

SUFFOLK COUNTY LEGISLATURE



Robert Lipp

BUDGET REVIEW OFFICE

Acting Director

April 1, 2013

To: William J. Lindsay, Presiding Officer
and All Suffolk County Legislators

From: Robert Lipp, Acting Director
Budget Review Office

Subject: Vanderbilt Museum Endowment Trust Fund Annual Report

Please find attached the Budget Review Office's annual report to the Legislature on the status of the Vanderbilt Museum Endowment Trust Fund for the period January 1, 2012 through December 31, 2012.

My staff and I are available should you have any questions regarding this report.

* * *

Attachment

cc: Angie Carpenter, Suffolk County Treasurer
Joseph Sawicki, Suffolk County Comptroller
Fred Pollert, Deputy County Executive, Financial Affairs
Connie Corso, Budget Director
Dennis M. Cohen, Suffolk County Attorney
Terrence Pearsall, Legislature Chief of Staff
Lance Reinheimer, Interim Director, Vanderbilt Museum
Stephen Faber, Managing Director, PFM Asset Management LLC
John S. Spagnola, Managing Director, PFM Asset Management LLC
Tyler Braun, PFM Advisor, PFM Asset Management LLC
Mary Ann Baumann, Account Manager, U.S. Bank National Association

**VANDERBILT MUSEUM ENDOWMENT TRUST FUND
ANNUAL REPORT
JANUARY 1, 2012 THROUGH DECEMBER 31, 2012**



April 1, 2013

**Robert Lipp, Acting Director
Budget Review Office
Suffolk County Legislature
Hauppauge, New York**

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Executive Summary

The Budget Review Office is required to report annually to the Legislature on the status of the Suffolk County Vanderbilt Museum Endowment Trust Fund (Fund). This report is for the period January 1, 2012 through December 31, 2012. The following highlights the major findings in this report.

- During 2012, the market value of the Fund increased by \$675,935 from \$9,310,582 to \$9,986,517, which is net payment of \$40,437 in investment management fees and a \$485,000 distribution to the Museum.
- The Fund's 2012 total annual return, net of fees and distributions, was 13.25%. In comparison, the industry blended benchmark is 10.11%.
- The Fund's gross income from dividends and interest for 2012 was \$344,780.
- PFM Asset Management LLC does not invest in individual company's stocks, only equity mutual funds to provide a diverse equity portfolio with minimal risk exposure. The year-ending market value of the portfolio's equity mutual funds was \$4,787,805 representing 47.9% of the Fund's total market value.
- The year-ending market value of the portfolio's bond mutual funds was \$4,973,219 representing 49.8% of the Fund's total market value
- The December 31, 2012 market value for the cash equivalents portion of the Fund was \$225,492 representing 2.3% of the Fund's year-ending asset allocation.
- Based upon its investments as of the end of 2012, the Fund's estimated annual income for 2013 is \$324,339.
- The Fund's year-ending asset allocation is in compliance with Resolution No. 1266-2007, which modified the investment guidelines to allow a 50/50 split between fixed securities and equities to range between 5-10% of the 50/50 split, as determined by market conditions.
- During 2012, \$485,000 was disbursed to the Museum from the Fund to assist the Museum in meeting its operating cash flow needs.
- The Museum received \$726,499 or 10% of the revenue collected from the Hotel Motel Tax (County Fund 192) for 2012. The proceeds from the Hotel Motel Tax reduce the Museum's reliance on the Endowment and afford it the opportunity to grow and provide for the Museum's future needs.

- In 2012, the Fund incurred a total of \$40,437 in advisory fees which were paid to PFM Asset Management LLC (PFM) for investment advisory services and to U.S. Bank National Association (U.S. Bank) that acted as custodian of the Fund.
- Procedural Motion No. 7-2013 was laid on the table on March 19, 2013, which provides for the Legislature authorizing the Presiding Officer to exercise the County's option to extend its agreement with PFM for an additional one year period.

Performance and Asset Allocation

The 2012 year-ending market value of the Fund was \$9,986,517, which includes a total distribution of \$485,000 to the Suffolk County Vanderbilt Museum and \$40,437 in fees. The following table summarizes the Fund's \$675,935 net increase in market value.

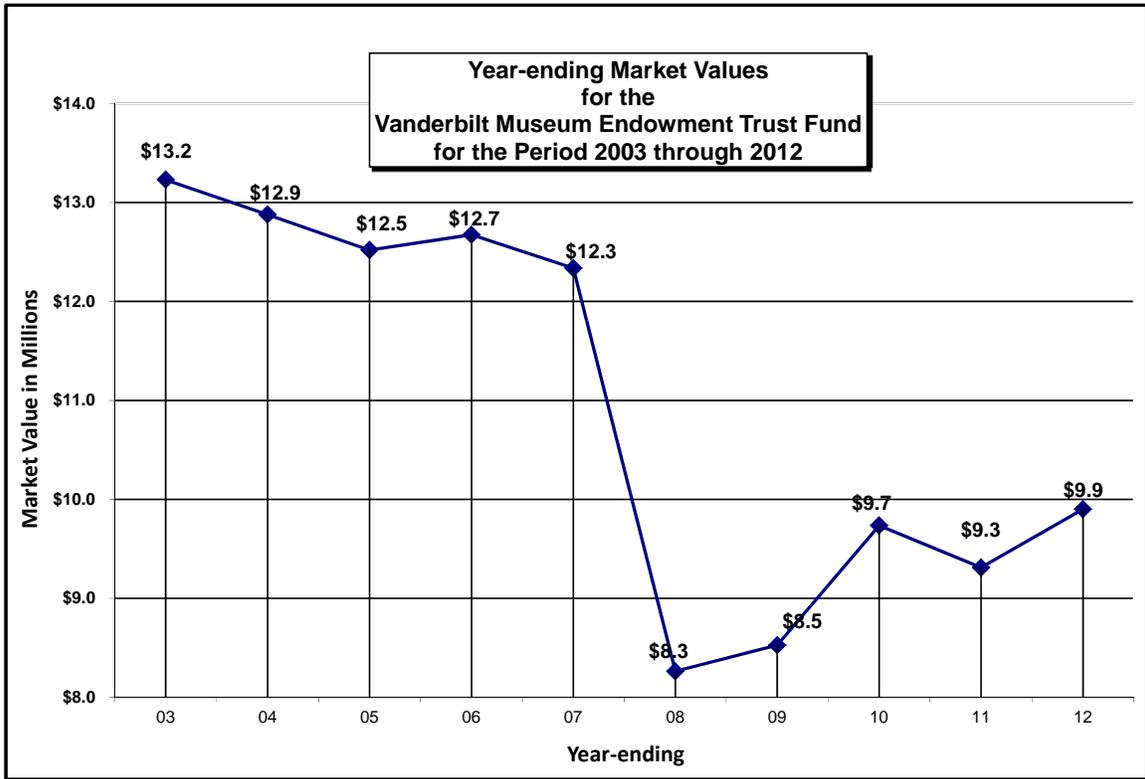
| 2012 Endowment Trust Fund Summary | | |
|--|--|---------------------|
| Beginning Market Value | | |
| Market Value December 31, 2011 | | \$ 9,310,582 |
| Investment Activity | | |
| <i>plus</i> Total Investment Activity | | \$ 1,541,924.00 |
| Plan Expenses | | |
| <i>less</i> Total Plan Expenses (Fees) | | \$ (40,437.00) |
| Other Activity | | |
| <i>less</i> Total Other Activity (Transfers & Disbursements) | | \$ (825,552.00) |
| Ending Market Value | | |
| Market Value December 31, 2012 | | \$ 9,986,517 |
| 2012 Net Increase in Market Value | | \$675,935 |

The following table details the 2012 month-ending total assets for the Fund.

2012 Month-ending Total Assets

| Month | Total Assets |
|-----------|--------------|
| January | \$9,583,908 |
| February | \$9,755,044 |
| March | \$9,764,225 |
| April | \$9,714,139 |
| May | \$9,287,457 |
| June | \$9,465,633 |
| July | \$9,552,580 |
| August | \$9,630,604 |
| September | \$9,814,054 |
| October | \$9,792,867 |
| November | \$9,866,851 |
| December | \$9,986,517 |

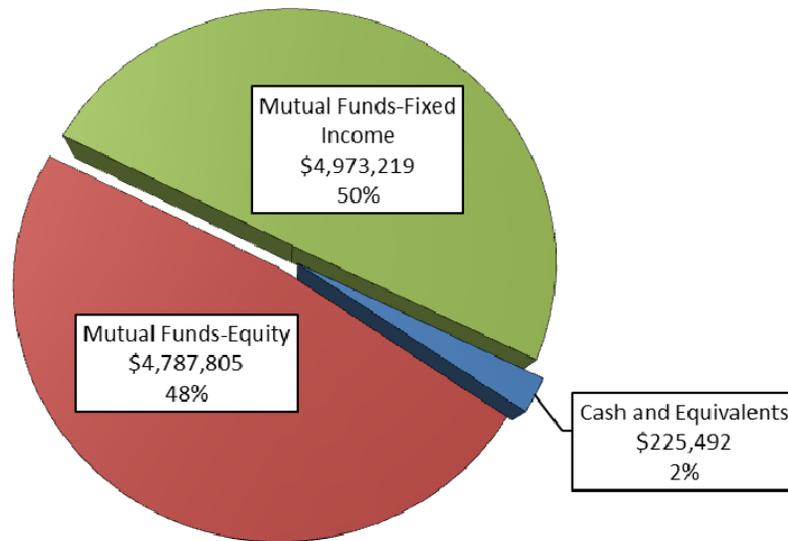
The following graph plots the Fund's year-end market values during the period 2003-2012.



The Fund has grown since the 2008-2009 financial market crisis with the exception of its 2011 year-end market value which was \$425,425 less than its year-end market value in 2010. Last year's growth is encouraging given the Museum's continued dependence on the Fund for its operations.

The Fund's 2012 year-ending asset allocation is indicated in the pie chart that follows.

2012 Year-end Asset Allocation



The Fund's year-end asset allocation of 49.8% bond mutual funds, 47.9% equity mutual funds and 2.3% cash and cash equivalents is in compliance with Resolution No. 1266-2007, which modified the investment guidelines to allow a 50/50 split between fixed securities (bonds) and equities (stocks) to range between 5-10% of the 50/50 split, as determined by market conditions.

The following two tables provided by PFM Asset Management LLC (PFM), the Fund's investment advisor, summarize the Fund's asset allocation and performance as of December 31, 2012. The Fund's 2012 total annual return was 13.25%, which compares favorably to the industry blended benchmark of 10.11%.

Asset Allocation & Performance
Vanderbilt Museum Endowment - Combined Assets
As of December 31, 2012

| | Allocation | | Performance (%) | | | | | | | |
|--------------------------------------|-------------------|--------|-----------------|-------|--------|---------|---------|---------|-----------------|----------------|
| | Market Value (\$) | % | 1 Quarter | 2012 | 1 Year | 2 Years | 3 Years | 5 Years | Since Inception | Inception Date |
| TOTAL FUND | 9,986,517 | 100.00 | 1.87 | 13.25 | 13.25 | 3.61 | N/A | N/A | 3.30 | 02/01/2011 |
| <i>Blended Benchmark</i> | | | 1.07 | 10.11 | 10.11 | 5.92 | N/A | N/A | 5.67 | 02/01/2011 |
| Domestic Equity | | | | | | | | | | |
| Vanguard Total Stock Market Index | 2,063,839 | 20.67 | 0.18 | 16.38 | 16.38 | 8.46 | 11.32 | 2.29 | 3.72 | 5/1/2012 |
| <i>Russell 3000 Index</i> | | | 0.25 | 16.42 | 16.42 | 8.45 | 11.20 | 2.04 | 3.82 | 5/1/2012 |
| Vanguard Dividend Growth | 534,657 | 5.35 | -0.40 | 10.39 | 10.39 | 9.90 | 10.41 | 4.05 | 10.39 | 1/1/2012 |
| <i>S&P 500</i> | | | -0.38 | 16.00 | 16.00 | 8.84 | 10.87 | 1.66 | 16.00 | 1/1/2012 |
| Neuberger Berman Genesis | 172,968 | 1.73 | 2.30 | 10.10 | 10.10 | 7.46 | 12.01 | 3.67 | 3.68 | 7/1/2011 |
| <i>Russell 2500 Index</i> | | | 3.10 | 17.88 | 17.88 | 7.20 | 13.34 | 4.34 | 4.19 | 7/1/2011 |
| Janus Triton | 174,340 | 1.75 | 4.56 | 16.58 | 16.58 | 9.43 | 16.34 | 7.03 | 5.72 | 7/1/2011 |
| <i>Russell 2500 Growth Index</i> | | | 1.78 | 16.13 | 16.13 | 6.91 | 13.78 | 4.07 | 2.44 | 7/1/2011 |
| FMI Common Stock | 172,286 | 1.73 | 4.27 | 10.16 | 10.16 | 7.31 | 12.05 | 8.43 | 16.60 | 9/1/2010 |
| <i>Russell 2000 Index</i> | | | 1.85 | 16.35 | 16.35 | 5.59 | 12.25 | 3.56 | 17.53 | 9/1/2010 |
| International Equity | | | | | | | | | | |
| Vanguard Total International Stock | 997,212 | 9.99 | 6.66 | 18.14 | 18.14 | 0.47 | 3.90 | -3.03 | 7.45 | 5/1/2012 |
| <i>MSCI AC World ex USA (Net)</i> | | | 5.85 | 16.83 | 16.83 | 0.41 | 3.87 | -2.89 | 6.72 | 5/1/2012 |
| Oppenheimer Developing Markets | 438,559 | 4.39 | 4.49 | 20.85 | 20.85 | -0.51 | 7.92 | 3.49 | 1.94 | 11/1/2010 |
| <i>MSCI EM (net)</i> | | | 5.58 | 18.23 | 18.23 | -1.79 | 4.66 | -0.91 | 0.28 | 11/1/2010 |
| Real Estate | | | | | | | | | | |
| Vanguard REIT Index-Sgl | 233,943 | 2.34 | 2.49 | 17.69 | 17.69 | 13.06 | 17.99 | 6.07 | 3.31 | 5/1/2012 |
| <i>FTSE NAREIT Equity REIT Index</i> | | | 2.58 | 18.06 | 18.06 | 13.07 | 17.82 | 5.45 | 3.58 | 5/1/2012 |

Asset Allocation & Performance
Vanderbilt Museum Endowment - Combined Assets
As of December 31, 2012

| | Allocation | | Performance (%) | | | | | | | |
|---|-------------------|-------|-----------------|-------|--------|---------|---------|---------|-----------------|----------------|
| | Market Value (\$) | % | 1 Quarter | 2012 | 1 Year | 2 Years | 3 Years | 5 Years | Since Inception | Inception Date |
| Inflation Hedge | | | | | | | | | | |
| PIMCO Commodity Real Return | 230,826 | 2.31 | -5.78 | 5.31 | 5.31 | -1.33 | 6.51 | -0.85 | 8.90 | 9/1/2010 |
| <i>DJ-UBS Commodity TR Index</i> | | | -6.33 | -1.06 | -1.06 | -7.39 | 0.07 | -5.17 | 2.74 | 9/1/2010 |
| Fixed Income | | | | | | | | | | |
| PIMCO Total Return | 1,721,875 | 17.24 | 1.16 | 10.35 | 10.35 | 7.21 | 7.76 | 8.36 | 6.08 | 9/1/2010 |
| Metropolitan West Total Return | 1,762,278 | 17.65 | 1.46 | 11.55 | 11.55 | 8.49 | 9.54 | 8.76 | 7.49 | 9/1/2010 |
| <i>Barclays Aggregate</i> | | | 0.21 | 4.21 | 4.21 | 6.01 | 6.19 | 5.95 | 4.59 | 9/1/2010 |
| Vanguard Total Bond Market Index | 17,522 | 0.18 | 0.13 | 4.15 | 4.15 | 5.90 | 6.12 | 5.91 | 2.70 | 5/1/2012 |
| <i>Barclays Aggregate</i> | | | 0.21 | 4.21 | 4.21 | 6.01 | 6.19 | 5.95 | 2.76 | 5/1/2012 |
| Vanguard Intermediate-Term Investment Grade | 401,768 | 4.02 | 0.90 | 9.14 | 9.14 | 8.33 | 9.03 | 7.45 | 5.31 | 5/1/2012 |
| <i>Barclays U.S. Credit: 5-10 Yr</i> | | | 1.39 | 11.26 | 11.26 | 9.73 | 10.00 | 8.58 | 6.46 | 5/1/2012 |
| AllianceBernstein High Income | 413,072 | 4.14 | 3.89 | 18.54 | 18.54 | 9.99 | 12.22 | 10.92 | 10.20 | 5/1/2012 |
| <i>BofA Merrill Lynch Global HY Constrained (USD)</i> | | | 4.57 | 19.30 | 19.30 | 10.64 | 11.67 | 10.38 | 10.32 | 5/1/2012 |
| TCW Emerging Markets Income | 425,878 | 4.26 | 5.48 | 22.54 | 22.54 | 11.77 | 14.85 | 13.90 | 12.21 | 5/1/2012 |
| <i>JPM EMBI Global Diversified</i> | | | 2.81 | 17.44 | 17.44 | 12.28 | 12.27 | 10.08 | 10.85 | 5/1/2012 |
| First American Government Obligation | 225,492 | 2.26 | 0.00 | 0.01 | 0.01 | 0.01 | 0.01 | 0.52 | 0.01 | 9/1/2010 |

Equities

PFM does not invest in individual company's' stocks, only equity mutual funds to provide a diverse equity portfolio with minimal risk exposure in any one company. The December 2012 month-ending market value of the Fund's equity mutual funds totaled \$4,787,805, representing 47.9% of the Fund's total market value. As detailed in the tables from PFM, the portfolio's equity mutual funds include \$3,118,090 in domestic equities, \$1,435,771 in international equities and \$233,943 in real estate. In general, the Fund's domestic equity investments and real estate investments underperformed the benchmarks while the international equity investments outperformed the benchmarks.

Bonds

The year-ending market value of the portfolio's bond mutual funds was \$4,973,219 representing 49.8% of the Fund's total market value. Resolution No. 387-2011 restricts bond investments to bonds Ba and above, while maintaining an overall average quality rating for the bond investments of AA or above and directs the Fund's investment manager to make every effort to the extent practical, prudent and appropriate, to select commingled funds and/or mutual funds that have investment objectives and policies that are consistent with the Fund's investment management objectives and policies. This legislation structures the Fund's bond portfolio to provide income that is consistent with a reasonable level of risk. The majority of fixed income investments within the Fund outperformed the benchmarks.

Inflation Hedge

The Fund includes an investment component serving as the Inflation Hedge, which is an investment option with intrinsic value such as oil, natural gas, gold, farmland, and commercial real estate. As of December 31, 2012, the inflation hedged component of the portfolio had \$230,826 or 2.31% of the Fund's year-ending asset allocation invested in PIMCO Commodity Real Return, which compared favorably to the DJ-UBS Commodity TR Index. U.S. Bank considers the Inflation Hedge within the fixed income asset allocation (bonds) whereas PFM considers it within the equity asset allocation.

Cash & Cash Equivalents

Cash equivalents are short-term investments and money market fund investments that are readily converted to cash and provide additional income. The Fund is invested in First American Government Obligation, which has an investment strategy that seeks to provide maximum current income and daily liquidity by purchasing high-quality U.S. government securities and repurchase agreements collateralized at more than 100%. The December 31, 2012 market value for the cash equivalents portion of the Fund was \$225,492 representing 2.26% of the Fund's year-ending asset allocation. The total return for the cash and cash equivalents component of the Fund's portfolio was 0.01%.

Capital Gains/Losses

The Fund's 2012 year-ending market value included \$218,287 in realized capital gains and \$675,360 in unrealized capital gains. In 1993, the Legislature authorized the use of capital gains to pay for one half of the investment management fees via Resolution No. 682-1993 and in 1994 the Legislature authorized using realized capital gains to augment distributions to the Museum and to provide a guaranteed annual income with the adoption of Resolution No. 933-1994.

Remittances to the Museum

During 2012, \$485,000 was disbursed to the Museum from the Fund to assist the Museum in meeting its operating cash flow needs.

The Museum began receiving revenue from the Hotel Motel Tax in May 2010 and for 2012, the Museum received 10% or \$726,499 of the revenue collected from the Hotel Motel Tax (County Fund 192). The proceeds from the Hotel Motel Tax reduce the Museum's reliance on the Endowment and afford it the opportunity to grow and provide for the Museum's future needs.

It should be noted that the Hotel Motel Tax was reauthorized and extended, per Resolution No. 805-2009, to December 31, 2015. Once the Hotel Motel Tax revenue sunsets, it is unknown if the allocation formula for the distribution of Hotel Motel Tax revenue will continue to include the Vanderbilt Museum.

Investment Management

Investment Objectives

The Fund's investment objectives are to preserve the principal corpus of the Fund (\$8.2 million), maintain a high level of income that is steady and predictable and provide for future growth of income through long-term capital growth.

Investment Policies

The Fund's investment policies are as indicated by the resolutions that follow.

- Resolution No. 1266-2007
 - Modified the investment guidelines to allow a 50/50 split between fixed securities (bonds) and equities (stocks) to range between 5-10% of the 50/50 split, as determined by market conditions.
 - This investment policy is to remain in effect until modified by duly enacted resolution of the Suffolk County Legislature.

- Resolution No. 387-2011
 - Adopted an investment management policy that restricts bond investments to bonds Ba and above, while maintaining an overall average quality rating for the bond investments of AA or above and directs the Fund's investment manager to make every effort to the extent practical, prudent and appropriate, to select commingled funds and/or mutual funds that have investment objectives and policies that are consistent with the Fund's investment management objectives and policies.
 - Given the nature of commingled funds and mutual funds, it is recognized that there may be deviations between the Fund's investment management policy and the objectives of the Fund's pooled vehicles. Further, a pooled fund or mutual fund will not be included in the Fund's portfolio unless it complies with the Investment Company Act of 1940, as amended through P.L. 111-257, diversification requirement.
 - Authorized the Vanderbilt Museum Trust Fund's investment manager to utilize a total return concept, meaning investing for a comprehensive return, including interest and dividends earned on stocks and bonds, plus realized and unrealized gains and losses.
 - The investment guidelines stipulated in Resolution No. 387-2011 shall remain in effect until modified by duly enacted resolution of the Suffolk County Legislature.

Investment Management Contract

As per Procedural Motion 5-2010, PFM Asset Management LLC was retained to serve as the Fund's investment advisor and U.S. Bank National Association as the custodian of the Fund independent of the Fund's investment manager.

The Agreement with PFM is for a term of three years, with the option to renew the Agreement for two additional one-year periods. The Agreement with PFM was duly executed on April 21, 2010.

Procedural Motion No. 7-2013 was laid on the table on March 19, 2013, which provides for the Legislature authorizing the Presiding Officer to exercise the County's option to extend its agreement with PFM for an additional one year period.

The Custody Agreement with U.S. Bank was executed in July 2010 and remains in effect until terminated by either U.S. Bank or the Legislature giving written notice thirty days in advance of the termination date.

Advisory Fees

Resolution No. 682-1993 authorizes the use of capital gains to pay 50% of the investment management fees; therefore 50% of the fees are paid from the principal account and 50% are paid from the income account. In 2012, a total of \$40,437 was incurred in advisory fees to PFM Asset Management LLC (PFM) and U.S. Bank National Association (U.S. Bank).

For all services provided by the Fund's investment advisor, PFM Asset Management LLC, the Fund incurred an annual fee based on net assets under the management of the Fund determined on a monthly basis as defined in the investment advisory fee schedule set forth below:

PFM Asset Management LLC Investment Advisory Fee Schedule

| | |
|---------------------------------|-------|
| First \$5 million in net assets | 0.40% |
| Next \$5 million in net assets | 0.35% |
| Next \$10 million in net assets | 0.30% |
| Thereafter | 0.20% |

The Fund also incurred fees for services rendered by U.S. Bank, the custodian of the Fund, in accordance with the fee schedule that follows.

U.S. Bank Custody Fee Schedule for PFM Asset Management LLC Managed and Advised Accounts Program

| Domestic Administrative Fee | |
|---|---------------------------|
| First \$100 Million Market Value | 2.5 basis points annually |
| Remaining Market Value | 1.5 basis points annually |
| Portfolio Transaction Fees | |
| Book Entry Transactions - DTC or Fed | \$7.50 |
| Physical Transactions | \$7.50 |
| Wire Transactions | \$7.50 |
| Benefit Payment Transaction Fees (if applicable) | |
| Checks - Recurring Distributions | \$2.50 |
| Wires | \$10.00 |
| ACH (with advice) | \$2.00 |
| ACH (without advice) | \$1.50 |
| Lump Sum Distributions | \$15.00 |
| Other | |
| TrustNow or TrustNow Essentials (on-line) | \$0.00 |
| TrustNow Customized (separately bid) | \$0.00 |
| Performance Measurement (optional) | \$250.00 |
| Out-of-Pocket Expenses | |
| The only out-of-pocket expenses charged to your account will be shipping fees or transfer fees. | |

Appendix A

Historical Information

William Kissam Vanderbilt II (1878-1944) referred to his 43-acre summer estate in Centerport, which overlooks the Northport Harbor and the Long Island Sound, as the “Eagle’s Nest”. Mr. Vanderbilt traveled extensively throughout the world collecting artifacts to develop his own personal museum at Eagle’s Nest. In Mr. Vanderbilt’s last will and testament, he recognized the potential for his vast estate to become a museum “for the use, education and enjoyment of the general public”. Mr. Vanderbilt died January 8, 1944 of a heart attack and his wife whom he married in Paris in September of 1927, Rosamund Lancaster Vanderbilt, died three years later on August, 28th, 1947 at “Eagle’s Nest”. She was the last Vanderbilt to live there.

In his last will and testament, Mr. Vanderbilt bequeathed his estate in Centerport, together with its real property, furnishings, exhibits, and works of art, artifacts, memorabilia and certain moneys either to the State of New York, County of Suffolk or Town of Huntington. By resolution duly adopted on the 30th day of August, 1948, the Board of Supervisors acting for Suffolk County accepted the offer. Suffolk County accepted the generous bequest in accordance with the terms of the agreement (deed) dated August 3, 1949. Mr. Vanderbilt’s desire, as indicated in his last will and testament, was for his estate to become a public park and museum and as such be devoted in perpetuity to the use, education and enjoyment of the public subject only to such reasonable regulations and restrictions, and such requirements with a view to maintenance and upkeep, including a reasonable charge for admittance if deemed advisable, as shall conserve the property and enhance its usefulness as a park and museum.

The estate was opened as a public museum in 1950. The Museum includes a Spanish revival style mansion with a Memorial Wing constructed in 1936 to commemorate Mr. Vanderbilt’s only son who died in 1933 from an automobile accident in South Carolina, a planetarium, outbuildings as well as landscaped grounds.

The Vanderbilt planetarium was erected in 1971 for less than one million dollars on the site of the former Vanderbilt family tennis courts and was paid for from the Endowment Trust Fund. The planetarium is a 60-foot diameter domed sky theatre. The Planetarium and its observatory were closed in August 2011 for extensive renovations and a complete technological update to make it one of the finest and best-equipped planetariums in the United States. The planetarium reopened on March 15, 2013. Improvements included the installation of a state-of-the-art, Konica Minolta GeminiStar III star projector with full-dome, 3-D video, laser-show and surround-sound systems, new seats, carpeting, and a digital ticketing and reservation system.

In November of 1986, Local Law No. 35-1986, designated and renamed the museum "Suffolk County Vanderbilt Museum". The Suffolk County Vanderbilt Museum Commission evolved from the former Suffolk County Park Commission, which was established by resolution of the Board of Supervisors on June 27, 1949, and enlarged by resolution of the Board of Supervisors on December 28, 1959. The Commission is responsible for the management and control of the Suffolk County Vanderbilt Museum, pursuant to Local Law No. 1-1966. The Board of Trustees¹ of the Suffolk County Vanderbilt Museum Commission has the sole power and control over the development, maintenance and operation of the Suffolk County Vanderbilt Museum and Planetarium and to conduct its programs and activities, subject only to the contractual conditions under which the County accepted the Vanderbilt bequest. The Board of Trustees is the appointing body with respect to all personnel engaged in the maintenance and operation of the programs and activities of the museum and planetarium, including the Director. The employees of the Museum are not employees of Suffolk County, but are employees of a privately endowed institution. The Suffolk County Legislature appoints fifteen members to the Commission for four-year terms of office to govern the Vanderbilt Museum.

The Legislature has the sole power and control over Museum property and the distribution of Trust Funds for its operation, care and perpetuation, subject only to the contractual conditions under which the County accepted the Vanderbilt bequest. Mr. Vanderbilt's bequest included \$2 million to establish an endowment fund for the maintenance and care of the estate. In 1973, the Fund had an additional bequest of \$6.2 million from the estate of Muriel Vanderbilt Adams, William K. Vanderbilt's daughter, raising the corpus of the Fund to \$8.2 million. Distributions from the Fund partially defray the Museum's maintenance and operating expenses. One of the Fund's investment objectives is to preserve the principal corpus of the Fund (\$8.2 million). Thus far, the Fund has met this investment objective and has not been considered an "underwater endowment" or a fund whose current market value has declined below its historical dollar value².

Resolution No. 933-1994 was adopted for the purpose of permitting the Vanderbilt Museum Trust Fund's Investment Advisor to utilize a total return concept³, to provide a fixed annual income of \$1,000,000, as requested by the Suffolk County Vanderbilt Museum, and authorized the use of realized capital

¹ On July 15, 1949, the Board of Regents of The University of the State of New York granted a charter pursuant to Section 216 of the Education Law of the State of New York to the Vanderbilt Museum. Therefore, the Board of Trustees of the Vanderbilt Museum is an institution incorporated by the Board of Regents of The University of the State of New York.

² "Historic dollar value" means the aggregate fair value in dollars of an endowment fund at the time it became an endowment fund. It also includes each subsequent donation to the fund at the time it is made.

³ Total Return Concept meaning investing for a comprehensive return, including interest and dividends earned on stocks and bonds, plus realized and unrealized gains and losses.

gains in the Trust Fund for cash flow purposes only, with any unused funds from said realized gains to be returned to the Trust Fund for reinvestment. The authorization was increased to \$1.2 million by the adoption of Resolution No. 656-2000, and subsequently extended by Resolution Nos. 196-2002, 1251-2002, 1177-2003, 1372-2004, 1306-2005, 1477-2006, and 1266-2007. The Legislature did not extend this authorization for 2009, as the market value of the Fund could not support a \$1.2 million distribution. During 2009, Procedural Motion No. 3-2009 authorized the remittance of \$45,500 to the Museum from the Endowment Fund. To support the Museum in meeting its 2009 operating budget expenses and to enable the Museum to continue to operate as an educational resource for the residents of Suffolk County as well as a tourist attraction for visitors, Resolution No. 870-2008 authorized the transfer of up to \$800,000 from the General Fund during 2009 not to exceed \$100,000 per month based upon monthly cash flow needs analysis prepared by the Vanderbilt Museum no later than the 15th of the previous month. Historically, the Museum's operating budget has not received funds from County real property taxes, with the exception of the Museum's 2009 operating budget. On December 31, 2009, the one-year commitment to provide the Museum revenue from the General Fund sunset. The Museum received \$705,094 or \$94,906 less than authorized from the County's General Fund during 2009. The County's General Fund has assumed all debt service for the Museum's capital projects.

Resolution No. 805-2009, adopted Local Law 34-2009, A Local Law to reauthorize the Hotel Motel Tax. The Hotel Motel Tax was reauthorized and extended to December 31, 2015 and the tax on the per-diem rental rate (exclusive of sales tax) imposed for each hotel or motel room was increased from 0.75% to 3%. Additionally, the allocation formula was amended. The amended allocation formula commenced on December 1, 2009 and included a new 10% allocation for the Vanderbilt Museum, which the Legislature has the option of decreasing by one percent each fiscal year beginning in 2011 with a corresponding one percent increase in the allocation to cultural programs. During 2010, the Museum received \$692,498 from the Hotel Motel Tax. In 2011, the Museum received \$705,096 from the Hotel Motel Tax and for 2012 it received \$726,499. The Adopted 2013 Operating Budget includes \$930,140 in Fund 192 for the Museum.

Subsequent to Bessemer Trust, Fleet Investment Services (Fleet) entered into a contractual agreement in 1996 with the Suffolk County Legislature to provide investment management services for the Vanderbilt Museum Endowment Trust Fund. The two year agreement included two options to renew for a period of two years for each renewal. In 2004, Fleet Investment Services was selected through an RFP. In September of 2004, Fleet merged with Bank of America. The contract agreement with Bank of America expired at the end of 2008. Subsequently, a Request for Expressions of Interest (RFEI) for Investment Management Services for the Suffolk County Vanderbilt Museum Endowment Trust was issued. The RFEI proposals were reviewed and the County then

issued a Request for Proposal (RFP) to the seven companies that were chosen to participate in the next phase of the selection process. The RFP evaluation committee chose PFM Advisors and an award letter was sent on January 12, 2010. On March 23, 2010, Procedural Motion 5-2010 was adopted to retain PFM Asset Management LLC to serve as the investment advisor for the Suffolk County Vanderbilt Museum's Maintenance Fund and U.S. Bank National Association as the custodian of the Maintenance Fund. Procedural Motion No. 7-2013 was laid on the table on March 19, 2013, which provides for the Legislature authorizing the Presiding Officer to exercise the County's option to extend its agreement with PFM for an additional one year period.

Resolution No. 1036-2008 created a Vanderbilt Museum Oversight Committee to work with, and act as a liaison to, the Vanderbilt Museum Board of Trustees and the Museum's administrators to analyze new ideas to increase revenues and cut costs and to ensure that new policies are implemented in a timely fashion so the County of Suffolk may avoid an unenviable choice between closing the Museum or making another large cash transfer to the Museum in 2010. Resolution No. 110-2011 reauthorized and reconstituted the Vanderbilt Museum Oversight Committee to work with the Vanderbilt Museum Board of Trustees and its administrators, for the purpose of ensuring the Museum's long-term financial viability. The Oversight Committee is to study the Museum's fiscal management and procurement practices and make recommendations to improve these processes, assist the Museum in bringing to fruition longstanding proposals to generate new revenues, report on the physical condition of the Museum and recommend safety improvement priorities to the Legislature, send a representative to each meeting of the Vanderbilt Museum's Board of Trustees, and send a representative to the County Legislature's Parks and Recreation Committee on a regular basis to report on its activities and will further report to the full Legislature on a regular basis.

In March of 2009 a Memorandum of Understanding (MOU) was signed between the County of Suffolk and the Trustees of the Vanderbilt Museum, which expired on December 31, 2009. Amongst other stipulations included in the MOU, the Museum agreed to and in June 2009 submitted a formal written business plan demonstrating how the Museum would replace the County's 2009 distribution in fiscal year 2010.

During 2009, the following additional notable Procedural Motions and Resolutions were adopted.

- Procedural Motion No. 2-2009 was adopted to retain outside counsel in matters relating to the Suffolk County Vanderbilt Museum.
- Procedural Motion No. 3-2009 was adopted to authorize the remittance of monies from the maintenance Fund to the Vanderbilt Museum. The

Vanderbilt Museum's Maintenance Fund Investment Advisor, in consultation with the Presiding Officer of the Suffolk County Legislature and the Legislature's Budget Review Office, was authorized to remit monthly disbursements to the Vanderbilt Museum from January 1, 2009 to December 31, 2009, as long as the corpus of the fund did not go below the value of the original bequest (\$8.2 million).

- Procedural Motion No. 16-2009 authorized the retention of counsel in relation to the Suffolk County Vanderbilt Museum.
- Resolution No. 122-2009 established a Task Force to Study the Feasibility of Suffolk County Community College assuming the operation of the Vanderbilt Museum.
- Resolution No. 371-2009 authorized a cell tower at the Vanderbilt Museum.
- Resolution No. 804-2009 extended the deadline for a Task Force to Study the Feasibility of Suffolk County Community College assuming the operation of the Vanderbilt Museum.

During 2010, the following pertinent Procedural Motions and Resolutions were adopted.

- Procedural Motion 2-2010 was adopted to authorize the remittance of monies (\$20,000) from the maintenance fund to the Vanderbilt Museum.
- Procedural Motion 5-2010 was adopted to retain PFM Asset Management LLC and U.S. Bank.
- Resolution No. 1196-2010 extended the deadline for the Task Force to Study the Feasibility of Suffolk County Community College assuming the operation of the Vanderbilt Museum to no later than December 31, 2011.

During 2011, the following pertinent Procedural Motions and Resolutions were adopted.

- Resolution No. 110-2011 reauthorized and reconstituted the Vanderbilt Museum Oversight Committee to work with the Vanderbilt Museum Board of Trustees and its administrators, for the purpose of ensuring the Museum's long-term financial viability. The Oversight Committee is to study the Museum's fiscal management and procurement practices and make recommendations to improve these processes, assist the Museum in bringing to fruition longstanding proposals to generate new revenues, report on the physical condition of the Museum and recommend safety improvement priorities to the Legislature, send a representative to each

meeting of the Vanderbilt Museum's Board of Trustees, and send a representative to the County Legislature's Parks and Recreation Committee on a regular basis to report on its activities and is to further report to the full Legislature on a regular basis.

- Resolution No. 311-2011 authorized the transfer of ownership of the GOTO star projector to the Museum's Board of Trustees for its sale or disposal with the proceeds to be used for Vanderbilt Museum and Planetarium operations.
- Resolution No. 387-2011 authorized the following changes in the investment management policy for the Suffolk County Vanderbilt Museum Endowment Trust Fund.
 - Adopted an investment management policy⁴ that restricts bond investments to bonds Ba and above, while maintaining an overall average quality rating for the bond investments of AA or above and directs the Fund's investment manager to make every effort to the extent practical, prudent and appropriate, to select commingled funds and/or mutual funds that have investment objectives and policies that are consistent with the Fund's investment management objectives and policies.
 - Given the nature of commingled funds and mutual funds, it is recognized that there may be deviations between the Fund's investment management policy and the objectives of the Fund's pooled vehicles. Further, a pooled fund or mutual fund will not be included in the Fund's portfolio unless it complies with the Investment Company Act of 1940, as amended through P.L. 111-257, diversification requirement.
 - Authorized the Vanderbilt Museum Trust Fund's investment manager to utilize a total return concept, meaning investing for a comprehensive return, including interest and dividends earned on stocks and bonds, plus realized and unrealized gains and losses.
 - The investment guidelines stipulated in Resolution No. 387-2011 shall remain in effect until modified by duly enacted resolution of the Suffolk County Legislature.

⁴ The investment management policy that had been adopted in Resolution No. 215-1987, was amended by Resolution No. 387-2011 to reflect a change in the investment manager's methodology of investment from restricting bond investments to investment grade, Baa or above, per Moody's Investors Service to the allowance of bonds Ba and above, while maintaining an overall average quality rating for the bond investments of AA or above.

- Resolution No. 1010-2011 authorized the Museum to purchase gasoline from the County's fueling facilities for its traveling exhibit, "Discovering the Universe". On October 19, 2011, the Museum's Board of Trustees accepted the gift of the 37-foot Recreational Vehicle ("RV") from the American Museum of Natural History.
- Resolution No. 1016-2011 approved a two-year license agreement with Z. Richard Mecik and Marina Mecik to reside at Normandy Manor, commencing March 1, 2012 and continuing through February 28, 2014. The license agreement is for \$5,500 per month to be remitted to the Suffolk County Vanderbilt Museum no less than once a month due on the first of each month. The Suffolk County Vanderbilt Museum is to use the license revenue to support the general operations of the Museum.

During 2012, the following pertinent resolution was adopted.

- Resolution No. 137-2012 authorized the sale of the Museum's 1937 Chrysler Imperial to Howard Kroplick for the sum of \$275,000. In accordance with the American Association of Museums accreditation of the Museum proceeds from the sale are restricted to care and maintenance of its collections.