

NASSAU COUNTY DEFERRED COMPENSATION PLAN

FINANCIAL STATEMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
AND
INDEPENDENT AUDITOR'S REPORT

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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Israeloff, Trattner & Co. P.C.

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INDEPENDENT AUDITOR'S REPORT

Members of the Board
Nassau County Deferred Compensation Board:

Report on the Financial Statements

We have audited the accompanying statements of fiduciary net position available for plan benefits of the Nassau County Deferred Compensation Plan (the "Plan") as of December 31, 2016 and 2015, and the related statements of changes in fiduciary net position available for plan benefits for the years then ended, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the accompanying 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Nassau County Deferred Compensation Plan as of December 31, 2016 and 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 11 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 historic 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 audits of the basic financial statements. However, we did not audit the information and express no opinion on it.

Issacoff, Trattner & Co. P.C.

Garden City, New York
June 20, 2017

NASSAU COUNTY DEFERRED COMPENSATION PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

This section presents management's discussion and analysis of the Nassau County Deferred Compensation Plan's (the Plan) financial performance during the years ended December 31, 2016 and 2015.

The Nassau County Deferred Compensation Plan is a voluntary retirement savings plan that is offered to Nassau County employees that have elected to participate in the Plan. Its mission is to help Nassau County employees achieve their retirement savings goals by providing high quality, cost effective investment options. The Plan is governed by Section 457 of the Internal Revenue Code ("IRC"), Section 5 of the New York State Finance Law, and Parts 9000 – 9006 of the New York State Code of Rules and Regulations.

As of December 31, 2016, the Plan had approximately 9,750 participants with account balances (which included approximately 6,500 active participants) and approximately \$1.258 billion in assets. Participant assets are accumulated through voluntary payroll deferrals, rollovers from other qualified public deferred compensation plans, rollovers from other qualified retirement plans, and earnings on investments. Salary deferrals and rollover assets are invested at the direction of participants in one or more of 28 core investment options and a self directed brokerage option offered throughout the year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Nassau County Deferred Compensation Plan's basic financial statements, which comprise the following three components: (1) Statements of Fiduciary Net Position Available for Plan Benefits, (2) Statements of Changes in Fiduciary Net Position Available for Plan Benefits and (3) Notes to Financial Statements. Collectively, this information presents the net assets held in trust for participants.

Management's discussion and analysis of the Plan's financial performance provides an overview of the Plan's financial activities for the fiscal year ended December 31, 2016 and 2015. Please read it in conjunction with the Plan's financial statements.

Financial Highlights

2016 - 2015

- Net Position Available for Benefits increased by \$81,448,391 as a result of 2016's operations from \$1,176,634,476 to \$1,258,082,867.
- Additions for the year of \$128,630,579 are comprised of participant contributions, including rollover contributions and revenue sharing and other adjustments (net), of \$62,794,228 and net investment income of \$65,836,351.

NASSAU COUNTY DEFERRED COMPENSATION PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

Financial Highlights (Continued)

2016 - 2015 (Continued)

- Deductions for the year of \$47,182,188 are comprised of benefit payments to participants and beneficiaries of \$46,525,680, loan defaults and deemed distributions of \$518,074 and administrative expenses of \$138,434.

2015 - 2014

- Net Position Available for Benefits increased by \$30,798,066 as a result of 2015's operations from \$1,145,836,410 to \$1,176,634,476.
- Additions for the year of \$81,070,845 are comprised of participant contributions, including rollover contributions and revenue sharing of \$61,914,484 and net investment income of \$19,156,361.
- Deductions for the year of \$50,272,779 are comprised of benefit payments of \$49,522,473, loan defaults and deemed distributions of \$635,509 and administrative expenses of \$114,797.

The annual report consists of two financial statements: The Statements of Fiduciary Net Position Available for Plan Benefits and the Statements of Changes in Fiduciary Net Position Available for Plan Benefits. These financial statements report information about the Plan and its activities to help you assess whether the Plan, as a whole, has improved or declined as a result of the year's activities. The financial statements were prepared using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the year they are earned, and expenses are recorded in the year they are incurred, regardless of when cash is received or paid.

The Statements of Fiduciary Net Position show the balances in all of the assets and liabilities of the Plan at the end of the year. The difference between the Plan's assets and liabilities represents the Plan's fiduciary net position. Over time, increases or decreases in the Plan's fiduciary net position provide one indication of whether the financial health of the Plan is improving or declining. The Statements of Changes in Fiduciary Net Position Available for Benefits shows the results of financial operations for each year. The statements provide an explanation for the change in the Plan's net position since the prior year. These two financial statements should be reviewed along with the information contained in the financial statement footnotes.

NASSAU COUNTY DEFERRED COMPENSATION PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

SUMMARY OF FINANCIAL STATEMENTS

The summary financial statements for the years ending December 31, 2016 and 2015 are derived from the full financial statements that have been prepared under the accrual method of accounting. These summary financial statements reflect the resources available to pay benefits to participants, as well as changes in those resources during the year.

Table 1A: Summary of Fiduciary Net Position Available for Plan Benefits

2016 – 2015

	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>
Assets	\$ 1,258,125,367	\$ 1,176,658,976	\$ 81,466,391
Liabilities	<u>42,500</u>	<u>24,500</u>	<u>18,000</u>
Net position available for plan benefits	\$ <u>1,258,082,867</u>	\$ <u>1,176,634,476</u>	\$ <u>81,448,391</u>

Total assets increased by approximately \$81.5 million or 6.92% between 2015 and 2016 due to investment income, contributions, including rollover contributions and revenue sharing being greater than distributions and expenses from the plan.

Total liabilities increased by \$18,000 or 73.5% due to the accrual of the current year audit fee and fourth quarter investment advisory fee and payment of the prior year audit fee.

Net position increased by approximately \$81.5 million or 6.92%.

Table 1B: Summary of Fiduciary Net Position Available for Plan Benefits

2015 – 2014

	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>
Assets	\$ 1,176,658,976	\$ 1,145,860,410	\$ 30,798,566
Liabilities	<u>24,500</u>	<u>24,000</u>	<u>500</u>
Net position available for plan benefits	\$ <u>1,176,634,476</u>	\$ <u>1,145,836,410</u>	\$ <u>30,798,066</u>

Total assets increased by approximately \$30.8 million or 2.69% between 2014 and 2015 due to investment income, contributions, including rollover contributions and revenue sharing being greater than distributions and expenses from the plan.

NASSAU COUNTY DEFERRED COMPENSATION PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

SUMMARY OF FINANCIAL STATEMENTS (CONTINUED)

**Table 1B: Summary of Fiduciary Net Position Available for Plan Benefits
(Continued)**

2015 – 2014

Total liabilities increased by \$500 or 2.1% due to the accrual of the current year audit fee and the payment of the prior year audit fee.

Net position increased by approximately \$30.8 million or 2.69%.

Table 2A: Summary of Changes in Fiduciary Net Position

2016 – 2015

	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>
Additions:			
Participant contributions and revenue sharing income	\$ 62,794,228	\$ 61,914,484	\$ 879,744
Net investment income	<u>65,836,351</u>	<u>19,156,361</u>	<u>46,679,990</u>
Total additions	128,630,579	81,070,845	47,559,734
Deductions:			
Benefit payments	46,525,680	49,522,473	(2,996,793)
Loan defaults and deemed distributions	518,074	635,509	(117,435)
Administrative expenses	<u>138,434</u>	<u>114,797</u>	<u>23,637</u>
Total deductions	<u>47,182,188</u>	<u>50,272,779</u>	<u>(3,090,591)</u>
Change in net position	81,448,391	30,798,066	50,650,325
Net position available for plan Benefits, beginning of year	<u>1,176,634,476</u>	<u>1,145,836,410</u>	<u>30,798,066</u>
Net position available for plan Benefits, end of year	<u>\$ 1,258,082,867</u>	<u>\$1,176,634,476</u>	<u>\$ 81,448,391</u>

NASSAU COUNTY DEFERRED COMPENSATION PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

SUMMARY OF FINANCIAL STATEMENTS (CONTINUED)

Table 2A: Summary of Changes in Fiduciary Net Position (Continued)

Additions consist of participant contributions, including rollover contributions, revenue sharing and investment income. Total additions increased by approximately \$47.6 million or 58.66% between 2015 and 2016 primarily due to an increase of approximately 243.7% in Plan investment income from 2015 to 2016.

Deductions consist of benefit payments, loan defaults, deemed distributions and administrative expenses. Total deductions decreased by approximately \$3.1 million or 6.15% between 2015 and 2016 primarily due to the decrease in benefits paid to participants and beneficiaries.

The increase in the change in net position of approximately \$50.65 million was primarily a result of an increase in net investment income and a decrease in benefits paid to participants and beneficiaries from 2015 to 2016.

Table 2B: Summary of Changes in Fiduciary Net Position

2015 – 2014

	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>
Additions:			
Participant contributions and revenue sharing income	\$ 61,914,484	\$ 56,733,665	\$ 5,180,819
Net investment income	<u>19,156,361</u>	<u>54,802,512</u>	<u>(35,646,151)</u>
Total additions	81,070,845	111,536,177	(30,465,332)
Deductions:			
Benefit payments	49,522,473	46,382,871	3,139,602
Loan defaults and deemed distributions	635,509	450,963	184,546
Administrative expenses	<u>114,797</u>	<u>102,865</u>	<u>(11,932)</u>
Total deductions	<u>50,272,779</u>	<u>46,936,699</u>	<u>3,336,080</u>
Change in net position	30,798,066	64,599,478	(33,801,412)
Net position available for plan Benefits, beginning of year	<u>1,145,836,410</u>	<u>1,081,236,932</u>	<u>64,599,478</u>
Net position available for plan Benefits, end of year	<u>\$ 1,176,634,476</u>	<u>\$1,145,836,410</u>	<u>\$ 30,798,066</u>

NASSAU COUNTY DEFERRED COMPENSATION PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

SUMMARY OF FINANCIAL STATEMENTS (CONTINUED)

Table 2B: Summary of Changes in Fiduciary Net Position (Continued)

Additions consist of participant contributions, including rollover contributions, revenue sharing and investment income. Total additions decreased by approximately \$30.4 million or 27.31% between 2014 and 2015 primarily due to a decrease of approximately 65.0% in Plan investment income from 2014 to 2015.

Deductions consist of benefit payments, loan defaults and deemed distributions and administrative expenses. Total deductions increased by approximately \$3.3 million or 7.1% between 2014 and 2015 primarily due to the increase in benefits paid to participants and beneficiaries.

The decrease in the change in net position of approximately \$33.8 million was primarily a result of a decrease in net investment income and an increase in benefits paid to participants and beneficiaries from 2014 and 2015.

NOTES TO FINANCIAL STATEMENTS

The financial statement notes provide additional information that is essential to a full understanding of the data provided in the statements. Information in the financial statement notes is described below.

Note 1 provides a general description of the Plan, as well as descriptions of participant accounts, vesting requirements, investment options, benefit payments, and Plan amendments.

Note 2 provides a summary of the Plan's significant accounting policies.

Note 3 provides a description of the Plan's investment options including additional information pertaining to investment contracts, mutual funds, pooled separate accounts and self-directed brokerage accounts.

Note 4 provides a summary of recordkeeping and administrative expenses.

Note 5 describes the Plan's termination rights.

Note 6 describes related party transactions.

Note 7 describes the Plan's tax status.

Note 8 describes subsequent events.

NASSAU COUNTY DEFERRED COMPENSATION PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

SUMMARY OF FINANCIAL STATEMENTS (CONTINUED)

The following is a listing of all the Plan's investment options offered and their related rates of return for 2016 and 2015. The rate of return percentage reflects changes in share price, reinvestment of dividends and capital gains and losses and includes the effect of any applicable recurring and non-recurring fees. Investment decisions should be based upon a thorough reading of the appropriate prospectus and/or consultation with professional advisors. Past performance is no guarantee of future results.

Table 3A: Investments by Fund with Rates of Return for 2016

	<u>Investment Value</u>	<u>Percentage of Total Investments</u>	<u>Rate of Return %</u>
Prudential Stable Value Fund	496,492,446	39.96	2.67
American Funds American Balanced Fund	29,123,702	2.34	8.50
Vanguard Total Bond Market Index Fund	11,592,633	0.93	2.61
Core Plus Bond/PGIM Fund	77,323,653	6.22	5.19
SA/T. Rowe Price Growth Stock Strategy Fund	149,990,323	12.07	1.38
ClearBridge Appreciation Fund	22,490,498	1.81	9.39
Vanguard Institutional Index Fund	64,338,700	5.18	11.93
Invesco Growth and Income Fund	74,865,593	6.03	20.10
Hartford Mid Cap Fund	23,337,567	1.88	11.91
Vanguard Mid-Cap Index Fund	30,487,312	2.45	11.23
Prudential QMA Mid-Cap Value Fund	22,689,724	1.83	21.39
ClearBridge Small Cap Growth Fund	32,901,279	2.65	6.14
Vanguard Small Cap Index Fund	23,159,958	1.86	18.32
AllianzGI NFJ Small-Cap Value Fund	19,555,761	1.57	23.42
American Funds EuroPacific Growth Fund	91,831,346	7.39	0.69
Oppenheimer Developing Markets Fund	2,781,192	0.22	7.17
Vanguard REIT Index Fund	8,324,021	0.67	8.34
T. Rowe Price Retirement Balanced Fund	1,408,722	0.11	6.48
T. Rowe Price Retirement 2010 Fund	5,809,520	0.47	7.11
T. Rowe Price Retirement 2015 Fund	3,498,636	0.28	7.31
T. Rowe Price Retirement 2020 Fund	5,843,968	0.47	7.41
T. Rowe Price Retirement 2025 Fund	24,199,845	1.95	7.55
T. Rowe Price Retirement 2030 Fund	4,925,320	0.40	7.69
T. Rowe Price Retirement 2035 Fund	2,852,838	0.23	7.64
T. Rowe Price Retirement 2040 Fund	2,104,001	0.17	7.63

NASSAU COUNTY DEFERRED COMPENSATION PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

SUMMARY OF FINANCIAL STATEMENTS (CONTINUED)

Table 3A: Investments by Fund with Rates of Return for 2016 (Continued)

	<u>Investment Value</u>	<u>Percentage of Total Investments</u>	<u>Rate of Return %</u>
T. Rowe Price Retirement 2045 Fund	483,370	0.04	7.69
T. Rowe Price Retirement 2050 Fund	86,003	0.01	7.71
T. Rowe Price Retirement 2055 Fund	9,023,999	0.73	7.73
Self Directed Brokerage Accounts	<u>1,010,663</u>	<u>0.08</u>	N/A
	<u>\$ 1,242,532,593</u>	<u>100.00</u>	

Table 3B: Investments by Fund with Rates of Return for 2015

Prudential Stable Value Fund	454,686,024	39.15	2.74
American Funds American Balanced Fund	27,398,251	2.36	1.68
Vanguard Total Bond Market Index Fund	10,844,740	0.93	0.41
Core Plus Bond/PGIM Fund	66,386,499	5.72	0.10
SA/T. Rowe Price Growth Stock Strategy Fund	158,496,223	13.65	10.82
ClearBridge Appreciation Fund	21,630,141	1.86	1.75
Vanguard Institutional Index Fund	56,947,557	4.90	1.37
Invesco Growth and Income Fund	68,807,824	5.93	(2.90)
Morgan Stanley Mid Cap Fund	22,905,923	1.97	N/A
Vanguard Mid-Cap Index Fund	28,458,724	2.45	(1.33)
Prudential QMA Mid-Cap Value Fund	20,716,737	1.78	(6.42)
ClearBridge Small Cap Growth Fund	31,382,566	2.70	(4.50)
Vanguard Small Cap Index Fund	18,337,074	1.58	(3.63)
AllianzGI NFJ Small-Cap Value Fund	17,123,241	1.48	(7.93)
American Funds EuroPacific Growth Fund	89,646,555	7.72	(0.82)
Oppenheimer Developing Markets Fund	2,674,786	0.23	(13.84)
Vanguard REIT Index Fund	6,438,493	0.55	2.22
T. Rowe Price Retirement Balanced Fund	1,808,573	0.16	(0.74)
T. Rowe Price Retirement 2010 Fund	5,684,169	0.49	(0.76)
T. Rowe Price Retirement 2015 Fund	3,742,359	0.32	(0.58)
T. Rowe Price Retirement 2020 Fund	5,198,293	0.45	(0.31)
T. Rowe Price Retirement 2025 Fund	23,505,027	2.02	(0.17)

NASSAU COUNTY DEFERRED COMPENSATION PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

SUMMARY OF FINANCIAL STATEMENTS (CONTINUED)

Table 3B: Investments by Fund with Rates of Return for 2015 (Continued)

T. Rowe Price Retirement 2030 Fund	4,250,882	0.37	(0.02)
T. Rowe Price Retirement 2035 Fund	2,486,278	0.21	0.13
T. Rowe Price Retirement 2040 Fund	1,838,250	0.16	0.17
T. Rowe Price Retirement 2045 Fund	407,230	0.04	0.17
T. Rowe Price Retirement 2050 Fund	89,738	0.01	0.19
T. Rowe Price Retirement 2055 Fund	8,586,283	0.74	0.18
Self Directed Brokerage Accounts	<u>856,789</u>	<u>0.07</u>	N/A
	<u>\$ 1,161,335,229</u>	<u>100.00</u>	

Decisions and Conditions Expected to Have Significant Impact on the Plan's Future Financial Position

The annual maximum contribution for 2016 and 2015 was \$18,000 (\$24,000 if employee is age 50 or older). The annual maximum contribution has been set for the coming year as follows:

2017 \$18,000 (\$24,000, if age 50 or older)

Contact Information

This financial report is designed to provide a general overview of the Nassau County Deferred Compensation Plan. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Nassau County Deferred Compensation Board, One West Street, Mineola, NY 11501.

FINANCIAL STATEMENTS

NASSAU COUNTY DEFERRED COMPENSATION PLAN
STATEMENTS OF FIDUCIARY NET ASSETS AVAILABLE FOR PLAN BENEFITS

DECEMBER 31,

ASSETS

	2016	2015
Investments, at fair value		
Stable value fund	\$ 496,492,446	454,686,024
Mutual funds	517,715,508	480,909,694
Pooled separate accounts	227,313,976	224,882,722
Self directed brokerage accounts	1,010,663	856,789
Total investments	1,242,532,593	1,161,335,229
Receivables:		
Revenue sharing receivable	407,778	188,331
Notes receivable from participants	15,184,996	15,135,416
Total receivables	15,592,774	15,323,747
Total Assets	1,258,125,367	1,176,658,976
LIABILITIES		
Accrued expenses	42,500	24,500
FIDUCIARY NET POSITION AVAILABLE FOR BENEFITS	\$ 1,258,082,867	\$ 1,176,634,476

See accompanying notes to the financial statements.

NASSAU COUNTY DEFERRED COMPENSATION PLAN
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION AVAILABLE FOR PLAN BENEFITS
FOR YEARS ENDED DECEMBER 31,

	2016	2015
ADDITIONS:		
Investment income:		
Interest and dividends	\$ 8,272,902	\$ 8,248,195
Capital gains	8,884,771	15,607,784
Net appreciation (depreciation) in fair value of investments	48,678,678	(4,699,618)
	65,836,351	19,156,361
Contributions:		
Plan participants - deferrals of compensation	57,020,782	57,125,397
Rollovers, transfers, revenue sharing and other adjustments, net	5,773,446	4,789,087
Total contributions, rollovers, transfers, revenue sharing and other adjustments, net	62,794,228	61,914,484
Total additions	128,630,579	81,070,845
DEDUCTIONS:		
Benefits paid to participants and beneficiaries	46,525,680	49,522,473
Loan defaults	488,284	397,931
Deemed distributions	29,790	237,578
Administrative expenses	138,434	114,797
Total deductions	47,182,188	50,272,779
Increase in fiduciary net assets available for benefits	81,448,391	30,798,066
FIDUCIARY NET ASSETS AVAILABLE FOR BENEFITS, beginning of year	1,176,634,476	1,145,836,410
FIDUCIARY NET ASSETS AVAILABLE FOR BENEFITS, end of year	\$ 1,258,082,867	\$ 1,176,634,476

See accompanying notes to the financial statements.

NASSAU COUNTY DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

1. DESCRIPTION OF PLAN

The following description of the Nassau County Deferred Compensation Plan (the "Plan") provides only general information. Participants should refer to the Plan document for a more complete description of the Plan's provisions.

(a) General

The Plan is a defined contribution plan which permits employees and elected officials of Nassau County (the "County") who participate in the Plan to defer a portion of their current salary until future years. Nassau County does not make any contributions to the Plan. Participants do not pay income taxes on their contributions or investment returns while these funds remain in the Plan. The active Plan membership was approximately 6,500 and 6,400 at December 31, 2016 and 2015, respectively. Inactive Plan membership was approximately 3,300 and 3,200 at December 31, 2016 and 2015, respectively.

The assets of the Plan are being held in trust for the exclusive benefit of Plan members and their beneficiaries as required by Internal Revenue Code Section 457.

(b) Employees of the County are eligible to participate in the Plan as of any enrollment date following the date he or she becomes an employee.

(c) Contributions

Participants may defer a minimum of \$260 and up to 100% of their compensation, not to exceed the maximum deferral amount under Internal Revenue Service regulations in a calendar year (\$18,000 in 2016 and 2015.) Participants who have attained age 50 before the close of a plan year are permitted to contribute an additional catch-up amount (\$6,000 in 2016 and 2015.)

In addition, through a limited "catch-up" provision included in the Plan, a participant may be eligible to defer up to a maximum of twice the annual maximum in the three years immediately preceding the retirement age at which no reduction in benefits would be applicable.

Federal income taxes are not due on deferred amounts or on any accumulated earnings until the participant receives a distribution of assets. Participants may elect to invest their contributions in multiples of 1% in any of the

NASSAU COUNTY DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

1. DESCRIPTION OF PLAN (CONTINUED)

(c) Contributions (Continued)

investment fund options, and may increase, decrease or suspend their deferrals at any time during the month. Compensation amounts deferred and accumulated earnings thereon are held in trust by the Plan trustee for the exclusive benefit of the Plan's participants and their beneficiaries. Participants are always fully vested for the accumulated units in their accounts. Participation in the Plan ceases at retirement, termination of service, disability or death. The employer does not make contributions to the Plan.

(d) Participant Loans

Participants may borrow from their accrued benefit balance in accordance with applicable IRS regulations. The maximum amount a participant may borrow is equal to the lesser of (a) 50% of their accrued benefit or (b) \$50,000. Interest on the loan is the prime rate, as published in the *Wall Street Journal*, plus 1%. All loans must be repaid on a periodic basis over a period not to exceed five years, with the exception of loans used to acquire, construct, reconstruct or substantially rehabilitate a dwelling that is to be used as a principal residence. Such loans shall provide for repayment over a period not to exceed 15 years. Loans that are not repaid in accordance with the repayment schedule will be deemed to be a Plan distribution and will be subject to federal and state income taxes. Interest rates on outstanding loans were 4.50% and 4.25% at December 31, 2016 and 2015, respectively.

(e) Participants' Accounts and Vesting:

Each participant's account is credited with the participant's contribution and investment earnings. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account. Each participant's account balance is invested in accordance with the investment option(s) selected by the participant. Participants are 100% vested in their account balance at all times.

Nassau County is only under a contractual obligation to make payments under this Plan in accordance with the provisions of the applicable statute as payments become due. Nassau County is not a guarantor of the Plan.

NASSAU COUNTY DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

1. DESCRIPTION OF PLAN (CONTINUED)

(f) Investment Options

The Plan's investment policy was developed by the Board. The actions of the Board are governed by the terms of the Plan, Internal Revenue Code Section 457, the Rules and Regulations of the New York State Deferred Compensation Board (the "State Board"), and New York State Finance Law Section 5.

The Plan's investment policy is intended to provide participants with a broad range of investment options, including a diverse selection of fixed income and equity investments to best meet the different investment objectives, time horizons and risk tolerances of the Plan's participants and beneficiaries.

The Board has overall responsibility for establishing and maintaining this investment policy, selecting the investment options available under the Plan, regularly evaluating the Plan's investment performance, providing Plan participants with investment education and communications regarding the Plan and its investments, and ensuring that the assets of the Plan are in compliance with all applicable laws governing the operation of the Plan.

The Plan is authorized to offer the following investment types.

- Fixed Investment Options
 - o Stable Income Fund

- Variable Investment Options
 - o Bond Funds
 - o Balanced Funds
 - o Target Date Retirement Funds
 - o Large Cap Equity Funds
 - o Mid-Cap Equity Funds
 - o Small Cap Equity Funds
 - o International Equity Funds
 - o Self-Directed Brokerage Account

NASSAU COUNTY DEFERRED COMPENSATION PLAN

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

1. DESCRIPTION OF PLAN (CONTINUED)

(f) Investment Options (Continued)

Upon enrollment in the Plan, a participant may direct employee contributions in any of the following investment options that were available during the plan year that ended on December 31, 2016. (Participants may change their investment options at any time):

- o American Funds American Balanced Fund
- o T. Rowe Price Retirement 2010 Fund
- o T. Rowe Price Retirement 2015 Fund
- o T. Rowe Price Retirement 2020 Fund
- o T. Rowe Price Retirement 2025 Fund
- o T. Rowe Price Retirement 2030 Fund
- o T. Rowe Price Retirement 2035 Fund
- o T. Rowe Price Retirement 2040 Fund
- o T. Rowe Price Retirement 2045 Fund
- o T. Rowe Price Retirement 2050 Fund
- o T. Rowe Price Retirement 2055 Fund
- o T. Rowe Price Retirement Income Fund
- o Core Plus Bond/PGIM Fund
- o Vanguard Total Bond Market Index Fund
- o American Funds EuroPacific Growth Fund
- o Oppenheimer Developing Markets Fund
- o Invesco Growth and Income Fund
- o ClearBridge Appreciation Fund
- o SA/T. Rowe Price Growth Stock Strategy Fund
- o Vanguard Institutional Index Fund
- o Prudential Stable Value Fund
- o Vanguard Mid-Cap Index Fund
- o AllianzGI NFJ Small-Cap Value Fund
- o ClearBridge Small Cap Growth Fund
- o Prudential QMA Mid-Cap Value Fund
- o Vanguard Small Cap Index Fund
- o Vanguard REIT Index Fund
- o Hartford Mid-Cap Fund
- o Self-Directed Brokerage Accounts

NASSAU COUNTY DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

1. DESCRIPTION OF PLAN (CONTINUED)

(g) Payment of Benefits and Transfers:

A participant of the Plan or beneficiary may receive a distribution of assets under the Plan upon a participant's retirement, termination of service, disability, death or the attainment of age 70½. A participant may elect to receive a lump sum amount equal to the value of his or her account, or periodic payments in monthly, quarterly, semiannual or annual installments. In addition to these regular periodic payments, a participant may also request a nonscheduled distribution of at least \$500 no more than twelve times a year.

Participants also have the right to redirect the timing, the amount, and the method of payment of the distribution. In connection with a participant's severance from employment, the participant may elect to have all or a portion of his/her account rolled over into another qualified retirement account.

Certain eligible participants are entitled to a full distribution ("inactive account distribution") of their account prior to separation from service if the total amount payable does not exceed \$1,000 and there have been no deferrals to the Plan by the participant in the prior two years. Participants are not eligible for an inactive account distribution if they have taken a prior inactive account distribution election.

A distribution is also permitted in the case of an unforeseen emergency, as defined by Internal Revenue Code 457 regulations. A participant may also elect to receive an in-service distribution if the participant has not made deferrals into the Plan for 24 consecutive months and the total value of the participant's account does not exceed \$5,000.

(h) Allocation of Contributions:

Contributions are allocated among investment options based on participants' designations through the Plan's record keeper.

(i) Unforeseeable Emergency (UFE):

Participants, after approval from the Third Party Administrator or the Plan's Board, may receive a UFE withdrawal which may not exceed the lesser of the amount reasonably needed to meet the financial need created by such unforeseeable emergency or the value of the participant's plan balance as of the most recent valuation date. All payments shall be made in one lump cash sum within sixty days after approval of the request.

NASSAU COUNTY DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2016

1. DESCRIPTION OF PLAN (CONTINUED)

(j) Vesting and Benefit Provisions:

Assets in the Plan are held in trust for the exclusive benefit of Plan members and their beneficiaries in accordance with GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Plan members are fully vested for the current valuation of their account from the date of enrollment in the Plan. Benefits are payable upon separation from service with Nassau County.

2. SUMMARY OF ACCOUNTING POLICIES

(a) Basis of Presentation

The Plan's financial statements are presented in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments*. GASB requires two basic financial statements: Statement of Fiduciary Net Position Available for Plan Benefits and Statement of Changes in Fiduciary Net Position Available for Plan Benefits.

(b) Basis of Accounting

The Plan's financial statements have been prepared using the accrual basis of accounting and conform to the provisions of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*.

(c) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of changes in net position during the reporting period. Actual results could differ from those estimates.

NASSAU COUNTY DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(d) Unit Valuation

Participants' net asset value per unit is determined on a daily basis for each of the Plan's 29 investment options. For mutual funds, net asset value per unit is computed on the total fair value at the end of the day of each investment option's net assets divided by the total outstanding units of that investment option. For pooled separate accounts net asset value per unit is computed on a daily basis based on the net asset value of the investments in the underlying funds which are valued at their closing Net Unit Value each day.

(e) Risks and Uncertainties

The Plan provides for participant-directed investments in various mutual funds, pooled separate accounts, a self-directed brokerage account and a stable value income fund. Investments are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near-term could materially affect participants' account balances and the amounts reported in the Statements of Fiduciary Net Position Available for Plan Benefits and the Statements of Changes in Fiduciary Net Position Available for Plan Benefits.

(f) Investment Valuation and Income Recognition

Prudential Retirement is the third-party administrator for the Nassau County Deferred Compensation Plan. Prudential Retirement provides record-keeping, administration services and access to 25 investments through retail branded mutual funds, 2 pooled separate accounts, a guaranteed interest account and a self-directed brokerage account.

Investments in mutual funds are stated at the net asset values of the shares held by the Plan at year-end, which are determined by quoted market prices.

Investments in pooled separate accounts consist of investments in other mutual funds or other marketable securities. The unit price generally will be different from the value of the underlying securities because the fund may hold cash for liquidity purposes, and the fees imposed by the fund are deducted from the fund value rather than charged separately to investors.

NASSAU COUNTY DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016 AND 2015

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(f) Investment Valuation and Income Recognition (Continued)

Guaranteed interest contracts ("GIC"s), are valued at contract value as estimated by the respective insurance company or investment managers. GICs provide for a guaranteed return on the principal invested over a specified time period. The contract value, which approximates fair value, is guaranteed through a related contract with a separate provider. The credited interest rates are reset periodically on such contracts, subject to a minimum guaranteed return.

Investment transactions are accounted for on a trade or investment date basis. Interest and dividend income is recorded on the accrual basis, with dividends accruing on the ex-dividend date. Gains and losses on the sale of investments are recognized when realized, while unrealized gains and losses are recognized daily, based on fluctuations in market value.

The Plan presents in the Statements of Changes in Fiduciary Net Position Available for Benefits the net change in the fair value of its mutual funds, pooled separate accounts, stable value income fund and self-directed brokerage accounts which consists of the realized gains or losses and the unrealized appreciation (depreciation) on those investments.

(g) Tax Status

The Plan is an eligible employee deferred compensation plan under Section 457(b) of the Internal Revenue Code.

(h) Payments of Benefits:

Benefits paid to participants are recorded when paid.

(i) Administrative expenses

Plan expenses are primarily attributable to fees for audit and investment consulting services.

(j) Fixed Income Accounts

Participants can allocate account funds to the Plan's guaranteed interest account. The guaranteed interest rate, under the terms of the contract at December 31, 2016 and 2015, was 2.70% and 2.72%, respectively.

NASSAU COUNTY DEFERRED COMPENSATION PLAN
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(k) Subsequent Events

Management has evaluated subsequent events through June 20, 2017, the date the financial statements were available for issuance.

New Accounting Pronouncements Issued, Not Yet Adopted

Through 2016, the Government Accounting Standards Board issued various new accounting statements. The Plan did not adopt any new accounting statements during the years ended December 31, 2016 and 2015 that had a material effect on its financial statements. Management is currently evaluating the effects of all GASB statements that have a prospective date after December 31, 2016 and believes they will not have a material impact on its financial statements.

3. INVESTMENTS

The Plan's investments at December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Mutual funds	\$ 517,715,508	\$ 480,909,694
Pooled separate accounts	227,313,976	224,882,722
Guaranteed investment accounts	496,492,446	454,686,024
Self-directed brokerage accounts	<u>1,010,663</u>	<u>856,789</u>
Total Plan Investments	\$ <u>1,242,532,593</u>	\$ <u>1,161,335,229</u>

The Plan's investments are subject to various risks. Among these risks are custodial credit risk, credit risk, concentration of credit risk, interest rate risk, and market risk.

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 Plan will not be able to recover the value of investments or collateral securities that are in the possession of the third party. The Plan's investment securities are not exposed to custodial credit risk, as

NASSAU COUNTY DEFERRED COMPENSATION PLAN

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

3. INVESTMENTS (CONTINUED)

defined by GASB Statement No. 40, as they are held in segregated trust accounts in the name of the Plan with the custodians.

Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities could occur in the near term.

As of December 31, 2016 and 2015, the following investments represented 5% or more of the Plan's net assets:

	<u>2016</u>	<u>2015</u>
SA/T. Rowe Price Growth		
Stock Strategy Fund	\$ 149,990,323	\$ 158,496,223
Core Plus Bond/PGIM Fund	\$ 77,323,653	\$ 66,386,499
Prudential Stable Value Fund	\$ 496,492,446	\$ 454,686,024
American Funds EuroPacific		
Growth Fund	\$ 91,831,346	\$ 89,646,555
Invesco Growth & Income Fund	\$ 74,865,593	\$ 68,807,824
Vanguard Institutional Index Fund	\$ 64,338,700	\$ -

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates could adversely affect the fair value of an investment. Since all investments are participant directed, all risks exist at the participant level. Each individual within the Plan has the ability to liquidate their positions on demand and have responsibility for managing the exposure to fair value loss.

As of December 31, the Plan had the following investments in its fixed earnings investments and mutual fund investments which include investments in bonds.

	<u>2016</u>	<u>2015</u>
Fixed earnings investments		
Prudential Stable Value Fund	\$ 496,492,024	\$ 454,686,024
Variable earnings investments		
T. Rowe Price Retirement 2010 Fund	5,809,520	5,684,169
T. Rowe Price Retirement 2015 Fund	3,498,636	3,742,359
T. Rowe Price Retirement 2020 Fund	5,843,968	5,198,293
T. Rowe Price Retirement 2025 Fund	24,199,845	23,505,027
T. Rowe Price Retirement 2030 Fund	4,925,320	4,250,882
T. Rowe Price Retirement 2035 Fund	2,852,838	2,486,278

NASSAU COUNTY DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

3. INVESTMENTS (CONTINUED)

	2016	2015
T. Rowe Price Retirement 2040 Fund	2,104,001	1,838,250
T. Rowe Price Retirement 2045 Fund	483,370	407,230
T. Rowe Price Retirement 2050 Fund	86,003	89,738
T. Rowe Price Retirement 2055 Fund	9,023,999	8,586,283
T. Rowe Price Retirement Balanced Fund	1,408,722	1,803,573
Vanguard Total Bond Market Index Fund	11,592,633	10,844,740
Core Plus Bond/PGIM Fund	77,323,653	66,386,499
American Funds American Balanced	29,123,702	27,398,251
American Funds EuroPacific Growth Fund	91,831,346	89,646,555

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates could adversely affect the fair value of the investment. The Plan allows the option of investments in mutual funds and separately managed accounts that invest outside the U.S. not to disclose the individual assets within the fund. The fair value of these investments was \$94,612,538 and \$92,321,341 at December 31, 2016 and 2015, respectively.

The individual funds are the American Funds EuroPacific Growth Fund and the Oppenheimer Developing Markets Fund.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Plan's investment in a single issuer. The Plan's investments are managed by several fund managers. The concentrations of investments are determined by the participants' elections to invest in the available investment options as selected by the Board. The investments that exceed 5% of the Plan's net position are identified on page 23.

4. RECORDKEEPING AND ADMINISTRATIVE EXPENSES

The Board serves as the Plan Administrator and represents the County in all matters concerning administration of the Plan.

Expenditures for recordkeeping and administrative expenses rendered in connection with the administration of the Plan are paid with funds received by the Plan from the service provider pursuant to the revenue sharing agreement.

NASSAU COUNTY DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

4. RECORDKEEPING AND ADMINISTRATIVE EXPENSES (CONTINUED)

Effective January 1, 2017 the Board has renewed the service provider agreement with Prudential Retirement and Insurance and Annuity Company ("Prudential") for an additional five years. The Board has agreed to renew and revise the revenue sharing agreement (the "Agreement") with Prudential. Under the arrangement, the Provider is to pay the Plan a portion of revenues earned from the assets held by the Plan. The arrangement calls for the Plan to receive a guaranteed payment of \$200,000 annually, payable in equal quarterly payments within thirty days of the end of each quarter. However, when the Provider's revenue from administering the Plan exceeds 0.04% of Plan assets, the excess amount will be payable to the Plan in the form of an Allowance.

Effective with the March 10, 2010 service provider agreement, the Board has agreed to a revenue sharing agreement (the "Agreement") with Prudential Retirement Insurance and Annuity Company (the "Provider"). Under the arrangement, the Provider is to pay the Plan a portion of revenues earned from the assets held by the Plan. The arrangement calls for the Plan to receive a guaranteed payment of \$150,000 annually, payable in equal quarterly payments within thirty days of the end of each quarter. However, when the Provider's revenue from administering the Plan exceeds 0.05% of Plan assets, the excess amount will be payable to the Plan in the form of an Allowance.

Additional amounts may be payable to the Plan as a result of the Provider's failure to meet the performance standards set forth in Appendix A of the Agreement.

For the years ended December 31, 2016 and 2015, the Plan earned approximately \$370,000 and \$401,000, respectively in revenue sharing payments from the Provider. At December 31, 2016 and 2015, the shared revenue account balance was approximately \$699,000 and \$461,000.

At the March 23, 2017 meeting of the Board, it was decided to transfer (distribute) \$750,000 from the revenue sharing account to participants on a pro-rata basis, with certain exceptions based on their June 1, 2017 balances with the account crediting occurring on or about June 30, 2017.

On June 30, 2015, the Plan, with the Boards approval, transferred (distributed) \$1,000,000 from the revenue sharing account to participants on a pro-rata basis based on their May 29, 2015 account balances.

NASSAU COUNTY DEFERRED COMPENSATION PLAN

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

5. PLAN TERMINATION

Although it has not expressed any intent to do so, the Nassau County Legislature has the authority to discontinue deferrals and to terminate the Plan. Upon termination of the Plan, all amounts deferred would be payable as provided in the Plan document

6. RELATED PARTY TRANSACTIONS

Prudential Bank & Trust Company ("PB&T") is the Plan's trustee. The Plan's investment in the Stable Value Fund is with a related party. Transactions in such investments qualify as party-in-interest transactions which are exempt from the prohibited transaction rules.

7. TAX STATUS

The Internal Revenue Service has determined that the Plan and related trust are designed in accordance with Section 457 of the Internal Revenue Code (the "IRC") and as such, are not subject to tax under present income tax law. The Plan Administrator believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.