KPMG

COMMONWEALTH OF PENNSYLVANIA
DEFERRED COMPENSATION PROGRAM

Financial Statements
with Required Supplementary Information

December 31, 2013 and 2012

(With Independent Auditors' Report Thereon)

COMMONWEALTH OF PENNSYLVANIA
DEFERRED COMPENSATION PROGRAM

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Independent Auditors' Report

The Members of the Board
Commonwealth of Pennsylvania
Deferred Compensation Program:

Report on the Financial Statements

We have audited the accompanying statements of net position available for benefits of the Commonwealth of Pennsylvania Deferred Compensation Program (DCP) as of and for the years ended December 31, 2013 and 2012, and the statements of changes in net position available for benefits and the related notes to the financial statements for the years then ended.

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. Those standards require that we plan and perform the audits 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 DCP'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 DCP'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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position available for benefits of DCP as of December 31, 2013 and 2012, and the changes in its net position available for benefits for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplemental Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 3–5 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.

KPMG LLP

Harrisburg, Pennsylvania
May 14, 2014

COMMONWEALTH OF PENNSYLVANIA
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Management's Discussion and Analysis

December 31, 2013 and 2012

(Unaudited)

This section presents management's discussion and analysis of the Commonwealth of Pennsylvania Deferred Compensation Program's (DCP) financial statements and the significant events and conditions that affected the operations and performance of DCP during the years ended December 31, 2013, 2012, and 2011.

Overview of the Financial Statements

1. **Financial Statements.** The DCP presents Statements of Net Position Available for Benefits as of December 31, 2013 and 2012 and Statements of Changes in Net Position Available for Benefits for the years then ended. These statements reflect resources available for the payment of benefits as of year-end, and the sources and uses of those funds during the year.

2. **Notes to Financial Statements.** The notes to financial statements are an integral part of the financial statements and provide additional detailed information to provide a better understanding of the financial statements. The notes discuss, among other things, DCP's organization, contributions, and how asset values are determined.

Background

The Pennsylvania State Employees' Retirement Board (SERB) is the trustee for the DCP, an Internal Revenue Code (IRC) Section 457(b) retirement plan for eligible government employees and officers. The DCP is a voluntary tax-deferred supplemental retirement plan. The participants may direct their deferrals among the DCP's 11 investment options. A Third Party Administrator (TPA) maintains individual participant records. Investment advisors selected by the SERB manage the DCP's investment options. The DCP began accepting initial deferrals in 1988.

The investments are composed of primarily three core equity index funds – Stock Index Fund that is a Standard & Poor's (S&P) 500 index of large-cap companies; an Extended Market Fund that is an index of domestic mid- and small-cap companies; and an European, Australian, and Far East markets (EAFE) Equity index fund. The DCP also offers an Aggregate Bond Index Fund, a Stable Value Fund (actively managed bond fund with an insurance contract that, through a crediting formula, smoothes the portfolio returns by providing a 'stable' quarterly rate), a Short-term Money Market Fund, and a Self-Directed Brokerage Option. Three 'Profile Funds' are available to the participants. These funds are composed of a mix of the equity, cash, and bond core index funds, tailored to a participant's risk profile that allows them to invest in a conservative, moderate, or aggressive portfolio. The DCP also offers a 60/40 Balanced Fund which uses a mix of the Stock Index and the Aggregate Bond Index Funds. These portfolios are automatically rebalanced each quarter by the TPA.

Net Position Available for Benefits

Net plan position has increased $332 million over the past calendar year, from approximately $2.4 billion in 2012 to approximately $2.8 billion in 2013. In 2011, net plan position was $2.2 billion. Of the three asset classes of equities, bonds, and cash, 48% of the net plan position were invested in the three core equity funds (large-cap; mid- and small-cap; and international equities) at year-end 2013. At the end of 2012, those same investment funds accounted for 42% of the net plan position available for benefits. The fixed income portfolios, Aggregate Bond and Stable Value Fund, accounted for 47% and 54% of net plan position in 2013 and 2012, respectively.

The Short-term Money Market Fund balance increased to $52 million at the end of 2013 from a 2012 year-end balance of $49 million.

Contributions and Investment Gains

Contributions experienced an increase from approximately $122 million in 2012 to $127 million in 2013. Contributions were $137 million in 2011. The higher contributions amount in 2011 was partially due to the increase in participant retirements and the use of the special catch-up feature which allowed deferrals up to $33,000.

Net investment gain in 2013 was $315 million as compared to $193 million in 2012. Net investment gain was $60 million in 2011. The greater net investment gain in 2013 is attributed primarily to the higher broad market equity returns as the S&P 500 and MSCI EAFE returned 32.39% and 23.29% in 2013, respectively, versus returns of 16.0% and 17.3%, respectively, in 2012. The S&P 500 and MSCI EAFE returned 2.1% and -12.1%, respectively, in 2011.

Program Benefits and Expenses

Benefits paid to participants increased to $68 million in 2013 from $62 million in 2012. Benefits paid to participants in 2011 were $60 million. The election to select a payment is voluntary up to age 70½ and is dependent upon the participant's separation from service. The DCP offers a variety of payout methods. A vast majority of participants select a periodic payment either annually, semi-annually, quarterly, or monthly. The number of participants receiving payments increased to 6,442 for 2013 from 6,010 in 2012. The number of participants receiving payments in 2011 was 6,015. 457(b) plans are permitted to accept rollovers from other retirement plans, and to permit rollovers out of the DCP into Individual Retirement Accounts (IRAs), 401(k) plans, or other qualified plans. Net rollovers out of the DCP increased from $24 million in 2012 to $39 million in 2013. In 2011, net rollovers out of the DCP were $1 million.

Plan participants are responsible for all DCP fees. The TPA expenses were $3.1 million in 2013 and $2.7 million in 2012. In 2011, these expenses were $2.5 million. Since the DCP's primary fee is based on a percentage of plan assets, as the plan asset base changes, a corresponding change to the fees occurs.

Roth 457(b) Provision

The Small Business Jobs Act of 2010 was signed into law on September 27, 2010. It includes a provision to allow those participating in 457(b) plans to contribute through a Roth option. Those who contribute using the Roth option do not receive a deduction from their current income for a contribution to the plan, but they do earn returns within the plan tax-free and the withdrawals from the plan are tax-free. The SERB passed a motion at the December 2010 meeting to allow the DCP to implement a Roth 457(b) provision. The DCP began accepting Roth contributions in August 2012.

(Continued)

DEFERRED COMPENSATION PROGRAM

Condensed Financial Information

(Dollars in millions)

	2013	Increase (decrease)	2012	Increase (decrease)	2011
Net position:					
Assets:					
Total receivables	$ 5	$ —	$ 5	$ —	$ 5
Total investments	2,760	332	2,428	226	2,202
Securities lending collateral pool	10	(1)	11	(11)	22
Total assets	2,775	331	2,444	215	2,229
Liabilities:					
Total payables	1	—	1	—	1
Obligations under securities lending	10	(1)	11	(11)	22
Total liabilities	11	(1)	12	(11)	23
Total net position	$ 2,764	$ 332	$ 2,432	$ 226	$ 2,206
Changes in net position:					
Additions:					
Net investment gain	$ 315	$ 122	$ 193	$ 133	$ 60
Contributions	127	5	122	(15)	137
Total additions	442	127	315	118	197
Deductions:					
Benefit payments	68	6	62	2	60
Plan transfers	39	15	24	23	1
Third party and administrative expense	3	—	3	—	3
Total deductions	110	21	89	25	64
Increase in net position	$ 332	$ 106	$ 226	$ 93	$ 133

FINANCIAL STATEMENTS

COMMONWEALTH OF PENNSYLVANIA
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Statements of Net Position Available for Benefits

December 31, 2013 and 2012

	2013	2012
Assets:		
Cash and investments:		
Cash and temporary investments	$ 2,509,683	$ 2,305,870
Short-term money market fund	51,527,885	49,369,075
Aggregate bond index fund	265,794,521	259,633,820
Stock index fund	858,853,299	668,174,455
Extended market fund	316,172,941	222,042,094
EAFE equity index fund	152,926,080	119,940,068
Stable value fund	1,030,702,817	1,041,461,145
Group annuity contract	1,544,685	1,757,214
Self-directed brokerage option	79,797,470	63,151,549
Total cash and investments	2,759,829,381	2,427,835,290
Securities lending collateral pool	10,000,768	10,824,896
Contributions receivable	4,939,348	5,099,325
Accrued investment income receivables	11,533	12,212
Other receivables	176,237	101,794
Total assets	2,774,957,267	2,443,873,517
Liabilities:		
Participant payables	119,889	100,780
Fees payable and accrued expenses	1,213,595	1,103,887
Other payables	115,600	130,845
Obligations under securities lending	10,000,768	10,824,896
Total liabilities	11,449,852	12,160,408
Net position available for benefits	$ 2,763,507,415	$ 2,431,713,109

See accompanying notes to financial statements.

COMMONWEALTH OF PENNSYLVANIA
DEFERRED COMPENSATION PROGRAM

Statements of Changes in Net Position Available for Benefits

Years ended December 31, 2013 and 2012

	2013	2012
Additions:		
Investment income:		
Net appreciation in fair value of investments	$ 288,366,901	$ 164,263,029
Interest	30,031,704	31,943,931
Total investment gain	318,398,605	196,206,960
Less investment expenses	3,412,403	3,251,522
Investment gain, net	314,986,202	192,955,438
From securities lending activities:		
Securities lending income	7,857	11,050
Securities lending expense	(1,099)	(976)
Securities lending activities gain	6,758	10,074
Contributions from participants	127,008,057	122,250,615
Total additions	442,001,017	315,216,127
Deductions:		
Benefits and refunds to participants	67,739,075	61,871,986
Transfers to other plans	39,154,225	24,787,806
Third party expenses	3,088,097	2,660,502
Administrative expenses	225,314	236,764
Total deductions	110,206,711	89,557,058
Increase in net position	331,794,306	225,659,069
Net position available for benefits, beginning of year	2,431,713,109	2,206,054,040
Net position available for benefits, end of year	$ 2,763,507,415	$ 2,431,713,109

See accompanying notes to financial statements.

(1) Organization and Description of the Plan

(a) Program Summary

The following description of the Commonwealth of Pennsylvania Deferred Compensation Program (DCP) provides only general information. Participants should refer to the Plan Document for a more complete description of the DCP's provisions.

The DCP was established by the Commonwealth of Pennsylvania General Assembly on November 6, 1987, through Act 81 and in accordance with Section 457(b) of the IRC of 1986, as amended. Under the DCP's provisions, eligible employees of the Commonwealth of Pennsylvania (commonwealth) may voluntarily elect to contribute a portion of their compensation into the DCP through payroll deductions. The commonwealth does not make any contributions to the DCP. The DCP is included in the commonwealth's financial reporting entity and in the financial statements as a pension trust fund.

(b) Contributions

Under the DCP's provisions, eligible employees may contribute to the DCP through payroll deductions. In accordance with Section 457(b) of the IRC, the amount of an individual's annual contributions for 2013 is limited to an amount not to exceed the lesser of $17,500 or 100% of the individual's gross compensation. In 2012, the annual contribution level was $17,000. Individuals age 50 or over may make an additional "catch-up" contribution. For both 2013 and 2012, the additional "catch-up" contribution was $5,500. A special catch-up is allowed for previously missed contributions for participants within three years of normal retirement age. In 2013 and 2012, the deferral limit for special catch-up was $35,000 and $34,000, respectively. Contributions can be made to the DCP using either the before-tax method in which amounts are deferred for federal tax purposes or the Roth option in which contributions are made on an after-tax basis. There are no employer contributions to the DCP.

Contributions receivable represent amounts withheld from employees' pay but not remitted to the investment managers at December 31. Contributions are credited by the applicable investment managers upon receipt from the commonwealth.

(c) Participant Accounts

Participants electing to contribute to the DCP have the option of investing their contributions in any of the following core investments:

- *Short-term Money Market Fund,* which invests in a variety of securities including those issued by the United States Treasury, agency securities, short-term corporate debt instruments such as commercial paper, repurchase agreements, and certificates of deposit, is managed by the Commonwealth of Pennsylvania State Treasury Department (Treasury Department).
- *Aggregate Bond Index Fund,* which invests in investment grade corporate and government issues, mortgage-backed securities, asset-backed securities, and commercial mortgage-backed securities, is managed by Mellon Capital Management Corporation (MCM).

- *Stock Index Fund*, which invests in publicly traded common stocks included in the S&P 500 Index, is managed by MCM.
- *Extended Market Fund*, which invests in medium and small capitalization components of the U.S. equity market (primarily the portion not covered by the S&P 500 Index), is managed by MCM.
- *EAFE Equity Index Fund*, which invests in international stocks in the European, Australian, and Far East markets, is managed by MCM.
- *Stable Value Fund*, which is comprised of two investment accounts, is managed by separate investment advisors. An active bond account is managed by Weaver C. Barksdale & Associates. The return on the active bond account is insured through a contract with Monumental Life Insurance Company. This contract insures a crediting rate on the active bond account as determined by a formula established by the insurer. This crediting rate is adjusted quarterly, based on the actual returns of the active bond account. A temporary investment account is managed by the Treasury Department and contains short-term securities which are purchased when payments or pay downs are received for the active bond account investments.

In addition to the core funds, the DCP also offers the following:

- *Self-Directed Brokerage Option*, which is a mutual fund window whereby a participant may choose to invest in a variety of mutual funds offered through the Charles Schwab Corporation.

Investment income includes the realized and unrealized gains/losses and interest for each of the funds. These funds do not distribute dividends to shareholders. Earnings and dividends on securities held are reinvested. Purchases and sales of securities are recorded on a trade-date basis.

The Pennsylvania State Employees’ Retirement System provides certain management and administrative services to the DCP on an ongoing basis. During 2013 and 2012, the DCP paid $225 and $237 thousand for those services, respectively. Effective July 1, 2013, the DCP receives $275,000 annually from the TPA to cover these costs.

(d) Payment of Benefits

Participants may withdraw the current value of funds contributed to the DCP upon termination of employment, death, disability, retirement, or approved unforeseeable emergencies within DCP guidelines. Accounts that have no activity in a two-year period and a balance under $5,000 may also be voluntarily distributed.

Upon retirement or termination of service, participants may elect various payout options including lump sum, equal annual payments, or elect to defer receipt of funds until some future date. Minimum distributions as required by Internal Revenue Service (IRS) guidelines must commence no later than age 70½. Rollovers to other qualified retirement plans or IRAs are permitted. All investments are for the exclusive benefit of participants and their beneficiaries.

Upon a participant's death, with certain exceptions, any amount due under the participant's account is paid to the beneficiary or the estate. Distributions to participants are recorded at the time withdrawals are made from participant accounts.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting in Preparing Financial Statements

The financial statements of the DCP are prepared on the accrual basis of accounting under which expenses are recorded when the liability is incurred, revenues are recorded in the accounting period in which they are earned and become measurable, and investment purchases and sales are recorded as of their trade date.

(b) Use of Estimates

Management of the DCP has made certain estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

(c) Valuation of Investments

The Short-term Money Market Fund and temporary investment portion of the Stable Value Fund are valued at cost, which approximates fair value. The Aggregate Bond Index, Stock Index, Extended Market, EAFE Equity Index, Stable Value Fund – Active Bond Account, and Self-Directed Brokerage Option are valued based on quoted redemption values, which represent fair value, on the last business day of the calendar year.

The group annuity contract, which is no longer offered to participants as an investment option is valued at contract value, which approximates fair value. Contract value for the group annuity contract represents contributions made under the contract, plus earnings, less payments made to retirees and terminated participants.

(3) Agreement with Program Administrator

Effective with the agreement dated July 1, 2013, the SERB reappointed Great-West Financial (Great-West) as the DCP's TPA for a term of four years, with the option to renew for one year. Great-West receives the following compensation for program administration services:

- Program administration charge – A $24.00 annual fee is charged to each participant in the DCP for record-keeping services. The full fee is due to Great-West. This charge is assessed monthly.
- Program asset fee – This charge is assessed monthly on the value of all accounts in the DCP. The fee varies depending on the type of investment. The fee ranges from 0.07% to 0.395%. This includes 0.07% payable to Great-West for TPA services and manager fees ranging from 0.00% to 0.325%. The program asset fee is assessed against the account of each participant proportionately according to the value of each individual account.

- Investment advice fee – Great-West, through a subsidiary Advised Assets Group LLC, provides participants with online advisory tools and services based upon the level of involvement desired in managing their accounts. Guidance is offered at no additional cost. Advice is offered for an annual fee of $25.00. All advice fees are assessed quarterly. Managed accounts provide ongoing professional asset management at the individual participant level. Plan participants receive a personalized and strategically designed retirement portfolio that is automatically managed quarterly. The managed account fee structure is asset based and ranges from 0.30% to 0.60% based on the participant account balance.

(4) Investments

The DCP's core investments are managed by three fund managers. At December 31, 2013 and 2012, one fund manager, MCM, managed approximately 58% and 42%, respectively, of the DCP's total investment portfolio. This significant increase is attributed to MCM assuming management of the Aggregate Bond Index Fund from the previous manager. The fixed income portfolios consisting of the Aggregate Bond Index Fund and Stable Value Funds, which are managed by MCM and Weaver C. Barksdale, was 47% and 54%, respectively, of plan assets in 2013 and 2012. These concentrations are solely determined by the participants' elections to invest in the available investment options selected by the SERB.

The DCP's cash and temporary investments, Short-term Money Market Fund, Stable Value Fund, and Aggregate Bond Index Fund are subject to various risks. Among these risks are: custodial credit risk, credit risk, and interest rate risk. Each of these risks is discussed below.

Custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the DCP would not be able to recover the value of investment or collateral securities that are in the possession of an outside party. In accordance with the contractual relationship between the Treasury Department and its custodial agent, where securities are used as evidence of the investment, these securities are held by the custodian in book-entry form. These securities are defined as insured or registered investments for which the securities are held by the agent in the DCP's name, and therefore have a minimal level of custodial credit risk losses. The other remaining investments do not have securities that are used as evidence of the investments.

Credit risk is the risk that an issuer or the counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by nationally recognized statistical rating agencies such as Moody's Investor Services (Moody's), S&P, and Fitch Ratings (Fitch). The DCP manages the overall credit risk of the active bond account by requiring the manager to invest in accordance with the SERB approved Investment Strategy Statement specifically designed for the Stable Value Fund. This statement lists the primary goal of the fund to maintain safety of principal, while recognizing that liquidity is an important element due to participant market expectations and/or investment selection. A secondary goal is to provide the participants with a steady, long-term growth of principal. The manager is expected to exercise due care and diligence in making investment decisions.

For securities exposed to credit risk in the fixed income investments of the DCP, the table below discloses aggregate fair value, by the least favorable credit rating issued using Moody's, S&P, and Fitch credit ratings at December 31, 2013 and 2012:

Fixed Income Securities Exposed to Credit Risk

Rating	2013 Fair value	2012 Fair value
AAA	$ 85,974,268	$ 73,176,621
AA	561,280,832	451,987,723
A	181,446,076	175,486,289
BAA	58,406,732	54,042,067
BA and below	1,634,865	1,042,139
Short-term investments[a/]	59,648,776	60,318,295
NA[b/]	428,668	620,678
Total[c/]	$ 948,820,217	$ 816,673,812

a/ Represents investments in the Treasury Department's money market and short-term investment fund (STIF). This fund is comprised of short-term, investment-grade securities, which are mainly U.S. treasuries, agencies, or repurchase agreements. It is also comprised of short-term assets in the Aggregate Bond Index Fund and Stable Value Fund from the Statements of Net Position.

b/ NA represents securities that are either not rated or had a withdrawn rating.

c/ Fixed income securities exposed to credit risk and U.S. government guaranteed securities, as noted in the subsequent paragraph, are comprised of cash and temporary investments, the Short-term Money Market Fund, the Aggregate Bond Index Fund, and the Stable Value Fund from the Statements of Net Position.

Obligations explicitly guaranteed by the U.S. Government (treasuries and Government National Mortgage Association securities) with a fair value of $401,714,689 and $536,096,098 as of December 31, 2013 and 2012, respectively, were not included in the preceding table because they are not considered to have credit risk.

Interest rate risk is the risk that will adversely affect the fair value of an investment, should market interest rates rise or fall. Option adjusted duration is the measure of the portfolio's exposure to changes in interest rates. The following table discloses the interest rate types and durations of the fixed income investments of the DCP as of December 31, 2013 and 2012:

	2013		2012	
Fixed income sector	**Fair value**	**Option adjusted duration**	**Fair value**	**Option adjusted duration**
Sovereign debt	$ 11,746,936	5.4	$ 12,454,172	5.2
Mortgage backed securities	398,762,909	4.9	368,460,471	2.8
Corporate	335,884,925	4.8	294,792,155	4.9
Government	373,041,058	4.3	438,457,775	4.2
Asset backed securities	93,658,172	3.6	60,772,938	1.7
Agencies	74,919,802	2.6	114,244,938	3.5
Private placements[a/]	2,872,328	1.8	3,269,166	2.2
Short-term investment fund	59,648,776	0.1	60,318,295	0.1
Total [b/]	$ 1,350,534,906		$ 1,352,769,910	

a/ Private placements raise capital via offerings directly to qualified investors rather than through public offerings. Private placements do not have to register with the Securities and Exchange Commission (SEC) if the securities are purchased for investment as opposed to resale. These private placements are corporate debt purchased pursuant to Rule 144A and have registration rights with the SEC.

b/ Total fair values of the fixed income sector are comprised of cash and temporary investments, the Short-term Money Market Fund, the Aggregate Bond Index Fund, and the Stable Value Fund from the Statements of Net Position.

The DCP prohibits investments by the manager in the active bond portfolio in the following categories: real estate, Real Estate Investment Trust issues, mortgages (mortgage pass-throughs are exempt), secured term loans, oil and gas production properties, convertible or preferred stock, private placements (other than corporate debt purchased pursuant to Rule 144A that has registration rights with the SEC), loaning of money or securities, hypothecating of any assets in the portfolio, interest and principal only strips, inverse floaters, and inverse interest only securities.

Foreign currency risk is the risk that changes in the exchange rates will adversely affect the fair value of an investment. The EAFE Equity Index Fund seeks to track more than 1,000 foreign stocks representing established companies in 21 countries located in Western Europe and the Pacific Rim. At December 31, 2013 and 2012, the DCP had the following currency exposures:

Currency	2013 Fair value	2012 Fair value
European euro	$ 46,877,749	$ 34,857,923
British pound sterling	33,558,204	27,136,186
Japanese yen	31,986,550	23,987,494
Swiss franc	13,642,901	10,423,119
Australian dollar	11,405,079	10,593,654
Swedish krona	4,952,103	3,725,658
Hong Kong dollar	4,341,931	3,280,765
Singapore dollar	2,255,258	2,196,304
Danish krone	1,795,429	1,388,206
Norwegian krone	1,251,363	882,616
New Israeli sheqel	681,953	655,851
New Zealand dollar	177,560	146,273
Bermudian dollar	—	471,606
Cayman Islands dollar	—	192,879
Total	$ 152,926,080	$ 119,938,534

In addition to the values stated in the above table, as of December 31, 2013 and 2012, the EAFE Equity Index Fund also held United States dollars totaling zero and $1,534, respectively.

(5) Derivative Financial Instruments

The DCP, through investments in collective funds managed by MCM and trusteed by The Bank of New York Mellon, indirectly holds certain derivative financial instruments. A derivative is a risk-shifting agreement, the value of which is derived from the value of an underlying asset. The underlying asset could be a physical commodity, an interest rate, a company’s stock, a stock index, a currency, or virtually any other tradable instrument upon which two parties can agree. The derivatives most commonly used by MCM include forwards, futures, options, and swaps. The notional value of these instruments is not significant as of December 31, 2013 and 2012. The collective funds that the DCP is invested in currently utilize the following derivative instruments:

Stock Index Fund – stock index futures

Extended Market Fund – stock index futures

EAFE Equity Index Fund – stock index futures, currency forwards

These instruments are used in the investment management of the collective funds to the extent that their use is consistent with the specific collective fund’s objective. Derivatives are viewed within the context of the collective fund's total portfolio. MCM has instituted policies and procedures designed to ensure that derivative transactions are in keeping with the overall strategy and that such transactions are properly reviewed and monitored.

MCM may take long or short positions in derivative instruments for, but not limited to, the following purposes: to create or hedge required exposure; to create or hedge model-driven recommended exposure; as an adjustment to asset exposures within the parameters set in the collective fund's investment instructions and guidelines; to achieve transactional efficiency; to adjust the duration of a fixed income portfolio; if applicable, to achieve the appropriate degree of leverage, as stated in the collective fund's investment instructions and guidelines; and to facilitate meeting the collective fund's objectives.

Some of the risks associated with the use of derivatives include the following:

Market Risk: Market risk represents the risk of adverse movements in markets (including asset prices, volatility, changes in yield curve, implied volatility, or other market variables) for the derivatives or the underlying assets, reference rate or index to which the derivative instrument relates. Such risk is created by holding any security, physical, or derivative which creates exposure to movements in process of a security or market. Additionally, some derivatives involve economic leverage, which could increase the volatility of these investments as they may fluctuate in value more than the underlying instrument. MCM assesses the risk associated with derivatives in the context of the collective fund's total portfolio, taking into account the effective exposure of derivative instruments.

Liquidity Risk: Two types of liquidity risk are generally faced in derivative activities. The first is market liquidity risk, which applies to all investments. This is the risk that positions cannot easily be sold or unwound due to inadequate market depth or disruptions in the marketplace. The second is portfolio liquidity risk, which is the risk that there are insufficient funds in the portfolio to meet margin calls and other financial obligations resulting from derivative activities. MCM has established restrictions and processes to assist with minimizing the impact of liquidity risk on the collective fund's portfolio.

Counterparty Risk: Counterparty risk is the risk that a counterparty (the party with whom a derivatives contract is made) will fail to perform contractual obligations under a contract. This is also sometimes referred to as credit risk. MCM has established guidelines and procedures designed to limit the impact of counterparty risk. The creditworthiness of counterparties is evaluated prior to approval and counterparty exposure is reviewed regularly.

Operations Risk: Operations risk is the risk that deficiencies in the effectiveness and accuracy of the information systems or internal controls will result in a material loss. This risk is associated with human error, systems failures, inadequate procedures, and internal management controls. This might include the risk that the valuation system incorrectly calculates a price for a derivative or its equivalent exposure.

The DCP offers participants the ability to invest in a Stable Value Fund, which is a Synthetic Guaranteed Investment Contract (SGIC). The SGIC provides a guaranteed crediting rate based on the underlying bond portfolio and is adjusted quarterly. For 2013, the annualized crediting rates were 3.098% for the first quarter, 2.870% for the second quarter, 2.671% for the third quarter, and 2.535% for the fourth quarter. For 2012, the annualized crediting rates were 3.60% for the first quarter, 3.44% for the second quarter, 3.35% for the third quarter, and 3.27% for the fourth quarter. The fair value of the SGIC at December 31, 2013 is

(Continued)

$1,030,702,817 and the contract or book value is $1,011,373,155. The fair value of the SGIC at December 31, 2012 was $1,041,461,145 and the contract or book value was $981,809,557. The wrap contract is reported to have no value for the respective years shown in the table below because the fair value of the underlying investments was greater than the contract or book value, hence no exposure to the insurer. The following table discloses the fair value of the SGIC at December 31, 2013 and 2012:

SGIC components	2013 Fair value	2012 Fair value
Underlying investments	$ 1,030,702,817	$ 1,041,461,145
Wrap contract	—	—
Total	$ 1,030,702,817	$ 1,041,461,145

(6) Securities Lending

In accordance with a contract between the commonwealth's treasurer and its custodian, the DCP participates in a securities lending program.

The custodian, acting as lending agent, is able to loan securities from the DCP's actively managed bond account for cash, securities, or letter of credit collateral. Collateral is required at 102% of the fair value of the securities. Collateral is marked-to-market daily. If the collateral falls below guidelines for the fair value of the securities loaned, additional collateral is obtained. Cash collateral is invested by the lending agent in accordance with investment guidelines approved by the SERB. The lending agent cannot pledge or sell securities collateral unless the borrower defaults.

As of December 31, 2013 and 2012, the DCP's credit exposure to individual borrowers was limited because the amounts the DCP owed the borrowers exceeded the amounts the borrowers owed the DCP. The treasurer's contract with the lending agent requires the agent to indemnify the DCP if the borrowers fail to return the underlying securities and the collateral is inadequate to replace the loaned securities or if the borrowers fail to pay income distributions on the loaned securities.

All loaned securities at December 31, 2013 and 2012 could be terminated on demand by either the lending agent or the borrower. Cash collateral is invested, together with the cash collateral on loaned securities of other commonwealth entities, in a short-term collective investment pool. The duration of the investments in the pool at December 31, 2013 and 2012 was two days. The relationship between the average maturities of the investment pool and the DCP's loans is affected by the maturities of the loans made by other entities in the investment pool. In addition, the interest rate risk posed by mismatched maturities is affected by other program features, such as the lending agent's ability to reallocate loaned securities among all of its lending customers.

As of December 31, 2013 and 2012, the fair value of loaned securities was approximately $10 million and $11 million, respectively; the fair value of the associated collateral was approximately $10 million and $11 million, of which $2 million and $6 million was cash, respectively. As of December 31, 2013 and 2012, noncash collateral of approximately $8 million and $5 million, respectively, is invested in U.S. Government securities which are not subject to credit risk.

(7) Tax Qualification Status

The DCP was notified by the United States Treasury Department on September 29, 2000, that it is an eligible deferred compensation plan pursuant to IRC Section 457(b). Therefore, compensation deferred under the DCP, including income attributable to the deferred compensation, will be includible in gross income for the taxable year or years in which amounts are paid or otherwise made available to a participant or a participant's beneficiary in accordance with the terms of the DCP.

The Small Business Jobs Act of 2010 was signed into law on September 27, 2010. It includes a provision to allow those participating in 457(b) plans to do so through a Roth option. Those participants who use designated Roth accounts do not receive a deduction from their current income for a contribution to the plan, but their plan earnings and qualified withdrawals from the plan are tax-free. The SERB passed a motion at the December 2010 meeting to allow the DCP to implement a Roth 457(b) provision. The DCP implemented the Roth option in 2012.

(8) Risks and Uncertainties

The DCP, as directed by participants, may invest in various types of investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities, it is possible that changes in the values of investment securities may occur in the near term and that such change could materially affect the amounts reported in the statements of net position available for benefits.

(9) Related Parties

Certain members of the SERB are participants in the DCP.