

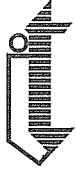
NASSAU COUNTY DEFERRED COMPENSATION PLAN

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

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

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# Israeloff, Trattner & Co. P.C.

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## INDEPENDENT AUDITOR'S REPORT

To the Nassau County  
Deferred Compensation Board and Participants:

We have audited the accompanying statements of fiduciary net assets available for plan benefits of the Nassau County Deferred Compensation Plan (the "Plan") as of December 31, 2011 and 2010, and the related statements of changes in fiduciary net assets for the years then ended, which collectively comprise the Plan's basic financial statements. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Nassau County Deferred Compensation Plan as of December 31, 2011 and 2010, and the changes in its financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 2 through 8 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. 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.

*Israeloff, Trattner & Co. P.C.*

Garden City, New York  
December 4, 2013

NASSAU COUNTY DEFERRED COMPENSATION PLAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

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, 2011 and 2010.

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 purpose is to help 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, 2011, the Plan had approximately 9,000 total participants and \$818 million of assets. Participant assets are accumulated through voluntary payroll deferrals, rollovers from other 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 31 core investment options offered.

### **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 Assets Available for Benefits, (2) Statements of Changes in Fiduciary Net Assets Available for Benefits and (3) Notes to Financial Statements. Collectively, this information presents the fiduciary 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 calendar years ended December 31, 2011 and 2010. Please read it in conjunction with the Plan's financial statements.

### **Financial Highlights**

2011 - 2010

- Net Assets Available for Benefits increased by \$14,779,696 as a result of 2011's activities from \$803,227,226 to \$818,006,922.
- Additions for the year of \$50,387,436 are comprised of participant contributions of \$49,274,436 and net investment income of \$1,113,000.
- Deductions for the year of \$35,607,740 are comprised of benefit payments of \$35,020,236, loan defaults and deemed distributions of \$557,123 and administrative expenses of \$30,381.

NASSAU COUNTY DEFERRED COMPENSATION PLAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

**Financial Highlights (Continued)**

2010 – 2009

- Net Assets Available for Benefits increased by \$62,419,173 as a result of 2010's activities from \$740,808,053 to \$803,227,226.
- Additions for the year of \$113,611,398 are comprised of participant contributions of \$50,732,627 and net investment income of \$62,878,771.
- Deductions for the year of \$51,192,225 are comprised of benefit payments of \$51,058,768, loan defaults and deemed distributions of \$12,301 and administrative expenses of \$121,156.

The annual report consists of two financial statements: The Statements of Fiduciary Net Assets and The Statements of Changes in Fiduciary Net Assets. These financial statements report information about the Plan and about 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 period 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 Assets show the balances in all of the assets and liabilities of the Plan at the end of the year. The difference between assets and liabilities represents the Plan's fiduciary net assets. Over time, increases or decreases in the Plan's fiduciary net assets provide one indication of whether the financial health of the Plan is improving or declining. The Statements of Changes in Fiduciary Net Assets show the results of financial operations for the year. The statements provide an explanation for the change in the Plan's net assets since the prior year.

**Financial Analysis**

**Summary of Fiduciary Net Assets**

2011 – 2010

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>
Assets	\$ 818,098,922	\$ 803,296,226	\$ 14,802,696
Liabilities	<u>92,000</u>	<u>69,000</u>	<u>23,000</u>
	<u>\$ 818,006,922</u>	<u>\$ 803,227,226</u>	<u>\$ 14,779,696</u>

NASSAU COUNTY DEFERRED COMPENSATION PLAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

**Financial Analysis (Continued)**

Total assets increased by \$14.8 million or 1.8% between 2010 and 2011 due to the increase in fair value of investments and contributions to the plan being greater than distributions from the plan.

Total liabilities increased by \$23,000 or 33.3% due to the accrual of 2011 audit fees.

Net assets increased by \$14.8 million or 1.8%.

**Summary of Fiduciary Net Assets**

2010 – 2009

	<u>2010</u>	<u>2009</u>	<u>Increase (Decrease)</u>
Assets	\$ 803,296,226	\$ 740,876,053	\$ 62,420,173
Liabilities	<u>69,000</u>	<u>68,000</u>	<u>1,000</u>
	<u>\$ 803,227,226</u>	<u>\$ 740,808,053</u>	<u>\$ 62,419,173</u>

Total assets increased by \$62.4 million or 8.43% between 2009 and 2010 due to the increase in fair value of the investments and contributions to the plan being greater than distributions from the plan.

Total liabilities increased by \$1,000 or 1.5% due to an increase in audit fees payable.

Net assets increased by \$62.4 million or 8.43%.

**Summary of Changes in Fiduciary Net Assets**

2011 – 2010

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>
Additions:			
Member contributions	\$ 49,274,436	\$ 50,732,627	\$ (1,458,191)
Net investment income	<u>1,113,000</u>	<u>62,878,771</u>	<u>(61,765,771)</u>
Total additions	<u>\$ 50,387,436</u>	<u>\$ 113,611,398</u>	<u>\$ (63,223,962)</u>
Deductions:			
Benefits	\$ 35,020,236	\$ 51,058,768	\$ (16,038,532)
Deemed distributions	557,123	12,301	544,822
Administrative expenses	<u>30,381</u>	<u>121,156</u>	<u>(90,775)</u>
Total deductions	<u>35,607,740</u>	<u>51,192,225</u>	<u>(15,584,485)</u>
Change in net assets	<u>\$ 14,779,696</u>	<u>\$ 62,419,173</u>	<u>\$ (47,639,477)</u>

NASSAU COUNTY DEFERRED COMPENSATION PLAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

**Financial Analysis (Continued)**

Additions consist of member contributions, including rollover contributions and earnings from investment activities. The 2011 additions were substantially less than those in 2010 (approximately \$63.2 million) less primarily due to the fact that 2010 additions included the continuation of the recovery from the 2008 downward correction experienced by the economy.

Deductions consist of benefit payments, loan defaults and deemed distributions and administrative expenses. Benefit payments decreased by \$16.0 million or 31.4% between 2010 and 2011.

**Summary of Changes in Fiduciary Net Assets**

2010 – 2009

	<u>2010</u>	<u>2009</u>	<u>Increase (Decrease)</u>
Additions:			
Member contributions	\$ 50,732,627	\$ 52,078,768	\$ (1,346,141)
Net investment income	<u>62,878,771</u>	<u>109,405,418</u>	<u>(46,526,647)</u>
Total additions	\$ <u>113,611,398</u>	\$ <u>161,484,186</u>	\$ <u>(47,872,788)</u>
Deductions:			
Benefits	\$ 51,058,768	\$ 33,867,812	\$ 17,190,956
Deemed distributions	12,301	-	12,301
Administrative expenses	<u>121,156</u>	<u>118,675</u>	<u>2,481</u>
Total deductions	<u>51,192,225</u>	<u>33,986,487</u>	<u>17,205,738</u>
Change in net assets	\$ <u>62,419,173</u>	\$ <u>127,497,699</u>	\$ <u>65,078,526</u>

Additions consist of member contributions, including rollover contributions and earnings from investment activities. Total additions decreased by \$47.9 million between 2009 and 2010 primarily due to a smaller increase in net investment income from 2009 to 2010. The large increase in 2009 is partly due to a reversal of the downward correction to the market that occurred in 2008.

Deductions consist of benefit payments, loan defaults and administrative expenses. Benefit payments increased by \$17.2 million or 50.8% between 2009 and 2010.

NASSAU COUNTY DEFERRED COMPENSATION PLAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

**Retirement System as a Whole (Continued)**

Members are 100% vested in the present value of their contributions.

The following is a listing of all the Plan's investment options offered and their related rate of return for 2011. 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:

<u>Mutual Fund Select Portfolio Description</u>	<u>Investment Value</u>	<u>Percentage of Total Assets</u>	<u>Rate of Return %</u>
Prudential Stable Value Fund	370,837,763	46.00	3.04
American Funds American Balanced Fund R4	22,386,485	2.78	3.80
Vanguard Total Bond Market Index Institutional	12,623,660	1.57	7.72
Core Plus Bond/PIMCO Fund	31,882,167	3.95	1.87
SA/T. Rowe Price Growth Stock Strategy Fund	95,781,850	11.88	(1.78)
ClearBridge Appreciation Fund Class I	17,128,059	2.12	2.45
Vanguard Institutional Index Fund	35,040,256	4.35	2.09
Invesco Growth and Income Fund Class Y	34,912,256	4.33	(1.89)
Morgan Stanley Institutional Mid Cap Growth Fund	17,705,508	2.20	(6.89)
Vanguard Mid Cap Index Institutional Fund	14,521,464	1.80	(1.96)
Pioneer Mid Cap Value Fund Class A	8,518,011	1.06	(6.04)
Janus Perkins Mid Cap Value Fund Class T	2,928,020	0.36	(2.55)
ClearBridge Small Cap Growth Fund Class I	9,000,959	1.12	1.02
Pennsylvania Mutual Investment Fund	14,063,252	1.74	(4.17)
Vanguard Small Cap Index Institutional Fund	10,053,990	1.25	(2.65)
AllianzGI NFJ Small Cap Value Institutional Fund	10,518,760	1.30	2.52
American Funds EuroPacific Growth Fund R4	49,929,287	6.19	(13.61)
Oppenheimer Developing Markets Fund Class Y	2,018,726	0.25	(17.85)
Vanguard REIT Index Fund	2,454,034	0.30	8.47
T. Rowe Price Retirement Income Fund	959,544	0.12	1.43
T. Rowe Price Retirement 2010 Fund	6,033,805	0.75	0.54
T. Rowe Price Retirement 2015 Fund	2,920,271	0.36	(0.32)
T. Rowe Price Retirement 2020 Fund	2,855,841	0.35	(1.20)
T. Rowe Price Retirement 2025 Fund	19,626,648	2.43	(2.06)
T. Rowe Price Retirement 2030 Fund	2,795,415	0.35	(2.70)
T. Rowe Price Retirement 2035 Fund	854,237	0.11	(3.26)



NASSAU COUNTY DEFERRED COMPENSATION PLAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

**Retirement System as a Whole (Continued)**

<u>Mutual Fund Select Portfolio Description</u>	<u>Investment Value</u>	<u>Percentage of Total Assets</u>	<u>Rate of Return %</u>
T. Rowe Price Retirement 2040 Fund	594,859	0.07	(3.49)
T. Rowe Price Retirement 2045 Fund	150,846	0.02	(3.47)
T. Rowe Price Retirement 2050 Fund	6,511	0.00	(3.36)
T. Rowe Price Retirement 2055 Fund	6,746,245	0.84	(3.35)
Self Directed Brokerage Account	<u>362,583</u>	<u>0.05</u>	N/A
	<u>\$ 806,211,312</u>	100.00	

**Revenue Sharing Program**

Effective September 1, 2009, the revenue sharing agreement between the Plan and its service provider was terminated. The agreement called for the service provider to share its revenues earned from the assets held with the Plan. The arrangement is described in more detail in Note 4 to the financial statements. These fees earned from the revenue sharing agreement were maintained in a separate shared revenue money market account. The funds maintained in the account were to be used at the discretion of the Deferred Compensation Plan Board (the "Board"). The Plan used part of the funds earned to pay for consulting, auditing and other administrative expenses of the Plan in 2011 and 2010. At August 1, 2010, the balance in the shared revenue money market account of \$746,167 was transferred to the Prudential Stable Value Fund. For the years ended December 31, 2011 and 2010, the Plan did not earn any revenue sharing income.

In March 2011, with the approval of the Board, approximately six hundred thousand dollars was transferred from the shared revenue account to all active participants' accounts on a pro-rata basis. These funds represent monies that were earned from the revenue sharing agreement in prior years.

**Participant Loan Program**

In August 2010, with the approval of the Board, the Plan instituted a participant loan program. (See note 1(d) to the financial statements for more details.) As of December 31, 2011, the Plan had loans outstanding from participants totaling approximately \$11.9 million.

**Change in Custodians**

Effective August 1, 2010 the Plan transferred the custodial functions from Metropolitan Life Insurance Company ("MetLife") to Prudential Retirement Insurance and Annuity Company ("Prudential"). During the transfer an issue occurred with the conversion wires authorizing the transfer of funds to Prudential. On August 2, 2010, the issue was resolved and all transactions were posted. In August 2010, MetLife remitted \$1,039,236, to Prudential representing the drop in market value of the Plan's investments during the one day lag. In November 2010, with the approval of the Board, the Plan passed along these funds to impacted participants.

NASSAU COUNTY DEFERRED COMPENSATION PLAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

**Annual Contribution Limits**

The annual maximum contribution for 2011 and 2010 was \$16,500 (\$22,000 if employee is age 50 or older). The annual maximum contributions have been set for the coming years as follows:

2012	\$ 17,000 (\$22,500, if age 50 or older)
2013	\$ 17,500 (\$23,000, if age 50 or older)
2014	\$ 17,500 (\$23,000, if age 50 or older)

**Contact Information**

The financial report is designed to provide the Board, participants, beneficiaries, investment managers and other interested parties with a general overview of the Plan's finances and to show the Plan's accountability for the money it received. If you have any questions about this report or need additional financial information, contact:

Nassau County Deferred Compensation Plan Board  
One West Street  
Mineola, NY 11501

## FINANCIAL STATEMENTS

NASSAU COUNTY DEFERRED COMPENSATION PLAN

STATEMENTS OF FIDUCIARY NET ASSETS AVAILABLE FOR BENEFITS

DECEMBER 31,

**ASSETS**

	<u>2011</u>	<u>2010</u>
Investments, at fair value:		
Guaranteed investment account	\$ 370,837,763	\$ 346,841,311
Mutual funds:		
Bond funds	44,505,827	33,775,989
Balanced funds	23,346,029	25,943,212
Speciality funds	2,454,034	1,631,823
International equity funds	51,948,013	53,571,962
Large-cap equity funds	182,862,421	196,525,002
Mid-cap equity funds	43,673,003	45,498,632
Small-cap equity funds	43,636,961	43,684,864
Self-directed brokerage account	362,583	169,981
Target date retirement funds	<u>42,584,678</u>	<u>48,477,314</u>
Total investments	806,211,312	796,120,090
Participant notes receivable	<u>11,887,610</u>	<u>7,176,136</u>
Total Assets	818,098,922	803,296,226
<b>LIABILITIES</b>		
Accrued expenses	<u>92,000</u>	<u>69,000</u>
FIDUCIARY NET ASSETS AVAILABLE FOR BENEFITS	<u>\$ 818,006,922</u>	<u>\$ 803,227,226</u>

See accompanying notes to the financial statements.

NASSAU COUNTY DEFERRED COMPENSATION PLAN

STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS AVAILABLE FOR BENEFITS

FOR YEARS ENDED DECEMBER 31,

	<u>2011</u>	<u>2010</u>
<b>ADDITIONS TO NET ASSETS ATTRIBUTED TO:</b>		
Investment income:		
Interest and dividends	\$ 5,220,328	\$ 9,825,326
Capital gains	2,078,476	96,979
Net appreciation (depreciation) in fair value of investments	<u>(6,185,804)</u>	<u>52,956,466</u>
	1,113,000	62,878,771
Contributions:		
Plan participants - deferrals of compensation	48,139,421	50,644,927
Rollovers, transfers and other adjustments, net	<u>1,135,015</u>	<u>87,700</u>
Total contributions, rollovers, transfers and other adjustments, net	<u>49,274,436</u>	<u>50,732,627</u>
Total additions	<u>50,387,436</u>	<u>113,611,398</u>
<b>DEDUCTIONS FROM NET ASSETS ATTRIBUTED TO:</b>		
Benefits paid to participants and beneficiaries	35,020,236	51,058,768
Deemed distributions	557,123	12,301
Administrative expenses	<u>30,381</u>	<u>121,156</u>
Total deductions	35,607,740	51,192,225
Increase in fiduciary net assets available for benefits	<u>14,779,696</u>	<u>62,419,173</u>
FIDUCIARY NET ASSETS AVAILABLE FOR BENEFITS, beginning of year	<u>803,227,226</u>	<u>740,808,053</u>
FIDUCIARY NET ASSETS AVAILABLE FOR BENEFITS, end of year	<u>\$ 818,006,922</u>	<u>\$ 803,227,226</u>

See accompanying notes to the financial statements.

NASSAU COUNTY DEFERRED COMPENSATION PLAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

**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") 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 Plan's membership was approximately 9,000 at December 31, 2011 and 2010.

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 (\$16,500 in 2011 and 2010). Participants that have attained age 50 before the close of a plan year are permitted to contribute an additional catch-up amount (\$5,500 in 2011 and 2010).

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 investment fund options, and may increase, decrease or suspend their deferrals once a month. Compensations 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.

NASSAU COUNTY DEFERRED COMPENSATION PLAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

**1. DESCRIPTION OF PLAN (CONTINUED)**

(c) Contributions (Continued):

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 Internal Revenue Service ("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 at 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 benefit distribution and will be subject to federal and state income taxes. Interest rates on outstanding loans were 4.25% at December 31, 2011.

(e) Participants' Accounts and Vesting:

Each participant's account is credited with the participant's contributions as of the date at which the participant's contribution is remitted. The account is also credited with any increase or charged with any decrease related to the transactions of the Plan. 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.

(f) Investment Options

The Plan's investment policy was developed by its 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.

NASSAU COUNTY DEFERRED COMPENSATION PLAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

**1. DESCRIPTION OF PLAN (CONTINUED)**

(f) Investment Options (Continued)

The Plan's policy allows for a selection of investment choices within three broad risk/return categories:

- Conservative, with the primary investment objective being protection of principal,
- Moderate, with the objective of a somewhat higher return at the cost of low to moderate fluctuation in principal value,
- Aggressive, with the objective of maximum returns with commensurately higher risk and principal volatility.

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 Board has authorized the Plan to offer the following investment types that fall within the broad categories listed above.

- Fixed Investment Options
  - o Stable Income Fund
- Variable Investment Options
  - o Bond Funds
  - o Balanced Funds
  - o International Equity Funds
  - o Large Cap Equity Funds
  - o Mid-Cap Equity Funds
  - o Small Cap Equity Funds
  - o Self-directed brokerage account
  - o Specialty Funds
  - o Target Date Retirement Funds

(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.



NASSAU COUNTY DEFERRED COMPENSATION PLAN  
NOTES TO FINANCIAL STATEMENTS  
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**1. DESCRIPTION OF PLAN (CONTINUED)**

(g) Payment of Benefits and Transfers (Continued):

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 unforeseeable 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 recordkeepers.

(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.

(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 Governmental Accounting

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**1. DESCRIPTION OF PLAN (CONTINUED)**

(j) Vesting and Benefit Provisions: (Continued)

Standards Board ("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 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*.

(b) Use of Estimates

The preparation of the 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

(c) Unit Valuation

Participants' net asset value per unit is determined on a daily basis for each of the Plan's 31 investment fund options. Net asset value per unit is computed on the total fair value at the end of the day of the Plan's net assets divided by the total outstanding units of the Plan.

(d) Risks and Uncertainties

The Plan provides for participant-directed investments in various mutual funds and in 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

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**2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)**

(d) Risks and Uncertainties (Continued)

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 Net Assets Available for Plan Benefits and the Statements of changes in Net Assets Available for Plan Benefits.

(e) 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 31 investments through retail branded mutual funds.

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.

Guaranteed interest contracts (GICs), 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 Net Assets Available for Benefits the net change in the fair value of its mutual funds which consists of the realized gains or losses and the unrealized appreciation (depreciation) on those mutual funds.

(f) Payments of Benefits:

Benefits are recorded when paid.

NASSAU COUNTY DEFERRED COMPENSATION PLAN

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

**2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)**

(g) 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, 2011 and 2010, was 3.06% and 3.00%, respectively.

**3. INVESTMENTS**

The Plan offers participants the option to choose among mutual funds, a stable income fund and self-directed brokerage accounts.

The Plan's investment options consist of the following at December 31:

	<u>2011</u>	<u>2010</u>
AllianzGI NFJ Small Cap Value Institutional Fund	\$ 10,518,760	\$ 9,277,216
American Funds EuroPacific Growth Fund R4	49,929,287	50,614,248
American Funds American Balanced Fund R4	22,386,485	24,774,214
Core Plus Bond/PIMCO Fund	31,882,167	22,918,492
Invesco Growth & Income Fund Class Y	34,912,256	34,550,466
Janus Perkins Mid Cap Value Fund Class A	2,928,020	1,669,860
Clearbridge Appreciation Fund Class I	17,128,059	18,885,983
Clearbridge Small Cap Growth Fund Class I	9,000,959	8,060,212
Morgan Stanley Institutional Mid Cap Growth Fund	17,705,508	18,809,637
Oppenheimer Developing Markets Fund Class Y	2,018,726	2,957,714
Pennsylvania Mutual Investment Fund	14,063,252	15,513,817
Pioneer Mid Cap Value Fund Class A	8,518,011	9,774,922
Prudential Stable Value Fund	370,837,763	346,841,311
SA/T. Rowe Price Growth Stock Strategy Fund	95,781,850	105,892,431
Self Directed Brokerage Account	362,583	169,981
T. Rowe Price Retirement 2010 Fund	6,033,805	7,518,176
T. Rowe Price Retirement 2015 Fund	2,920,271	2,642,310
T. Rowe Price Retirement 2020 Fund	2,855,841	2,562,234
T. Rowe Price Retirement 2025 Fund	19,626,648	23,526,396
T. Rowe Price Retirement 2030 Fund	2,705,415	2,606,982
T. Rowe Price Retirement 2035 Fund	854,237	791,958
T. Rowe Price Retirement 2040 Fund	594,859	460,408
T. Rowe Price Retirement 2045 Fund	150,846	75,134
T. Rowe Price Retirement 2050 Fund	6,511	508
T. Rowe Price Retirement 2055 Fund	6,746,245	8,293,208
T. Rowe Price Retirement Income Fund	959,544	1,168,998
Vanguard Institutional Index Fund	35,040,256	37,196,122
Vanguard Mid Cap Index Institutional Fund	14,521,464	15,244,213
Vanguard REIT Index Fund	2,454,034	1,631,823
Vanguard Small Cap Index Institutional Fund	10,053,990	10,833,619

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**3. INVESTMENTS (CONTINUED)**

	2011	2010
Vanguard Total Bond Market Index Institutional Fund	12,623,660	10,857,497
	<b>\$ 806,211,312</b>	<b>\$ 796,120,090</b>

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, 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 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, 2011 and 2010, the following investments represented 5% or more of the Plan's net assets:

	2011	2010
SA/T. Rowe Price Growth Stock Strategy Fund	\$ 95,781,850	\$ 105,892,431
Prudential Stable Value Fund	\$ 370,837,763	\$ 346,841,311
American Funds EuroPacific Growth Fund R4	\$ 49,929,287	\$ 50,614,248

**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.

NASSAU COUNTY DEFERRED COMPENSATION PLAN

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**3. INVESTMENTS (CONTINUED)**

**Interest Rate Risk (Continued)**

	<u>2011</u>	<u>2010</u>
Fixed earnings investments		
Stable Value Income Fund	\$ 370,837,763	\$ 346,841,311
Variable earnings investments		
T. Rowe Price Retirement 2010 Fund	6,033,805	7,518,176
T. Rowe Price Retirement 2015 Fund	2,920,271	2,642,310
T. Rowe Price Retirement 2020 Fund	2,855,841	2,562,234
T. Rowe Price Retirement 2025 Fund	19,626,648	23,526,396
T. Rowe Price Retirement 2030 Fund	2,795,415	2,606,982
T. Rowe Price Retirement 2035 Fund	854,237	791,958
T. Rowe Price Retirement 2040 Fund	594,859	460,408
T. Rowe Price Retirement 2045 Fund	150,846	75,134
T. Rowe Price Retirement 2050 Fund	6,511	508
T. Rowe Price Retirement 2055 Fund	6,746,245	8,293,208
T. Rowe Price Retirement Income Fund	959,544	1,168,998
Vanguard Total Bond Market Index Institutional Fund	12,623,660	10,857,497
Core Plus Bond/PIMCO Fund	31,882,167	22,918,492
American Funds American Balanced R4	22,386,485	24,774,214
American Funds EuroPacific Growth Fund	49,929,287	50,614,248

**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 were paid with funds received by the Plan from the service provider pursuant to the revenue sharing agreement.

Effective September 1, 2009, the revenue sharing agreement between the Board and Metropolitan Life Insurance Company (“MetLife”) was terminated. The original agreement was in effect since September 1, 2004, whereby the Board agreed to a revenue sharing agreement between the Plan and its service provider. Under this arrangement, the service provider was to pay the Plan a portion of revenues earned from the assets held by the Plan. The arrangement called for 80% of annual revenues in excess of \$1,669,000 earned by the provider to be remitted to the Plan and no less than \$337,000. Such revenues were remitted directly to the Plan and used in the best interest of the Plan as determined by the Board (i.e., plan expenses). In case the Board finds such revenues to be significantly more than the sum of the Plan’s incurred and anticipated expenses and a prudent reserve for future expenses, the Board may instruct that the difference be allocated among plan participants.

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**4. RECORDKEEPING AND ADMINISTRATIVE EXPENSES (CONTINUED)**

For the years ended December 31, 2011 and 2010, the Plan did not have earnings from the revenue sharing agreement. Effective August 1, 2010, the balance in the revenue sharing account was transferred to the Prudential Stable Value Fund. Prior to August 1, 2010, the balance in the revenue sharing account was invested in the Vanguard Fund (the "Fund") formerly the Legg Mason Money Market Fund. The funds in the revenue sharing account were used to pay consulting, auditing and miscellaneous other Plan expenses in 2011 and 2010.

In March 2011, with the approval of the Board, approximately six hundred thousand dollars was transferred from the shared revenue account to all active participants' accounts on a pro rata basis. These funds represent monies that were earned from the revenue sharing agreement in prior years in excess of Plan expenses.

Effective August 1, 2010 the Plan transferred the custodial functions from MetLife to Prudential. During the transfer an issue occurred with the conversion wires authorizing the transfer of funds to Prudential. On August 2, 2010, the issue was resolved and all transactions were posted.

In August 2010, MetLife remitted \$1,039,236 to Prudential representing the drop in value of the Plan investments during the one day lag. In November 2010, with the approval of the Board, the Plan passed along these funds to the impacted participants.

**5. RELATED PARTY TRANSACTIONS**

Prudential Retirement Insurance and Annuity Company is the Plan's trustee. Certain Plan investments which consist of Stable Value Fund is a related party. Transactions in such investments qualify as party-in-interest transactions which are exempt from the prohibited transaction rules.

**6. 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.

**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 (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.

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**8. PENDING GASB STATEMENTS**

As of the date of the audit report, GASB has issued the following statement not yet implemented by the Plan:

Statement Number 67, *Financial Reporting for Pension Plans* – an amendment of GASB Statement No. 25 was issued June 2012 and will be effective for the Plan with the fiscal year ending December 31, 2013. The statement establishes standards of financial reporting for separately issued financial statements related to pensions for governments whose employees are provided pensions through pension plans that are covered by the scope of the statement. Management is in the process of determining the effect of the implementation of this statement on the Plan.

**9. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through December 4, 2013, the date the financial statements were available for issuance.