Combined Financial Statements

State of South Carolina
Deferred Compensation Program

Year ended December 31, 2015

Administered by the
South Carolina Public
Employee Benefit Authority
Columbia, South Carolina

Contents

CliftonLarsonAllen

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

To the Members of the
South Carolina Public Employee Benefit Authority
Columbia, South Carolina

Report on the Financial Statements

We have audited the accompanying combined statement of fiduciary net position held in trust of the South Carolina Deferred Compensation Program (the Program), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

A member of Nexia International

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Program as of December 31, 2015, and the results of its operations for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 4 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
November 29, 2016

This section presents management's discussion and analysis of the financial position and performance of the State of South Carolina Deferred Compensation Program (Program) and is intended to provide an overview of the Program's financial activities as of and for the years ended December 31, 2015 and 2014. It is intended to be a narrative supplement to the Program's financial statements.

The Program's financial statements provide information about the activities of the two defined contribution plans administered, which are listed below.

- Salary Deferral [401(k)] and Savings Profit Sharing Plan and Trust (401(k) plan); and
- South Carolina 457 Deferred Compensation Plan and Trust (457 plan)

Overview of the Financial Statements

Because of the long-term nature of a deferred compensation program, financial statements alone cannot provide sufficient information to properly reflect the Program's ongoing plan perspective. This financial report consists of two financial statements and the notes to the financial statements.

The *Combined Statement of Fiduciary Net Position* reports the Program's assets, liabilities and resulting net position where Assets - Liabilities = Fiduciary Net Position Held in Trust at the end of the year. It can be thought of as a snapshot of the financial position of the Program at a specific point in time.

The *Combined Statement of Changes in Fiduciary Net Position* reports the Program's transactions that occurred during the year where Additions - Deductions = Change in Fiduciary Net Position. It can be thought of as a recording of events that occurred over the specified time period of a year and supports the changes that have occurred to the prior year's fiduciary net position value on the Combined Statement of Fiduciary Net Position.

The *Notes to the Combined Financial Statements* are an integral part of the financial statements and include additional information not readily evident in the statements themselves.

Plan Highlights

The following highlights occurred during the year ended December 31, 2015:

- Program participation experienced an overall decrease from the prior year in both the 401(k) and 457 plans. In the 401(k) plan, there were 75,532 and 75,968 participant accounts, and in the 457 plan there were 23,323 and 23,774 participant accounts, at the end of the 2015 and 2014 fiscal years, respectively.
- Fiduciary net position held in trust increased marginally by $770,016 during 2015. This is compared to an increase of just over $120 million in 2014. The reduced growth in fiduciary net position when compared with the prior year was primarily attributable to considerably lower net investment earnings during 2015 than during 2014.
- Net investment earnings decreased by approximately $146 million, or 76.53 percent, during 2015 as compared to net investment earnings during 2014. This decrease was primarily due to reduced market gains from 2014 to 2015.
- Contributions increased in 2015 by approximately $11.5 million, or 5.88 percent, as compared to contributions in 2014. The Program saw a rise in the amount of rollovers coming into plan accounts, which accounted for just over $7.5 million of the increase. In addition, while Program participation dropped in 2015, the average plan participant's annual contribution was greater in 2015 than the average seen in 2014 by more than $250.
- Benefit payments experienced a decrease of approximately $13.8 million, or 5.28 percent, during 2015. The largest driver of this decrease was a decline in the number of distributions due to retirement.
- Administrative expenses and fees totaled just over $5.6 million during 2015, which represented a decrease of approximately 5.72 percent from 2014. This decrease was primarily due to a reduction in the asset-based fee charged by the Program's third party administrator in conjunction with the new contract for administrative services that commenced January 1, 2015.

Summary comparative statements

Fiduciary Net Position

	December 31, 2015	December 31, 2014 (Restated[1])	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Assets				
Fixed income investments	$1,643,937,567	$1,712,674,287	$(68,736,720)	(4.01)%
Variable earning investments	2,007,599,971	1,929,531,174	78,068,797	4.05 %
Receivables	37,477,252	46,819,549	(9,342,297)	(19.95)%
Total assets	3,689,014,790	3,689,025,010	(10,220)	0.00 %
Liabilities				
Accounts payable	901,248	1,681,484	(780,236)	(46.40)%
Total liabilities	901,248	1,681,484	(780,236)	(46.40)%
Fiduciary Net Position Held in Trust, end of year	$3,688,113,542	$3,687,343,526	$ 770,016	0.02 %

Changes in Fiduciary Net Position

	For the years ended December 31, 2015	For the years ended December 31, 2014 (Restated[1])	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Additions				
Net investment earnings	$ 44,869,298	$ 191,150,686	$(146,281,388)	(76.53)%
Contributions	207,784,498	196,251,765	11,532,733	5.88 %
Miscellaneous income	1,952,373	1,444,201	508,172	35.19 %
Total additions	254,606,169	388,846,652	(134,240,483)	(34.52)%
Deductions				
Benefit payments	248,209,679	262,036,417	(13,826,738)	(5.28)%
Administrative expenses and fees	5,626,474	5,967,849	(341,375)	(5.72)%
Total deductions	253,836,153	268,004,266	(14,168,113)	(5.29)%
Change in Fiduciary Net Position	770,016	120,842,386	(120,072,370)	(99.36)%
Fiduciary Net Position Held in Trust,				
Beginning of year (restated[1])	3,687,343,526	3,566,501,140	120,842,386	3.39 %
End of year	$3,688,113,542	$3,687,343,526	$ 770,016	0.02 %

[1] See accompanying notes to the combined financial statements.

Requests for Information

This financial report is designed to provide a general overview of the South Carolina Deferred Compensation Program. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the South Carolina Public Employee Benefit Authority, 202 Arbor Lake Drive, Columbia, SC 29223. Inquiries may also be made at www.peba.sc.gov or by calling 888.260.9430.

State of South Carolina Deferred Compensation Program

Combined Statement of Fiduciary Net Position

December 31, 2015

	457 Plan	401(k) Plan	Total
Assets			
Fixed income investments			
Stable value fund	$ 281,644,723	$ 867,933,672	$ 1,149,578,395
84-month guaranteed investment contracts	203,720,437	290,638,735	494,359,172
Variable earning investments			
Mutual funds	337,235,038	1,313,251,723	1,650,486,761
Target retirement funds	79,834,026	261,437,261	341,271,287
Schwab self-directed brokerage account	5,628,461	10,213,462	15,841,923
Receivables			
Notes receivable from participants	4,868,346	31,675,285	36,543,631
Contributions receivable	301,960	631,661	933,621
Total assets	913,232,991	2,775,781,799	3,689,014,790
Liabilities			
Accounts payable	611,548	289,700	901,248
Total liabilities	611,548	289,700	901,248
Fiduciary Net Position Held in Trust	$ 912,621,443	$ 2,775,492,099	$ 3,688,113,542

See Notes to Combined Financial Statements

State of South Carolina Deferred Compensation Program

Combined Statement of Changes in Fiduciary Net Position

For the year ended December 31, 2015

	457 Plan	401(k) Plan	Total
Additions			
Investment income	$ 32,201,671	$ 103,195,136	$ 135,396,807
Net appreciation (depreciation) in value of investments	(19,829,406)	(70,698,103)	(90,527,509)
Contributions from participants	39,338,160	164,607,888	203,946,048
Contributions from employers	-	3,838,450	3,838,450
Miscellaneous income	333,869	1,618,504	1,952,373
Total additions	52,044,294	202,561,875	254,606,169
Deductions			
Benefit payments	70,533,306	177,676,373	248,209,679
Participant fees	898,753	2,821,507	3,720,260
Administrative expenses	697,064	1,209,150	1,906,214
Total deductions	72,129,123	181,707,030	253,836,153
Change in Fiduciary Net Position	(20,084,829)	20,854,845	770,016
Fiduciary Net Position Held in Trust,			
Beginning of year (restated)	932,706,272	2,754,637,254	3,687,343,526
End of year	$ 912,621,443	$ 2,775,492,099	$ 3,688,113,542

See Notes to Combined Financial Statements

Note 1. General Description of the Program

The financial statements of the South Carolina Deferred Compensation Program (Program) are provided for general information only. Users of the financial statements should refer to the plan documents for complete information. The statements presented herein contain the following defined contribution plans:

- **State of South Carolina 457 Deferred Compensation Plan and Trust (457 plan)** - the plan was established by the South Carolina General Assembly on May 11, 1977 through Act 97. Enrollment in the 457 plan began in August 1980, and the first contributions were made in September 1980; and
- **State of South Carolina Salary Deferral [401(k)] and Savings Profit Sharing Plan and Trust (401(k) plan)** - the plan was established by the South Carolina Deferred Compensation Commission (the Commission) effective January 1, 1985. Contributions to the Plan began in October 1985.

The Commission, established in Chapter 23 of Title 8 of the State of South Carolina (the State) Code of Laws, was the trustee of the Program through December 31, 2013. Effective after December 31, 2013, the Commission was abolished and all of the functions and duties of the Commission were devolved upon the Board of Directors of the South Carolina Public Employee Benefit Authority (PEBA). PEBA was created by the S.C. General Assembly effective July 1, 2012 and is the state agency responsible for the administration and management of the state's employee insurance programs and retirement systems.

The PEBA Board consists of 11 members including:

- three non-representative members appointed by the Governor;
- two members appointed by the President Pro Tempore of the Senate, one a non-representative member and one a representative member who is either an active or retired member of the South Carolina Police Officers Retirement System (PORS);
- two members appointed by the Chairman of the Senate Finance Committee, one a non-representative member and one a representative member who is a retired member of the South Carolina Retirement System (SCRS);
- two members appointed by the Speaker of the House of Representatives, one a non-representative member and one a representative member who must be a state employee who is an active contributing member of SCRS; and
- two members appointed by the Chairman of the House Ways and Means Committee, one a non-representative member and one a representative member who is an active contributing member of SCRS employed by a public school district.

Non-representative members of the PEBA board may not belong to the classes of employees and retirees from which representative members must be appointed. Individuals appointed to the PEBA board must possesses certain qualifications and are appointed to serve for terms of two years and until their successors are appointed and qualify. Vacancies on the PEBA Board must be filled within 60 days in the manner of the original appointment for the unexpired portion of the term. Terms commence on July first of even numbered years.

In August 2014, PEBA selected Great-West Retirement Services (Great-West) as the third party administrator for the Program effective January 1, 2015. Subsequently, in October 2014, Great-West was renamed Empower Retirement.

Approximately 727 South Carolina public sector entities (the employers) participate in the Program. These entities include state agencies, counties, municipalities, colleges and universities, and special purpose districts.

Note 1. General Description of the Program (continued)

Eligibility:

In accordance with Program provisions, any employee of a participating employer who elects to participate in the Program is eligible. Contributions to the Program are made through payroll deductions from an employee's total compensation subject to certain limits. At December 31, 2015 there were 23,323 participant accounts in the 457 plan and 75,532 participant accounts in the 401(k) plan.

Contributions:

Program participants elect salary deferral contributions to reduce their compensation by not less than $10 per pay period and not more than 100 percent of their compensation; not to exceed the maximum contribution allowed by the Internal Revenue Service (IRS). An election must be made in dollar increments per pay period. Amounts contributed on a pre-tax basis by participants are deferred, subject to the limitations above, for federal and state income tax purposes until benefits are paid to the participants.

Contribution limits for 2015 for the plans were as follows:

- **State of South Carolina 457 Deferred Compensation Plan and Trust (457 plan)** –
  - $18,000 for under age 50
  - $24,000 for age 50 and older (with age 50+ catch-up contribution)
  - Up to $36,000 with Special 457(b) catch up (cannot be combined with age 50+ catch-up)

  Effective January 1, 2009, the 457 plan was amended to provide for matching contributions at the discretion of the employer. This amendment permits employers to make contributions to the 457 plan on behalf of each employee who is a participant and who is active during the plan year at an amount to be determined by the employer. Contribution limits are the same whether the contribution is made by the employee or by the employer.

  Effective January 1, 2011, the 457 plan was amended to provide for Roth contributions. This amendment permits employees to contribute to the 457 plan with after-tax dollars.

- **State of South Carolina Salary Deferral [401(k)] and Savings Profit Sharing Plan and Trust (401(k) plan)** –
  - $18,000 for under age 50
  - $24,000 for age 50 and older (with age 50+ catch-up contribution)

  Effective July 1, 1999, the 401(k) plan was amended to provide for employer matching contributions. This amendment permits employers to make contributions to the 401(k) plan on behalf of each employee who is a participant and who is active during the plan year at an amount to be determined by the employer. Furthermore, the 401(k) plan was amended to provide for discretionary employer contributions, permitting an employer to make contributions to the plan on behalf of each employee who has not elected to make salary deferral contributions and who has an annual salary of less than $20,000 during such plan year. Employer matching and discretionary contributions shall not exceed contribution limitations as specified by the plan.

  Effective November 2, 2009, the 401(k) plan was amended to provide for Roth contributions. This amendment permits employees to contribute to the 401(k) plan with after-tax dollars.

Participant accounts:

Each participant's account is credited with the participant's salary deferral contributions, employer discretionary contributions, and plan earnings or losses, and charged with an allocation of third party administrator and investment option fees as well as a program administration fee.

Note 1. General Description of the Program (continued)

Vesting:

Participants are vested immediately in both their employee and employer contributions plus actual earnings thereon.

Payment of benefits:

Participants may withdraw the present value of funds contributed to the Program based on the following:

- **State of South Carolina 457 Deferred Compensation Plan and Trust (457 plan)** –
  - severance of employment from a participating employer, or
  - due to unforeseen emergency, which requires approval of Empower on behalf of PEBA.
- **State of South Carolina Salary Deferral [401(k)] and Savings Profit Sharing Plan and Trust (401(k) plan)** –
  - severance of employment from a participating employer,
  - attainment of age 59½, or
  - due to financial hardship, which requires approval of Empower on behalf of PEBA.

Participants are also allowed to take a rollover from their Program account in order to purchase service credit in a defined benefit governmental plan such as the South Carolina Retirement System. In the event of a participant's death, the participant's beneficiary would be entitled to the present value of funds contributed to the Program.

Participants may select various payout options including lump-sum payments or installment payments for the following: a fixed period of time, a fixed dollar amount until the account is exhausted, or payments throughout the participants' life expectancy or joint life expectancy with a spouse.

Notes receivable from participants:

Participants may borrow from their retirement Program account provided the note is at least $2,500 and not more than the greater of 50 percent of their vested account balance or $50,000. The notes are repayable in one to five years except for notes for the purchase of a primary residence which may be paid back over twenty years. Interest is charged at a fixed rate over the term of the note. The note's interest rate is established based upon a prime interest rate plus an additional 2 percent, as listed in the Wall Street Journal on the last business day of the month prior to origination. Interest rates charged on participant notes ranged from 5.25 percent to 11.50 percent for the year ended December 31, 2015. The participant is charged a $50 issuance fee at the initiation of the note and a quarterly maintenance fee of $6.25 throughout the year.

If a participant fails to repay a note at maturity or fails to make a scheduled payment by the end of the quarter following the quarter in which the payment was due, the note plus accrued interest is considered to be in default. If a defaulted note was issued prior to January 1, 2002, or if the participant is no longer active, the note is written off of the Plan's books. Due to Internal Revenue Service (IRS) recordkeeping regulations, if the defaulted note was issued after January 1, 2002, and the participant is still active, the note remains on the Program's books. Management believes it is unlikely that such notes will be repaid since they have been reported to the participant and the IRS as withdrawals from the Plan. Therefore, management has excluded defaulted notes from notes receivable. Notes receivable from participants are valued at their unpaid balances plus accrued interest.

Accounts payable:

The Program holds funds related to unclaimed benefit payments in a separate forfeiture account until such time that those payments are reissued. The funds are considered payable and are therefore classified as accounts payable in the Program's financial statements.

Note 1. General Description of the Program (continued)

Reclassifications:

Certain items in the 2014 financial statements have been reclassified to be consistent with the 2015 presentation. Such reclassifications had no effect on net position or changes therein.

Prior Period Adjustment:

The value of the Program's Stable Value Fund at December 31, 2014, has been restated to reflect valuation at contract value, which represents fair value per the Governmental Accounting Standards Board (GASB). The total impact on net position at December 31, 2014, was a decrease of $21,564,707, from $3,708,908,233 to $3,687,343,526. Individually, the 401(k) plan decreased $16,124,607, from $2,770,761,861 to $2,754,637,254, and the 457 plan decreased $5,440,100, from $938,146,372 to $932,706,272.

Note 2. Summary of Significant Accounting Policies

The financial statements of the Program have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following are the significant accounting policies used in preparing the accompanying financial statements of the Program.

Basis of accounting:

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, including all applicable effective statements of the GASB and the accrual basis of accounting.

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires PEBA to make estimates and assumptions that affect the reported amounts of assets, liabilities, and the changes therein and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Contributions and contributions receivable

Contributions are recognized when amounts are withheld from employees. Contributions receivable represents amounts withheld from employees but not yet remitted to the third party administrator at December 31.

Benefit payments

Benefits paid to participants are recorded when due and payable under the provisions of the Program.

Investment valuation and income recognition:

Variable earning investments are stated at fair value. If available, quoted market prices are used to value investments. Units of target retirement funds are stated at fair value as provided by their issuer, State Street Global Advisors, based on quoted market prices of the investments held in the collective trust fund.

Investments in the Stable Value Fund are valued at contract value reported daily by Great-West Life & Annuity Insurance Company, which approximates fair value. The investment valuation includes contributions received plus investment income earned to date less applicable fees and amounts withdrawn.

Note 2. Summary of Significant Accounting Policies (continued)

Management considers GICs to be “nonparticipating contracts” as defined in the GASB Codification Sec. I50, Investments, as they are nonnegotiable and have redemption terms that do not consider future market rates. 84-month GICs are therefore valued at contract value, as estimated by the respective insurance companies. The reported balance at December 31, 2015, represents contributions received plus interest credited, less applicable charges and amounts withdrawn.

Purchases and sales of securities are recorded on a trade-date basis. Variable earning investment income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net realized and unrealized gains and losses on investments are included in the net appreciation in fair value of investments as reported on the combined statement of changes in fiduciary net position. Interest on participant loans is recorded as earned on the accrual basis.

Administrative expenses:

All direct expenses of maintaining the Program are paid from the Program’s net position.

Subsequent events:

These financial statements have not been updated for events occurring subsequent to November 29, 2016, which is the date these financial statements were available to be issued.

Note 3. Investments

Program investments are managed by several fund managers and are subject to various risks. Among these risks are custodial credit risk, credit risk, concentration of credit risk, foreign currency risk, and interest rate risk. Each one of these risks is discussed in more detail below.

Custodial credit risk:

Custodial credit risk, as it relates to investments, is the risk that in the event of the failure of the custodian, the Program would not be able to recover the value of investments or collateral securities that are in the possession of the third-party. The Program’s investment securities are exposed to a minimal level of custodial credit risk as they are held in segregated trust accounts with the custodian but in the name of the Program.

Credit risk:

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), Standard & Poor’s (S&P), and Fitch Ratings (Fitch). The Program manages the overall credit risk of its fixed income investments by requiring the Stable Value Fund and 84-month GIC’s manager, Great-West Life & Annuity Insurance Company (the Company), to invest in accordance with PEBA’s approved Statement of Investment Policy (the Policy).

The Policy lists the primary objective of the Stable Value Fund to preserve principal and provide a stable, competitive rate of return. The Company is permitted to invest Program assets in investment grade fixed income instruments, including those of the U.S. Government and its agencies, corporate bonds, and mortgage and asset-backed securities. According to the Company’s contract with the Program (the Contract), the Company must maintain or exceed an overall weighted average credit quality rating by Moody’s of “Aa2” (or equivalent of Aa2) within the Stable Value Fund at all times. At the time of issuance, investments must meet or exceed the following Moody’s credit ratings: Commercial paper - P; Corporate bonds - A3; and Asset backed securities, agency-mortgage backed securities, agency-collateralized mortgage obligations, and commercial mortgage backed securities - Aaa.

Note 3. Investments (continued)

The primary objective for the 84-month GICs is to preserve principal while maintaining a rate of return comparable to other similar fixed income investments without market fluctuations. Each 84-month GIC is backed by the financial strength of the issuing company, whose crediting must exceed an “A2” rating (or equivalent of A2) as measured by Moody’s at the time of issuance. The Company is expected to exercise due care and diligence in making investment decisions.

Concentration of credit risk:

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The concentration of investments are determined by the participants’ elections to invest in the available investment options as selected by the Board. Mutual funds and target date funds that exceed 5 percent of fiduciary net position held in trust are identified in Note 6 on page 16.

PEBA places no limit on the amount the Program may invest in any one 84-month GIC issuer. GIC issuers holding contracts that exceed 5 percent of fiduciary net position held in trust are identified in Note 5 on page 15.

The Stable Value Fund balance at December 31, 2015, exceeded 5 percent of fiduciary net position held in trust. The Contract dictates that amounts in the fund must be invested in accordance with the following concentration limits:

- A minimum of 50 percent of the account assets must be invested in U.S. Treasury debt, agency-mortgage backed securities or collateralized mortgage obligations.
- A maximum of 35 percent of the account assets may be invested in corporate bonds or asset-backed securities.
- A maximum of 20 percent of the account assets may be invested individually in either corporate bonds or asset-backed securities.
- No more than 15 percent of the account assets may be invested in corporate securities rated “A2” (or equivalent of A2) as measured by Moody’s.
- No more than 5 percent of the account assets may be invested in any one corporate issuer (including asset-backed securities). For purposes of diversification, each asset-backed or non-agency mortgage-backed securities will be treated as a separate issuer.

Foreign currency risk:

Foreign currency risk is the risk that changes in exchange rates could adversely affect the fair value of an investment. The Program allows the option to invest in mutual funds of countries outside of the U.S that invest in securities not required to disclose the individual assets within the fund. Such international funds are identified in Note 6 on page 16.

Interest rate risk:

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Contract limits the Stable Value Fund’s average duration to not exceed 5 years. Duration is a theoretical measurement that gauges the sensitivity of a particular bond to changes in interest rates based on current prepayment speeds and scheduled interest payments. The average duration at December 31, 2015 was 3.33 years. The investment in guaranteed investment contracts and funding agreements is limited to a term of 84 months or less. Refer to Footnote 4, Stable Value Fund, and Footnote 5, 84-month Guaranteed Investment Contracts for tables summarizing the fixed income investments by their credit rating and future maturities.

Note 4. Stable Value Fund

The Stable Value Fund (the Fund) is an investment option of the Program in which bond securities are held as underlying investments in a segregated trust for participants. The Company is the Fund manager for the Program. All monies invested in the Fund are maintained and held separate and apart from the Company's general account and any other investment account the Company may have. In addition, the Company has assumed sole responsibility of providing wrap coverage in order to guarantee return of the participants' principal and accrued interest.

This investment seeks to preserve principal value and provide a relatively stable rate of interest income. The objective of the Fund is to achieve returns, which over time exceed the returns on bank savings accounts and money market funds. The Fund invests in securities issued by the U.S. Government or one of its agencies, as well as high-grade corporate bonds, and mortgage and asset-backed securities.

Quarterly interest rates are declared by the Company prior to each calendar quarter for participant accounts based upon factors such as the current yield of the investments held by the Fund and Fund expenses. Once declared, the effective interest rates are guaranteed for the calendar quarter. The quarterly effective interest rate declared each calendar quarter applies to all assets in the Fund regardless of the date of deposit. Interest is credited to the participants' accounts in the Fund daily, at a rate which compounds to the effective rate for the quarter.

The total of all participant and unallocated Program account balances in the Fund as of December 31, 2015 was $1,149,578,395.

The following represents the Fund's annual interest rate credited to participants for the quarters during the year ended December 31, 2015:

1Q 2015	2.55%
2Q 2015	2.55%
3Q 2015	2.50%
4Q 2015	2.40%

The following represents the contract value of the Fund's underlying investments by fixed income sector at December 31, 2015:

Fixed Income Sector	**December 31, 2015**
Agency - Mortgage Backed Securities	$ 592,202,323
Agency - Collateralized Mortgage Obligations	40,514,149
Agency - Commercial Mortgage Backed Securities	99,045,789
Agency Securities	25,095,162
Asset Backed Securities	89,433,350
Non-Agency – Collateralized Mortgage Obligations	20,444,611
Non-Agency – Commercial Mortgage Backed Securities	63,252,620
Corporate Bonds	201,547,953
Government related	1,249,562
Cash and Equivalents	16,792,876
Total	**$ 1,149,578,395**

Note 4. Stable Value Fund (continued)

The following represents the contract value of the Fund's underlying investments by their Moody's Credit Rating at December 31, 2015:

Moody's Credit Rating	December 31, 2015
Aaa	$ 875,116,037
Aa1	16,442,280
Aa2	15,391,486
Aa3	28,503,016
A1	39,228,047
A2	52,008,506
A3	46,080,377
Baa1	6,136,639
Baa2	1,640,928
Baa3	2,999,111
P-1	16,792,875
Not Rated	49,239,093
Total	**$ 1,149,578,395**

The following represents the contract value of the Fund's underlying investments by their future maturities at December 31, 2015:

Maturities in Years	December 31, 2015
Less than 1	$ 35,788,689
1-5	286,308,984
5-10	178,307,237
10-15	255,359,665
15 - 20	99,826,621
20 - 25	118,151,787
25 - 30	137,978,492
More than 30	37,856,920
Total	**$ 1,149,578,395**

Mortgage backed securities and collateralized mortgage obligations make up the majority of investments with maturities exceeding 10 years. The fair values of these securities are based on cash flows from principal and interest payments of the underlying mortgages and are subject to the credit worthiness of the individual mortgagors. These securities are sensitive to prepayments, which are likely in an environment of declining interest rates, and thereby reduce the value of the security.

Note 5. 84-Month Guaranteed Investment Contracts

84-month GICs are deposited quarterly with insurance companies who invest the funds in their general asset account. The insurance companies provide a guarantee of principal and a guaranteed quarterly interest rate. As such, the 84-month GICs are subject to credit risk associated with the individual insurance company issuer. Each participant does not have access to or the ability to reinvest in the 84-month GIC until the 84-month maturity period is over. Effective January 1, 2015, the 84-month GIC was discontinued as an investment option in the Program.

Note 5. 84-Month Guaranteed Investment Contracts (continued)

The following are the interest rate ranges by year for 84-month GICs based on the date purchased:

Rates in effect during year purchased						
2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
4.26-5.00%	2.90-3.95%	2.00-3.00%	1.65-2.25%	1.30-2.05%	1.75-1.85%	1.80%

The following represents a summary of each 84-month GIC issuer, Moody's credit rating, and future maturities at December 31, 2015:

		December 31, 2015					
		Maturities in Years					
	Moody's Credit Rating	**Less than 1**	**1 - 3**	**3 - 5**	**5 - 7**	**Total**	
Metropolitan Life Insurance Company	Aa3	$ 102,735,169	$ -	$ -	$ -	$ 102,735,169	
Great-West Life & Annuity Insurance Company	Aa3	2,826,208	160,447,245	138,663,169	89,687,381	391,624,003	*
		$105,561,377	**$160,447,245**	**$138,663,169**	**$89,687,381**	**$494,359,172**	

* Represents investments exceeding 5 percent or more of net position.

Note 6. Mutual Funds and Target Retirement Funds

The Program's variable earning investments are held by the custodian in pooled separate accounts. The following represents the fair value of the Program's units of participation at December 31, 2015:

		December 31, 2015	
Mutual funds			
Vanguard Institutional Index Fund Plus	$	448,838,275	*
Dodge & Cox Stock Fund		253,972,397	*
T. Rowe Price Growth Stock Fund		202,006,938	*
T. Rowe Price Mid Cap Value		182,857,697	
Pimco Total Return-Institutional		127,786,169	
Fidelity Diversified International Fund		110,083,426	**
Munder Mid Cap Growth Fund Class R6		95,068,477	
American Funds Europacific Growth Fund R6		76,880,889	**
AllianceBern Small Cap Growth I		43,303,956	
American Funds New Perspective Fund R6		36,862,354	**
American Beacon Small CP Val Inst		27,890,786	
Blackrock Inflation Protected Bond Institutional		27,732,553	
TIAA-CREF Small Cap Blend IDX Inst		14,517,100	
Pimco Funds - Institutional All Assets		2,685,744	
	$	**1,650,486,761**	
Target retirement funds			
SSgA Target Retirement Income	$	130,130,738	
SSgA Target Retirement 2020		104,303,475	
SSgA Target Retirement 2030		66,760,224	
SSgA Target Retirement 2040		35,112,124	
SSgA Target Retirement 2050		3,110,871	
SSgA Target Retirement 2025		1,350,327	
SSgA Target Retirement 2035		441,279	
SSgA Target Retirement 2015		38,378	
SSgA Target Retirement 2045		18,640	
SSgA Target Retirement 2055		4,615	
SSgA Target Retirement 2060		616	
	$	**341,271,287**	

* Represents investments exceeding 5 percent or more of net position.
** Represents international mutual funds.

Note 7. Schwab Self-Directed Brokerage Account

Effective January 1, 2010, Program participants have the option to invest in a self-directed brokerage account. The self-directed brokerage account is offered through Charles Schwab & Co., Inc. and allows participants to select from numerous mutual funds and other types of securities, such as stocks and bonds, for an additional fee or fees. As of December 31, 2015, the balance invested in the Schwab self-directed brokerage account was $15,841,923.

Note 8. Program Termination

Currently, there are no intentions to terminate either of the plans within the Program. However, the State reserves the right to terminate, suspend, withdraw or amend the Program at any time.

Note 9. Tax Status

The 457 plan received a favorable determination from the Internal Revenue Service (IRS), stating the plan constitutes an eligible deferred compensation plan as defined in Section 457(b) of the Internal Revenue Code (IRC), and, as such, is exempt from federal and state income taxes. Amounts of compensation deferred by employees participating in the 457 plan are not subject to federal income tax withholding, and the compensation is not includable in taxable income until actually paid or otherwise made available to the participant, his beneficiary or his estate.

The 401(k) plan received a favorable determination from the IRS as qualifying under Section 401(k) of the IRC and, as such, is also exempt from federal and state income taxes. As a result, amounts of compensation deferred by employees participating in the 401(k) plan are not subject to federal income tax withholding, and the compensation is not includable in taxable income until actually paid or otherwise made available to the participant, his beneficiary or his estate.

Accounting principles generally accepted in the United States of America require Program management to evaluate tax positions taken by the Program and recognize a tax liability (or asset) if the Program has taken an uncertain position that more likely than not would not be substantiated upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Program, and has concluded that as of December 31, 2015, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

Note 10. Risks and Uncertainties

The Program invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the combined statement of fiduciary net position.

Note 11. Commitments

Effective January 1, 2016, PEBA entered into a new agreement the Program’s investment consultant that runs through December 31, 2018 and requires an annual fee of $55,000, payable in four equal quarterly installments. The previous agreement, which ran through October 31, 2015, and required an annual fee of $85,000, payable in twelve equal monthly installments, was extended two additional months, ending on December 31, 2015, and the additional payments under the agreement totaled $14,167. Cost associated with the investment consultant contract are shared pro-rata between the 457 plan and the 401(k) plan, based upon plan assets under management.