COMPSOURCE OKLAHOMA

Basic Financial Statements

December 31, 2013 and 2012

(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, 2013, 2012, and 2011. 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 2013, 2012, and 2011.

Assets	**2013**	**2012**	**2011**
Current investments	$ 1,345,333,540	1,335,519,411	1,267,537,890
Other current assets	262,792,496	136,696,516	129,976,921
Property, plant, and equipment	23,501,103	14,484,193	15,246,299
Other invested asset	5,997,496	6,282,406	6,349,511
Note receivable from Multiple Injury Trust Fund	16,917,421	18,584,368	20,139,560
	$ 1,654,542,056	1,511,566,894	1,439,250,181
Liabilities and Fund Equity			
Current reserve for losses and loss adjustment expenses	$ 217,191,944	214,550,080	211,266,822
Other current liabilities	114,182,277	100,300,921	129,494,126
Noncurrent reserve for losses and loss adjustment expenses	929,403,074	838,510,664	779,933,694
	1,260,777,295	1,153,361,665	1,120,694,642
Fund equity, invested in capital assets	23,501,103	14,484,193	15,246,299
Fund equity, restricted for catastrophes	5,000,000	5,000,000	5,000,000
Fund equity, unrestricted	365,263,658	338,721,036	298,309,240
	393,764,761	358,205,229	318,555,539
	$ 1,654,542,056	1,511,566,894	1,439,250,181
Revenues, Expenses, and Change in Fund Equity			
Net premiums earned	$ 309,973,804	280,161,733	253,036,546
Net investment income	70,120,897	88,232,497	66,270,580
	380,094,701	368,394,230	319,307,126
Losses and loss adjustment expenses	297,574,852	284,364,159	268,218,738
Other operating expenses	50,464,487	44,738,881	45,176,362
	348,039,339	329,103,040	313,395,100
Total nonoperating revenues	3,504,170	358,500	263,297
Dividends to policyholders	—	—	—
Change in fund equity	$ 35,559,532	39,649,690	6,175,323

(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.

Financial Position

- CompSource's current investments, which are recorded at fair value, 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 increase in fair values of equity securities was fueled by the strong returns in U.S. equity markets as the economy gained momentum, while declines in the fair values of debt securities was chiefly driven by the increase in interest rates attendant to the reduction in bond purchases on the open market by the Federal Reserve. Total return, which is a combined measurement of both investment income earned and the change in fair values, declined to 5.2% for 2013. CompSource's debt securities, which consist primarily of U.S. government bonds, investment grade corporate bonds, and mortgage-backed securities, comprised 80% of current investments and had a total return of negative 0.6% during 2013. Equity securities, which consist of large capitalization index funds and an actively managed portfolio of small and mid-capitalization stocks comprised 18% of current investments and produced a total return of 35.6% for 2013.

- CompSource's current investments increased by approximately $68 million, or 5.4%, during 2012. The increase resulted from growth in the fair values of debt and equity securities and the re-investment of interest and dividend income, which more than offset a transfer to operating cash and a decline in short-term investments. The total return on all investments during 2012 was 6.8%. The total returns on debt and equity securities were 4.6% and a 19.6%, respectively, for 2012.
- 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.
- Other current assets increased by approximately $7 million during 2012, which is attributable to increases in cash and cash equivalents, premiums due and other receivables, receivable from the Oklahoma Tax Commission, and other assets which more than offset a decline in security lending short-term investment trust. Cash and cash equivalents increased by approximately $33 million due to an increase in premiums collected and a transfer of $15 million from investments, while premiums due and other receivables and receivable from the Oklahoma Tax Commission increased by approximately $8 million and $2 million, respectively, due to increases in premiums written during 2012 and an increase in the MITF tax rate. The increase in other assets primarily results from a receivable of approximately $1 million for the settlement of securities lending class action claims accrued during 2012 after judicial approval. Security lending short-term investment trust declined by approximately $38 million due to termination of the securities lending program.
- 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, awards by the Workers' Compensation Court, 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.
- 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 incurred but not reported (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.
- The increases in current and noncurrent reserves for losses and loss adjustment expenses during 2012 of approximately $3 million, or 1.6%, and approximately $59 million, or 7.5%, respectively, arise due to increases in IBNR related to the increase in premium earned during 2012, which more than offset a decrease in case reserves during 2012.

- 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 results from pending purchases of investment securities.
- Other current liabilities decreased by approximately $29 million during 2012, primarily due to a decline in the payable for securities lending collateral of approximately $42 million, which was offset by an increase in unearned premiums and policyholder deposit premiums of approximately $9 million and an increase in accounts payable and other liabilities of approximately $3 million. The decline in the liability for securities lending collateral is due to termination of the securities lending program during 2012 and payment of related liabilities. The increase in unearned premiums and policyholder deposit premiums results from an increase in premiums written and collected. The increase in accounts payable and other liabilities is primarily due to an increase in payables for the Market Equalization Assessment and other premium taxes, as well as agent commissions, which result from an increase in premium written.
- Total fund equity increased by approximately $36 million and $40 million during 2013 and 2012, 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 2013 and 2012.

Results of Operations

- Net premiums earned increased by approximately $30 million and $27 million during 2013, and 2012, respectively, as the market for workers' compensation insurance continued to harden during both years. Market hardening is characterized by price increases and reduced availability of coverage from the private market.
- Net investment income declined during 2013 by approximately $18 million, or 20.5%, primarily 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.
- Net investment income rose during 2012 by approximately $22 million, or 33.1%, fueled by increases in the fair value of debt and equity securities totaling approximately $44 million, which represented an increase of approximately $23 million over 2011. Interest and dividend income decreased by approximately $1 million due to a decline in dividend income from a change in accounting by the equity index fund.

- 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 96% during 2013, down from 101.5% for 2012. The total amount of 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. Total losses and loss adjustment expenses increased by approximately $16 million, or 6%, during 2012, due to the increase in IBNR reserves attendant to the increase in premium earned during 2012.
- Other operating expenses increased by approximately $6 million, or 12.8%, during 2013, primarily due to increases in underwriting expenses, general and administrative expenses, and the Market Equalization Assessment and other premium taxes. The increases in underwriting expenses of approximately $2 million were driven by an increase in agent commission expenses related to an increase in premium written subject to commission. The increase in general and administrative expenses of approximately $1 million is primarily due to higher compensation costs. The increase in Market Equalization Assessment and other premium taxes of approximately $3 million is due to an increase in premium written and an increase in the MITF tax rate. The Market Equalization Assessment resulted from the enactment of a new statute during 2009 that requires CompSource to pay an assessment based on 2.25% of premium written to the credit of the general fund of the State of Oklahoma.
- Other operating expenses decreased by approximately $437,000, or 1%, due to lower general and administrative expenses during 2012, which more than offset increases in underwriting expense, the Market Equalization Assessment, other premium taxes, and provision for doubtful accounts. The decline in general and administrative expense results from an impairment related to capitalized software recorded during 2011, with no similar charge taken during 2012. The increases in underwriting expense, Market Equalization Assessment, other premium taxes, and provision for doubtful accounts are a direct result of the increase in premium written and earned during 2012.

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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, 2013 and 2012, 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 opinions 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, 2013 and 2012, 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 Matters

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 March 28, 2014 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
March 28, 2014

COMPSOURCE OKLAHOMA

Balance Sheets

December 31, 2013 and 2012

Assets		**2013**	**2012**
Current assets:			
Cash and cash equivalents	$	174,885,654	57,952,878
Investments:			
Debt securities		1,070,902,370	1,076,429,687
Equity securities		239,715,347	221,658,775
Short-term investments		34,715,823	37,430,949
Total current investments		1,345,333,540	1,335,519,411
Accrued investment income		10,013,755	9,943,239
Premiums due and other receivables, net		62,617,849	56,451,845
Note receivable from Multiple Injury Trust Fund, current portion		1,694,131	1,580,554
Receivable from Oklahoma Tax Commission		9,221,321	5,344,399
Due from brokers		391,914	510,063
Other assets		3,967,872	4,913,538
Total current assets		1,608,126,036	1,472,215,927
Noncurrent assets:			
Other invested asset		5,997,496	6,282,406
Note receivable from Multiple Injury Trust Fund		16,917,421	18,584,368
Property, plant, and equipment, net		23,501,103	14,484,193
Total noncurrent assets		46,416,020	39,350,967
Total assets	$	1,654,542,056	1,511,566,894
Liabilities and Fund Equity			
Current liabilities:			
Reserve for losses	$	201,357,715	198,604,830
Reserve for loss adjustment expenses		15,834,229	15,945,250
Unearned premiums and policyholder deposit premiums		89,691,261	82,551,683
Accounts payable and other liabilities		23,194,579	17,471,821
Due to brokers		1,296,437	277,417
Total current liabilities		331,374,221	314,851,001
Noncurrent liabilities:			
Reserve for losses		861,645,583	776,192,990
Reserve for loss adjustment expenses		67,757,491	62,317,674
Total noncurrent liabilities		929,403,074	838,510,664
Total liabilities		1,260,777,295	1,153,361,665
Fund equity:			
Fund equity, invested in capital assets		23,501,103	14,484,193
Fund equity, restricted for catastrophes		5,000,000	5,000,000
Fund equity, unrestricted		365,263,658	338,721,036
Total fund equity		393,764,761	358,205,229
Contingencies (notes 6, 8, and 14)			
Total liabilities and fund equity	$	1,654,542,056	1,511,566,894

See accompanying notes to basic financial statements.

COMPSOURCE OKLAHOMA

Statements of Revenues, Expenses, and Changes in Fund Equity

Years ended December 31, 2013 and 2012

	2013	2012
Operating revenues:		
Gross premiums earned	$ 362,848,951	327,923,854
Discounts	(52,875,147)	(47,762,121)
Net premiums earned	309,973,804	280,161,733
Investment income:		
Interest and dividend income, net of investment expense	43,204,401	44,525,612
Net increase in fair value of investments	26,916,496	43,616,424
Security lending investment income	—	81,314
Rebates and fees paid on security lending agreement	—	9,147
Net investment income	70,120,897	88,232,497
Total operating revenues	380,094,701	368,394,230
Operating expenses:		
Losses and loss adjustment expenses	297,574,852	284,364,159
Underwriting expenses	15,890,882	14,173,455
General and administrative expenses	17,212,269	16,115,416
Workers' Compensation Court tax	3,054,812	2,792,074
Multiple Injury Trust Fund tax	4,333,260	2,560,829
Market equalization assessment	6,883,898	6,282,168
Provision for doubtful accounts	1,843,803	1,567,137
Depreciation expense	1,245,563	1,247,802
Total operating expenses	348,039,339	329,103,040
Operating income	32,055,362	39,291,190
Nonoperating revenues:		
Other income	3,504,170	358,500
Change in fund equity	35,559,532	39,649,690
Fund equity, beginning of year	358,205,229	318,555,539
Fund equity, end of year	$ 393,764,761	358,205,229

See accompanying notes to basic financial statements.

COMPSOURCE OKLAHOMA

Statements of Cash Flows

Years ended December 31, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Premiums collected	$ 303,979,973	275,932,422
Policyholder deposit premiums collected	6,223,116	4,682,505
Losses paid	(183,961,408)	(203,647,272)
Loss adjustment expenses paid	(20,034,286)	(18,999,188)
Underwriting expenses paid	(8,606,739)	(8,133,626)
Agent commission expenses paid	(6,690,706)	(5,808,099)
General and administrative expenses paid	(14,763,152)	(13,648,953)
Workers' Compensation Court tax paid	(3,021,790)	(2,772,822)
Multiple Injury Trust Fund tax paid	(12,368,324)	(7,051,240)
Multiple Injury Trust Fund tax rebate received	5,344,399	3,774,699
Market Equalization tax paid	(6,391,433)	(5,712,077)
Reinsurance expenses paid	(1,783,280)	(2,137,398)
Other states' coverage expenses paid	(225,323)	(141,507)
Investment income received	44,200,508	44,594,398
Other income	3,610,455	(664,085)
Net cash provided by operating activities	105,512,010	60,267,757
Cash flows from capital and related financing activity:		
Purchase of property and equipment	(8,467,702)	(439,346)
Net cash used in capital and related financing activity	(8,467,702)	(439,346)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	256,357,773	144,733,056
Purchase of investments	(241,970,531)	(173,769,136)
Payments received on other invested asset	95,561	90,707
Net decrease in short-term investments	2,715,126	4,670,984
Net change in due to (from) brokers	1,137,169	(148,263)
Decrease in payable under security lending agreement	—	(41,516,159)
Decrease in security lending short-term investment trust	—	37,585,354
Payments received on note from Multiple Injury Trust Fund	1,553,370	1,449,229
Net cash provided by (used in) investing activities	19,888,468	(26,904,228)
Net increase in cash	116,932,776	32,924,183
Cash, beginning of year	57,952,878	25,028,695
Cash, end of year	$ 174,885,654	57,952,878
Supplemental disclosures – noncash capital activities:		
Fixed assets included in accounts payable	$ 1,898,971	104,199

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COMPSOURCE OKLAHOMA

Statements of Cash Flows

Years ended December 31, 2013 and 2012

	2013	2012
Reconciliation of change in fund equity to net cash provided by operating activities:		
Change in fund equity	$ 35,559,532	39,649,690
Adjustments to reconcile change in fund equity to net cash provided by operating activities:		
Net increase in fair value of investments	(26,916,496)	(43,616,424)
Provision for doubtful accounts	1,843,803	1,567,137
Depreciation	1,245,563	1,247,802
Increase in accrued investment income	(70,516)	(57,700)
Increase in premiums due and other receivables	(6,973,347)	(10,263,488)
Increase in receivable from Oklahoma Tax Commission	(3,876,922)	(1,569,700)
Increase in deferred acquisition costs	(488,502)	(391,775)
(Increase) decrease in other assets	587,057	(157,200)
Increase in reserve for losses	88,205,478	58,176,952
Increase in reserve for loss adjustment expenses	5,328,796	3,683,276
Increase in unearned premiums	916,462	4,580,189
Increase in policyholder deposit premiums	6,223,116	4,682,505
Increase in accounts payable and other liabilities	3,927,986	2,736,493
Net cash provided by operating activities	$ 105,512,010	60,267,757

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. A suit challenging the constitutionality of HB 2201 was filed in the Oklahoma Supreme Court during 2013. The Oklahoma Supreme Court issued an unanimous opinion filed on March 11, 2014, upholding the constitutionality of HB 2201. Surplus on January 1, 2015, will become surplus of the new domestic mutual insurance company and held for the benefit of the policyholders.

(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

(Continued)

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 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 addition, no more than 20% of the investment portfolio may be invested in equity securities.

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 $4,335,000 and $3,273,000 at December 31, 2013 and 2012, respectively.

(e) Deferred Policy Acquisition Costs

Policy acquisition costs consisting of agent commissions, Market Equalization Assessment, Workers' Compensation Court 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 $2,439,000 and $1,951,000 at December 31, 2013 and 2012, 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.

(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 $13,327,000 and $12,882,000 in 2013 and 2012, respectively. The liability for claims in excess of the respective retention limits for all policy years was approximately $85,893,000 and $86,658,000 at December 31, 2013 and 2012, 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 $49,961,000 and $43,738,000 at December 31, 2013 and 2012, respectively.

(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, 2013 and 2012 of approximately $1,918,000 and $1,827,000, respectively.

(l) Revenue Recognition

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

Monthly – One-twelfth of the estimated annual premium income is accrued each month. 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 – One-twelfth of the estimated annual premium income is accrued each month. 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 – One-twelfth of the annual premium is recognized each month. 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 $39,730,000 and $38,814,000 at December 31, 2013 and 2012, 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) Workers' Compensation Court Tax

The Workers' Compensation Court 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 Workers' Compensation Court.

(n) Multiple Injury Trust Fund Tax

The Multiple Injury Trust Fund tax is based on a statutory formula used by the Workers' Compensation Court of the State. 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 2013 and 2012, 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 set forth in Section 401 of Title 85, CompSource is required to pay a market equalization assessment. The assessment, which is payable annually to the State Treasury to the credit of the General Revenue Fund, is equal to 2.25% of all of CompSource's direct written premiums. The assessment amounted to approximately $6,976,000 and $6,391,000 in 2013 and 2012, respectively.

(p) Administrative Expenses

As set forth in Title 85, CompSource's administrative expenses at no time shall exceed 20% of earned premiums for the year. For the year ended December 31, 2013, CompSource's percentage of administrative expense (general and administrative expense and depreciation expense) to net earned premiums was 6.0%.

(q) Income Taxes

Pursuant to Section 501(c)(27)(B) of the Internal Revenue Code, CompSource is exempt from federal income tax.

(2) Fair Values of Financial Instruments

Accounting Standards Codification Topic 825, *Fair Value Measurements and Disclosures*, 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, 2013 and 2012 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.

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.

(Continued)

Note receivable from Multiple Injury Trust Fund. The carrying amount of the note receivable in the balance sheet was approximately $18,612,000 and $20,165,000 as of December 31, 2013 and 2012, respectively. The fair values of approximately $19,866,000 and $20,669,000 as of December 31, 2013 and 2012, 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 $172,222,454 and $55,290,278 as of December 31, 2013 and 2012, 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. The significant increase at December 31, 2013 is a temporary condition and is primarily the result of rebalancing the investment portfolio. Implementation of a revised long-term investment strategy is expected to result in a decline in the level of cash in 2014.

The composition of investments at fair value at December 31, 2013 and 2012 is as follows:

		2013	2012
Equity securities	$	239,715,347	221,658,775
Fixed income securities:			
U.S. government obligations and government-sponsored agencies		188,081,016	242,192,000
Corporate obligations		618,929,826	592,992,296
Mortgage-backed securities		263,891,528	241,245,391
Short-term investments		34,715,823	37,430,949
Total current investments	$	1,345,333,540	1,335,519,411

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 of the note was $358,307 and $367,090 at December 31, 2013 and 2012, respectively; the fair value of the note was $358,477 and $366,516 at December 31, 2013 and 2012, respectively.

CompSource has pledged a U.S. Treasury note to secure a letter of credit issued on behalf of CompSource for a reinsurance contract utilized during 2013 and 2012. The book value of the note was $1,283,369 and $1,307,882 at December 31, 2013 and 2012, respectively; the fair value of the note was $1,284,750 and $1,329,756 at December 31, 2013 and 2012, respectively.

(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.

Convertible bonds must 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, 2013 and 2012 is as follows:

	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

	2012					
	Aaa/AAA	**Aa/AA**	**A/A**	**Baa/BBB**	**Below investment grade/not rated**	**Total**
Fixed income securities:						
Corporate obligations	$ 23,874,841	58,032,823	304,626,836	205,390,636	1,067,160	592,992,296
Loan-backed and structured securities	237,206,769	87,112	2,046,116	450,560	1,454,834	241,245,391
Short-term investments	—	35,355,528	100,313	1,975,108	—	37,430,949
	$ 261,081,610	93,475,463	306,773,265	207,816,304	2,521,994	871,668,636

(b) Concentration of Credit Risk

CompSource debt securities investments at December 31, 2013 had no single issuer investments that exceeded more than 5% of the total investment portfolio. CompSource's investment policy prohibits more than 5% 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 limiting the effective duration for the nonconvertible fixed income portfolio to not greater than plus or minus one year of the target duration of the portfolio on an option-adjusted basis. 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.

The effective duration, on an option-adjusted basis, for fixed income securities at December 31, 2013 and 2012 is as follows:

	2013		2012	
	Fair value	**Effective duration (in years)**	**Fair value**	**Effective duration (in years)**
Fixed income securities:				
U.S. government obligations	$ 188,081,016	4.81	$ 242,192,000	4.89
Corporate obligations – nonconvertible	523,125,833	5.35	506,269,254	5.33
Corporate obligations – convertible	95,803,993	8.29	86,723,042	7.56
Loan-backed and structured securities	263,891,528	4.80	241,245,391	3.00
	$ 1,070,902,370		$ 1,076,429,687	

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, 2013 and 2012 were as follows:

		2013	2012
Net change in unrealized gains on investments	$	(3,960,530)	40,249,802
Net realized gains on sale of investments		30,877,026	3,366,622
	$	26,916,496	43,616,424

Major categories of net investment income for the years ended December 31, 2013 and 2012 are summarized as follows:

		2013	2012
Fixed maturities	$	41,235,036	42,025,796
Equity securities		817,201	992,391
Net increase in fair value of investments		26,916,496	43,616,424
Short-term investments		1,922,905	966,328
Security lending short-term investment, net		—	90,461
Note receivable from Multiple Injury Trust Fund		1,344,174	1,450,137
		72,235,812	89,141,537
Investment expenses		(2,114,915)	(909,040)
	$	70,120,897	88,232,497

(d) Security Lending Activity

CompSource began an orderly wind down of the securities lending program during 2009 and fully terminated the program on June 30, 2012.

(4) Note Receivable from the Multiple Injury Trust Fund

During 2013 and 2012, the note receivable from the Multiple Injury Trust Fund (Trust Fund) amounted to $18,611,552 and $20,164,922, 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 Workers' Compensation Court of the State of Oklahoma. Effective January 1, 2012 through June 30, 2012, the tax rate was 1.98%; effective July 1, 2012 through June 30, 2013, the tax rate was 3.39%; and effective July 1, 2013, through December 31, 2013 the tax rate was 5.18% 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, 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	10,154,481	—	21,565,958
		31,614,199	10,262,473	—	41,876,672
Accumulated depreciation:					
Building		(6,960,485)	(571,822)	—	(7,532,307)
Equipment		(10,169,521)	(673,741)	—	(10,843,262)
		$ 14,484,193	9,016,910	—	23,501,103

Property, plant, and equipment activity for the year ended December 31, 2012 was as follows:

	Useful life (years)	December 31, 2011	Additions	Dispositions	December 31, 2012
Land	—	$ 1,179,000	—	—	1,179,000
Building and improvements	20–40	19,009,672	14,050	—	19,023,722
Furniture and equipment	3–10	10,977,382	471,646	(37,551)	11,411,477
		31,166,054	485,696	(37,551)	31,614,199
Accumulated depreciation:					
Building		(6,389,015)	(571,470)	—	(6,960,485)
Equipment		(9,530,740)	(676,332)	37,551	(10,169,521)
		$ 15,246,299	(762,106)	—	14,484,193

(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 awards by the Workers' Compensation Court.

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

		2013	2012
Balance, beginning of year	$	1,053,060	991,201
Less reinsurance recoverables		(1,048)	(906)
Net balance, beginning of year		1,052,012	990,295
Incurred losses and loss adjustment expenses:			
Current year		309,705	285,793
Prior years		(12,130)	(1,429)
Total incurred		297,575	284,364
Paid losses and loss adjustment expenses:			
Current year		29,023	32,761
Prior years		174,972	189,886
Total paid		203,995	222,647
Net balance, end of year		1,145,592	1,052,012
Plus reinsurance recoverables		1,003	1,048
Balance, end of year	$	1,146,595	1,053,060

As a result of changes in estimates of insured events in prior years, the provision for losses and loss adjustment expenses decreased by approximately $12,130,000 in 2013 and $1,429,000 in 2012 due to favorable development of incurred but not reported losses and loss adjustment expenses.

At December 31, 2013 and 2012, CompSource recorded the liability for losses and loss adjustment expenses based on an estimate of its independent consulting actuary. The gross reserves of approximately $1,147 million and $1,053 million are the independent actuary's and management's best estimates of reserves at December 31, 2013 and 2012, 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, 2013 and December 31, 2012, 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.

(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 this reinsurance were approximately $2,249,000 and $2,261,000 in 2013 and 2012, respectively. No losses in 2013 or 2012 have been ceded under the catastrophic reinsurance agreement.

Included in losses and loss adjustment expenses are reinsurance recoverables with two reinsurers of approximately $1,003,000 and $1,048,000 at December 31, 2013 and 2012, 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.

(9) Restricted Fund Equity

Title 85, Section 386 of the Oklahoma Statutes requires the accumulation of surplus funds or catastrophic reserves until such time as such surplus funds or catastrophic reserves shall be sufficiently large to cover a catastrophic hazard and other unanticipated losses. Fund equity restricted for catastrophes totaled $5,000,000 at December 31, 2013 and 2012.

(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 $254,000 and $225,000 for 2013 and 2012, 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 may continue to contribute to Sooner Save until January 1, 2015.

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 totaled approximately $3,000 for 2013.

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, 2013 and 2012 were both approximately $79,000.

(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 2013 and 2012 contribution rates were 16.5% for CompSource and 3.5% for employees.

CompSource's contributions to the Plan for the years ended December 31, 2013 and 2012 were approximately $2,428,000 and $2,409,000, respectively, and equal its required contributions for each year. Employee contributions for both years ended December 31, 2013 and 2012 were approximately $527,000.

(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:

	2013	2012
Statutory surplus as filed	$ 327,656,527	251,160,759
Net unrealized gains on debt securities	53,953,822	103,728,737
Nonadmitted assets	9,715,140	1,364,963
Deferred acquisition costs	2,439,272	1,950,770
Total fund equity	$ 393,764,761	358,205,229

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

		2013	2012
Statutory net income (loss) as filed	$	48,070,861	(279,097)
Change in net unrealized gain (loss) on debt and equity securities		(4,427,755)	39,005,043
Unrealized gain on U.S. government inflation protected securities		267,135	657,569
Recapture of other-than-temporary impairments previously taken		(8,995,715)	(721,340)
Zero coupon bond adjustments		156,504	595,742
Change in deferred acquisition costs		488,502	391,773
Change in fund equity	$	35,559,532	39,649,690

The Oklahoma Insurance Department may conduct an examination of CompSource in the same manner as a domestic insurance company if the examination does not conflict with any provisions in Title 85 of the Oklahoma Statutes. The Department may also recommend adjustments to certain accounts based on its judgment about information available at the time of the examination. CompSource is currently undergoing an examination as of December 31, 2012.

(14) Contingencies

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. A suit challenging the constitutionality of HB 2201 was filed in the Oklahoma Supreme Court during 2013. The Oklahoma Supreme Court issued an unanimous opinion filed on March 11, 2014, upholding the constitutionality of HB 2201.

CompSource has evaluated subsequent events through March 28, 2014, the date the financial statements were issued.