, the Company paid E&Y $616,491 pursuant to the engagement letter.

Argonaut Administrative Services:

Effective March 1, 2004, the administrative services agreement includes the Company, Argonaut and policies only in Colorado, but some of the policyholders have employees living and working outside of Colorado. Therefore, Argonaut writes the policies for the out-of-state exposures of entities principally domiciled in Colorado. The Company assumes 100% of the business written for these exposures by means of a reinsurance agreement. United States Insurance Services, Inc. provides agency services related to this business written. In 2009, the Company assumed $17,247,086 in premiums from Argonaut.

TERRITORY AND PLAN OF OPERATION

Territory

Pursuant to Section 8-45-101(5)(f), C.R.S., the Company was organized to write workers compensation and employer's liability coverage in the State of Colorado.

Plan of Operation

The Company issues workers compensation policies only in Colorado. For employers with employees located in other states, the Company has entered into a reinsurance assumption agreement with Argonaut Insurance Company. Argonaut sells the workers compensation policies that cover the out-of-state employees and the Company assumes 100% of the business written.

Company personnel underwrite and issue policies in accordance with written procedures. The Company receives applications from policyholders in several ways, 1) An agent can fax, hand deliver, complete an application online or mail the application in to the Company; or 2) A potential policyholder may contact the Company directly and a new business representative (NBR) will assist the potential policyholder by phone, mail, walk-in. Agents and NBRs may issue quotes when the premium is less than $10,000. Only underwriters may issue quotes for policies with premium of $10,000 or more, since any policy over $10,000 requires schedule rating.

GROWTH OF THE COMPANY

The growth of the Company for the years under examination is presented in the following schedules, which were prepared from information contained in the Company's annual statements for the years indicated. The amounts reported below for 2006 and 2009 were determined by examination.

Year	Admitted assets	Liabilities	Capital	Surplus
2006	$2,011,005,045	$1,403,531,591	$0	$607,473,454
2007	2,141,126,744	1,419,054,532	0	722,072,212
2008	2,090,100,699	1,392,099,707	0	698,000,992
2009	2,016,666,435	1,284,139,248	0	732,527,187

Premiums by State

The Company only writes business in the State of Colorado. For 2009, the Company had direct written premiums of $353,823,991 and direct premiums earned of $381,693,797.

A schedule of direct premiums written, reinsurance assumed and ceded and net premiums written and earned follows

Year	Direct premiums written	Reinsurance assumed	Reinsurance ceded	Net premiums written	Net premiums earned
2006	$587,714,160	$ 9,045,999	$3,627,195	$593,132,964	$588,376,311
2007	546,642,471	18,790,447	2,464,444	562,968,474	567,283,531
2008	484,458,594	28,558,607	1,415,885	511,601,316	521,081,899
2009	353,823,991	17,247,086	1,041,117	370,029,960	398,502,463

Loss and Underwriting Experience

The following schedule shows the underwriting results of the Company. The amounts were compiled from the Company's filed annual statements. The amounts for 2009 were verified in connection with this examination.

Year	Net premiums earned $	Loss and loss expense incurred $	Underwriting expense incurred $	Loss and loss exp. ratio %	Underwriting ratio %	Combined ratio %*
2006	588,376,311	384,446,052	115,656,442	65.34	19.66	85.00
2007	567,283,531	386,390,004	117,106,684	68.11	20.64	88.75
2008	521,081,899	340,917,187	124,040,788	65.42	23.80	89.22
2009	398,502,463	290,065,663	113,957,921	72.79	28.60	101.39

*A combined ratio of greater than 100% is the result of a net underwriting loss

Each of the above ratios was calculated by the examiners

Year	Total operating income	Total operating deductions	Net underwriting gain/(loss)	Investment and other income	Net income before dividends and taxes
2006	$588,376,311	$500,102,494	$88,273,817	$ 94,742,486	$183,016,303
2007	567,283,531	503,496,688	63,786,843	113,945,754	177,732,597
2008	521,081,899	464,957,975	56,123,924	108,451,889	164,575,813
2009	398,502,463	404,023,584	(5,521,121)	31,131,446	25,610,325

The dollar figures reported in the schedules above were extracted from the filed statutory annual reports.

REINSURANCE

Ceded

The reinsurance agreements reviewed were found to meet NAIC guidelines with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

The Company is party to two catastrophic excess of loss ceding reinsurance agreements. The Company's retention under the first agreement is $20M dollars and pays up to an additional $20M. The second agreement picks up there and pays $40M excess of the first $40M.

Assumed

The assumed reinsurance agreement reviewed was found to meet NAIC guidelines with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

The Company is only able to issue policies in Colorado. There are some companies in Colorado that have employees in other states that need workers compensation coverage. For this coverage, the Company has contracted with Argonaut Insurance Company, an Illinois company. The Company then assumes 100% of the business issued by Argonaut.

It is noted that, as the assuming company under these fronting arrangements, the Company is considered an unauthorized insurer and as such, is required to provide the ceding insurer security in the amount of the unpaid losses (including IBNR). The Company provided letters of credit issued by a local bank as security for the unpaid loss reserves. As of December 31, 2009, the Company had assets in the amount of $77,432,988 pledged to this bank as collateral for these letters of credit.

ACCOUNTS AND RECORDS

The Company operates its own local area network and utilizes network management software. It uses a combination of internally developed and commercial "off the shelf" products for its significant financial/business systems. The Company has established policies and procedures to outline its information system business practices and is proactive in implementing and monitoring its security environment.

A trial balance was provided for the year ending December 31, 2009, and balances were traced to the appropriate asset, liability and income and expense exhibits of the 2009 Annual Statement.

The Company is audited annually pursuant to Section 8-45-121(2), C.R.S. The auditor is retained by the State Auditor's Office, and thus, the Company is not considered to be the auditor's client.

The Company filed its actuarial opinions in accordance with Colorado Insurance Regulation 3-1-3.

The Company's financial statements are audited annually by an independent auditor and filed with the Division in accordance with Colorado Insurance Regulation 3-1-4. The independent auditor's workpapers were made available to the examiners for use during the examination.

The Company established policies and procedures regarding the escheatment of unclaimed funds on August 5, 2009. The Company made its first filing on October 23, 2009 in compliance with Section 38-

13-101, et seq., C.R.S. The escheated checks totaled $201,882.37 and were dated between August 6, 2003 and June 30, 2004.

FINANCIAL STATEMENTS

The following pages present a statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2009 as determined by this examination. This statement is followed by supporting statements and reconciliations presented in the following order:

Statement of Income, for the Year Ended December 31, 2009

Capital and Surplus Account, for the Year Ended December 31, 2009

Reconciliation of Capital and Surplus, December 31, 2006 through December 31, 2009

Analysis of Examination Changes, as of December 31, 2009

Comparative Financial Statements, as of December 31, 2006 and December 31, 2009

ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS
DECEMBER 31, 2009

ASSETS

	Assets	Assets not admitted	Net admitted assets
Bonds	$1,615,972,475	$ 0	$1,615,972,475
Common Stocks	268,235,888	0	268,235,888
Real Estate – Occupied by Company	21,589,010	0	21,589,010
Cash and short-term investment	63,555,802	0	63,555,802
Investment income due and accrued	18,328,268	0	18,328,268
Premiums and considerations:			
Uncollected premium & agents' balances	18,347,297	3,740,970	14,606,327
Deferred premium	5,502,004	0	5,502,004
Accrued retrospective premium	2,282,156	27,959	2,254,197
Reinsurance:			
Funds held by or deposited with reinsured companies	1,000,000	1,000,000	0
Amounts receivable relating to uninsured plans	4,725,372	0	4,725,372
Electronic data processing equipment and software	2,721,243	824,151	1,897,092
Furniture, fixtures and equipment	2,161,803	2,161,803	0
Aggregate write-ins for other than invested assets	2,889,835	2,889,835	0
Total assets	$2,027,311,153	$10,644,718	$2,016,666,435

ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS (continued)
DECEMBER 31, 2009

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		$ 954,394,487
Loss adjustment expenses		194,743,647
Commissions payable		13,382,934
Other expenses		9,062,797
Taxes, licenses and fees		5,869,703
Unearned premiums (Note 1)		57,595,807
Advance premium (Note 1)		14,242,358
Policyholder dividends declared and unpaid		20,275,544
Amounts withheld or retained by company for account of others		827,744
Remittances and items no allocated		72,773
Aggregate write-ins for liabilities		13,671,454
Total liabilities		$1,284,139,248
Unassigned funds (surplus)	$732,527,187	
Surplus as regards policyholders		732,527,187
Total liabilities, surplus and other funds		$2,016,666,435

STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 2009

Underwriting income		
Premiums earned		$398,502,463
Deductions		
Losses incurred	$255,523,241	
Loss expenses incurred	34,542,422	
Other underwriting expenses incurred	113,957,921	
Total underwriting deductions		404,023,584
Net underwriting gain (loss)		$ (5,521,121)
Investment income		
Net investment income earned	$ 94,401,606	
Net realized capital gains	(63,498,091)	
Total investment gain		30,903,515
Other income		
Net loss from agents' or premium balances charged off	$ (1,251,704)	
Finance and service charges not included in premiums	262,114	
Miscellaneous income	1,217,521	
Total other income		227,931
Net income before federal income taxes		$ 25,610,325
Dividends to policyholders		116,840,851
Net income (loss)		$(91,230,526)

CAPITAL AND SURPLUS ACCOUNT

FOR THE YEAR ENDED DECEMBER 31, 2009

Surplus as regards policyholders December 31, previous year		$698,000,991
Net income (loss)	$ (91,230,526)	
Change in net unrealized capital gains (losses)	123,155,719	
Change in non-admitted assets	2,601,003	
Change in surplus as regards policyholders for the year		34,526,196
Surplus as regards policyholders December 31, 2009		$732,527,187

RECONCILIATION OF CAPITAL AND SURPLUS

DECEMBER 31, 2006 THROUGH DECEMBER 31, 2009

	2007	2008	2009
Surplus as regards policyholders December 31, previous year	$607,473,453	$722,072,212	$698,000,991
Net income (loss)	$109,229,774	$ 86,018,591	$ (91,230,526)
Change in net realized capital gains (losses)	5,313,598	(110,077,480)	123,155,719
Change in non-admitted assets	385,387	(342,332)	2,601,003
Change in provision for reinsurance	(330,000)	330,000	0
Change in surplus as regards policyholders for the year	$114,598,759	$(24,071,221)	$ 34,526,196
Surplus as regards policyholders December 31, current year	$722,072,212	$698,000,991	$732,527,187

The above amounts were extracted from the Company's filed annual statements. The 2009 amounts were determined by examination.

ANALYSIS OF EXAMINATION CHANGES
DECEMBER 31, 2009

	Per annual statement	Per examination	Surplus increase (decrease)
Admitted assets			
Total assets	$2,016,666,435	$2,016,666,435	$ 0
Liabilities			
Total liabilities	$1,284,139,248	$1,284,139,248	$ 0
Capital and surplus			
Total surplus	$ 732,527,187	$ 732,527,187	$ 0
Net change per examination			$ 0
Capital and surplus per annual statement			$732,527,187
Net change per examination			0
Capital and surplus per examination			$732,527,187

COMPARATIVE FINANCIAL STATEMENT
DECEMBER 31, 2006 AND DECEMBER 31, 2009

ADMITTED ASSETS

	December 31, 2006*	December 31, 2009*
Bonds	$1,631,196,507	$1,615,972,475
Common Stocks	223,949,267	268,235,888
Real Estate – Occupied by Company	22,305,573	21,589,010
Cash and short-term investment	44,163,085	63,555,802
Investment income due and accrued	17,065,994	18,328,268
Premiums and considerations:		
Uncollected premium & agents' balances	35,686,851	14,606,327
Deferred premium	29,655,449	5,502,004
Accrued retrospective premium	2,132,476	2,254,197
Reinsurance:		
Amounts recoverable from reinsurers	164,510	0
Amounts receivable relating to uninsured plans	3,013,294	4,725,372
Electronic data processing equipment and software	1,672,039	1,897,092
Total assets	$2,011,005,045	$2,016,666,435

*As determined by examination

COMPARATIVE FINANCIAL STATEMENT
DECEMBER 31, 2006 AND DECEMBER 31, 2009

LIABILITIES, CAPITAL SURPLUS AND OTHER FUNDS

	December 31, 2006*	December 31, 2009*
Losses	$1,040,222,414	$ 954,394,487
Loss adjustment expenses	197,198,765	194,743,647
Commissions payable	21,608,587	13,382,934
Other expenses	8,155,880	9,062,797
Taxes, licenses and fees	11,439,705	5,869,703
Unearned premiums	99,863,950	57,595,807
Advance premium		14,242,358
Policyholder dividends declared and unpaid	13,983,303	20,275,544
Funds held by Company under reinsurance treaties	51,650	0
Amounts withheld or retained by company for account of others	705,679	827,744
Remittances and items no allocated	62,004	72,773
Aggregate write-ins for liabilities	10,239,654	13,671,454
Total liabilities	$1,403,531,591	$1,284,139,248
Unassigned funds (surplus)	607,473,454	732,527,187
Surplus as regards policyholders	$ 607,473,454	$ 732,527,187
Total liabilities, surplus and other funds	$2,011,005,045	$2,016,666,435

*As determined by examination

NOTES TO FINANCIAL STATEMENTS

Note 1 – Surplus as Regards Policyholders

Pursuant to Section 10-3-201, C.R.S., and Colorado Insurance Regulation 3-1-11, the Company is required to maintain a minimum surplus level of at least $1,500,000 or an amount equivalent to the risk-based capital (RBC) requirements set forth in the regulation. As of December 31, 2009, the Company's "authorized control level" RBC was determined to be $57,930,160. As of December 31, 2009, the Company's adjusted capital and surplus of $732,527,187 was 1,264.5% of the calculated "authorized control level".

RECOMMENDATIONS

There were no recommendations made as a result of this examination as of December 31, 2009.

CONCLUSION

The courtesy, assistance and cooperation extended by the officers and employees of the Company during the course of this examination are greatly appreciated.

Patrick Knepler and Joseph Cooper, actuaries for the Division, supervised the actuarial and related phases of the examination. Philip E. Gates, EDP Auditor for the Division, conducted the IS phase of the examination.

In addition to the undersigned, Marcella Rivera and Leah Kelley, Examiners for the Division, participated in the examination.

Respectfully submitted,

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Julie A. Hansen, CFE
Examiner-in-Charge
Division of Insurance
State of Colorado