KPMG

COMPSOURCE OKLAHOMA

Basic Financial Statements

December 31, 2014 and 2013

(With Independent Auditors' Report Thereon)

This section of CompSource Oklahoma's (CompSource) annual financial report presents a discussion and analysis of the financial performance of CompSource for the years ended December 31, 2014, 2013, and 2012. Please read it in conjunction with the financial statements, which follow this section. The following table summarizes the financial position and results of operations of CompSource for 2014, 2013, and 2012.

Assets	**2014**	**2013**	**2012**
Current investments	$ 1,546,800,880	1,345,333,540	1,335,519,411
Other current assets	197,623,815	262,792,496	136,696,516
Property, plant, and equipment	32,226,337	23,501,103	14,484,193
Other invested asset	5,955,782	5,997,496	6,282,406
Note receivable from Multiple Injury Trust Fund	15,130,689	16,917,421	18,584,368
	$ 1,797,737,503	1,654,542,056	1,511,566,894
Liabilities and Fund Equity			
Current reserve for losses and loss adjustment expenses	$ 202,545,120	217,191,944	214,550,080
Other current liabilities	106,984,467	114,182,277	100,300,921
Noncurrent reserve for losses and loss adjustment expenses	1,016,028,853	929,403,074	838,510,664
	1,325,558,440	1,260,777,295	1,153,361,665
Fund equity, invested in capital assets	32,226,337	23,501,103	14,484,193
Fund equity, restricted for catastrophes	5,000,000	5,000,000	5,000,000
Fund equity, unrestricted	434,952,726	365,263,658	338,721,036
	472,179,063	393,764,761	358,205,229
	$ 1,797,737,503	1,654,542,056	1,511,566,894
Revenues, Expenses, and Change in Fund Equity			
Net premiums earned	$ 310,354,232	309,973,804	280,161,733
Net investment income	85,031,284	70,120,897	88,232,497
	395,385,516	380,094,701	368,394,230
Losses and loss adjustment expenses	260,367,502	297,574,852	284,364,159
Other operating expenses	56,827,936	50,464,487	44,738,881
	317,195,438	348,039,339	329,103,040
Total nonoperating revenues	224,224	3,504,170	358,500
Dividends to policyholders	—	—	—
Change in fund equity	$ 78,414,302	35,559,532	39,649,690

(Continued)

Overview of the Financial Statements

CompSource's financial statements are prepared on the basis of accounting principles generally accepted in the United States of America for governmental entities and insurance enterprises where applicable. The primary purpose of CompSource is to provide a source of workers' compensation insurance for all Oklahoma employers, state agencies, and other governmental units as set forth in Title 85 of the Oklahoma Statutes. CompSource operates in a manner similar to any other insurance company. CompSource is a component unit of the State of Oklahoma and is combined with other unrelated funds to comprise the major component units of the State of Oklahoma. CompSource meets the definition of both a major component and that of an enterprise fund. Financial statements are presented on the accrual basis of accounting. The three basic financial statements presented within the financial statements are as follows:

- Balance Sheet – This statement presents information reflecting CompSource's assets, liabilities, and fund equity. Fund equity represents the amount of total assets less total liabilities. The balance sheet is categorized as to current and noncurrent assets and liabilities. For purposes of the financial statements, current assets and liabilities are those assets and liabilities with immediate liquidity or which are collectible or becoming due within 12 months of the statement date. CompSource's investment balances are considered current assets, as all investments are considered to be highly liquid.
- Statement of Revenues, Expenses, and Changes in Fund Equity – This statement reflects the operating revenues and expenses, as well as nonoperating revenues and expenses, and dividends during the operating year. Major sources of operating revenues are premium income and investment income with major sources of operating expenses being losses and loss adjustment expenses related to claims. The change in fund equity before dividends to policyholders for an enterprise fund is similar to net profit or loss for any other insurance company.
- Statement of Cash Flows – The statement of cash flows is presented on the direct method of reporting, which reflects cash flows from operating, financing, and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash for the calendar year.

The CompSource Mutual Insurance Company Act, (HB 2201) was signed into law during 2013 and provides that CompSource, after a transition period, will become a domestic mutual insurance company effective January 1, 2015.

Financial Position

- Compsource's current investments, which are recorded at fair value, increased by approximately $201 million, or 15%, during 2014. The increase primarily resulted from a $120 million cash transfer to debt securities in connection with restructuring the investment portfolio after completion of a strategic asset allocation and unrealized gains, some of which were realized during 2014 as a part of the restructuring. The restructuring of the investment portfolio was completed as a part of the transition to a domestic mutual insurance company. Interest and dividend income also contributed to the increase in current investments, as all such income was re-invested during the year. Total return, which is a combined measurement of both investment income earned and the change in fair values improved to 6.1% during 2014. CompSource's debt securities, which consist primarily of U.S. government bonds, investment grade corporate bonds, and mortgage-backed securities, comprised 93% of current investments and had a total return of 5.7% during 2014. Equity securities, which consist of large capitalization index funds and an actively managed portfolio of small and mid-capitalization stocks comprised 5% of current investments and produced a total return of 12.7% for 2014.

- CompSource's current investments increased by approximately $10 million, or 0.7%, during 2013. This increase resulted from increases in the fair values of equity securities and net investment income which more than offset declines in the fair values of debt securities and short-term investments and a transfer to operating cash from the liquidation of equity securities related to portfolio rebalancing. The total return on all investments during 2013 was 5.2%. The total returns on debt and equity securities were negative 0.6% and 35.6%, respectively, for 2013.
- Other current assets decreased by approximately $65 million during 2014, which was chiefly due to a $120 million cash transfer to debt securities related to the portfolio restructuring, which was sufficient to offset increases in operating cash, premiums due and other receivables, receivables from the Oklahoma Tax Commission, accrued investment income, and other assets. Premiums due and other receivables increased by approximately $12 million, primarily due to billing delays arising from the enterprise computer system conversion. The increase in accrued investment income of $1 million is related to the increase in debt securities from the portfolio restructuring. Receivables from the Oklahoma Tax Commission increased by approximately $2 million due to an increase in the Multiple Injury Fund Tax rate. Other assets increased by approximately $1 million due to increases in prepaid business and reinsurance receivables.
- Other current assets increased by approximately $126 million during 2013, which is primarily attributable to increases in cash and cash equivalents, premiums due and other receivables, and receivable from the Oklahoma Tax Commission. Cash and cash equivalents increased by approximately $117 million primarily due to a cash transfer of $60 million from equity securities related to portfolio rebalancing and an increase in net cash provided by operating activities of $46 million, which was fueled by increased premium collections and declines in claim payments. Premiums due and other receivables and receivable from the Oklahoma Tax Commission increased by approximately $6 million and $4 million, respectively, due to increases in premiums written during 2013, and an increase in the Multiple Injury Trust Fund (MITF) tax rate.
- Property, plant and equipment increased during both 2014 and 2013 from the capitalization of costs related to the implementation of an enterprise computer system.
- The current and noncurrent reserves for losses and loss adjustment expenses are based on CompSource's independent actuary's and management's best estimate and are based on case basis estimates for losses reported and CompSource's historical loss experience for claims incurred but not reported. The reserves for loss adjustment expenses include an estimate for unallocated operating costs to process, and ultimately settle, incurred but unpaid claims. The reserves are subject to the outcome of future events, including changes in the medical condition of claimants, medical inflation, decisions by the Court of Existing Claims (formerly the Workers' Compensation Court) and Workers' Compensation Commission, and legislative changes. Adjustments to the reserves based on subsequent developments or other changes in the estimate are reflected in results of operations in the period in which such adjustments become known.

- The decrease in current reserves for losses and loss adjustment expenses of approximately $15 million, or 6.7%, during 2014 is due to favorable development of incurred but not reported (IBNR) claims related to severity declines in recent accident years. The increase in noncurrent reserves for losses and loss adjustment expenses during 2014 of approximately $87 million, or 9.3%, arises primarily due to case reserve strengthening for long-term claims. During 2013, current and noncurrent reserves for losses and loss adjustment expenses increased by approximately $3 million, or 1.2%, and approximately $91 million, or 10.8%, respectively. These increases reflect the increase in reserves for IBNR claims for expected claim costs related to the increase in premium earned during 2013, as well as an increase in case reserves during 2013.
- Other current liabilities decreased by approximately $7 million, or 6.3%, during 2014, chiefly from decreases in unearned premiums and policyholder deposit premiums and due to brokers. The decrease in unearned premiums and policyholder deposit premiums results from the decline in premium collections, while the decrease in due to brokers arises from decreased investment activity at year-end.
- Other current liabilities increased by approximately $14 million during 2013, primarily due to increases in unearned and policyholder deposit premiums, accounts payable and other liabilities, and due to brokers. The increase in unearned and policyholder deposit premiums of approximately $7 million is due to an increase in premiums collected, while the increase in accounts payable and other liabilities of approximately $6 million is due to an increase in accrued payables for the Market Equalization Assessment and other premium taxes as well as accruals for agent commissions and information technology related costs. The increase in due to brokers of approximately $1 million is due to pending purchases of investment securities.
- Total fund equity increased by approximately $78 million and $36 million during 2014 and 2013, respectively, due to net investment income sufficient to offset operating expenses that exceeded net premiums earned in both years. Additional analysis is provided in the Results of Operations Section of Management's Discussion and Analysis for both 2014 and 2013.

Results of Operations

- Net premiums earned increased by approximately $0.4 million and $29.8 million during 2014 and 2013, respectively, as competitive forces for workers' compensation insurance impacted results. An increase in competition was observed during 2014, which stemmed the increase in net premiums earned. The market hardening trend was prevalent during 2013, which was characterized by price increases and reduced availability of coverage from the private market.
- Net investment income increased during 2014 by approximately $15 million, or 21.3%, primarily due to the portfolio restructuring which resulted in increases to interest income on debt securities and realized gains on sales of debt and equity securities.
- Net investment income declined during 2013 by approximately $18 million, or 20.5%, chiefly due to the decline in the fair value of debt securities of approximately $50 million and a decrease in interest and dividend income of approximately $1 million, which more than offset increases in the fair value of equity securities and realized gains totaling approximately $31 million.

(Continued)

- Losses and loss adjustment expenses represent medical, indemnity, and other expenses for workers' compensation claims incurred during the year to process, adjust and settle workers' compensation claims. Losses and loss adjustment expenses include estimates for losses and loss adjustment expenses incurred but not reported during the year. CompSource's calendar year loss ratio, which is derived as the ratio of losses and loss adjustment expenses to net premiums earned, was 84% during 2014, down from 96% for 2013. The decrease in total losses and loss adjustment expenses during 2014 of $37 million, or 12.5%, is directly related to favorable IBNR development for recent accident years from declines in severity sufficient to offset case reserve strengthening for older accident years. Total losses and loss adjustment expenses increased during 2013 by approximately $13 million, or 4.6%, as both IBNR reserves and case reserves increased consistent with the increase in premium earned.
- Other operating expenses increased by approximately $6 million during both 2014 and 2013. The increases in both years are primarily due to increases in underwriting expenses, general and administrative expenses, the MITF tax, and provision for doubtful accounts. The increases in underwriting expenses were driven by an increase in agent commission and other expenses related to an increase in premium written subject to commission as well as higher compensation costs. The increases in general and administrative expenses are also due to higher compensation costs. The increases in the MITF tax are primarily due to an increase in the MITF tax rate during both years. The increases in provision for doubtful accounts are due to overall increases in premium receivables and specific policyholder account provisions for doubtful accounts.

KPMG LLP
210 Park Avenue, Suite 2850
Oklahoma City, OK 73102-5683

Independent Auditors' Report

The Board of Managers
CompSource Oklahoma:

Report on the Financial Statements

We have audited the accompanying financial statements of CompSource Oklahoma (CompSource), a component unit of the State of Oklahoma, which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of revenues, expenses, and changes in fund equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CompSource Oklahoma as of December 31, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matter

Required Supplementary Information

U.S. generally accepted accounting principles require that the *management's discussion and analysis* on pages 1-5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 3, 2015 on our consideration of CompSource'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 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 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 CompSource's internal control over financial reporting and compliance.

KPMG LLP

Oklahoma City, Oklahoma
June 3, 2015

COMPSOURCE OKLAHOMA

Balance Sheets

December 31, 2014 and 2013

Assets		**2014**	**2013**
Current assets:			
Cash and cash equivalents	$	92,522,412	174,885,654
Investments:			
Debt securities		1,434,300,703	1,070,902,370
Equity securities		82,490,532	239,715,347
Short-term investments		30,009,645	34,715,823
Total current investments		1,546,800,880	1,345,333,540
Accrued investment income		11,376,631	10,013,755
Premiums due and other receivables, net		74,673,019	62,617,849
Note receivable from Multiple Injury Trust Fund, current portion		1,815,870	1,694,131
Receivable from Oklahoma Tax Commission		11,677,667	9,221,321
Due from brokers		395,056	391,914
Other assets		5,163,160	3,967,872
Total current assets		1,744,424,695	1,608,126,036
Noncurrent assets:			
Other invested asset		5,955,782	5,997,496
Note receivable from Multiple Injury Trust Fund		15,130,689	16,917,421
Property, plant, and equipment, net		32,226,337	23,501,103
Total noncurrent assets		53,312,808	46,416,020
Total assets	$	1,797,737,503	1,654,542,056
Liabilities and Fund Equity			
Current liabilities:			
Reserve for losses	$	189,058,500	201,357,715
Reserve for loss adjustment expenses		13,486,620	15,834,229
Unearned premiums and policyholder deposit premiums		82,968,850	89,691,261
Accounts payable and other liabilities		24,015,617	23,194,579
Due to brokers		—	1,296,437
Total current liabilities		309,529,587	331,374,221
Noncurrent liabilities:			
Reserve for losses		948,375,798	861,645,583
Reserve for loss adjustment expenses		67,653,055	67,757,491
Total noncurrent liabilities		1,016,028,853	929,403,074
Total liabilities		1,325,558,440	1,260,777,295
Fund equity:			
Fund equity, invested in capital assets		32,226,337	23,501,103
Fund equity, restricted for catastrophes		5,000,000	5,000,000
Fund equity, unrestricted		434,952,726	365,263,658
Total fund equity		472,179,063	393,764,761
Contingencies (notes 6, 8, and 14)		—	—
Total liabilities and fund equity	$	1,797,737,503	1,654,542,056

See accompanying notes to basic financial statements.

COMPSOURCE OKLAHOMA

Statements of Revenues, Expenses, and Changes in Fund Equity

Years ended December 31, 2014 and 2013

	2014	2013
Operating revenues:		
Gross premiums earned	$ 361,861,292	362,848,951
Discounts	(51,507,060)	(52,875,147)
Net premiums earned	310,354,232	309,973,804
Investment income:		
Interest and dividend income, net of investment expense	49,721,101	43,204,401
Net increase in fair value of investments	35,310,183	26,916,496
Net investment income	85,031,284	70,120,897
Total operating revenues	395,385,516	380,094,701
Operating expenses:		
Losses and loss adjustment expenses	260,367,502	297,574,852
Underwriting expenses	16,976,472	15,890,882
General and administrative expenses	19,334,561	17,212,269
Workers' Compensation Court tax	3,129,884	3,054,812
Multiple Injury Trust Fund tax	5,729,186	4,333,260
Market equalization assessment	7,042,239	6,883,898
Provision for doubtful accounts	2,363,030	1,843,803
Depreciation expense	2,252,564	1,245,563
Total operating expenses	317,195,438	348,039,339
Operating income	78,190,078	32,055,362
Nonoperating revenues:		
Other income	238,756	3,504,170
Loss on disposal of assets	(14,532)	—
Total nonoperating revenues	224,224	3,504,170
Change in fund equity	78,414,302	35,559,532
Fund equity, beginning of year	393,764,761	358,205,229
Fund equity, end of year	$ 472,179,063	393,764,761

See accompanying notes to basic financial statements.

COMPSOURCE OKLAHOMA

Statements of Cash Flows

Years ended December 31, 2014 and 2013

		2014	2013
Cash flows from operating activities:			
Premiums collected	$	293,412,143	303,979,973
Policyholder deposit premiums collected		(3,770,944)	6,223,116
Losses paid		(170,603,625)	(183,961,408)
Loss adjustment expenses paid		(18,168,366)	(20,034,286)
Underwriting expenses paid		(9,067,610)	(8,606,739)
Agent commission expenses paid		(7,867,679)	(6,690,706)
General and administrative expenses paid		(16,212,881)	(14,763,152)
Workers' Compensation Court tax paid		(3,122,493)	(3,021,790)
Multiple Injury Trust Fund tax paid		(17,119,475)	(12,368,324)
Multiple Injury Trust Fund tax rebate received		9,221,321	5,344,399
Market Equalization tax paid		(6,976,504)	(6,391,433)
Reinsurance expenses paid		(2,286,372)	(1,783,280)
Other states' coverage expenses paid		(269,579)	(225,323)
Investment income received		47,872,197	44,200,508
Other income		756,792	3,610,455
Net cash provided by operating activities		95,796,925	105,512,010
Cash flows from capital and related financing activity:			
Purchase of property and equipment		(12,757,103)	(8,467,702)
Net cash used in capital and related financing activity		(12,757,103)	(8,467,702)
Cash flows from investing activities:			
Proceeds from sales and maturities of investments		474,297,093	256,357,773
Purchase of investments		(644,992,314)	(241,970,531)
Payments received on other invested asset		220,565	95,561
Net decrease in short-term investments		4,706,178	2,715,126
Net change in due to (from) brokers		(1,299,579)	1,137,169
Payments received on note from Multiple Injury Trust Fund		1,664,993	1,553,370
Net cash provided by (used in) investing activities		(165,403,064)	19,888,468
Net increase (decrease) in cash		(82,363,242)	116,932,776
Cash, beginning of year		174,885,654	57,952,878
Cash, end of year	$	92,522,412	174,885,654
Supplemental disclosure – noncash capital activities:			
Fixed assets included in accounts payable	$	252,317	1,898,971

(Continued)

COMPSOURCE OKLAHOMA

Statements of Cash Flows

Years ended December 31, 2014 and 2013

		2014	**2013**
Reconciliation of change in fund equity to net cash provided by operating activities:			
Change in fund equity	$	78,414,302	35,559,532
Adjustments to reconcile change in fund equity to net cash provided by operating activities:			
Net increase in fair value of investments		(35,310,183)	(26,916,496)
Provision for doubtful accounts		2,363,030	1,843,803
Depreciation		2,252,564	1,245,563
Loss on disposal of fixed assets		14,532	—
Increase in accrued investment income		(1,362,876)	(70,516)
Increase in premiums due and other receivables		(14,418,200)	(6,973,347)
Increase in receivable from Oklahoma Tax Commission		(2,456,346)	(3,876,922)
Decrease (increase) in deferred acquisition costs		188,219	(488,502)
(Increase) decrease in other assets		(1,612,353)	587,057
Increase in reserve for losses		74,431,000	88,205,478
(Decrease) increase in reserve for loss adjustment expenses		(2,452,045)	5,328,796
(Decrease) increase in unearned premiums		(3,001,466)	916,462
(Decrease) increase in policyholder deposit premiums		(3,720,945)	6,223,116
Increase in accounts payable and other liabilities		2,467,692	3,927,986
Net cash provided by operating activities	$	95,796,925	105,512,010

See accompanying notes to basic financial statements.

(1) Operational Authority and Summary of Significant Accounting Policies

(a) Operational Authority

CompSource Oklahoma (CompSource) was created in 1933 under Title 85 of the Oklahoma Statutes (Title 85). The primary purpose of CompSource is to provide a source for workers' compensation insurance for all Oklahoma employers. CompSource operates in a manner similar to any other insurance company. It is governed by a Board of Managers (the Board) and is administered by the President and Chief Executive Officer, who is appointed by the Board.

CompSource is a component unit of the State of Oklahoma (the State) and is combined with other unrelated funds to comprise the major component units of the State. CompSource meets the definition of both a major component and that of an enterprise fund. Enterprise funds are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expense, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The CompSource Mutual Insurance Company Act (HB 2201) was signed into law during 2013 and provides that CompSource, after a transition period, will become a domestic mutual insurance company effective January 1, 2015. Surplus on January 1, 2015, became surplus of the new domestic mutual insurance company.

(b) Principles of Presentation

CompSource has prepared its financial statements in accordance with U.S. generally accepted accounting principles. CompSource has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

The GASB establishes the U.S. generally accepted accounting principles hierarchy for enterprise funds. The hierarchy requires that proprietary activities apply all applicable GASB pronouncements. The entity must also apply Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, to the extent that they do not conflict with GASB pronouncements. The entity can elect, at its option, to apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements. CompSource has elected to adopt this option.

The financial statements have been prepared on the basis of U.S. generally accepted accounting principles for governmental entities and insurance enterprises, where applicable, which differs from the basis of accounting followed in statutory reporting (see note 13).

U.S. generally accepted accounting principles require 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 financial statements and the reported amounts of revenues and expenses during the reporting periods. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Management adjusts such estimates

(Continued)

and assumptions when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

(c) Investments

The investment policy adopted by the Board is more restrictive than state statutes requiring CompSource to invest primarily in fixed income securities, commercial paper, and money market funds. In 2014, the Investment Policy was amended by the Board of Managers to reduce the equity allocation. In 2014 and 2013, no more than 5% and 20%, respectively, of the investment portfolio may be invested in equity.

All of CompSource's debt and equity securities are recorded at fair value based on quoted market prices. If quoted prices are not available from active exchanges for identical instruments, then fair values are estimated using quoted prices from less active markets, quoted prices of securities with similar characteristics, or by pricing models utilizing other significant observable inputs. The changes in fair value of investments are included in the statements of revenues, expenses, and changes in fund equity. Dividend and interest income is recognized when earned. The cost of securities sold is determined by the first-in first-out method. Purchases and sales of investments are recorded as of the trade date.

Short-term investments consist of high-grade money market mutual funds, high-grade commercial paper, and short-term bonds. Short-term investments are reported at cost, which approximates fair value. Bonds maturing one year or less from date of purchase are also included in short-term investments and are reported at fair value.

(d) Allowance for Doubtful Accounts

CompSource provides an allowance for doubtful accounts by charging operations for estimated premiums receivable that will not be collected. The adequacy of the allowance is determined by management based on several factors, including historical loss experience, review of past due accounts, and business and economic conditions. The allowance for doubtful accounts was approximately $2,052,000 and $4,335,000 at December 31, 2014 and 2013, respectively.

(e) Deferred Policy Acquisition Costs

Policy acquisition costs consisting of agent commissions, Market Equalization Assessment, Court of Existing Claims and Workers' Compensation Commission tax, and Multiple Injury Trust Fund tax are deferred and charged to operations over the periods in which the related premiums are earned. Deferred policy acquisition costs are subject to recoverability testing, which considers anticipated investment income at the end of each accounting period and are written off if determined to be unrecoverable. Deferred policy acquisition costs are included in other assets on the balance sheet. Deferred policy acquisition costs amounted to approximately $2,251,000 and $2,439,000 at December 31, 2014 and 2013, respectively.

(f) Property, Plant, and Equipment

Property, plant, and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets. When assets are disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in operations. The cost of maintenance and repairs is charged to operations as incurred; significant renewals and betterments are capitalized. We capitalize certain development costs associated with internal use software, including external direct costs of materials and services. Costs incurred during the preliminary project stage, as well as costs for maintenance and training, are expensed as incurred.

(g) Operating Revenues and Expenses

Balances classified as operating revenues and expenses are those that comprise CompSource's principal ongoing operations. Since CompSource's operations are similar to those of any other insurance company, most revenues and expenses are considered operating.

(h) Losses and Loss Adjustment Expenses

Reserves for losses and allocated loss adjustment expenses are provided based on case basis estimates for losses reported and CompSource's historical loss experience for claims incurred but not reported (IBNR). Reserves for unallocated loss adjustment expenses are estimated based on CompSource's historical ratios of paid unallocated loss adjustment expenses to paid losses and allocated loss adjustment expenses. Adjustments to the liability based on subsequent developments or other changes in the estimate are reflected in results of operations in the period in which such adjustments become known. Although such estimates are CompSource's best estimates of the expected values, the actual results may vary from these values and such variances could be significant (see note 6).

(i) Excess-of-Loss Coverage

CompSource administers claim payments and provides excess-of-loss coverage to certain governmental entities. The premiums and fees received in connection with these transactions are included in gross premiums earned and were approximately $15,323,000 and $13,327,000 in 2014 and 2013, respectively. The liability for claims in excess of the respective retention limits for all policy years was approximately $89,842,000 and $85,893,000 at December 31, 2014 and 2013, respectively, and is included in reserves for losses in the balance sheet.

(j) Policyholder Deposit Premiums

Policyholder deposit premiums are collected in advance to reduce credit risk for premiums collected on a monthly or quarterly basis. At the end of the policy period, the deposit is applied to either final audit premium, renewal deposit premium, or refunded to the policyholder. Policyholder deposit premiums amounted to approximately $46,240,000 and $49,961,000 at December 31, 2014 and 2013, respectively.

(Continued)

(k) Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and a liability as the benefits accrue to the eligible employees up to a maximum of 480 hours. There are no accumulating sick leave benefits that vest for which any liability must be recognized. Accounts payable and other liabilities include a liability for vested or accumulated vacation leave at December 31, 2014 and 2013 of approximately $1,785,000 and $1,918,000, respectively.

(l) Revenue Recognition

Insureds pay premiums on a monthly, quarterly, or annual basis. Earned premiums are recognized as income as follows:

Monthly – The estimated annual premium income is accrued each month on a pro-rata basis. Actual payroll information for a month is submitted by the insured during the following month, and the difference between the accrual and the premium based on the actual payroll information is recognized at that time.

Quarterly – The estimated annual premium income is accrued each month on a pro-rata basis. Actual payroll information for a quarter is submitted by the insured during the month following the end of the quarter, and the difference between the accrual and the premium based on the actual payroll information is recognized at that time.

Annual – The annual premium is recognized each month on a pro-rata basis. Unearned premiums represent the portion of the annual premiums that is applicable to the unexpired term of the policies in force.

Unearned premiums amounted to approximately $36,729,000 and $39,730,000 at December 31, 2014 and 2013, respectively.

CompSource estimates earned but unbilled audit premium and records the amount as an adjustment to earned premium during the policy period. At the end of the policy period, CompSource audits the payroll information provided by the insured and any adjustments to earned premium are recognized in income.

(m) Court of Existing Claims (formerly the Workers' Compensation Court) and Workers' Compensation Commission Tax

The Court of Existing Claims and Workers' Compensation Commission tax is equal to 1% of all direct premiums written, and is imposed on all insurance companies that write workers' compensation insurance policies in Oklahoma. This tax supports the operations of the Court of Existing Claims and the Workers' Compensation Commission.

(n) Multiple Injury Trust Fund Tax

The Multiple Injury Trust Fund tax is based on a statutory formula used by the Oklahoma Workers' Compensation Commission. The rates are in effect for each July 1 through June 30 and are adjusted annually. Payers of the tax are eligible to receive a rebate equal to two-thirds of the premium tax assessment. The Multiple Injury Trust Fund tax expense in the statements of revenues, expenses, and changes in fund equity reflects the premium tax expense incurred during 2014 and 2013, net of the rebate. Receivables from the Oklahoma Tax Commission for the rebate are recorded when the premium tax liability is incurred.

(o) Market Equalization Assessment

As was set forth in Section 401 of Title 85, CompSource was required to pay a market equalization assessment on direct premiums written through December 31, 2014. The assessment, which was payable annually to the State Treasury to the credit of the General Revenue Fund, was equal to 2.25% of all of CompSource's direct written premiums. The assessment amounted to approximately $7,017,000 and $6,976,000 in 2014 and 2013, respectively. Section 401 of Title 85 was repealed by HB 2201 effective December 31, 2014. As a domestic mutual insurance company, CompSource will be subject to the premium tax provisions within Title 36 of the Oklahoma statutes for 2015 direct written premiums.

(p) Administrative Expenses

As was set forth in Title 85, CompSource's administrative expenses at no time could exceed 20% of earned premiums for the year. This statute was repealed by HB 2201 effective January 1, 2015. For the year ended December 31, 2014, CompSource's percentage of administrative expense (general and administrative expense and depreciation expense) to net earned premiums was 6.9%.

(q) Income Taxes

Pursuant to a determination by the Internal Revenue Service, CompSource is exempt from federal income tax in accordance with Section 501(c)(27)(B) of the Internal Revenue Code.

(2) Fair Values of Financial Instruments

Accounting Standards Codification Topic 825, *Fair Value Measurement*, requires CompSource to disclose estimated fair values for its financial instruments. Fair value estimates are made at a point in time, based on relevant market data as well as the best information available about the financial instruments. Fair value estimates for financial instruments for which no or limited observable market data is available are based on judgments regarding current economic conditions, credit and interest rate risk, and loss experience. These estimates involve significant uncertainties and judgments and cannot be determined with precision. As a result, such calculated fair value estimates may not be realizable in a current sale or immediate settlement of the instrument. In addition, changes in the underlying assumptions used in the fair value measurement technique, including discount rate and estimates of future cash flows, could significantly affect these fair values. Fair value estimates, methods, and assumptions at December 31, 2014 and 2013 are described below for CompSource's financial instruments:

Cash and cash equivalents, short-term investments, accrued investment income, premiums due and other receivables, due to and due from brokers, receivable from Oklahoma Tax Commission, accounts payable, and other liabilities. The carrying amounts reported in the balance sheets approximate their fair values because of the short maturity of these financial instruments.

(Continued)

Investment securities. The carrying amounts reported in the balance sheets are at fair value for investment securities. Fair values for debt securities are based on quoted market prices, where available. If quoted market prices are not available from active exchanges for identical instruments, the fair values are estimated using quoted prices from less active markets, quoted prices of securities with similar characteristics or by pricing models utilizing other significant observable inputs. The fair values for equity securities are based on quoted market prices for exchange listed common stocks and net asset values of units in commingled funds which are managed by an investment company investing in actively traded exchange-listed common stocks.

Note receivable from Multiple Injury Trust Fund. The carrying amount of the note receivable in the balance sheet was approximately $16,947,000 and $18,612,000 as of December 31, 2014 and 2013, respectively. The fair values of approximately $17,812,000 and $19,292,000 as of December 31, 2014 and 2013, respectively, are estimated based on the discounted cash flows to be received using an estimated yield-to-maturity of a debt instrument of similar credit quality and maturity.

(3) Cash Equivalents and Investments

Amounts on deposit with the Office of the State Treasurer (State Treasurer) were $39,654,559 and $172,222,454 as of December 31, 2014 and 2013, respectively. These deposits consist of cash deposited to *OK INVEST*, an internal investment pool of the State Treasurer with holdings limited to high-rated money market mutual funds, obligations of the U.S. government, U.S. government agencies and instrumentalities, and collateralized tri-party repurchase agreements. Participants are limited to qualifying agencies and funds within the State's reporting entity, and each participant maintains an interest in the underlying investments of *OK INVEST* and shares the risk of loss on the funds in proportion to the respective investment in the funds. CompSource's participation in *OK INVEST* will end in 2015, as CompSource is no longer a component unit of the State of Oklahoma effective January 1, 2015, pursuant to HB 2201.

Amounts on deposit with commercial banks totaled $52,154,073 at December 31, 2014. All deposits in excess of the Federal Deposit Insurance Corporation insurance limit are swept daily into money market accounts that invest in obligations of the U.S. government, U.S. government agencies, and collateralized tri-party repurchase agreements.

The composition of investments at fair value at December 31, 2014 and 2013 is as follows:

	2014	2013
Equity securities	$ 82,490,532	239,715,347
Fixed income securities:		
U.S. government obligations and government-sponsored agencies	181,312,423	188,081,016
Corporate obligations	760,133,294	618,929,826
Mortgage-backed securities	492,854,986	263,891,528
Short-term investments	30,009,645	34,715,823
Total current investments	$ 1,546,800,880	1,345,333,540

CompSource has pledged a U.S. Treasury note to the U.S. Department of Labor to secure certain liabilities for workers' compensation claims as required by the Federal Longshore and Harbor Workers' Compensation Act. The book value and fair value of the note was $359,266 and $358,477 at December 31, 2014 and 2013, respectively.

Also, at December 31, 2014, CompSource had deposited with the Oklahoma Insurance Department a U.S. Treasury Bill with a book value and fair value of $304,378. This deposit was made to satisfy the requirements of Section 613 (A) of Title 36 of the Oklahoma statutes applicable to CompSource as a domestic mutual insurance company, effective January 1, 2015.

Pursuant to a trust agreement, cash with a book value and fair value of $690,211 and a U.S. Treasury note with a book value and fair value of $1,263,750 are held in trust as security for reinsurance obligations at December 31, 2014. At December 31, 2013, CompSource had pledged a U.S. Treasury note with a book value and fair value of $1,284,750 to secure a letter of credit issued on behalf of CompSource for a reinsurance contract.

(a) Credit Risk

CompSource's Board-approved investment policy sets forth the asset classes among which CompSource's investments shall be allocated. The investment policy further defines the components of the fixed income portfolio and provides that the allocation to these components is to be determined by the Board. CompSource manages its exposure to credit risk through limits on credit quality ratings within each component of the fixed income portfolio, as set forth in the investment policy.

A minimum of 75% of fixed income securities must be rated "A-" or better by two of the top three rating agencies (Moody's, Standard and Poor's, or Fitch). Up to 25% of the fixed income portfolio may be rated "Baa3/BBB-" by two of the top three agencies at all times. No securities rated below "Baa3/BBB-" (as determined by any two of the three rating agencies) at the time of purchase may be added to the fixed income portfolio.

During 2014, CompSource's Board amended the investment policy to eliminate the allocation to convertible bonds. During 2013, convertible bonds were required to be investment grade, which is considered to be a rating of "Baa3/BBB-"or better, at the time of purchase. Subsequent downgrades below "Baa3/BBB-" of any fixed income security by two or more of the three rating agencies is considered not in compliance and must be sold within 30 days unless specific permission to hold the security has been granted in writing by CompSource.

Certain fixed income securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have credit risk.

The credit risk profile as listed by Moody's or S&P for fixed income securities, excluding U.S. government obligations, at December 31, 2014 and 2013 is as follows:

	2014					
	Aaa/AAA	**Aa/AA**	**A/A**	**Baa/BBB**	**Below investment grade/not rated**	**Total**
Fixed income securities:						
Corporate obligations	$ 19,175,358	67,750,130	404,163,707	266,058,045	2,986,054	760,133,294
Loan-backed and structured securities	471,380,529	10,799,670	9,099,444	401,363	1,173,980	492,854,986
Short-term investments	—	30,009,645	—	—	—	30,009,645
	$ 490,555,887	108,559,445	413,263,151	266,459,408	4,160,034	1,282,997,925

	2013					
	Aaa/AAA	**Aa/AA**	**A/A**	**Baa/BBB**	**Below investment grade/not rated**	**Total**
Fixed income securities:						
Corporate obligations	$ 22,256,956	53,248,432	330,044,218	213,380,220	—	618,929,826
Loan-backed and structured securities	260,850,603	44,929	1,242,916	385,930	1,367,150	263,891,528
Short-term investments	—	31,514,248	887,757	2,313,818	—	34,715,823
	$ 283,107,559	84,807,609	332,174,891	216,079,968	1,367,150	917,537,177

(b) Concentration of Credit Risk

CompSource debt securities investments at December 31, 2014 had no single issuer investments that exceeded more than 2% of the total investment portfolio. CompSource's investment policy prohibits more than 2% of a portfolio to be invested in a single issuer (except for U.S. government and its agency obligations, which are exempt from this policy).

(c) Interest Rate Risk

CompSource, through its Board-approved investment policy, manages its exposure to fair value losses arising from increasing interest rates by setting limits to the effective duration for the nonconvertible fixed income portfolio. The investment policy also prohibits investments in stripped mortgage-backed securities, such as interest-only or principal-only securities, and inverse floaters. The investment policy also places certain restrictions on asset allocation parameters, relative to the assigned benchmark, of the fixed income portfolio. During 2014, CompSource's Board amended the investment policy to eliminate the allocation to convertible bonds.

The effective duration, on an option-adjusted basis, for fixed income securities at December 31, 2014 and 2013 is as follows:

	2014		2013	
	Fair value	**Effective duration (in years)**	**Fair value**	**Effective duration (in years)**
Fixed income securities:				
U.S. government obligations	$ 181,312,423	3.59	$ 188,081,016	4.81
Corporate obligations – nonconvertible	760,133,294	5.66	523,125,833	5.35
Corporate obligations – convertible	—	—	95,803,993	8.29
Loan-backed and structured securities	492,854,986	3.48	263,891,528	4.80
	$ 1,434,300,703		$ 1,070,902,370	

CompSource's short-term investments consist of a short-term investment pool that restricts maturities such that cost approximates fair value, commercial paper, and bonds maturing in less than one year.

Components of the net increase (decrease) in fair value of investments for the years ended December 31, 2014 and 2013 were as follows:

	2014	2013
Net change in unrealized gains on investments	$ (88,927,505)	(3,960,530)
Net realized gains on sale of investments	124,237,688	30,877,026
	$ 35,310,183	26,916,496

Major categories of net investment income for the years ended December 31, 2014 and 2013 are summarized as follows:

	2014	2013
Fixed maturities	$ 47,819,577	41,235,036
Equity securities	529,268	817,201
Net increase in fair value of investments	35,310,183	26,916,496
Short-term investments	2,290,173	1,922,905
Note receivable from Multiple Injury Trust Fund	1,241,567	1,344,174
	87,190,768	72,235,812
Investment expenses	(2,159,484)	(2,114,915)
	$ 85,031,284	70,120,897

(Continued)

(4) Note Receivable from the Multiple Injury Trust Fund

During 2014 and 2013, the note receivable from the Multiple Injury Trust Fund (Trust Fund) amounted to $16,946,559 and $18,611,552, respectively. Advances to the Trust Fund were made in prior years as permitted by Title 85 Section 387(B). The agreements were entered into to satisfy delinquent permanent partial disability awards and simple interest due on such awards owed by the Trust Fund. An Addendum to the Multiple Injury Trust Fund Loan Agreement, entered into on December 4, 2009, left a balance due of approximately $25,363,000. The single remaining note bears interest at a rate of 7% annually and is payable in quarterly installments with the final payment due on March 31, 2022. The loan and line of credit are secured by Trust Fund revenues, any equity or other interest of the State, and any amounts appropriated or otherwise available to the Trust Fund. The loan and the line of credit are also secured by any underlying claims paid by virtue of these agreements including but not limited to any special priority, right to interest, or enforcement mechanism available. Legislation was enacted to establish a Multiple Injury Trust Fund tax based on a statutory formula used by the Oklahoma Workers' Compensation Commission. Effective January 1, 2013 through June 30, 2013, the tax rate was 3.39%; effective July 1, 2013through June 30, 2014, the tax rate was 5.18%; and effective July 1, 2014, through December 31, 2014 the tax rate was 6.00% of direct written premiums on workers' compensation risks located in this state. This cash flow is estimated to be sufficient to service the interest and principal on the loans and line of credit.

(5) Property, Plant, and Equipment

Property, plant, and equipment activity for the year ended December 31, 2014 was as follows:

	Useful life (years)	December 31, 2013	Additions	Dispositions	Transfers	December 31, 2014
Land	—	$ 1,179,000	—	—	—	1,179,000
Building and improvements	20–40	19,131,714	164,940	(116,305)	—	19,180,349
Furniture and equipment	3–10	12,906,649	815,345	(140,500)	—	13,581,494
Software in process of implementation	—	8,659,309	10,130,164	—	(18,789,473)	—
Software placed in service	5	—	—	—	18,789,473	18,789,473
		41,876,672	11,110,449	(256,805)	—	52,730,316
Accumulated depreciation:						
Building and improvements		(7,532,307)	(574,513)	—	—	(8,106,820)
Furniture and equipment		(10,843,262)	(739,896)	124,154	—	(11,459,004)
Software placed in service		—	(938,155)	—	—	(938,155)
		$ 23,501,103	8,857,885	(132,651)	—	32,226,337

Property, plant, and equipment activity for the year ended December 31, 2013 was as follows:

	Useful life (years)	December 31, 2012	Additions	Dispositions	December 31, 2013
Land	—	$ 1,179,000	—	—	1,179,000
Building and improvements	20–40	19,023,722	107,992	—	19,131,714
Furniture and equipment	3–10	11,411,477	1,495,172	—	12,906,649
Software in process of implementation		—	8,659,309	—	8,659,309
		31,614,199	10,262,473	—	41,876,672
Accumulated depreciation:					
Building and improvements		(6,960,485)	(571,822)	—	(7,532,307)
Furniture and equipment		(10,169,521)	(673,741)	—	(10,843,262)
		$ 14,484,193	9,016,910	—	23,501,103

(6) Reserve for Losses and Loss Adjustment Expenses

CompSource estimates losses and loss adjustment expenses based on historical experience and payment and reporting patterns. These estimates are based on data available at the time of the estimate and are reviewed by CompSource's independent consulting actuary.

Inherent in the estimates of the ultimate liability for unpaid claims are expected trends in claim severity, claim frequency, and other factors that may vary as claims are settled. The amount and uncertainty in the estimates are affected by such factors as the knowledge of the actual facts and circumstances and amount of historical claims experience relative to the development period that has been affected by the change in premium levels and increase in closing and settlement of claims. The ultimate cost of insurance claims can be positively or adversely affected by costs such as medical expenses and decisions by the Court of Existing Claims and the Workers' Compensation Commission.

Activity in the reserve for losses and loss adjustment expenses is summarized as follows (in thousands):

		2014	2013
Balance, beginning of year	$	1,146,595	1,053,060
Less reinsurance recoverables		(1,003)	(1,048)
Net balance, beginning of year		1,145,592	1,052,012
Incurred losses and loss adjustment expenses:			
Current year		241,901	309,705
Prior years		18,467	(12,130)
Total incurred		260,368	297,575
Paid losses and loss adjustment expenses:			
Current year		27,025	29,023
Prior years		161,747	174,972
Total paid		188,772	203,995
Net balance, end of year		1,217,188	1,145,592
Plus reinsurance recoverables		1,386	1,003
Balance, end of year	$	1,218,574	1,146,595

As a result of changes in estimates of insured events in prior years, the provision for losses and loss adjustment expenses increased by approximately $18,467,000 in 2014 due to unfavorable development of case reserves partially offset by less than anticipated incurred but not reported losses and loss adjustment expenses. The provision for losses and loss adjustment expenses decreased by approximately $12,130,000 in 2013 due to favorable development of incurred but not reported losses and loss adjustment expenses.

At December 31, 2014 and 2013, CompSource recorded the liability for losses and loss adjustment expenses based on an estimate of its independent consulting actuary. The gross reserves of approximately $1,219 million and $1,147 million are the independent actuary’s and management’s best estimates of reserves at December 31, 2014 and 2013, respectively.

CompSource estimates current and noncurrent reserves for losses and loss adjustment expenses based on historical paid losses and loss adjustment expenses.

(7) Premium Deficiency Reserves

For the years ended December 31, 2014 and 2013, the actuarial analysis indicated that a premium deficiency reserve was not required for CompSource. CompSource did consider anticipated investment income as a factor in this analysis.

(Continued)

(8) Reinsurance Transactions

CompSource limits the maximum net loss that can arise from risks by entering into reinsurance agreements to assign risk to other insurers on a catastrophic basis. Premiums incurred for reinsurance were approximately $1,986,000 and $2,249,000 in 2014 and 2013, respectively. No losses in 2014 or 2013 have been ceded under the catastrophic reinsurance agreements.

Included in losses and loss adjustment expenses are reinsurance recoverables with two reinsurers of approximately $1,386,000 and $1,003,000 at December 31, 2014 and 2013, respectively.

Reinsurance contracts do not relieve CompSource from its primary obligation to policyholders. Failure of reinsurers to honor their obligations could result in losses to CompSource. Management believes that all reinsurers presently used are rated A or better by A.M. Best, are financially sound and will be able to meet their contractual obligations. All reinsurance contracts have been collected according to the terms of the agreements.

(9) Restricted Fund Equity

Title 85, Section 386 of the Oklahoma Statutes required the accumulation of surplus funds or catastrophic reserves until such time as such surplus funds or catastrophic reserves were sufficiently large to cover a catastrophic hazard and other unanticipated losses. Fund equity restricted for catastrophes totaled $5,000,000 at December 31, 2014 and 2013. This statute was repealed effective January 1, 2015, by HB 2201.

(10) Operating Leases

In the ordinary course of business, CompSource enters into various operating leases for office and storage space and equipment. Total operating lease expense approximated $262,000 and $254,000 for 2014 and 2013, respectively.

(11) Deferred Compensation and Defined Contribution Plans

The State offers to CompSource employees hired prior to August 23, 2013, a deferred compensation plan created in accordance with Internal Revenue Code Section 457 and Chapter 45 of Title 74, Oklahoma Statutes. The Oklahoma State Employees Deferred Compensation Plan (the DCP), also known as Sooner Save, is a voluntary plan that allows participants to defer a portion of their salary into the DCP. Pursuant to HB 2201, employees hired prior to August 23, 2013 could continue to contribute to the DCP until January 1, 2015.

CompSource makes a monthly contribution of $25 for each employee who elects to participate in the defined contribution plan, the Savings Plan, which was established pursuant to Section 401(a) of the Internal Revenue Code. The Savings Plan is administered by the Oklahoma Public Employees Retirement System. CompSource contributions to the Savings Plan for the years ended December 31, 2014 and 2013 were approximately $66,000 and $79,000, respectively.

For employees hired after August 22, 2013, CompSource sponsors a separate plan. Subject to limitations, participants may contribute a portion of eligible compensation and receive employer matching of up to 50% of the first 6% of their salary. CompSource contributions to the Plan for the years December 31, 2014, and 2013 were approximately $39,000 and $3,000, respectively.

(Continued)

(12) Pension Plan

(a) Plan Description

CompSource contributes to the Oklahoma Public Employees Retirement Plan (the Plan), a cost-sharing multi-employer public employee retirement system administered by the Oklahoma Public Employees Retirement System (OPERS). Pursuant to the CompSource Mutual Insurance Company Act (HB 2201), employees that were employed prior to August 23, 2013 will continue to participate in OPERS. Employees hired after August 22, 2013 do not participate in OPERS. The Plan provides retirement, disability, and death benefits to plan members and beneficiaries. The benefit provisions are established and may be amended by the legislature of the State. Title 74 of the Oklahoma Statutes, Sections 901-943, as amended, assigns the authority for management and operation of the Plan to the Board of Trustees of OPERS. OPERS issues a publicly available annual financial report that includes financial statements and required supplementary information for the Plan. The annual report may be obtained by writing to OPERS, PO Box 53007, Oklahoma City, Oklahoma 73152-3007, calling 1-800-733-9008, or going to their website at http://www.opers.ok.gov/publications.

(b) Funding Policy

Employees and CompSource are required to contribute at a rate set by statute. The 2014 and 2013 contribution rates were 16.5% for CompSource and 3.5% for employees.

CompSource's contributions to the Plan for the years ended December 31, 2014 and 2013 were approximately $2,233,000 and $2,428,000, respectively, and equal its required contributions for each year. Employee contributions for both years ended December 31, 2014 and 2013 were approximately $480,000 and $527,000, respectively.

(13) Statutory Reporting

CompSource files statutory financial statements with the Oklahoma Insurance Department (the Department). Accounting principles used to prepare those statutory financial statements differ from financial statements prepared on the basis of accounting principles generally accepted in the United States of America.

The reconciliation between statutory surplus and total fund equity at December 31 is as follows:

		2014	2013
Statutory surplus	$	403,562,968	327,656,527
Net unrealized gains on debt securities and other invested assets		46,159,589	53,953,822
Nonadmitted assets		20,205,453	9,715,140
Deferred acquisition costs		2,251,053	2,439,272
Total fund equity	$	472,179,063	393,764,761

The reconciliation between statutory net income and change in fund equity at December 31 is as follows:

		2014	2013
Statutory net income	$	175,077,452	48,070,861
Change in net unrealized gains on debt and equity securities		(90,452,974)	(4,427,755)
Unrealized gain on U.S. government inflation protected securities		371,715	267,135
Recapture of other-than-temporary impairments		(6,398,156)	(8,995,715)
Zero coupon bond adjustments		4,484	156,504
Change in deferred acquisition costs		(188,219)	488,502
Change in fund equity	$	78,414,302	35,559,532

Under Title 85 of the Oklahoma Statutes, the Oklahoma Insurance Department could conduct an examination of CompSource in the same manner as a domestic insurance company if the examination did not conflict with any provisions in Title 85 of the Oklahoma Statutes. The Department could also recommend adjustments to certain accounts based on its judgment about information available at the time of the examination. Pursuant to HB 2201, CompSource will be subject to the examination requirements of Title 6 of the Oklahoma Statutes effective January 1, 2015.

(14) Contingencies

At December 31, 2014, CompSource was a defendant in a policyholder suit, filed August 25, 2011, regarding the provision of coverage and breach of contract. On September 18, 2012, the Oklahoma Supreme Court unanimously ruled that CompSource was authorized to cancel the policy for the insured's failure to participate in an audit. All other issues were remanded for further proceedings in the trial court. The trial court denied a motion for summary judgment and a trial has been set. While it is not possible to predict with certainty when this matter will be completely resolved, it is possible that the disposition of the litigation could occur in the near term. In the opinion of CompSource's management, after considering the advice of counsel, the ultimate resolution of this proceeding could have a material effect on CompSource's financial condition, changes in financial condition, and cash flow. At December 31, 2014, the financial statements do not include any expenses or liabilities related to the above action, as a loss has not been deemed probable or estimable. Management is vigorously defending this case.

A lawsuit naming CompSource as a defendant was filed on December 4, 2014, in district court challenging CompSource's discretion regarding dividends related to the period 2001 through 2012. Plaintiffs seek damages, court costs, and attorneys' fees. While it is not possible to predict when this matter will be completely resolved, it is possible that the disposition of the litigation could occur in the near term. In the opinion of CompSource's management, after considering the advice of counsel, the ultimate disposition of this proceeding could have a material adverse effect on CompSource's financial condition, changes in financial condition, and cash flow. At December 31, 2014, the financial statements do not include any expenses or liabilities related to the above action, as a loss has not been deemed probable or estimable. Management is vigorously defending this case.

CompSource is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of CompSource's management, after considering the advice of counsel, the ultimate disposition of these matters will not have a material adverse effect on CompSource's financial condition, changes in financial condition, and cash flow.

(15) Subsequent Events and Legislative Measures

The CompSource Mutual Insurance Company Act (HB 2201) was signed into law during 2013 and provides that CompSource, after a transition period, will become a domestic mutual insurance company effective January 1, 2015. Requirements within Title 85 of the Oklahoma Statutes specific to CompSource were repealed by HB 2201, effective January 1, 2015. As a domestic mutual insurance company, CompSource will be subject to the requirements of Title 36, effective January 1, 2015, except with respect to rates. Rate regulation will begin January 1, 2018.

CompSource has evaluated subsequent events through June 3, 2015, the date the financial statements were issued.