

NORTHROP GRUMMAN CORP /DE/
Form 11-K
June 25, 2014

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 11-K

(Mark One)

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
For the transition period from to .
Commission file number: 1-16411

A. Full title of the plan and address of the plan, if different from that of the issuer named below:
NORTHROP GRUMMAN SAVINGS PLAN

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:
NORTHROP GRUMMAN CORPORATION
2980 Fairview Park Drive
Falls Church, Virginia 22042

Northrop Grumman Savings Plan
Financial Statements as of December 31, 2013 and 2012
and for the Year Ended December 31, 2013,
Supplemental Schedule as of December 31, 2013,
and Report of Independent Registered Public Accounting Firm

NORTHROP GRUMMAN SAVINGS PLAN
TABLE OF CONTENTS

	Page
<u>REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	<u>1</u>
<u>FINANCIAL STATEMENTS</u>	
<u>Statements of Net Assets Available for Benefits as of December 31, 2013 and 2012</u>	<u>2</u>
<u>Statement of Changes in Net Assets Available for Benefits for the Year Ended December 31, 2013</u>	<u>3</u>
<u>Notes to Financial Statements as of December 31, 2013 and 2012, and for the Year Ended December 31, 2013</u>	<u>4</u>
<u>SUPPLEMENTAL SCHEDULE</u>	
<u>Form 5500, Schedule H, Part IV, Line 4i, Schedule of Assets (Held at End of Year) as of December 31, 2013</u>	<u>18</u>
<u>SIGNATURE</u>	<u>19</u>
<u>EXHIBIT INDEX</u>	<u>20</u>

NOTE: All other schedules required by Section 2520.103-10 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 have been omitted because of the absence of conditions under which they are required.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Benefit Plans Administrative Committee of the
Northrop Grumman Savings Plan

We have audited the accompanying statements of net assets available for benefits of the Northrop Grumman 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 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. The Plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting.

Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, such financial statements 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 accounting principles generally accepted in the United States of America. Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets (held at end of year) as of December 31, 2013, 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. This schedule is the responsibility of the Plan's management. Such schedule has been subjected to the auditing procedures applied in our audit of the basic 2013 financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

/s/ DELOITTE & TOUCHE LLP

Los Angeles, California
June 24, 2014

NORTHROP GRUMMAN SAVINGS PLAN

STATEMENTS OF NET ASSETS AVAILABLE FOR
BENEFITS

\$ in thousands	December 31	
	2013	2012
Assets		
Investment in Northrop Grumman Defined Contribution Plans Master Trust—at fair value	\$ 16,107,886	\$ 13,895,349
Investment in Charles Schwab Personal Choice Retirement Account—at fair value	1,429,187	1,206,860
Short-term investments—at fair value	25,160	24,069
Total investments	17,562,233	15,126,278
Receivables		
Notes receivable from participants	233,242	225,599
Total receivables	233,242	225,599
Total assets	17,795,475	15,351,877
Liabilities		
Accrued expenses	2,392	2,885
Total liabilities	2,392	2,885
Net assets available for benefits at fair value	17,793,083	15,348,992
Adjustment from fair value to contract value for fully benefit-responsive investment contracts	(117,370) (241,688
Net assets available for benefits	\$ 17,675,713	\$ 15,107,304
See notes to financial statements.		

NORTHROP GRUMMAN SAVINGS PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

\$ in thousands	Year Ended December 31, 2013	
Investment income		
Plan interest in Northrop Grumman Defined Contribution Plans Master Trust	\$2,568,679	
Net appreciation in fair value of other investments	196,829	
Dividends	19,185	
Interest	482	
Total investment income	2,785,175	
Additions		
Participant contributions	766,482	
Employer contributions	289,454	
Interest income on notes receivable from participants	9,070	
Total additions	1,065,006	
Deductions		
Benefits paid to participants	(1,301,373)
Other expenses	(5,204)
Total deductions	(1,306,577)
Transfers		
Transfers from plan merged during the year	24,805	
Total transfers	24,805	
Increase in net assets	2,568,409	
Net assets available for benefits		
Beginning of year	15,107,304	
End of year	\$17,675,713	
See notes to financial statements.		

NORTHROP GRUMMAN SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2013 AND 2012, AND FOR THE YEAR ENDED DECEMBER 31, 2013

1. DESCRIPTION OF THE PLAN

The following description of the Northrop Grumman Savings Plan (the "Plan") provides only general information. Participants should refer to the Plan document for a more complete description of the Plan's provisions.

General

The Plan is a qualified profit-sharing and stock bonus plan that includes an employee stock ownership plan sponsored by Northrop Grumman Corporation (the "Company"). The plan was established February 1, 1962, and restated effective October 1, 2013. The Plan's Benefit Plans Administrative and Investment Committees control and manage the operation of the Plan. State Street Bank and Trust Company ("State Street" or the "Trustee") serves as the Trustee of the Plan. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

All of the Plan's investments are participant directed. The Plan holds assets in the Northrop Grumman Defined Contribution Plans Master Trust (the "DC Master Trust") for its investments, except for short-term investments and participant-directed brokerage accounts held in the Charles Schwab Personal Choice Retirement Account (PCRA).

Eligibility

The Plan covers substantially all hourly and salaried employees of the Company who are at least 18 years old, are citizens or residents of the United States of America ("U.S.") and are not covered under another plan.

Certain employees hired or rehired on or after July 1, 2008, who meet requirements, are eligible to receive an additional employer contribution known as a Retirement Account Contribution ("RAC"). The RAC is calculated and credited each payroll date.

Contributions

Participant contributions are subject to certain limitations imposed by the Internal Revenue Code of 1986, as amended (the "Code"). Contributions can be made on a tax-deferred (before-tax) basis, to a Roth 401(k) on an after-tax basis, or a combination thereof through payroll withholdings. An active participant may change the percentage of his or her contributions at any time. First time eligible employee participants (newly hired, rehired, and certain transfers) are enrolled automatically into the Plan at a two percent tax-deferred contribution rate approximately 45 days after the date of hire, rehire, or transfer unless an alternative election is made. Such contributions are automatically increased by one percent each year thereafter up to a maximum percentage specified by the Plan sponsor.

The Company's matching contributions are generally as follows:

Employee Contribution	Company Match	%
First 2% of eligible compensation	100	
Next 2% of eligible compensation	50	
Next 4% of eligible compensation	25	
Contribution over 8%	—	

The Company will credit participants who meet eligibility requirements with a RAC each pay period in an amount determined as a percentage of eligible compensation for each pay period in accordance with the following table:

Participant's Age	Percentage of Compensation	%
Less than 35	3	
35 – 49	4	
50 or older	5	

Participant Accounts

A separate account is maintained for each participant. Each participant's account is increased or decreased with the participant's contribution, withdrawals, and allocations of the Company contribution, Plan earnings/losses, and Plan expenses. Allocations are based on participant earnings on account balances, as defined in the Plan document. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

Vesting

Plan participants are fully vested at all times in the balance of their accounts attributed to employee contributions and earnings thereon. Plan participants hired before May 1, 2012 are also fully vested at all times in the balance of their accounts attributed to Company matching contributions and earnings thereon. Plan participants hired on or after May 1, 2012, other than participants covered under certain collective bargaining agreements, shall become fully vested in Company's matching contributions, and earnings thereon, upon completion of three years of service. RAC participants fully vest in Company contributions, and earnings thereon, upon completion of three years of service.

Investment Options

Upon enrollment in the Plan, each participant directs their employee and Company contributions in one percent increments, to be invested in any of the investment funds described below. The investment funds are managed by professional investment managers appointed by the Plan's Investment Committee.

Participants may change their investment elections daily. Existing account balances can generally be transferred daily between investment funds, subject to certain restrictions.

Contributions deposited into each investment fund are used to purchase units of that fund based on unit values that are updated daily prior to any Plan transactions, including contributions, withdrawals, distributions and transfers. The value of each participant's account within each fund depends on two factors: (1) the number of units purchased to date and (2) the current value of each unit.

U.S. Equity Fund — The U.S. Equity Fund consists predominantly of holdings in large- and medium-sized U.S. company stocks. The fund's objectives are to achieve a high total return through long-term growth of capital and the reinvestment of current income.

U.S. Fixed-Income Fund — The U.S. Fixed-Income Fund primarily consists of holdings in marketable, fixed-income securities rated within the three highest investment grades assigned by Moody's Investor Services or Standard & Poor's Corporation, U.S. Treasury or federal agency obligations, or cash equivalent instruments. The fund is diversified by investing in a range of fixed-income securities that mature, on average, in eight to ten years.

Northrop Grumman Stable Value Fund — Investments in the Northrop Grumman Stable Value Fund ("Stable Value Fund") are diversified among U.S. government securities and obligations of government agencies, bonds, short-term investments, cash and investment contracts issued by insurance companies and banks (see Note 6).

Northrop Grumman Fund — The Northrop Grumman Fund (“NG Stock Fund”) invests primarily in Northrop Grumman Corporation common stock.

Balanced Fund — The Balanced Fund is designed to provide investors with a fully diversified portfolio consisting of targeted proportions of fixed-income securities (35 percent), U.S. equities (45 percent), and international equities (20 percent). The fund seeks to exceed the return of the bond market and approach the return of the stock market, but with less risk than an investment only in stocks.

International Equity Fund — The International Equity Fund consists of stocks of a diversified group of companies in developed countries outside of the U.S. The fund’s objectives are capital appreciation over the long term, along with current income (dividends).

Small Cap Fund — The Small Cap Fund consists of a diversified group of U.S. companies with lower market capitalization and higher revenue growth than the large, well-established companies that make up the S&P 500 Index. The fund seeks to provide capital appreciation over the long term, rather than current income.

Emerging Markets Fund — The Emerging Markets Fund consists of a diversified portfolio of stocks issued by companies based in developing countries. The fund’s objective is capital appreciation over the long term.

Retirement Path Portfolios — Each retirement path is a broadly diversified portfolio of funds consisting of equities, fixed-income securities, and other investments tailored to the investment time horizon of the investor. The name of each strategy reflects the year when the investor will most likely begin to draw interest and/or principal out of their portfolio. The portfolios are the Retirement Path, the 2015 Retirement Path, the 2020 Retirement Path, the 2025 Retirement Path, the 2030 Retirement Path, the 2035 Retirement Path, the 2040 Retirement Path, the 2045 Retirement Path, the 2050 Retirement Path, and the 2055 Retirement Path.

The Plan also offers a participant-directed brokerage account provided by Charles Schwab & Co., Inc (“PCRA”). The PCRA enables participants to invest among a selection of more than 6,000 available mutual funds and individual securities.

Notes Receivable from Participants

Participants may borrow from their fund accounts with loans of a minimum of \$1,000 up to a maximum equal to the lesser of \$50,000 reduced by the highest outstanding loan balance over the past 12 months, or 50 percent of their vested account balance. A participant may not have more than two outstanding loans at any given time (except for those merged from other plans). Loans are prorated across the participant's investment funds and secured by the balance in the participant’s account. The interest rate is fixed on the last business day of each month at the prime rate plus one percent. Repayments are made from payroll deductions (for active employees) or other forms of payment (for former employees or employees on a leave of absence). The maximum loan period is five years, except that participants may obtain 15-year loans if used to acquire a dwelling that is the principal residence of the participant. In addition, loans transferred in as the result of a plan merger may have maximum loan periods greater than 15 years. Loans may be repaid early in full, though partial early repayments are not permitted. As of December 31, 2013 and 2012, participant loans have maturities through 2034 at interest rates ranging from 4.25 percent to 11.5 percent.

Payment of Benefits

On termination of employment with the Company (including termination due to death, disability, or retirement), a participant may receive a lump-sum payment of his or her entire account balance (net of any outstanding loan balances). Otherwise, distributions are to begin on a participant's mandatory commencement date. The mandatory commencement date is April 1 of the calendar year following the year in which a participant attains age 70 1/2. Certain partial distributions after termination of employment and before age 70 1/2 are permitted by the Plan. Participants may rollover account balances to individual retirement accounts or another employer’s qualified retirement plan to defer federal and most state income taxes. Participants with frozen account balances under a previous savings plan may be eligible to elect a special distribution option under the previous plan.

Distributions from the NG Stock Fund may be paid in cash, stock, or a combination of the two, depending on the participant’s election.

Withdrawals

A participant may withdraw all or a portion of his or her vested account (plus earnings) at any time. However, withdrawals are limited to one per quarter. A participant may withdraw all or a portion of his or her before-tax

contributions for any reason after reaching age 59 ¹/₂. Prior to reaching age 59 ¹/₂, a withdrawal may be made in the case of hardship, as described in the Plan document. Withdrawals are limited to the amount of a participant's account balance net of any loan balances outstanding and are subject to tax withholding as appropriate.

Forfeited Accounts

At December 31, 2013 and 2012, Plan forfeitures totaled \$4,900,000 and \$4,978,000 respectively. Forfeited amounts may be used to reduce Company matching contributions or to offset Plan expenses. During the year ended December 31, 2013, employer matching contributions were reduced by \$5,080,000 due to forfeitures.

Plan Merger

One savings plan was merged into the Plan during 2013. In connection with the merger, net assets of \$24,805,023 were transferred into the Plan.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

Use of Estimates

The preparation of financial statements in accordance with GAAP 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.

Risks and Uncertainties

The Plan invests in various securities, including U.S. and foreign government securities, corporate debt instruments, domestic equities, asset-backed securities, mortgage-backed securities, mutual funds, common/collective trust funds and a stable value fund. Investment securities are exposed to various risks, including interest rate and credit risk, overall market volatility, and risks related to U.S. and foreign government stability. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities may occur in the near term, and those changes could materially affect the amounts reported in the financial statements.

Fair Value of Financial Instruments

The Plan utilizes fair value measurement guidelines prescribed by GAAP to value financial instruments. The guidance includes a definition of fair value, prescribes methods for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and expands disclosures about the use of fair value measurements.

The valuation techniques utilized are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect internal market assumptions. Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

These two types of inputs create the following fair value hierarchy:

Level 1 - Quoted prices for identical instruments in active markets. Level 1 investments of the DC Master Trust and the Plan primarily include common stock, preferred stock, open-end mutual funds, and closed-end mutual funds based on pricing, frequency of trading and other market considerations.

Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable. Level 2 investments of the DC Master Trust and the Plan primarily include short-term investment funds and common/collective trust funds based on the use of net asset valuations derived by investment managers and fixed-income securities based on broker quotes or model-derived valuations. As of December 31, 2013 and 2012, there were no unfunded commitments, redemption notice periods greater than seven days or other redemption restrictions for the common/collective trust funds or short-term investment funds. Funds generally have daily redemption frequencies.

Level 3 - Significant inputs to the valuation model are unobservable. There were no Level 3 investments in the Plan during the years ended December 31, 2013 and 2012.

Investment Valuation and Income Recognition

The Plan's investments are stated at fair value as determined by the Trustee pursuant to the DC Master Trust Agreement. The Plan's Investment Committee provides direction and oversight of the valuation process. Fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly

transaction between market participants at the measurement date. The Plan's investments, including the underlying investments in the DC Master Trust and PCRA, are valued as follows:

Investments in domestic and equity securities, which include common and preferred stock, are valued at the last reported sales price of the stock on the active market on which the securities are traded on the last business day of the Plan year. Mutual funds are valued at quoted market prices that represent the net asset values of shares held by the Plan at year-end. Investments in common/collective trust funds and short-term investment funds are valued based on the redemption price of units owned by the Plan, which is based on the current fair value of each fund's underlying net assets. Unit values are determined by the financial institution sponsoring such funds by dividing each fund's net assets at fair value by its units outstanding at the valuation dates. Fair values for other securities, including U.S. government, corporate debt, mortgage-backed, asset-backed and other fixed-income securities, which are not exchange-traded, are valued using third-party pricing services. These pricing services use, for example, recent broker-dealer quotations or model-based pricing methods that use significant observable inputs such as relevant yield curves, credit information of the underlying security, prepayment projections, cash flows and other security characteristics to determine fair value as of the last trading day of the year. If market values are not available from the above sources, the fair value is provided to the Trustee by the party with authority to trade in such securities (investment managers or the Investment Committee, as applicable).

The fair value of guaranteed investment contracts (GICs) held by the Plan through the Stable Value Fund of the DC Master Trust is equal to the total fair value of the underlying assets, plus the total contract rebid value, which is calculated by discounting the excess annual rebid fee over the duration of the contract assets. The GICs are considered to be fully benefit-responsive and therefore their carrying value is adjusted from fair market value to contract value in the statements of net assets available for benefits.

All securities and cash or cash equivalents are quoted in the local currency and then converted into U.S. dollars using the appropriate exchange rate obtained by the Trustee. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Broker commissions, transfer taxes, and other charges and expenses incurred in connection with the purchase, sale, or other disposition of securities or other investments are added to the cost of such securities or other investments, or are deducted from the proceeds of the sale or other disposition thereof, as appropriate. Taxes, if any, on fund assets, or on any gain resulting from the sale or other disposition of such assets, or on the earnings of the funds, are apportioned among the participants whose interests in the Plan are affected, and the share of such taxes apportioned to each such person is charged against his or her account in the Plan.

In performing any valuations or calculations required of the Trustee, the Trustee relies on the prices provided by pricing sources, the investment managers, the Investment Committee or the participant's broker as a certification as to the value.

The DC Master Trust allocates investment income, realized gains and losses, and unrealized appreciation and depreciation on the underlying securities to the participating plans daily based upon the market value of each plan's investment. The unrealized appreciation or depreciation amount is the aggregate difference between the current fair market value and the cost of investments. The realized gain or loss on investments is the difference between the proceeds received and the average cost of investments sold.

Notes Receivable from Participants

Participant loans are measured at their outstanding balances, plus accrued interest.

Expenses

Plan expenses are paid by the Plan or the Plan sponsor as provided in the Plan document. Fees incurred by the plan for investment management services and recordkeeping are presented as an offset to total investment income in the Statement of Changes in Net Assets Available for Benefits.

Payment of Benefits

Benefit payments to participants are recorded upon distribution. Amounts allocated to accounts of participants who have elected to withdraw funds from the Plan but have not yet been paid were \$1,553,000 and \$3,140,000 at December 31, 2013 and 2012, respectively, and such amounts continue to accrue investment earnings (losses) until paid.

Accounting Standards Updates

Accounting standards updates effective after December 31, 2013, are not expected to have a material effect on the Plan's statements of net assets available for benefits or statement of changes in net assets available for benefits.

8

3. INVESTMENTS

The Plan's investments consist of a proportionate interest in certain investments held by the DC Master Trust. Those investments are stated at fair value determined and reported by the Trustee, in accordance with the DC Master Trust Agreement established by the Company.

Proportionate interests of each participating plan are determined based on the standard trust method of accounting for master trust arrangements. Plan assets represent 96 percent of total net assets reported by the Trustee of the DC Master Trust as of December 31, 2013 and 2012.

The net assets of the DC Master Trust as of December 31, 2013 and 2012, are as follows:

\$ in thousands	2013	2012
Assets		
Cash equivalents and short-term investment funds	\$93,761	\$171,030
Equities		
Common and preferred stock	1,606,446	1,058,806
Common/collective trust funds	9,729,237	7,489,593
Fixed income		
U.S. and foreign government securities	285,544	321,957
Corporate debt instruments	221,843	213,974
Asset- and mortgage-backed securities	325,033	330,141
Common/collective trust funds	702,538	942,660
Guaranteed investment contracts	2,982,899	2,849,065
Collateral held under securities lending agreements	791,181	1,152,626
Assets on loan to third-party borrowers	775,137	1,129,452
Total investments	17,513,619	15,659,304
Receivable from broker for investments sold	2,508	721
Dividends, interest, taxes and other receivables	6,876	6,905
Total assets	17,523,003	15,666,930
Liabilities		
Collateral held under securities lending agreements	791,181	1,152,626
Due to broker for securities purchased	23,483	44,316
Total liabilities	814,664	1,196,942
Net assets of the DC Master Trust — at fair value	16,708,339	14,469,988
Adjustment from fair value to contract value for fully benefit-responsive investment contracts	(120,663) (248,674
Net assets of the DC Master Trust	\$16,587,676	\$14,221,314

Investment income for the DC Master Trust for the Plan year ended December 31, 2013, is as follows:

\$ in thousands	2013	
Investment income		
Net appreciation (depreciation) in fair value of investments		
Equities		
Common and preferred stock	\$677,888	
Common/collective trust funds	1,891,795	
Fixed income		
U.S. and foreign government securities	(23,772)
Corporate debt instruments	(14,490)
Asset- and mortgage-backed securities	(18,150)
Common/collective trust funds	(17,292)
Net appreciation	2,495,979	
Interest	126,076	
Dividends	44,718	
Other income	2,661	
Stock loan income	361	
Investment manager fees	(3,304)
Administrative and other expenses	(14,269)
Total investment income	\$2,652,222	

Investments, other than the Plan's investment in the DC Master Trust, that represent five percent or more of the Plan's net assets available for benefits are as follows:

	December 31	
\$ in thousands	2013	2012
Schwab Personal Choice Retirement Account (PCRA)	\$1,429,187	\$1,206,860

The DC Master Trust participates in a securities lending program with State Street. The program allows State Street to loan securities, which are assets of the DC Master Trust, to approved borrowers. Such assets could be subject to sale restrictions in the event security lending agreements are terminated and the securities have not been returned to the DC Master Trust. State Street requires borrowers, pursuant to a security loan agreement, to deliver collateral to secure each loan. The collateral required is 102 percent of the fair value of U.S. securities borrowed and 105 percent for foreign securities borrowed. The DC Master Trust bears the risk of loss with respect to any unfavorable change in fair value of the invested cash collateral. However, the borrower bears the risk of loss related to the decrease in the fair value of the securities collateral and, therefore, may have to deliver additional cash or securities to maintain the required collateral. In U.S. markets, State Street generally enters into a netting arrangement with a borrower which permits the netting of mark-to-market exposure for transactions within the lending program with that borrower. Such arrangements would cover lending transactions with the borrower and reverse repurchase agreements of cash collateral involving investment of the collateral. State Street may also negotiate a right of offset in the event of borrower default. In the event of borrower default, State Street indemnifies the DC Master Trust against any loss of the amount loaned. As of December 31, 2013, cash and non-cash collateral associated with securities on loan totaled \$516,554,000 and \$274,627,000, respectively. As of December 31, 2012, cash and non-cash collateral associated with securities on loan totaled \$759,176,000 and \$393,450,000, respectively. Note that cash collateral includes both cash and cash equivalents. All of the securities on loan are collateralized at more than 100%.

DC Master Trust assets on loan to third-party borrowers under security lending agreements are as follows:

\$ in thousands	December 31	
	2013	2012
Underlying securities of guaranteed investment contracts	\$604,303	\$973,336
Fixed income		
U.S. and foreign government securities	138,229	123,228
Corporate debt instruments	32,604	32,888
DC Master Trust Assets on loan to third-party borrowers	\$775,136	\$1,129,452

4. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments may be used by the investment managers of the DC Master Trust as part of their respective investment strategies. These strategies may include the use of credit default swaps, futures contracts, and interest rate swaps. Notional amounts disclosed below do not quantify risk or represent assets or liabilities of the DC Master Trust, but are used in the calculation of the cash settlements under the contracts.

The investment managers for the Stable Value Fund and the Fixed Income Fund may enter into netting arrangements such as trading with a Futures Commission Merchant. Otherwise, futures are traded on an exchange, which settle pursuant to the rules of the exchange on a daily settlement of the net value. For other derivatives such as swaps, the investment managers may enter into netting arrangements (e.g. International Swaps and Derivatives Association agreement), which provide for a legal right of setoff. Contractual settlement rights may vary depending on the specific agreement or whether the derivative is traded via central clearing or a specific counterparty.

Derivative financial instruments are recorded as assets or liabilities of the DC Master Trust and measured at fair value, primarily as part of the Stable Value Fund. Changes in the fair value of the derivative instruments are reflected in investment income as appreciation (depreciation) in the DC Master Trust. During 2013 and 2012, these derivative financial instruments were not entered into for hedging purposes and do not qualify for hedge accounting. The volume of derivative activity during 2013 was comparable to that which is held at year-end.

The notional amounts and fair values, by primary risk exposure, are presented as gross assets and liabilities as follows:

\$ in thousands	December 31	
	2013	2012
	Interest Rate Contracts	Interest Rate Contracts
	U.S. Treasury Futures	U.S. Treasury Futures
Fair value of asset	\$2,020	\$1,129
Fair value of liability	(525)	(7)
Notional amount	(128,234)	(107,979)
Futures Contracts		

The DC Master Trust enters into futures contracts in the normal course of investing activities to manage market risk and to achieve overall investment portfolio objectives. These contracts involve elements of market risk in excess of amounts recognized in the statements of net assets available for benefits. The credit risk associated with these contracts is minimal as they are traded on organized exchanges and settled daily. The terms of these contracts typically do not exceed one year. Notional amounts related to these contracts in the table above are stated as a net buy (sell) position. The net gain on U.S. treasury futures for the year ended December 31, 2013, was \$9,229,000.

5. FAIR VALUE MEASUREMENTS

The fair values of common/collective trust funds and short-term investments were based on reported net asset values (NAV) as of December 31, 2013 and 2012, which Plan management uses as a practical expedient. No adjustments were made to the NAV provided by the fund managers of the underlying funds for which NAV was used. As of December 31, 2013 and 2012, none of the investments whose fair values were based on NAV are expected to be sold at a value materially different than NAV.

The table below sets forth the fair value of the investments by level, measured on a recurring basis and held by the DC Master Trust as of December 31, 2013:

(\$ in thousands)	2013		Total
	Level 1	Level 2	
DC Master Trust			
Cash equivalents and short-term investment funds	\$	\$93,761	\$93,761
Equities			
Domestic	1,606,446	—	1,606,446
Common/collective trust funds			
Domestic	—	5,893,713	5,893,713
International	—	1,944,163	1,944,163
Retirement Path Funds (Note 1)	—	1,891,361	1,891,361
Total equities	1,606,446	9,729,237	11,335,683
Fixed income			
U.S. Treasury securities	—	353,860	353,860
Corporate debt instruments	—	254,448	254,448
Asset- and mortgage-backed securities	—	325,033	325,033
Common/collective trust funds	—	702,538	702,538
U.S. government agency securities	—	49,980	49,980
Non-U.S. government securities	—	19,933	19,933
Total fixed income	—	1,705,792	1,705,792
Guaranteed investment contracts			
Separate insurance contract	—	459,854	459,854
Synthetic guaranteed investment contracts			
U.S. Treasury securities	—	1,362,030	1,362,030
Corporate debt instruments	—	1,028,550	1,028,550
Asset- and mortgage-backed securities	—	500,810	500,810
U.S. government agency securities	—	150,693	150,693
Non-U.S. government securities	—	885	885
Cash equivalents	—	82,896	82,896
Other	—	1,484	1,484
Total guaranteed investment contracts	—	3,587,202	3,587,202
Collateral held under securities lending agreements			
Cash and cash equivalents	—	516,554	516,554
Other	—	274,627	274,627
Total collateral held under securities lending agreements	—	791,181	791,181
Total DC Master Trust	\$1,606,446	\$15,907,173	\$17,513,619

The table below sets forth the fair value of PCRA and short-term investment funds, by level, measured on a recurring basis, and held by the Plan as of December 31, 2013:

(\$ in thousands)	2013		Total
	Level 1	Level 2	
Other Plan investments			
PCRA			
Cash and cash equivalents	\$251,009	\$3,668	\$254,677
Fixed income			
U.S. Treasury securities	—	653	653
Corporate debt instruments	—	5,025	5,025
U.S. government agency securities	—	996	996
Total fixed income	—	6,674	6,674
Mutual funds	637,313	—	637,313
Common stock	525,652	—	525,652
Preferred stock	2,541	—	2,541
Other	2,330	—	2,330
Total PCRA	1,418,845	10,342	1,429,187
State Street Bank and Trust Company short-term investment funds	—	25,160	25,160
Total other Plan investments	\$1,418,845	\$35,502	\$1,454,347

The table below sets forth the fair value of the investments by level, measured on a recurring basis and held by the DC Master Trust as of December 31, 2012:

(\$ in thousands)	2012		Total
	Level 1	Level 2	
DC Master Trust			
Cash equivalents	\$5,774	\$165,256	\$171,030
Equities			
Domestic	1,058,806	—	1,058,806
Common/collective trust funds:			
Domestic	—	4,276,748	4,276,748
International	—	1,743,590	1,743,590
Retirement Path Funds (Note 1)	—	1,469,255	1,469,255
Total equities	1,058,806	7,489,593	8,548,399
Fixed income			
U.S. Treasury securities	—	369,716	369,716
Corporate debt instruments	—	246,862	246,862
Asset- and mortgage-backed securities	—	330,141	330,141
Common/collective trust funds	—	942,660	942,660
U.S. government agency securities	—	57,520	57,520
Non-U.S. government securities	—	17,949	17,949
Total fixed income	—	1,964,848	