SUFFOLK COUNTY PUBLIC EMPLOYEES DEFERRED COMPENSATION PLAN

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2013 AND 2012

SUFFOLK COUNTY PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
JUNE 30, 2013 AND 2012

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INDEPENDENT AUDITORS' REPORT

To the Suffolk County Public Employees
Deferred Compensation Board:

Report on the Financial Statements

We have audited the accompanying statements of fiduciary net assets of the Suffolk County Public Employees Deferred Compensation Plan (the Plan), as of June 30, 2013 and 2012, and the related statements of changes in fiduciary net assets for the years then ended and the related notes to the financial statements.

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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 reasonable 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 Suffolk County Public Employees Deferred Compensation Plan as of June 30, 2013 and 2012, and the respective changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, beginning on page 3, 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 the financial reporting for planning the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Fuoco Group, LLP

Hauppauge, New York
February 10, 2014

SUFFOLK COUNTY PUBLIC EMPLOYEES DEFERRED COMPENSATION PLAN MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013 AND 2012

Overview

The following discussion and analysis is supplementary information required by accounting principles generally accepted in the United States of America and is intended to provide background and summary information for the Suffolk County (the County) Public Employees Deferred Compensation Plan (the Plan). This discussion and analysis should be read in conjunction with the financial statements, including notes, which begin on page 8.

These financial statements consist of the statements of fiduciary net assets available for plan benefits and the statements of changes in fiduciary net assets available for plan benefits which provide information about the financial status of the Plan. These statements include all assets and liabilities using the accrual basis of accounting. Revenue and expenses are taken into account regardless of when cash is received or paid.

Financial Highlights

Fiduciary net assets available for plan benefits totaled $967,129,822 and $861,259,157 at June 30, 2013 and 2012, respectively. This represents an increase of 12.3% and 2.3% in 2013 and 2012, respectively. The increases are primarily a result of appreciation in fair value of investments.

Employee contributions increased in 2013. Contributions from participants were $45,301,005 and $44,794,368 in 2013 and 2012, respectively. The 2013 contributions represent an increase of 1.13% over the 2012 contributions. Contributions may have increased due to a positive market outlook.

Plan Additions for 2013 and 2012

	2013	2012	% Change
Employee contributions	$ 45,301,005	$ 44,794,368	1.13%
Rollovers and transfers, net	1,953,218	1,593,638	22.56%
Interest and dividends	33,090,761	33,191,310	-0.30%
Interest on participant loans	577,180	537,120	7.46%
Appreciation (depreciation) in fair value of investments	68,385,191	(28,999,404)	335.82%
Other income	47,417	263,579	-82.01%
Total additions	$149,354,772	$ 51,380,611	190.68%

SUFFOLK COUNTY PUBLIC EMPLOYEES
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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013 AND 2012

Plan Additions for 2012 and 2011

	2012	2011	% Change
Employee contributions	$ 44,794,368	$ 49,004,094	-8.6%
Rollovers and transfers, net	1,593,638	1,569,132	1.6%
Interest and dividends	33,191,310	17,157,071	93.5%
Interest on participant loans	537,120	543,232	-1.1%
Appreciation (depreciation) in fair value of investments	(28,999,404)	127,628,453	-122.7%
Other income	263,579	-	100.0%
Total additions	$ 51,380,611	$ 195,901,982	-73.8%

Fluctuations in administrative expenses from year to year are the result of various transactions executed by participants such as loan processing fees and financial advice fees.

Plan Distributions and Expenses for 2013 and 2012

	2013	2012	% Change
Distributions to participants and beneficiaries	$ 43,315,173	$ 31,981,976	35.4%
Administrative expenses	168,934	153,336	10.2%
Total deductions	$ 43,484,107	$ 32,135,312	35.3%

Plan Distributions and Expenses for 2012 and 2011

	2012	2011	% Change
Distributions to participants and beneficiaries	$ 31,981,976	$ 28,036,987	14.1%
Administrative expenses	153,336	121,580	26.1%
Total deductions	$ 32,135,312	$ 28,158,567	14.1%

The offering of loans to participants continues to be a popular option. As of June 30, 2013 and 2012, outstanding loan balances were $14,452,446 and $13,157,436, respectively. We anticipate that the participation rate among employees will increase due to the availability of this option and the volatility of the economy.

Statements of Net Assets Available for Benefits

	2013	2012
Mutual funds	$ 721,391,978	$ 614,684,650
Stable value common trust fund	-	179,689,822
Guaranteed interest accumulation account	231,058,972	63,595,718
Notes receivable from participants	14,452,446	13,157,436
Cash in bank	226,426	232,159
Fiduciary net assets available for plan benefits, at fair value	$ 967,129,822	$ 871,359,785

Statements of Net Assets Available for Benefits

	2012	2011
Mutual funds	$ 614,684,650	$ 620,196,767
Stable value common trust fund	179,689,822	163,338,961
Guaranteed interest accumulation account	63,595,718	50,926,926
Notes receivable from participants	13,157,436	11,807,895
Cash in bank	232,159	-
Fiduciary net assets available for plan benefits, at fair value	$ 871,359,785	$ 846,270,549

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

The annual maximum contributions for 2013 and 2012 were $17,500 and $17,000 respectively. If an employee is age 50 or older, the contribution limit for 2013 and 2012 is $23,000 and $22,500 respectively. These contribution limits will remain at $17,500 for 2014 ($23,000 if an employee is age 50 or older).

The market value of the Plan's assets from mid-2012 to mid-2013 increased in excess of $106 million, compared to an increase from mid-2011 to mid-2012 in excess of $19 million.

Factors that will have a positive impact on the fiduciary net assets available for plan benefits include:

- The local presence of service provider representatives: VALIC has three employees assigned to various County buildings on a regular basis. The schedule is posted on the Board's website. T. Rowe Price has a local presence three times a month at a local office that is accessible to participants.

- Negotiated bargaining agreements by most bargaining units extend into the future. If employees know they will get steps (increases) or scheduled salary raises, they are more likely to plan ahead and increase their biweekly contribution amounts. In addition, County employees who have completed ten years of service no longer contribute to the New York State pension plan. These employees are sent letters encouraging them to join the Plan or increase their deferrals since they will no longer have the obligation of contributing to their pension.

- Offering managed accounts, investment advice or guidance may attract non-participants who have not enrolled because of their lack of expertise in investing, fear of investing in the wrong option, or not being familiar with asset allocation, etc. As of September 30, 2013, 10% of the VALIC Retirement Plan participants compared to 12% for the same time period in 2012 have elected to take advantage of the GPS program and have enrolled in the Portfolio Manager Service.

- It is hoped that the lack of participant fees as well as the Board's policy allowing retirees or terminated employees to stay in the Plan will encourage former employees to remain in the Plan rather than rollout their account balances into another financial institution.

- In a continual effort to enhance and improve the Plan, the Board evaluates the Plan offerings and removes and/or replaces funds due to a variety of factors, including under-performance over time or under-utilization.

- In March 2013, participants in the Plan were given a 30 day window period in which to open a VALIC account in order to avail themselves of the Fixed Interest Account, which yields a 3% minimum guarantee

- In April 2013, a new Fixed Interest Option account was placed onto the VALIC lineup for new participants and for participants that did not open a VALIC account during the March window period.

- Effective June 28, 2013, T. Rowe Price closed the Stable Value Fund to Suffolk County participants. A VALIC Stable Interest Account was placed on the T. Rowe Price line up and assets were mapped to this fund.

- In June 2013, the Board authorized VALIC to place all of the T. Rowe Price funds, with the exception of the Summit Cash Reserve, onto their lineup. This enables VALIC participants to invest in T. Rowe Price funds without having to initiate a transfer of assets to T. Rowe Price.

- The offering of a Target Date Retirement fund series by both companies should increase Plan participation especially among those employees who prefer the asset allocation model fund based on their age. The offering of regional funds and sector funds expands the choices for participants.

- The Board is committed to exploring options to reach out to non-participants or to educate participants on the importance of reaching their retirement goals. The Plan has had its own website (www.scdeferredcomp.org) since 2006. The site provides access to Board-produced and provider-produced forms as well as informational materials, including a listing of fund offerings for the prospective participants. The site has grown to include links to the providers as well as links to the bargaining units whose members sit on the Board. The website enables the Board to announce enhancements as well as store all prior employee memorandums relating to our Plan and quarterly Plan newsletters.

- The Board produced a *Plan Summary* guide, formerly known as the Retirement Savings Planning Guide to inform both non-participants and current participants of the benefits of joining and remaining in the Plan. The guide includes a comparative table to help the participant understand the value of contributing to a pre-tax deferral 457 plan as opposed to a post-tax deferral savings plan. This guide is posted on the Plan's website.

- The Administrator conducts employee orientations so that new employees are introduced to the Plan, given plan materials and can have their questions answered. Promoting rollover of assets, such as IRAs, into our Plan at retirement has been incorporated into the orientation's PowerPoint slides.

Factors that will negatively impact the fiduciary net assets available for plan benefits include:

- The volatility of the market could impact investment yields, loan levels and unforeseeable emergency (UFE) requests. As of December 2013, the Board has approved 10 UFE requests compared to 13 UFE's in 2012 approved by the Board. As of September 2013, $14.8 million dollars in loans were approved compared to $13.7 million in 2012.

- The anticipated creation of a County 401(a) program for terminal pay, currently negotiated for Police Officers, may re-direct contributions from the Plan. The 401(a) program has not yet been established, so its impact is not known at this time.

SUFFOLK COUNTY PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
STATEMENTS OF FIDUCIARY NET ASSETS AVAILABLE FOR PLAN BENEFITS
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	2013	2012
Investments:		
Mutual funds	$ 721,391,978	$ 614,684,650
Stable value common trust fund	-	179,689,822
Guaranteed interest accumulation account	231,058,972	63,595,718
Total investments, at fair value	952,450,950	857,970,190
Notes receivable from participants	14,452,446	13,157,436
Cash in bank	226,426	232,159
Adjustment to reflect fully benefit-responsive investment contracts to contract value	-	(10,100,628)
Total fiduciary net assets available for plan benefits	$ 967,129,822	$ 861,259,157

See accompanying notes to financial statements.

SUFFOLK COUNTY PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS AVAILABLE FOR PLAN BENEFITS
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
ADDITIONS TO NET ASSETS ATTRIBUTED TO:		
Investment income:		
Net appreciation (depreciation) in fair value of investments	$ 68,385,191	(28,999,404)
Interest and dividends	33,090,761	33,191,310
Interest on participant loans	577,180	537,120
Total investment income	102,053,132	4,729,026
Contributions:		
Plan participants - deferrals of compensation	45,301,005	44,794,368
Rollovers and transfers, net	1,953,218	1,593,638
Total contributions	47,254,223	46,388,006
Other income:		
Revenue sharing income	43,445	35,464
Other	3,972	228,115
Total other income	47,417	263,579
Total additions	149,354,772	51,380,611
REDUCTIONS FROM NET ASSETS ATTRIBUTED TO:		
Benefits paid to participants and beneficiaries	43,315,173	31,981,976
Administrative expenses	168,934	153,336
Total reductions	43,484,107	32,135,312
Change in fiduciary net assets available for plan benefits	105,870,665	19,245,299
Fiduciary net assets available for plan benefits at beginning of year	861,259,157	842,013,858
Fiduciary net assets available for plan benefits at end of year	$ 967,129,822	$ 861,259,157

See accompanying notes to financial statements.

NOTE 1 – DESCRIPTION OF PLAN

The following description of the Suffolk County Public Employees Deferred Compensation Plan (the Plan) is provided for general informational purposes. Participants should refer to the Plan document for a more complete description of the Plan's provisions.

General

The Plan is a defined contribution plan which permits employees of the County of Suffolk, New York (the County) to defer receipt of a portion of their current salary until future years. Participants do not pay income taxes on their contributions or investment returns while these funds remain in the Plan.
The Plan is intended to satisfy the requirements of an "eligible state deferred compensation plan" under Section 457 of the Internal Revenue Code (IRC) of 1986, as amended.

Amounts maintained under a deferred compensation plan by a state or local government are to be held in trust for the exclusive benefit of plan participants and their beneficiaries.

Contributions

Participants may defer the lesser of $17,500 in 2013 and $17,000 in 2012 or 100% of gross annual compensation for calendar years 2013 and 2012, respectively. Individuals age 50 or over may make an additional "catch up" contribution effective for tax years after December 31, 2001. For calendar years 2013 and 2012, the additional "catch up" contribution was $5,500. An additional "catch up" is allowed for previous missed contributions for participants within three years of retirement.

Participant Accounts

Each participant's account is credited with the participant's contributions as remitted, with a daily allocation of Plan earnings (losses) on the investment options in which the participant is invested, and is charged with a quarterly administrative expense fee. Each participant's account balance is invested in accordance with the respective investment options selected by the participant. Participants are 100% vested in their account balances at all times. The Plan had approximately 9,363 and 9,049 participants with vested account balances at June 30, 2013 and 2012, respectively.

Payment of Benefits

A participant's deferred compensation account balance is available upon termination of service, retirement, death, or the occurrence of certain unforeseeable emergencies as defined by the IRC. A participant may elect to receive one lump sum amount equal to the value of his or her account, or periodic payments in monthly, quarterly, semi-annual or annual installments. In addition to these regular periodic payments, a participant may also request a non-scheduled distribution of at least $500 no more than twelve times a year.

NOTE 1 – DESCRIPTION OF PLAN (Continued)

Payment of Benefits (Continued)

Participants also have the right to redirect the timing, amount and method of payment of distributions. In connection with a participant's severance from employment, a participant may elect to have all or a portion of their account rolled over into a qualified plan, a 403(b) plan, another government 457 plan, or an individual 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 $5,000 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 withdrawal if they have taken a prior inactive distribution election.

Notes Receivable From Participants

Participants, after approval from the Plan Administrator, may borrow from their fund accounts a minimum of $1,000 up to a maximum amount equal to the lesser of $50,000 or 50 percent of their vested account balance. Participants may have only one loan outstanding at a time. Loan transactions are treated as a transfer to (from) the investment fund from (to) the participant loan. The maximum payment term for any loan is 5 years, unless the loan is to be used to purchase a primary residence, in which case the loan may be extended to 15 years. The loans are secured by the balance in the participant's account and bear interest at the prime rate plus 1%.

Unforeseeable Emergency (UFE)

Participants, after approval from the Deferred Compensation 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 sum cash withdrawal within 60 days after approval of the request.

Plan Amendments

There were no significant amendments to the Plan during the years ended June 30, 2013 and 2012.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Plan's financial statements have been prepared on the accrual basis of accounting. Participant contributions are recognized in the period in which the contributions are due. Benefits are recognized when due in accordance with the terms of the Plan.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Investment Valuation and Income Recognition

Investments are stated at their approximate market values based on quoted market prices, if available. If quoted market prices are not available, fair market value is estimated based on available data including interest rates and market values of assets with similar characteristics. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recognized in the period earned. 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. Investment income includes both the Plan's realized and unrealized gains and losses incurred throughout the year.

Investment contracts held by a defined contribution plan are required to be reported at fair value. However, contract value is the relevant measurement attribute for that portion of the fiduciary net position available for plan benefits attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the Plan. The statements of fiduciary net position available for plan benefits present the fair value of the investment contracts as well as the adjustment of the fully benefit-responsive investment contracts from fair value to contract value. The statements of changes in fiduciary net position available for plan benefits are prepared on a contract value basis. At June 30, 2013 the investment contract's fair value approximated contract value. At June 30, 2012 a reduction of $10,100,628 was required to adjust the fully benefit –responsive investment contract to contract value.

Notes Receivable From Participants

Notes receivable from participants are stated at their unpaid balances plus any unpaid accrued interest. Delinquent notes receivable are reclassified to distributions based on the terms of the Plan document.

Subsequent Events

The Plan has evaluated events after June 30, 2013, and through February 10, 2014, which is the date the financial statements were available to be issued, and determined that any events or transactions occurring during this period that would require recognition or disclosure are properly addressed in these financial statements.

NOTE 3 – INVESTMENTS

The Plan's investments are held by two service providers (T. Rowe Price and Variable Annuity Life Insurance Company (VALIC)) in mutual funds and guaranteed interest accumulation accounts. Prior to June 28, 2013 a common trust fund was available.

NOTE 3 – INVESTMENTS (Continued)

The Plan's investments at June 30, 2013 and 2012 representing 5% or more of the Plan's fiduciary net position available for plan benefits are as follows:

	2013	2012
Stable value common trust fund, at fair value	$ *	$ 179,689,822
Guaranteed interest accumulation accounts, at fair value	$ 231,058,972	$ 63,595,718

*Investment no longer offered at June 30, 2013

NOTE 4 – FAIR VALUE MEASUREMENTS

A framework has been established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.
- Level 2 - Inputs to the valuation methodology include:
  - Quoted prices for similar assets or liabilities in active markets;
  - Quoted prices for identical or similar assets or liabilities in inactive markets;
  - Inputs other than quoted prices that are observable for the asset or liability;
  - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

NOTE 4 – FAIR VALUE MEASUREMENTS (Continued)

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2013 and 2012

- Mutual funds - Valued at the market value of shares held by the Plan at year-end.
- Guaranteed interest accumulation account and stable value common trust fund - Valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuer (note 5).

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth by level, within the fair value hierarchy, the Plan's assets at fair value on a recurring basis as of June 30, 2013 and 2012:

	2013			
	Level 1	Level 2	Level 3	Total
Investment in Mutual Funds				
Bond Funds	$ 44,388,158	$ -	$ -	$ 44,388,158
Balanced Funds	52,318,187	-	-	$ 52,318,187
Target Date Retirement Funds	99,752,711	-	-	$ 99,752,711
Large Cap Equity Funds	203,949,276	-	-	$ 203,949,276
Mid-Cap Equity Funds	46,666,400	-	-	$ 46,666,400
Small Cap Equity Funds	44,965,310	-	-	$ 44,965,310
International Equity Funds	84,809,340	-	-	$ 84,809,340
Specialty Fund/Sector Funds	129,280,048	-	-	$ 129,280,048
Fixed Income Money Market Funds	15,262,548	-	-	$ 15,262,548
Total Investments in Mutual Funds	721,391,978	-	-	721,391,978
Guaranteed Interest Accumulation Account	-	231,058,972	-	231,058,972
Total Investments - at Fair Value	$721,391,978	$ 231,058,972	$ -	$ 952,450,950

NOTE 4 – FAIR VALUE MEASUREMENTS (Continued)

	2012			
	Level 1	Level 2	Level 3	Total
Investment in Mutual Funds				
Bond Funds	$ 43,924,611	$ -	$ -	$ 43,924,611
Balanced Funds	47,190,343	-	-	47,190,343
Target Date Retirement Funds	74,553,835	-	-	74,553,835
Large Cap Equity Funds	168,339,109	-	-	168,339,109
Mid-Cap Equity Funds	40,223,684	-	-	40,223,684
Small Cap Equity Funds	36,034,548	-	-	36,034,548
International Equity Funds	80,643,308	-	-	80,643,308
Specialty Fund/Sector Funds	108,770,374	-	-	108,770,374
Fixed Income Money Market Funds	15,004,838	-	-	15,004,838
Total Investments in Mutual Funds	614,684,650	-	-	614,684,650
Stable Value Common Trust Fund	-	179,689,822	-	179,689,822
Guaranteed Interest Accumulation Account	-	63,595,718	-	63,595,718
Total Investments - at Fair Value	$614,684,650	$ 243,285,540	$ -	$ 857,970,190

NOTE 5 – GUARANTEED INTEREST ACCUMULATION ACCOUNT AND STABLE VALUE COMMON TRUST FUND

Prior to June 28, 2013, participants could invest in a stable value common trust fund offered by T. Rowe Price. The account was credited with earnings and investment deposits, less administrative expenses charged by the financial institution and investment withdrawals. The contract was included in the Plan's financial statements at market value. It is fully benefit-responsive. There were no reserves against contract value for the credit risk of the contract issuer or otherwise. In June 2013 the stable value common trust fund was removed from the T. Rowe Price investment options. In place of the stable value common trust fund an additional VALIC guaranteed interest accumulation account was added to the T. Rowe Price lineup. Therefore, at June 30, 2013, there was no balance in the Stable Value Common Trust Fund. The contract value of the investment contract at June 30, 2012 was $172,741,253, and the market value of the investment contract was $179,689,822. The average credit rates for 2013 and 2012 were approximately 2.4% and 3%, respectively.

NOTE 5 – GUARANTEED INTEREST ACCUMULATION ACCOUNT AND STABLE VALUE COMMON TRUST FUND (CONTINUED)

There are three VALIC guaranteed interest accumulation accounts that Participants may invest in. Two offered by VALIC, one by T. Rowe Price. The accounts are credited with earnings and investment deposits, less administrative expenses charged by the financial institution and investment withdrawals. The contracts are included in the Plan's financial statements at market value. They are fully benefit-responsive. There are no reserves against the contract values for the credit risk of the contract issuer or otherwise. Following is a breakdown of each account:

	Fair value at June 30, 2013	Fair value at June 30, 2012
Minimum guaranteed annual effective rate, 3%, average interest rate credited for period, 3.06% and 3.20% respectively	$ 158,978,922	$ 63,595,718
Minimum guaranteed annual effective rate, 1%, average interest rate credited for period, 1.25%	$ 1,492,954	*
Minimum guaranteed annual effective rate, .25%, average interest rate credited for period, .25%	$ 70,587,096	*
Total Investment in Guaranteed interest accumulation accounts	$ 231,058,972	$ 63,595,718

* Fund was not available during this period

At June 30, 2013, fair value approximated contract value. At June 30, 2012, contract value was $60,443,658.

NOTE 6 – RECORDKEEPING AND ADMINISTRATIVE EXPENSES

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

Expenditures for administrative expenses such as loan processing fees and financial advice fees are paid directly by the Plan participants. The two service providers offering the Plan investments share the cost of a deferred compensation plan administrator, a civil service employee. The administrator's salary, and related benefits, are reimbursed to the County on a pro-rata basis based on Plan position as of June 30th and December 31st each year. In addition, both providers share the cost of the annual audits of the Plan's financial statements, based on a 50-50 split.

In addition, effective with the July 1, 2005 service provider agreement, the Deferred Compensation Board has agreed to a revenue sharing arrangement with one of the service providers. Under this arrangement, the service provider is to pay the Board a portion of revenue earned from the assets held by the Plan. Such revenue will be remitted directly to the Board and used in the best interest of the Plan as determined by the Board, including but not limited to Board Member education and training, on-line subscriptions, association memberships, computer equipment and office supplies. The revenue sharing is calculated at the end of a full year based on the total assets (exclusive of Participant loans and the Guaranteed interest accumulation accounts) held as of December 31St at that year. In January 2012, the Board received revenue sharing in the amount of $35,464 based on the assets at December 31, 2011. In January 2013, the Board received revenue sharing in the amount of $43,445 based on the assets at December 31, 2012.

Effective with the July 1, 2005 service provider agreement, the providers agreed to reimburse the Board for the quarterly administrative charge in lieu of charging the participants. Effective July 1, 2005, the providers reimbursed the Board $1.25 per quarter for each participant that had a balance at the end of the quarter. Effective July 1, 2010, the providers agreed to increase the quarterly administrative reimbursement to $1.75 per participant for the quarter.

Both service provider agreements expired in June 2013. The Board has approved extending the service provider agreements through June 30, 2014 with no material changes.

NOTE 7 – PLAN TERMINATION

The County reserves the right to amend, suspend, or terminate the Plan and any deferrals thereunder, the trust agreement and any investment fund, in whole or in part and for any reason and without the consent of any employee, participant, beneficiary, or other person. Upon termination of the Plan, all amounts deferred shall be payable as provided in the Plan.

NOTE 8 – RISKS AND UNCERTAINTIES

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

NOTE 9 – LITIGATION

The Plan is a co-defendant in a case entitled Suffolk County Association of Municipal Employees, Inc. ("AME") v. Suffolk County Public Employees Deferred Compensation Board, et al., in which AME is seeking to invalidate the decision of the Suffolk County Public Employees Deferred Compensation Board to follow a prior determination of the New York State Deferred Compensation Board wherein the State Board concluded that employees of Suffolk Community College were no longer eligible to participate in the Plan. In July 2013, the Court entered judgment in favor of the County Respondents and the State Board. In September 2013, AME filed a notice of appeal. In the event that the appeal is granted, the AME will be entitled to have its members participate in the County Plan even though they are no longer Suffolk County employees. Outside counsel is vigorously defending the appeal and believes that it is more likely than not that it will be denied and the Court's decision denying the Verified Petition will be upheld and that the likelihood of a material adverse outcome is remote. Accordingly, adjustments, if any, that might result from the resolution of this matter have not been reflected in the accompanying financial statements.