

NEXTERA ENERGY INC
Form 11-K
June 26, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 11-K

x ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **December 31, 2013**

OR

** TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number **1-8841**

NextEra Energy, Inc. Employee Retirement Savings Plan

(Full title of the plan)

NextEra Energy, Inc.

(Name of issuer of the securities held pursuant to the plan)

700 Universe Boulevard

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Juno Beach, Florida 33408

(Address of principal executive office)

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NEXTERA ENERGY, INC. EMPLOYEE RETIREMENT SAVINGS PLAN

FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Participants and the Employee Benefit Plans

Administrative Committee

NextEra Energy, Inc. Employee Retirement Savings Plan

Juno Beach, Florida

We have audited the accompanying statements of net assets available for benefits of NextEra Energy, Inc. Employee Retirement Savings Plan (the Plan) as of December 31, 2013 and 2012, and the related statement of changes in net assets available for benefits for the year ended December 31, 2013. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2013 and 2012, and the changes in net assets available for benefits for the year ended December 31, 2013 in conformity with U.S. generally accepted accounting principles.

As further discussed in Notes 1 and 2 to the financial statements, effective December 31, 2013, the NextEra Energy, Inc. Bargaining Unit Employee Retirement Savings Plan was merged into the Plan. The transfer of assets due to the Plan merger was reported as "Transfer related to Plan Merger" on the Statement of Changes in Net Assets Available for Benefits.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental Schedule H, Line 4i - Schedule of Assets (Held at End of Year) is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audit of the basic 2013 financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic 2013 financial statements taken as a whole.

/s/ Crowe Horwath LLP

Columbus, Ohio

June 25, 2014

Table of Contents**NEXTERA ENERGY, INC. EMPLOYEE RETIREMENT SAVINGS PLAN****STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS****DECEMBER 31, 2013 AND 2012**

	Participant-Directed	December 31, 2013 Nonparticipant-Directed		Total
		Allocated	Unallocated	
ASSETS				
Participant-directed investments (see Note 7)	\$ 2,485,923,021	\$	\$	\$ 2,485,923,021
Nonparticipant-directed investments (Leveraged ESOP)		722,893,201	155,368,278	878,261,479
Total investments, at fair value	2,485,923,021	722,893,201	155,368,278	3,364,184,500
Notes receivable from participants	70,604,491			70,604,491
Employer contribution receivable			702,141	702,141
Accrued interest receivable and other receivables	9,433,651	736	27	9,434,414
Total receivables	80,038,142	736	702,168	80,741,046
Non-interest bearing cash	918,311			918,311
Total assets	2,566,879,474	722,893,937	156,070,446	3,445,843,857
LIABILITIES				
Leveraged ESOP Note:				
Current			24,835,245	24,835,245
Non-current			30,606,382	30,606,382
Interest payable (Leveraged ESOP)			179,076	179,076
Other Payables	7,011,246	165,232		7,176,478
Total liabilities	7,011,246	165,232	55,620,703	62,797,181
Net assets, reflecting all investments at fair value	2,559,868,228	722,728,705	100,449,743	3,383,046,676
Adjustments from fair value to contract value for fully benefit-responsive investment contracts	(7,154,023)			(7,154,023)
NET ASSETS AVAILABLE FOR BENEFITS	\$ 2,552,714,205	\$ 722,728,705	\$ 100,449,743	\$ 3,375,892,653

	December 31, 2012			
	Participant- Directed	Nonparticipant-Directed		Total
	Allocated	Unallocated		
ASSETS				
Participant-directed investments (see Note 7)	\$ 1,620,331,811	\$	\$	\$ 1,620,331,811
Nonparticipant-directed investments (Leveraged ESOP)		456,335,086	136,003,612	592,338,698
Total investments, at fair value	1,620,331,811	456,335,086	136,003,612	2,212,670,509
Notes receivable from participants	42,665,318			42,665,318
Employer contribution receivable			3,903,749	3,903,749
Accrued interest receivable			62	62
Total receivables	42,665,318		3,903,811	46,569,129
Total assets, reflecting interest in assets of Master Trust	1,662,997,129	456,335,086	139,907,423	2,259,239,638
LIABILITIES				
Leveraged ESOP Note:				
Current			19,689,544	19,689,544
Non-current			40,925,130	40,925,130
Interest payable (Leveraged ESOP)			195,785	195,785
Total liabilities, reflecting interest in liabilities of Master Trust			60,810,459	60,810,459
Interest in net assets of Master Trust, reflecting all investments at fair value	1,662,997,129	456,335,086	79,096,964	2,198,429,179
Adjustments from fair value to contract value for fully benefit-responsive investment contracts	(9,814,492)			(9,814,492)
NET ASSETS AVAILABLE FOR BENEFITS	\$ 1,653,182,637	\$ 456,335,086	\$ 79,096,964	\$ 2,188,614,687

The accompanying Notes to Financial Statements are an integral part of these statements.

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NEXTERA ENERGY, INC. EMPLOYEE RETIREMENT SAVINGS PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEAR ENDED DECEMBER 31, 2013

	Nonparticipant-Directed			Total
	Participant-Directed	Allocated	Unallocated	
ADDITIONS				
Participant contributions	\$ 87,014,628	\$	\$	\$ 87,014,628
Allocation of Leveraged ESOP shares (see Note 5)		33,381,735		33,381,735
Transfer from/to nonparticipant-directed investments	32,235,054	1,048,167		33,283,221
Increase in Leveraged ESOP unallocated account (see Note 5)			33,461,313	33,461,313
Net investment income:				
Net investment income in participation in Master Trust, at fair value	297,602,337	123,776,479		421,378,816
Total additions	416,852,019	158,206,381	33,461,313	608,519,713
DEDUCTIONS				
Benefit payments to participants and beneficiaries	194,361,426	37,493,371		231,854,797
Transfer from/to participant-directed investments	1,048,167	32,235,054		33,283,221
Decrease in Leveraged ESOP unallocated account (see Note 5)			38,328,628	38,328,628
Administrative expenses	700,366	47,509		747,875
Total deductions	196,109,959	69,775,934	38,328,628	304,214,521
Transfers to/(from) the Plan, net	2,300,492	(525,584)		1,774,908
NET INCREASE/(DECREASE)	223,042,552	87,904,863	(4,867,315)	306,080,100
Transfer related to Plan Merger (a)	676,489,016	178,488,756	26,220,094	881,197,866
NET ASSETS AVAILABLE FOR BENEFITS AT DECEMBER 31, 2012	1,653,182,637	456,335,086	79,096,964	2,188,614,687
NET ASSETS AVAILABLE FOR BENEFITS AT DECEMBER 31, 2013	\$ 2,552,714,205	\$ 722,728,705	\$ 100,449,743	\$ 3,375,892,653

(a)

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On December 31, 2013, the Net Assets Available for Benefits of the NextEra Energy, Inc. Bargaining Unit Employee Retirement Savings Plan were merged into the Plan as discussed in Notes 1 and 2.

The accompanying Notes to Financial Statements are an integral part of these statements.

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NEXTERA ENERGY, INC. EMPLOYEE RETIREMENT SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

1. Description of the Plan

The following description of the NextEra Energy, Inc. Employee Retirement Savings Plan (the Plan) provides only general information. Participating employees (Participants) should refer to the Summary Plan Description available in their employee handbook (as updated periodically through Summaries of Material Modifications) or the Plan Prospectus for a more complete description of the Plan.

Effective December 31, 2013 (Plan Merger Date), the NextEra Energy, Inc. Bargaining Unit Employee Retirement Savings Plan (Bargaining Plan) was merged (Plan Merger) with and into the Plan. All participants under the Bargaining Plan (Bargaining Unit Participant) at the time of the Plan Merger have a benefit immediately after the merger which is the same as the benefit determined under the Bargaining Plan immediately before the merger. In conjunction with the Plan Merger, the Master Trust for Retirement Savings Plans of NextEra Energy, Inc. and Affiliates (Master Trust) was renamed the NextEra Energy, Inc. Employee Retirement Savings Plan Trust (Trust) and amended to be a single trust.

See Note 2 for additional detail about the Plan Merger.

General

The Plan is a defined contribution plan subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). Participation in the Plan is voluntary. The Plan includes a cash or deferred compensation arrangement (Pretax Option) permitted by Section 401(k) of the Internal Revenue Code of 1986, as amended (the Code). The Pretax Option permits Participants to elect to defer federal income taxes on all or a portion of their contributions (Pretax Contributions) until such contributions are distributed from the Plan. Under current tax law, the annual limitation on Pretax Contributions for the 2014 and 2013 Plan years is \$17,500. In addition, individuals age 50 or older who contributed the maximum allowable under the Pretax Option in the Plan have the option of contributing up to an additional \$5,500 annually in Pretax Contributions in 2014 and 2013.

Non-bargaining employees of NextEra Energy, Inc. (the Company) and its subsidiaries are eligible to participate in the Plan on the first day of the month coincident with the completion of one full month of service with the Company or certain of its subsidiaries or on the first day of any payroll period thereafter. Effective with the Plan Merger, Bargaining unit employees of the Company and its subsidiaries, with the exception of employees in the International Brotherhood of Electrical Workers local 2150 (IBEW 2150) at NextEra Energy Point Beach, LLC (NextEra Energy Point Beach), are eligible to participate in the Plan on the first day of the month coincident with the completion of one full month of service with the Company or certain of its subsidiaries or on the first day of any payroll period thereafter. Employees in the IBEW 2150 at NextEra Energy Point Beach are eligible to participate in the Plan on the first day of employment.

The Plan also includes leveraged employee stock ownership plan (Leveraged ESOP) provisions. The Leveraged ESOP is a stock bonus plan within the meaning of U.S. Treasury Regulation Section 1.401-1(b)(1)(iii) that is qualified under Section 401(a) of the Code and is designed to invest primarily in the common stock, par value \$.01 per share, of

NextEra Energy, Inc. (Company Stock). Pursuant to the Leveraged ESOP, the Master Trust purchased Company Stock from the Company using the proceeds of a loan (Acquisition Indebtedness) from NextEra Energy Capital Holdings, Inc., a wholly-owned subsidiary of the Company. The Company Stock acquired by the Master Trust (now held in the Trust) is initially held in a separate account (Leveraged ESOP Account). As the Acquisition Indebtedness (including interest) is repaid, Company Stock is released from the Leveraged ESOP Account and allocated to Participants.

The Plan has a Dividend Payout Program which enables Participants to choose how their dividends on certain shares of Company Stock held in the Plan are to be paid. The options available to Participants include reinvestment of dividends in Company Stock, distribution of dividends in cash, or a partial cash distribution of dividends with the balance reinvested in Company Stock. Dividends on unallocated Company Stock held in the Leveraged ESOP do not qualify under this program.

Trustee

Fidelity Management Trust Company (Trustee) administers the Trust established to hold the assets and liabilities of the Plan. The Trustee administered the Master Trust prior to the Plan Merger.

Administration of the Plan

The Plan is intended to qualify as a participant-directed account plan under Section 404(c) of ERISA. The Employee Benefit Plans Administrative Committee (as appointed by the Employee Benefits Advisory Committee of the Company) is the named fiduciary responsible for the general operation and administration of the Plan (but not management or control of Plan assets), and the Employee Benefit Plans Investment Committee (as appointed by the Employee Benefits Advisory Committee of the Company) is the named investment fiduciary, but is not directly responsible for the management and control of the Plan assets. The Employee Benefits Advisory Committee acts on behalf of the Company as the Plan sponsor, as defined by ERISA. Fidelity Workspace Services LLC (Fidelity) provides recordkeeping services with respect to the Plan.

Table of Contents**NEXTERA ENERGY, INC. EMPLOYEE RETIREMENT SAVINGS PLAN****NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2013 AND 2012****Employee Contributions**

The Plan allows for combined pretax and after-tax contributions by eligible employees in whole percentages of up to 50% of their eligible earnings, as defined by the Plan.

NextEra Energy Point Beach bargaining unit eligible employees represented by IBEW 2150 (Eligible Employee) hired or rehired after January 1, 2008 shall be deemed to have elected to make a pretax contribution of 3% in the Plan unless such Eligible Employee otherwise affirmatively revokes or modifies his or her pretax election within 60 days of his or her date of hire.

As of December 31, 2013, Participants could elect to invest in any combination of the 26 different investment options offered under the Plan. Participants may change their investment elections daily, subject to Fidelity's excessive trading policy and the Plan's limitations on investments in Company Stock.

Employer Contributions

The table below presents the employer contribution formula for the various Participant groups covered by the Plan as of December 31, 2013 and 2012, for non-bargaining employees and as of December 31, 2013 for Bargaining Plan employees. Refer to Note 2 for additional disclosures about the Plan Merger.

Participant Group	Benefit
NextEra Energy, Inc. and subsidiaries Non-Bargaining and Bargaining Unit Employees, not listed below	100% on the first 3% of employee contribution 50% on the next 3% of employee contribution
NextEra Energy Seabrook, LLC (NextEra Energy Seabrook) Non-Bargaining Employees hired prior to November 1, 2002	25% on the next 1% of employee contribution 100% on the first 3% of employee contribution
NextEra Energy Seabrook Bargaining Unit Employees hired prior to January 1, 2004	
NextEra Energy Duane Arnold, LLC Non-Bargaining Employees hired prior to January 27, 2006 and NextEra Energy Point Beach, LLC Non-Bargaining Employees hired prior to September 28, 2007	100% on the first 3% of employee contribution 50% on the next 2% of employee contribution

NextEra Energy Duane Arnold, LLC Bargaining Unit
Employees and NextEra Energy Point Beach Bargaining
Unit Employees (not represented by IBEW 2150)
NextEra Energy Point Beach Bargaining Unit Employees
represented by IBEW 1250

100% on the first 1% of employee contribution

50% on the next 6% of employee contribution

Company matching contributions are made in the form of Company Stock through allocation of shares held in suspense in the Leveraged ESOP Account. The Company makes cash contributions for the difference between the dividends on the shares acquired by the Leveraged ESOP Account and the required principal and interest payments on Acquisition Indebtedness. Prior to the Plan Merger, the Plan was allocated a 2013 Company cash contribution of \$518,863 (see

Note 5). Contributions are subject to certain limitations.

Forfeitures

Forfeitures of non-vested Company matching contributions due to termination of employment may be used to restore amounts previously forfeited or to reduce the amount of future Company matching contributions to the Plan or may be applied to administrative expenses. At December 31, 2013 and 2012, the balance of the forfeiture account was \$76,103 and \$40,579, respectively. Forfeitures applied to administrative fees in 2013 totaled \$26,772. In addition, forfeitures totaling \$1,048,167 were used to reduce the amount of Company matching contribution during 2013.

Vesting

Participants are immediately 100% vested in employee contributions.

Company matching contributions vest at a rate of 20% each year of service and are fully vested upon a Participant attaining five years of service, except as noted below.

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NEXTERA ENERGY, INC. EMPLOYEE RETIREMENT SAVINGS PLAN

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NextEra Energy Seabrook, LLC non-bargaining employees hired prior to November 1, 2002, NextEra Energy Duane Arnold, LLC non-bargaining employees hired prior to January 27, 2006 and NextEra Energy Point Beach, LLC non-bargaining employees hired prior to September 28, 2007 are fully vested immediately in Company matching contributions. For employees of NextEra Energy Maine Operating Services, LLC hired prior to August 1, 2006, Company matching contributions are fully vested upon attaining six months of service.

For bargaining unit employees of NextEra Energy Maine hired prior to May 15, 2008, employer contributions are fully vested upon attaining six months of service. For bargaining unit employees of NextEra Energy Seabrook hired prior to January 1, 2009 and bargaining unit employees of NextEra Energy Point Beach other than employees represented by IBEW 2150, employer contributions are fully vested immediately. For bargaining unit employees of NextEra Energy Point Beach represented by IBEW 2150 hired on or after September 28, 2007, employer contributions are fully vested after attaining one year of service. For bargaining unit employees of NextEra Energy Duane Arnold, LLC existing on the date of acquisition of the Duane Arnold Energy Center (January 27, 2006), employer contributions are fully vested. For all bargaining unit employees of NextEra Energy Point Beach existing on the date of acquisition of the Point Beach Nuclear Plant (September 28, 2007), employer contributions are fully vested.

Under certain circumstances, an employee may also receive vesting credit for prior years of service with the Company or any of its subsidiaries.

Notes Receivable from Participants

Each Participant may borrow from his or her account a minimum of \$1,000 up to a maximum of \$50,000 or 50% of the vested value of the account (reduced by prior loans), whichever is less. The vested portion of a Participant's account will be pledged as security for the loan. The annual rate of interest on Participant loans is fixed and takes into account the prime rate at the time of origination of the loan. The interest rates range from 3.25% to 7.75% for loans outstanding at December 31, 2013. The maturity dates for loans outstanding at December 31, 2013 ranged from 2014 through 2018.

Benefit Payments and Withdrawals

Withdrawals by Participants from their accounts during their employment are permitted with certain penalties and restrictions. The penalties may limit a Participant's contributions to the Plan for varying periods following a withdrawal. Upon termination from employment, Participants are eligible to receive a distribution of the full value of their vested account balance. Terminated Participants can elect to receive a full payment, partial payments, or installments over a period of up to ten years.

Transfers to (from) the Plan represented net transfers between the Plan and the Bargaining Plan prior to the Plan Merger. The majority of transfers arose as a result of Participants transferring between bargaining unit and non-bargaining unit positions while employed by the Company and its affiliated companies.

The Transfer related to Plan Merger on the Statement of Changes in Net Assets Available for Benefits is a result of the Plan Merger, see Note 2 for further details.

Administrative Expenses

The Company pays a portion of the administrative expenses of the Plan. All other expenses are paid directly by the Plan through forfeitures or revenue sharing that the Plan receives either directly or indirectly from certain of the Plan's investment options. Any fees paid directly by the Company are not included in the financial statements.

Plan Termination

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA and the Code that limit this right while Leveraged ESOP Acquisition Indebtedness remains outstanding. In the event of Plan termination, Participants will become 100% vested in their accounts.

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NEXTERA ENERGY, INC. EMPLOYEE RETIREMENT SAVINGS PLAN

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2. Plan Merger

Effective December 31, 2013, the Bargaining Plan was merged with and into the Plan. Bargaining Plan Net Assets Available for Benefits of \$881,197,866 were transferred to the Plan and are reflected as Transfer related to Plan Merger in the Statement of Changes in Net Assets Available for Benefits.

3. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Plan are prepared under the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Investment Valuation

The Plan's investments are reported at fair value. Fair value measurement guidance emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy intended to disclose information about the relative reliability of fair value measurements, with the highest priority being unadjusted quoted prices in active markets for identical assets or liabilities.

In some cases, a valuation technique used to measure fair value may include inputs from multiple levels of fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

Prior to December 31, 2013 the fair value of the Plan's interest in the Master Trust was based on the beginning of year value of the Plan's interest in the Master Trust plus actual contributions and allocated investment income less actual distributions and expenses. The underlying investments of the Master Trust were valued at fair value.

The Plan recognizes transfers into and out of fair value hierarchy levels at the beginning of the period.

The following are descriptions of the valuation methods and assumptions used by the Plan to estimate the fair values of investments held by the Plan, as well as investments held as underlying investments of the Master Trust.

Registered investment companies (mutual funds), Company Stock and other common stock: Investments in shares of registered investment companies are valued at quoted market prices in active markets (level 1 inputs), which represent the net asset value of such shares at year end. Investments in shares of actively traded money market mutual funds are stated at the net asset value of such shares held at year-end (level 1 inputs). Company Stock and other common stock are valued at their quoted market price in active markets (level 1 inputs).

Investment in shares of fixed income commingled funds, which are registered investment companies, are valued at the net asset value of such shares held (level 2 inputs). The investment objectives of these registered investment companies valued at net asset value vary, with some holding diversified portfolios of domestic or international stocks, diversified portfolios of bonds, inflation-protected bonds, money market securities and/or real estate securities. Each of these registered investment companies which are valued at net asset value provide for daily redemptions reported at net asset value per unit share, with no advance notice requirement. There are currently no unfunded commitments related to any of these registered investment companies.

Collective trust funds: The fair values of participation units held in collective trust funds are based on the net asset value per unit share reported by the fund managers as of the financial statement dates and on recent transaction prices (level 2 inputs). The investment objectives of the underlying collective trust funds vary, with some holding diversified portfolios of domestic or international stocks, diversified portfolios of bonds, inflation-protected bonds, money market securities, commodity securities and/or real estate securities. Each collective trust fund provides for daily redemptions reported at net asset value per unit share, with no advance notice requirement. There are currently no unfunded commitments related to any collective trust fund.

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Managed Income Fund: The Managed Income Fund holds fully benefit-responsive investment contracts (wrapper contracts) (see Note 8 – Managed Income Fund) with various insurance companies and financial institutions in order to provide Participants with a stable, fixed-rate of return on investments and protection of principal from changes in market interest rates.

The Managed Income Fund is a synthetic guaranteed investment contract which is valued at the estimated fair value of the underlying investments of the contracts, primarily debt securities and wrapper contracts. The fair values of U.S. Treasury notes are reflected at the closing price reported in the active market in which the security is traded (level 1 inputs). Asset-backed and mortgage-backed securities are valued at their most recent bid prices (sales prices if their principal market is an exchange) in the principal market in which such securities are traded, as determined by recognized dealers in such securities, or are valued on the basis of information provided by a pricing service (level 2 inputs). The fair values of corporate bonds are estimated based on yields currently available on comparable securities of issues with similar credit ratings (level 2 inputs). The fair values of government agency notes are estimated based on current rates for similar instruments (level 2 inputs).

Wrapper contracts: Investments in wrapper contracts are valued at fair value using a discounted cash flow model which considers recent fee bids as determined by recognized dealers, discount rate, and the duration of the underlying portfolio of securities. For 2013 and 2012, the fair value of the wrapper contracts was not material. The contracts are unallocated in nature and are fully benefit-responsive. Therefore, net assets available for benefits reflects the Plan's interest in the contract value of the Managed Income Fund because the Plan's allocable share of the difference between fair value and contract value for this investment is presented as a separate adjustment in the statement of net assets available for benefits. There are no reserves against contract values (which represent contributions made under the contract, plus earnings, less withdrawals and administrative expenses) for credit risk of the contract issuer or otherwise. Wrapper contracts provide the Managed Income Fund with the ability to use contract value accounting to maintain a constant \$1.00 unit price. Wrapper contracts also provide for the payment of Participant-directed withdrawals and exchanges at contract value (principal and interest accrued to date) during the term of the wrapper contracts. However, withdrawals prompted by certain events (e.g., layoffs, retirement during specified early retirement window periods, spin-offs, sale of a division, facility closings, plan terminations, partial plan terminations, changes in law or regulation, material breach of contract responsibilities, loss of the Plan's qualified status, etc.) may be paid at fair value which may be less than contract value. Currently, management believes that the occurrence of an event that would cause the Plan to be paid at less than contract value is not probable. A wrap issuer may terminate a wrapper contract at any time; however, if the fair value of the contract is less than the contract value, the wrap issuer can either hold the contract until the fair value and contract value are equal or make up the difference between the two. If the funds in the wrapper contracts are needed for benefit payments prior to contract maturity, they may be withdrawn without penalty.

Investment Income Recognition

Purchases and sales of investment securities are recorded on the trade date. Gains or losses on sales of investment securities are determined using the average cost method of the securities. The carrying amounts of securities held in

Participant accounts are adjusted daily; securities held in the Leveraged ESOP Account are adjusted daily. Unrealized appreciation or depreciation is recorded to recognize changes in fair value. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Payment of Benefits

Benefits distributed to Participants are recorded when paid.

Notes Receivable from Participants

Notes receivable from Participants are reported at their unpaid principal balance plus any accrued but unpaid interest, with no allowance for credit losses, as repayments of principal and interest are received through payroll deductions and the notes are collateralized by the Participants' account balances in the Plan.

Subsequent Events

The Company has evaluated events and transactions through the date these financial statements were issued.

4. Risks and Uncertainties

Investment securities