

NASSAU COUNTY DEFERRED COMPENSATION PLAN
FINANCIAL STATEMENTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

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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:

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, 2012 and 2011, 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 included 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 of 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 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 statement.

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, 2012 and 2011, and the respective changes in financial position 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 10 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Isaacs, Teattner & Co. P.C.

Garden City, New York
June 5, 2014

NASSAU COUNTY DEFERRED COMPENSATION PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

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, 2012 and 2011.

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 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 2012, the Plan had approximately 6,300 total active participants and \$920 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 30 core investment options and a self directed brokerage option offered during 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 Benefits, (2) Statements of Changes in Fiduciary Net Position Available for 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, 2012 and 2011. Please read it in conjunction with the Plan's financial statements.

Financial Highlights

2012 - 2011

- Net Position Available for Benefits increased by \$101,556,642 as a result of 2012's activities from \$818,006,922 to \$919,563,564.
- Additions for the year of \$134,030,691 are comprised of participant contributions and revenue sharing income of \$53,694,054 and net investment income of \$80,336,637.
- Deductions for the year of \$32,474,049 are comprised of benefit payments of \$32,024,598, loan defaults and deemed distributions of \$392,049 and administrative expenses of \$57,402.

NASSAU COUNTY DEFERRED COMPENSATION PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

Financial Highlights (Continued)

2011 – 2010

- Net Position 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.

The annual report consists of two financial statements: The Statements of Fiduciary Net Position and the Statements of Changes in Fiduciary Net Position. 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 Position 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 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 show the results of financial operations for the 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.

Financial Analysis

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

2012 – 2011

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>
Assets	\$ 919,679,064	\$ 818,098,922	\$ 101,580,142
Liabilities	<u>115,500</u>	<u>92,000</u>	<u>23,500</u>
Net position available for plan benefits	<u>\$ 919,563,564</u>	<u>\$ 818,006,922</u>	<u>\$ 101,556,642</u>

NASSAU COUNTY DEFERRED COMPENSATION PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

Financial Analysis (Continued)

Total assets increased by \$101.6 million or 12.4% between 2011 and 2012 due to the increase in investment income and contributions to the plan being greater than distributions from the plan.

Total liabilities increased by \$23,500 or 25.5% due to the addition of another year of audit fees.

Net position increased by \$101.6 million or 12.4%.

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

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>
Net position available for plan benefits	\$ <u>818,006,922</u>	\$ <u>803,227,226</u>	\$ <u>14,779,696</u>

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 position increased by \$14.8 million or 1.8%.

Table 2A: Summary of Changes in Fiduciary Net Position

2012 – 2011

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>
Additions:			
Participant contributions and revenue sharing	\$ 53,694,054	\$ 49,274,436	\$ 4,419,618
Net investment income (loss)	<u>80,336,637</u>	<u>1,113,000</u>	<u>79,223,637</u>
Total additions	\$ <u>134,030,691</u>	\$ <u>50,387,436</u>	\$ <u>83,643,255</u>
Deductions:			
Benefit payments	\$ 32,024,598	\$ 35,020,236	\$ (2,995,638)
Loan defaults and deemed distributions	392,049	557,123	(165,074)
Administrative expenses	<u>57,402</u>	<u>30,381</u>	<u>27,021</u>
Total deductions	<u>32,474,049</u>	<u>35,607,740</u>	<u>(3,133,691)</u>
Change in net position	\$ <u>101,556,642</u>	\$ <u>14,779,696</u>	\$ <u>86,776,946</u>

NASSAU COUNTY DEFERRED COMPENSATION PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

Financial Analysis (Continued)

Additions consist of participant contributions, including rollover contributions and earnings from investment activities. Total additions increased by \$83.6 million between 2011 and 2012 primarily due to the appreciation in investments from 2011 to 2012.

Deductions consist of benefit payments, loan defaults and deemed distributions and administrative expenses. Total deductions decreased by \$3.2 million or 8.9% between 2011 and 2012 primarily due to the decrease in benefits paid to participants and beneficiaries.

The increase in net position of \$101.6 million was primarily a result of an increase in net investment income offset by a decrease in benefits paid to participants and beneficiaries from 2011 to 2012.

Table 2B: Summary of Changes in Fiduciary Net Position

2011 – 2010

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>
Additions:			
Participant 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:			
Benefit payments	\$ 35,020,236	\$ 51,058,768	\$ (16,038,532)
Loan defaults and 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 position	<u>\$ 14,779,696</u>	<u>\$ 62,419,173</u>	<u>\$ (47,639,477)</u>

Additions consist of participant contributions, including rollover contributions and earnings from investment activities. Total 2011 additions were substantially less than those in 2010 (approximately \$63.2 million) primarily due to the fact that 2010 additions from net investment income 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.

NASSAU COUNTY DEFERRED COMPENSATION PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

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 2012. 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 2012

	<u>Investment Value</u>	<u>Percentage of Total Investments</u>	<u>Rate of Return %</u>
Prudential Stable Value Fund	403,957,328	44.55	2.71
American Funds American Balanced Fund	23,357,039	2.58	14.14
Vanguard Total Bond Market Index Fund	12,709,454	1.40	4.18
Core Plus Bond/PIMCO Fund	46,319,152	5.04	9.59
SA/T. Rowe Price Growth Stock Strategy Fund	107,232,958	11.83	18.75
Legg Mason ClearBridge Appreciation Fund	18,118,658	2.00	15.97
Vanguard Institutional Index Fund	37,406,735	4.13	15.98
Invesco Growth and Income Fund	42,317,512	4.67	14.91
Morgan Stanley Institutional Mid Cap Growth Portfolio	18,517,998	2.04	9.49
Vanguard Mid-Cap Index Fund	16,134,598	1.78	16.01
Pioneer Mid-Cap Value Fund	8,145,308	0.90	10.83
Janus Perkins Mid-Cap Value Fund	4,699,640	0.53	10.32
Legg Mason ClearBridge Small Cap Growth Fund	12,229,596	1.35	19.39
Pennsylvania Mutual Investment Fund	14,040,502	1.55	14.58
Vanguard Small Cap Index Fund	11,078,316	1.22	18.26
AllianzGI NFJ Small Cap Value Fund	12,309,641	1.36	10.79
American Funds EuroPacific Growth Fund	63,790,861	7.03	19.22
Oppenheimer Developing Markets Fund	2,952,639	0.34	21.29
Vanguard REIT Index Fund	4,051,709	0.46	17.53
T. Rowe Price Retirement Income Fund	1,063,776	0.12	10.05
T. Rowe Price Retirement 2010 Fund	6,479,407	0.71	12.44
T. Rowe Price Retirement 2015 Fund	3,297,727	0.36	13.81
T. Rowe Price Retirement 2020 Fund	3,120,699	0.34	15.01
T. Rowe Price Retirement 2025 Fund	20,464,951	2.26	16.00

NASSAU COUNTY DEFERRED COMPENSATION PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

Retirement System as a Whole (Continued)

Table 3A: Investments by Fund with Rates of Return for 2012 (Continued)

	<u>Investment Value</u>	<u>Percentage of Total Investments</u>	<u>Rate of Return %</u>
T. Rowe Price Retirement 2030 Fund	2,897,657	0.32	16.82
T. Rowe Price Retirement 2035 Fund	1,236,382	0.15	17.35
T. Rowe Price Retirement 2040 Fund	796,638	0.09	17.55
T. Rowe Price Retirement 2045 Fund	239,296	0.03	17.62
T. Rowe Price Retirement 2050 Fund	35,567	0.00	17.55
T. Rowe Price Retirement 2055 Fund	7,237,029	0.80	17.60
Self Directed Brokerage Option	<u>534,269</u>	<u>0.06</u>	N/A
	<u>\$ 906,773,042</u>	<u>100.00</u>	

Table 3B: Investments by Fund with Rates of Return for 2011

	<u>Investment Value</u>	<u>Percentage of Total Investments</u>	<u>Rate of Return %</u>
Prudential Stable Value Fund	370,837,763	46.00	3.04
American Funds American Balanced Fund	22,386,485	2.78	3.80
Vanguard Total Bond Market Index Fund	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)
Legg Mason ClearBridge Appreciation Fund	17,128,059	2.12	2.45
Vanguard Institutional Index Fund	35,040,256	4.35	2.09
Invesco Growth and Income Fund	34,912,256	4.33	(1.89)
Morgan Stanley Institutional Mid-Cap Growth Portfolio	17,705,508	2.20	(6.89)
Vanguard Mid-Cap Index Fund	14,521,464	1.80	(1.96)
Pioneer Mid-Cap Value Fund	8,518,011	1.06	(6.04)
Janus Perkins Mid-Cap Value Fund	2,928,020	0.36	(2.55)
Legg Mason ClearBridge Small Cap Growth Fund	9,000,959	1.12	1.02
Pennsylvania Mutual Investment Fund	14,063,252	1.74	(4.17)
Vanguard Small Cap Index Fund	10,053,990	1.25	(2.65)
AllianzGI NFJ Small Cap Value Fund	10,518,760	1.30	2.52
American Funds EuroPacific Growth Fund	49,929,287	6.19	(13.61)
Oppenheimer Developing Markets Fund	2,018,726	0.25	(17.85)
Vanguard REIT Index Fund	2,454,034	0.30	8.47

NASSAU COUNTY DEFERRED COMPENSATION PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

Retirement System as a Whole (Continued)

Table 3B: Investments by Fund with Rates of Return for 2011 (Continued)

	<u>Investment Value</u>	<u>Percentage of Total Investments</u>	<u>Rate of Return %</u>
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)
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	

In March 2011, with the approval of the Plan's 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.

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

The annual maximum contribution for 2012 and 2011 was \$17,000 and \$16,500 (\$22,500 and \$22,000), respectively, if an employee is age 50 or older). The annual maximum contributions have been set for the coming years as follows:

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

NASSAU COUNTY DEFERRED COMPENSATION PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

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 BENEFITS

DECEMBER 31,

ASSETS

	<u>2012</u>	<u>2011</u>
Investments, at fair value:		
Guaranteed investment account	\$ 403,957,328	\$ 370,837,763
Mutual funds:		
Bond funds	59,028,606	44,505,827
Balanced funds	24,420,815	23,346,029
Speciality funds	4,051,709	2,454,034
International equity funds	66,743,500	51,948,013
Large-cap equity funds	205,075,863	182,862,421
Mid-cap equity funds	47,497,544	43,673,003
Small-cap equity funds	49,658,055	43,636,961
Self-directed brokerage account	534,269	362,583
Target date retirement funds	<u>45,805,353</u>	<u>42,584,678</u>
Total investments	906,773,042	806,211,312
Participant notes receivable	<u>12,906,022</u>	<u>11,887,610</u>
Total Assets	919,679,064	818,098,922

LIABILITIES

Accrued expenses	<u>115,500</u>	<u>92,000</u>
FIDUCIARY NET POSITION AVAILABLE FOR BENEFITS	<u><u>\$ 919,563,564</u></u>	<u><u>\$ 818,006,922</u></u>

See accompanying notes to the financial statements.

NASSAU COUNTY DEFERRED COMPENSATION PLAN

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION AVAILABLE FOR BENEFITS

FOR YEARS ENDED DECEMBER 31,

	<u>2012</u>	<u>2011</u>
<u>ADDITIONS:</u>		
Investment income:		
Interest and dividends	\$ 6,214,236	5,220,328
Capital gains	2,839,065	2,078,476
Net appreciation (depreciation) in fair value of investments	<u>71,283,336</u>	<u>(6,185,804)</u>
	80,336,637	1,113,000
Contributions:		
Plan participants - deferrals of compensation	50,382,988	48,139,421
Rollovers, transfers and other adjustments, net	<u>3,311,066</u>	<u>1,135,015</u>
	53,694,054	49,274,436
Total contributions, rollovers, transfers and other adjustments, net	<u>53,694,054</u>	<u>49,274,436</u>
Total additions	<u>134,030,691</u>	<u>50,387,436</u>
<u>DEDUCTIONS:</u>		
Benefits paid to participants and beneficiaries	32,024,598	35,020,236
Loan defaults	317,490	211,475
Deemed distributions	74,559	345,648
Administrative expenses	<u>57,402</u>	<u>30,381</u>
	32,474,049	35,607,740
Total deductions	<u>32,474,049</u>	<u>35,607,740</u>
Increase in fiduciary net assets available for benefits	101,556,642	14,779,696
FIDUCIARY NET POSITION AVAILABLE FOR BENEFITS, beginning of year	<u>818,006,922</u>	<u>803,227,226</u>
FIDUCIARY NET POSITION AVAILABLE FOR BENEFITS, end of year	<u>\$ 919,563,564</u>	<u>\$ 818,006,922</u>

See accompanying notes to the financial statements.

NASSAU COUNTY DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

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 6,300 at December 31, 2012 and 2011.

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 (\$17,000 and \$16,500 in 2012 and 2011, respectively). 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 2012 and 2011).

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

NASSAU COUNTY DEFERRED COMPENSATION PLAN

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

1. DESCRIPTION OF PLAN (CONTINUED)

(c) Contributions (Continued)

deferrals once a 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 4.25% at December 31, 2012 and 2011.

(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, 2012 AND 2011

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 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 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, 2012 AND 2011

1. DESCRIPTION OF PLAN (CONTINUED)

(f) Investment Options (Continued)

- Mutual Fund Options
 - 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/PIMCO 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 Legg Mason ClearBridge Appreciation Fund
 - o SA/T. Rowe Price Growth Stock Strategy Fund
 - o Vanguard Institutional Index Fund
 - o Janus Perkins Mid-Cap Value Fund
 - o Morgan Stanley Institutional Mid Cap Growth Portfolio
 - o Pioneer Mid-Cap Value Fund
 - o Vanguard Mid-Cap Index Fund
 - o AllianzGI NFJ Small Cap Value Fund
 - o Legg Mason ClearBridge Small Cap Growth Fund
 - o Pennsylvania Mutual Investment Fund
 - o Vanguard Small Cap Index Fund
 - o Vanguard REIT Index Fund

- Self Directed Brokerage Accounts

Upon enrollment in the Plan, a participant may direct employee contributions in any of the following variable investment options that were available during the plan year that ended on December 31, 2012. (Participants may change their investment options at any time.)

NASSAU COUNTY DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

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 recordkeepers.

NASSAU COUNTY DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

1. DESCRIPTION OF PLAN (CONTINUED)

(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 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 and Statement of Changes in Fiduciary Net Position.

(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*.

NASSAU COUNTY DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(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.

(d) Unit Valuation

Participants' net asset value per unit is determined on a daily basis for each of the Plan's 31 investment options. 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.

(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 Net Position Available for Benefits and the Statements of Changes in Net Position Available for 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 30 investments through retail branded mutual funds and a self directed brokerage account.

NASSAU COUNTY DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

2. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(f) Investment Valuation and Income Recognition

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 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) 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 was approximately 3.00% at December 31, 2012 and 2011.

NASSAU COUNTY DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

3. INVESTMENTS

The Plan's investments at December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Mutual funds	\$ 348,729,335	\$ 307,346,949
Pooled separate accounts	153,552,110	127,664,017
Guaranteed investment accounts	403,957,328	370,837,763
Self directed brokerage accounts	<u>534,269</u>	<u>362,583</u>
Total Plan Investments	\$ <u>906,773,042</u>	\$ <u>806,211,312</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 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, 2012 and 2011, the following investments represented 5% or more of the Plan's net assets:

	<u>2012</u>	<u>2011</u>
SA/T. Rowe Price Growth		
Stock Strategy Fund	\$ 107,232,958	\$ 95,781,850
Core Plus Bond/PIMCO Fund	\$ 46,319,152	\$ -
Prudential Stable Value Fund	\$ 403,957,328	\$ 370,837,763
American Funds EuroPacific		
Growth Fund	\$ 63,790,861	\$ 49,929,287

NASSAU COUNTY DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

3. INVESTMENTS (CONTINUED)

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>2012</u>	<u>2011</u>
Fixed earnings investments		
Prudential Stable Value Fund	\$ 403,957,328	\$ 370,837,763
Variable earnings investments		
T. Rowe Price Retirement 2010 Fund	6,479,407	6,033,805
T. Rowe Price Retirement 2015 Fund	3,297,727	2,920,271
T. Rowe Price Retirement 2020 Fund	3,120,699	2,855,841
T. Rowe Price Retirement 2025 Fund	20,464,951	19,626,648
T. Rowe Price Retirement 2030 Fund	2,897,657	2,795,415
T. Rowe Price Retirement 2035 Fund	1,236,382	854,237
T. Rowe Price Retirement 2040 Fund	796,638	594,859
T. Rowe Price Retirement 2045 Fund	239,296	150,846
T. Rowe Price Retirement 2050 Fund	35,567	6,511
T. Rowe Price Retirement 2055 Fund	7,237,029	6,746,245
T. Rowe Price Retirement Income Fund	1,063,776	959,944
Vanguard Total Bond Market Index Fund	12,709,454	12,623,660
Core Plus Bond/PIMCO Fund	46,319,152	31,882,167
American Funds American Balanced	23,357,039	22,386,445
American Funds EuroPacific Growth Fund	63,790,861	49,929,287

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 in outside the U.S. not required to disclose the individual assets within the fund. The fair value of these investments was \$66,743,500 and \$51,948,013 at December 31, 2012 and 2011, respectively.

NASSAU COUNTY DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

3. INVESTMENTS (CONTINUED)

Foreign Currency Risk (Continued)

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 21.

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.

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.

NASSAU COUNTY DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

4. RECORDKEEPING AND ADMINISTRATIVE EXPENSES (CONTINUED)

For the years ended December 31, 2012 and 2011, the Plan received approximately \$374,400 and \$219,900, respectively in revenue sharing payments from Provider. At December 31, 2012 and 2011, the shared revenue account balance was approximately \$405,000 and 249,000, respectively.

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.

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 Retirement and Annuity Company is the Plan's trustee. Certain Plan investments which consist of the Stable Value Fund are 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.

8. PENDING GASB STATEMENTS

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

NASSAU COUNTY DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

8. PENDING GASB STATEMENTS (CONTINUED)

Statement Number 67, Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25 was issued in 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 June 5, 2014, the date the financial statements were available for issuance.