

CARY INSTITUTE OF ECOSYSTEM STUDIES, INC.

FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

CARY INSTITUTE OF ECOSYSTEM STUDIES, INC.

CONTENTS

Independent Auditors' Report	1
Statements of Financial Position - June 30, 2011 and 2010	2
Statement of Activities and Changes in Net Assets for the Year Ended June 30, 2011	3
Statement of Activities and Changes in Net Assets for the Year Ended June 30, 2010	4
Statements of Cash Flows for the Years Ended June 30, 2011 and 2010	5
Notes to Financial Statements	6-21

BlumShapiro

Accounting | Tax | Business Consulting

Independent Auditors' Report

To the Board of Trustees
Cary Institute of Ecosystem Studies, Inc.

We have audited the accompanying statements of financial position of Cary Institute of Ecosystem Studies, Inc., as of June 30, 2011 and 2010, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of Cary Institute of Ecosystem Studies, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cary Institute of Ecosystem Studies, Inc., as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2011 on our consideration of the Institute's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audits.

Blum, Shapiro & Company, P.C.

November 11, 2011

CARY INSTITUTE OF ECOSYSTEM STUDIES, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and cash equivalents	\$ 1,169,720	\$ 1,288,855
Investments	103,750,812	96,052,014
Grants and contracts receivable	1,457,285	1,208,949
Other assets	221,475	175,321
Property and equipment, net	<u>7,057,631</u>	<u>7,165,810</u>
Total Assets	\$ <u>113,656,923</u>	\$ <u>105,890,949</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 1,435,481	\$ 1,593,513
Deferred revenue	427,798	579,636
Loan payable	28,412	56,080
Capital lease obligation	8,844	12,060
Total liabilities	<u>1,900,535</u>	<u>2,241,289</u>
Net Assets		
Unrestricted	19,979,968	19,859,383
Temporarily restricted	11,354,545	3,373,813
Permanently restricted	80,421,875	80,416,464
Total net assets	<u>111,756,388</u>	<u>103,649,660</u>
Total Liabilities and Net Assets	\$ <u>113,656,923</u>	\$ <u>105,890,949</u>

The accompanying notes are an integral part of the financial statements

CARY INSTITUTE OF ECOSYSTEM STUDIES, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenues				
Government grants and contracts	\$ 4,839,201	\$ -	\$ -	\$ 4,839,201
Private grants and contributions	508,189	-	5,411	513,600
Membership income	306,562	-	-	306,562
Tuition and fees	26,114	-	-	26,114
Other income	460,622	-	-	460,622
Auxiliary enterprises	126,953	-	-	126,953
Investment return designated for operations	-	4,874,815	-	4,874,815
Net assets released from restrictions	4,874,815	(4,874,815)	-	-
Total operating revenues	11,142,456	-	5,411	11,147,867
Operating Expenses				
Program services:				
Science	5,785,954	-	-	5,785,954
Education	870,589	-	-	870,589
Library	236,401	-	-	236,401
Horticultural	348,379	-	-	348,379
Auxiliary enterprises	217,689	-	-	217,689
Total program services	7,459,012	-	-	7,459,012
Supporting services:				
Executive management	446,706	-	-	446,706
Finance and administration	2,271,146	-	-	2,271,146
Development	489,141	-	-	489,141
Total supporting services	3,206,993	-	-	3,206,993
Total operating expenses	10,666,005	-	-	10,666,005
Operating revenues in excess of operating expenses before depreciation and other changes	476,451	-	5,411	481,862
Depreciation				
Program services	368,736	-	-	368,736
Supporting services	27,754	-	-	27,754
Total depreciation	396,490	-	-	396,490
Operating revenues in excess of operating expenses	79,961	-	5,411	85,372
Other Changes in Net Assets				
Investment gain in excess of amounts designated for operations	40,624	7,980,732	-	8,021,356
Increase in Net Assets	120,585	7,980,732	5,411	8,106,728
Net Assets - Beginning of Year	19,859,383	3,373,813	80,416,464	103,649,660
Net Assets - End of Year	\$ 19,979,968	\$ 11,354,545	\$ 80,421,875	\$ 111,756,388

The accompanying notes are an integral part of the financial statements

CARY INSTITUTE OF ECOSYSTEM STUDIES, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating Revenues				
Government grants and contracts	\$ 4,660,691	\$ -	\$ -	\$ 4,660,691
Private grants and contributions	523,755	-	10,397	534,152
Membership income	235,089	-	-	235,089
Tuition and fees	26,293	-	-	26,293
Other income	247,713	-	-	247,713
Auxiliary enterprises	121,273	-	-	121,273
Investment return designated for operations	-	4,545,956	-	4,545,956
Net assets released from restrictions	4,545,956	(4,545,956)	-	-
Total operating revenues	<u>10,360,770</u>	<u>-</u>	<u>10,397</u>	<u>10,371,167</u>
Operating Expenses				
Program services:				
Science	5,820,184	-	-	5,820,184
Education	651,422	-	-	651,422
Library	232,424	-	-	232,424
Horticultural	429,521	-	-	429,521
Auxiliary enterprises	223,947	-	-	223,947
Total program services	<u>7,357,498</u>	<u>-</u>	<u>-</u>	<u>7,357,498</u>
Supporting services:				
Executive management	430,793	-	-	430,793
Finance and administration	2,094,956	-	-	2,094,956
Development	317,833	-	-	317,833
Total supporting services	<u>2,843,582</u>	<u>-</u>	<u>-</u>	<u>2,843,582</u>
Total operating expenses	<u>10,201,080</u>	<u>-</u>	<u>-</u>	<u>10,201,080</u>
Operating revenues in excess of operating expenses before depreciation and other changes	<u>159,690</u>	<u>-</u>	<u>10,397</u>	<u>170,087</u>
Depreciation				
Program services	393,508	-	-	393,508
Supporting services	29,619	-	-	29,619
Total depreciation	<u>423,127</u>	<u>-</u>	<u>-</u>	<u>423,127</u>
Operating revenues in excess (deficit) of operating expenses	(263,437)	-	10,397	(253,040)
Other Changes in Net Assets				
Investment gain in excess of amounts designated for operations	<u>3,752,883</u>	<u>3,324,718</u>	<u>-</u>	<u>7,077,601</u>
Increase in Net Assets	3,489,446	3,324,718	10,397	6,824,561
Net Assets - Beginning of Year	<u>16,369,937</u>	<u>49,095</u>	<u>80,406,067</u>	<u>96,825,099</u>
Net Assets - End of Year	<u>\$ 19,859,383</u>	<u>\$ 3,373,813</u>	<u>\$ 80,416,464</u>	<u>\$ 103,649,660</u>

The accompanying notes are an integral part of the financial statements

CARY INSTITUTE OF ECOSYSTEM STUDIES, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities		
Increase in net assets	\$ 8,106,728	\$ 6,824,561
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation and amortization	396,490	423,127
Realized and unrealized gains on investments, net	(12,896,171)	(11,603,540)
(Increase) decrease in operating assets:		
Grants and contracts receivable	(248,336)	91,442
Other assets	(46,154)	(43,942)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(158,032)	(36,438)
Deferred revenue	(151,838)	61,000
Net cash used in operating activities	<u>(4,997,313)</u>	<u>(4,283,790)</u>
Cash Flows from Investing Activities		
Proceeds from sale of investments	15,741,631	32,791,822
Purchase of investments	(10,544,258)	(27,289,671)
Purchase of property and equipment	(288,311)	(419,783)
Net cash provided by investing activities	<u>4,909,062</u>	<u>5,082,368</u>
Cash Flows from Financing Activities		
Payments on long-term debt	(27,668)	(27,016)
Payments on capital lease obligation	(3,216)	(3,216)
Net cash used in financing activities	<u>(30,884)</u>	<u>(30,232)</u>
Increase (Decrease) in Cash and Cash Equivalents	(119,135)	768,346
Cash and Cash Equivalents - Beginning of Year	<u>1,288,855</u>	<u>520,509</u>
Cash and Cash Equivalents - End of Year	<u>\$ 1,169,720</u>	<u>\$ 1,288,855</u>
Cash Paid During the Year for Interest	<u>\$ 34,584</u>	<u>\$ 39,134</u>

The accompanying notes are an integral part of the financial statements

CARY INSTITUTE OF ECOSYSTEM STUDIES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The Cary Institute of Ecosystem Studies, Inc. (the Institute), formerly named The Institute of Ecosystem Studies, Inc., is a not-for-profit research and educational institution incorporated under the laws of the State of New York. The Institute is dedicated to the creation, dissemination and application of knowledge about ecological systems.

Basis of Accounting and Presentation - The financial statements of the Institute have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Accordingly, the accounts of the Institute are reported in the following net asset categories:

Unrestricted Net Assets - Unrestricted net assets represent available resources other than donor-restricted contributions. These resources may be expended at the discretion of the Board of Trustees.

Temporarily Restricted Net Assets - Temporarily restricted net assets represent contributions that are restricted by the donor as to purpose or time of expenditure and accumulated investment gains and income on endowment investments that have not been appropriated for expenditure.

Permanently Restricted Net Assets - Permanently restricted net assets represent resources that have donor-imposed restrictions that require that the principal be maintained in perpetuity but permit the Institute to expend the income earned thereon.

Measure of Operations - The Institute's measure of operations includes all operating revenues and expenses that are an integral part of its programs, including net assets released from donor restrictions to support operations. The measure of operations also includes distributions from the endowment in accordance with the Institute's endowment spending policy. The measure of operations excludes income and gains or losses on endowment that exceed or are less than the distribution determined by the spending policy and other nonendowment related investment income.

Use of Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates. The most significant estimates relate to the valuations of alternative investments.

Cash and Cash Equivalents - Cash equivalents are defined as highly liquid investments with original maturities of 90 days or less, exclusive of cash held with brokers, which is included in investments. The Institute maintains deposits in financial institutions that may, at times, exceed federal and other depository insurance limits. Management believes that the Institute's deposits are not subject to significant credit risk.

CARY INSTITUTE OF ECOSYSTEM STUDIES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments - The Institute's investment portfolio consists of a wide range of securities and investment vehicles whose purpose is to help support the cost of the Institute's operations. Its investments in marketable equity and all debt securities are reported at market value in the statements of financial position. However, certain assets in the portfolio relate to investments in a variety of limited partnerships. These partnerships, in turn, may invest in listed and unlisted stocks, corporate bonds and other fixed income securities, as well as other limited partnerships and financial instruments that are illiquid, and may also engage in various forms of arbitrage. As a result, the market value of certain partnership investments is, of necessity, based on estimates as discussed in Note 3. These estimated values could differ significantly from values that would have been determined had there been a ready market for the underlying investments. Realized and unrealized gains and losses on these investments are reported in the statements of activities and changes in net assets as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

Property and Equipment - Property and equipment acquisitions and improvements thereon that exceed \$5,000 are capitalized at cost and depreciated on a straight-line basis over their estimated useful lives, which range from 4 to 35 years. Repairs and maintenance are charged to expense as incurred.

Grants and Contracts - Other than certain awards to fund capital expenditures, governmental grants and contracts are generally considered to be exchange transactions rather than contributions. Revenue from cost-reimbursement grants and contracts is recognized to the extent of costs incurred. Revenue from performance-based grants and contracts is recognized to the extent of performance achieved. Grant and contract receipts in excess of revenue recognized are presented as deferred revenue.

Contributions - Unconditional contributions are recognized when pledged or received, as applicable, and are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions receivable expected to be collected in more than one year are discounted to their present value. The Institute reports nongovernmental contributions and grants of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit their use. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Functional Allocation of Expenses - The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

Reclassifications - Certain amounts in the 2010 financial statements have been reclassified to conform with the current year's presentation.

CARY INSTITUTE OF ECOSYSTEM STUDIES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes - The Institute is exempt from federal and state income taxes as a public charity under Section 501(c)(3) of the Internal Revenue Code (the Code), and is exempt from federal income tax under Section 501(a) of the Code. Accordingly, no provision for income taxes has been made. The Institute's informational returns for the years ended June 30, 2008 through 2011 are subject to examination by the Internal Revenue Service and the State of New York.

Subsequent Events - In preparing these financial statements, management has evaluated subsequent events through November 11, 2011, which represents the date the financial statements were available to be issued.

NOTE 2 - INVESTMENTS

Investments consist of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 3,358,637	\$ 4,475,160
Fixed income	23,835,572	29,703,243
Equity	39,027,280	30,198,012
Mutual funds	3,201,947	-
Alternative assets	32,228,467	29,507,472
Hybrid	950,084	1,686,497
Private investments	<u>1,148,825</u>	<u>481,630</u>
Total Investment Market Value	<u>\$ 103,750,812</u>	<u>\$ 96,052,014</u>

The following table presents a summary of investment results for the years ended June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Investment income	\$ 71,089	\$ 20,017
Net realized and unrealized gains	12,825,082	11,603,540
Total investment gain	<u>12,896,171</u>	<u>11,623,557</u>
Less distribution from endowment for current operations	<u>(4,874,815)</u>	<u>(4,545,956)</u>
Investment Gain In Excess of Amounts Designated for Operations	<u>\$ 8,021,356</u>	<u>\$ 7,077,601</u>

CARY INSTITUTE OF ECOSYSTEM STUDIES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - FAIR VALUES

Generally accepted accounting principles establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. 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 Institute has the ability to access.

Level 2 - Inputs and information to the valuation methodology other than quoted market indices included in Level 1 that are observable for the asset, either directly or indirectly, and the Institute has the ability to redeem the asset in the near term subsequent to the measurement date. Fair value inputs used for alternative investments have been estimated using the net asset value per share and represent investments with redemption notice periods of 90 days or less.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available, and the Institute does not have the ability to redeem the asset in the near term. Fair value inputs used for alternative investments have been estimated using the net asset value per share of the investments as provided by the general partner and represent investments with redemption notice periods of greater than 90 days.

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.

CARY INSTITUTE OF ECOSYSTEM STUDIES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - FAIR VALUES (Continued)

The following is a summary of the source of fair value measurements for assets that are measured at fair value as of June 30, 2011 and 2010:

Description	2011			
	June 30	Source of Fair Value Inputs		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 3,358,637	\$ 3,358,637	\$ -	\$ -
Mutual funds:		-	-	-
Common stock	3,009,830	3,009,830	-	-
Money market	128,078	128,078	-	-
Exchange traded fund	64,039	64,039	-	-
Fixed income:				
Domestic taxable	23,835,572	17,971,833	5,863,739	-
Equity:				
Global equity - managed	20,672,471	-	-	20,672,471
Domestic equity - managed	17,354,809	17,354,809	-	-
Emerging equities - managed	1,000,000	-	-	1,000,000
Alternative assets:				
Absolute return	26,732,979	-	-	26,732,979
Equity hedge	5,495,488	-	-	5,495,488
Hybrid	950,084	-	-	950,084
Private investments:				
Fund of funds	833,810	-	-	833,810
Buyout/growth	315,015	-	-	315,015
Total	\$ <u>103,750,812</u>	\$ <u>41,887,226</u>	\$ <u>5,863,739</u>	\$ <u>55,999,847</u>

Description	2010			
	June 30	Source of Fair Value Inputs		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 4,475,160	\$ 4,475,160	\$ -	\$ -
Fixed income:				
Domestic taxable	29,703,243	24,165,504	5,537,739	-
Equity:				
Global equity - managed	17,149,143	-	-	17,149,143
Domestic equity - managed	13,048,869	13,048,869	-	-
Alternative assets:				
Absolute return	23,871,513	-	-	23,871,513
Equity hedge	5,635,959	-	-	5,635,959
Hybrid	1,686,497	-	-	1,686,497
Private investments:				
Fund of funds	99,963	-	-	99,963
Buyout/growth	381,667	-	-	381,667
Total	\$ <u>96,052,014</u>	\$ <u>41,589,533</u>	\$ <u>5,537,739</u>	\$ <u>48,824,742</u>

CARY INSTITUTE OF ECOSYSTEM STUDIES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - FAIR VALUES (Continued)

Fixed Income - This investment class seeks to provide current income, be the principal source of liquidity for distribution for current expenses and create some measure of diversification. As a result, credit quality is a core emphasis of this allocation. The redemption period for these investments is daily, with no advanced notice.

Equity - This investment class seeks to provide long-term capital appreciation. Equity managers are selected with the objective of building a portfolio that is diversified by geographic region, economic sector, industry and market capitalization. The objective in selecting equity managers is to generate average annual compounded returns over the relevant broad market indices (i.e., the S&P 500, the Russell 1000, MSCI EAFE and MSCI World), net of fees, over full market cycles (5-10 years). The redemption period for these investments ranges from daily to semiannually, with 0-30 days notice and varying lockup periods.

Alternative Assets - This investment class may include both “absolute return strategies” and long/short “equity hedge” strategies. Absolute return strategies typically involve event-driven, stressed and distressed credit, and spread-based arbitrage investments. Absolute return strategies tend to be both flexible and opportunistic. They incorporate differentiated drivers of return compared to traditional investment strategies, and, as a result, they are expected to produce returns that exhibit relatively low correlation to broad market indices over longer time horizons. Equity hedge managers typically make both long and short investments and produce returns that can be expected to correlate more closely with the performance of the equity markets than would the performance of the absolute return strategies, though with lower volatility than traditional “long only” equity managers. Investments in alternative assets are generally subject to an initial lockup of 12-24 months or longer and thereafter investors can typically withdraw quarterly or annually with advance notice. The managers’ underlying investments may themselves be less liquid, but the investment cycle is substantially shorter than for private equity. Over time, alternative assets should generate equity-like returns with lower volatility than equity markets.

Hybrid - This investment class seeks to capitalize on opportunistic investments across the credit spectrum.

Private Investments - This investment class encompasses diverse strategies including buyout/growth, venture capital and control-oriented distressed. These investments generally have 4-6 year investment periods and approximately 10-year fund lives. Private investments are expected to generate higher returns than public market strategies. The performance of funds raised and managed by the same team following similar strategies can vary significantly from one period to the next. Thus, investment in this asset class requires diversification across not only managers, strategies and geographies but also “vintage years.”

CARY INSTITUTE OF ECOSYSTEM STUDIES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - FAIR VALUES (Continued)

The following table discloses certain additional information as of June 30, 2011 related to the Institute's investments in distressed funds, hedge fund of funds, private equity, real assets and real estate that use net asset value per share and are not traded in an active market:

<u>Description</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Terms</u>	<u>Redemption Restrictions</u>
Global equity - managed	\$ 20,672,471	\$ -	Quarterly with one year lockup period through 4/1/2011 and semiannually	30 days notice
Emerging equities - managed	1,000,000	-	Every third anniversary with 3 year lock up period through 7/1/2014	30 days notice
Absolute return	26,732,979	-	Quarterly with various lockup periods through 7/1/2012, quarterly, semi-annually, annually, and biannually	60-90 days notice
Equity hedge	5,495,488	-	Quarterly with various lockup periods through 4/1/2013, and every third anniversary	60-90 days notice
Hybrid	950,084	3,500,000	Illiquid	Illiquid
Buyout/growth	315,015	626,812	Illiquid	Illiquid
Fund of funds	<u>833,810</u>	<u>4,230,000</u>	Illiquid	Illiquid
Total	<u>\$ 55,999,847</u>	<u>\$ 8,356,812</u>		

CARY INSTITUTE OF ECOSYSTEM STUDIES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - FAIR VALUES (Continued)

Assets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3) - The following is a summary of the changes in the balances of assets measured at fair value on a recurring basis using significant unobservable inputs for the years ended June 30, 2011 and 2010:

	2011			
	Equity Global Equity - Managed	Equity Emerging Equities - Managed	Alternative Assets Equity Hedge	Alternative Assets Absolute Return
Balance - beginning of year	\$ 17,149,143	\$ -	\$ 5,635,959	\$ 23,871,513
Total gains, realized and unrealized, included in the change in net assets	3,523,328	-	369,475	2,046,888
Purchases	-	1,000,000	4,176,340	6,097,461
Sales	-	-	(4,686,286)	(5,282,883)
Balance - End of Year	<u>\$ 20,672,471</u>	<u>\$ 1,000,000</u>	<u>\$ 5,495,488</u>	<u>\$ 26,732,979</u>

	Hybrid	Private Investments Buyout/Growth	Private Investments Fund of Funds
	Balance - beginning of year	\$ 1,686,497	\$ 99,963
Total gains, realized and unrealized, included in the change in net assets	161,242	25,421	62,143
Purchases	-	189,631	490,000
Sales	(897,655)	-	(100,000)
Balance - End of Year	<u>\$ 950,084</u>	<u>\$ 315,015</u>	<u>\$ 833,810</u>

CARY INSTITUTE OF ECOSYSTEM STUDIES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - FAIR VALUES (Continued)

	2010		
	Equity Global Equity - Managed	Alternative Assets Equity Hedge	Alternative Assets Absolute Return
Balance - beginning of year	\$ 9,878,961	\$ 2,000,000	\$ 15,730,522
Total gains (losses), realized and unrealized, included in the change in net assets	1,270,182	(366,041)	2,640,991
Purchases	8,000,000	4,002,000	5,500,000
Sales	(2,000,000)	-	-
Balance - End of Year	<u>\$ 17,149,143</u>	<u>\$ 5,635,959</u>	<u>\$ 23,871,513</u>
	Hybrid	Private Investments Buyout/Growth	Private Investments Fund of Funds
Balance - beginning of year	\$ -	\$ -	\$ -
Total gains (losses), realized and unrealized, included in the change in net assets	186,497	(12,520)	(38,333)
Purchases	1,500,000	112,483	420,000
Sales	-	-	-
Balance - End of Year	<u>\$ 1,686,497</u>	<u>\$ 99,963</u>	<u>\$ 381,667</u>

Total gains for the years ending June 30, 2011 and 2010, included in changes in net assets attributable to the change in unrealized gains relating to assets still held at year end were \$294,188 and \$3,682,776, respectively.

NOTE 4 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Institute's major financial instruments consist of cash and cash equivalents, investments, grants and contracts receivable, and accounts payable and accrued expenses.

The fair values of cash and cash equivalents, grants and contracts receivable, and accounts payable approximate their carrying values due to the short-term nature of these items. Investments are carried at fair value in the financial statements based on quoted market prices for marketable securities and estimates obtained from investment managers for nonmarketable securities, as discussed in Note 3.

CARY INSTITUTE OF ECOSYSTEM STUDIES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - GRANTS AND CONTRACTS RECEIVABLE

Grants and contracts receivable consist of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Government agencies (primarily federal agencies)	\$ 1,042,276	\$ 958,839
University and other research institutions	391,579	250,110
Foundations	<u>23,430</u>	<u>-</u>
	<u>\$ 1,457,285</u>	<u>\$ 1,208,949</u>

The Institute has been awarded approximately \$5.58 million in grants and contracts that have not been advanced or expended as of June 30, 2011 and, accordingly, are not recognized in the financial statements.

At June 30, 2011 and 2010, grant proceeds in the amount of \$427,798 and \$579,636, respectively, were advanced to the Institute but not expended and, accordingly, are included in the accompanying financial statements as deferred revenue. Revenue on these grants will be recognized as expenditures are incurred.

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Land	\$ 2,601,368	\$ 2,568,768
Land improvements	980,850	940,819
Buildings	8,668,579	8,429,639
Building improvements	4,823,462	4,721,176
Equipment, furniture and fixtures	3,039,545	2,913,700
Construction in progress	<u>-</u>	<u>271,540</u>
	20,113,804	19,845,642
Less accumulated depreciation and amortization	<u>13,056,173</u>	<u>12,679,832</u>
	<u>\$ 7,057,631</u>	<u>\$ 7,165,810</u>

Depreciation expense was \$396,490 and \$423,127 for the years ended June 30, 2011 and 2010, respectively.

CARY INSTITUTE OF ECOSYSTEM STUDIES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 7 - DEBT ARRANGEMENTS

The Institute entered into a term loan agreement with M&T Bank under the “Energy Smart Program” sponsored by the New York State Energy Research and Development Authority. The interest rate of the loan under the program is 4% below the base rate of 6.44%. Under the loan agreement, the interest rate may be adjusted to the base rate if certain events occur, including the bank terminating their participation in the program or the Institute’s right to participate in the program being terminated.

	2011	2010
Term loan, M&T Bank, (2.44%) payable through June 2012	\$ 28,412	\$ 56,080
Less current portion	28,412	27,668
	\$ -	\$ 28,412

NOTE 8 - LEASE COMMITMENTS

Capital Leases - The Institute entered into a capital lease for a copier expiring in March 2014. The lease agreement requires monthly principal and interest payments of \$268.

The following is a summary of property under capital lease as of June 30, 2011 and 2010:

	2011	2010
Equipment	\$ 16,080	\$ 16,080
Less accumulated amortization	7,236	4,020
Net Equipment Under Capital Leases	\$ 8,844	\$ 12,060

Amortization expense relative to the above property is included in depreciation and amortization expense as disclosed in Note 6.

The following is a schedule by years of future minimum payments under capital leases, together with the present value of minimum lease payments as of June 30, 2011:

Year Ending June 30

2012	\$ 3,216
2013	3,216
2014	2,412
Total Minimum Lease Payments	\$ 8,844

**CARY INSTITUTE OF ECOSYSTEM STUDIES, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30, 2011 and 2010:

	2011	2010
Accumulated gains and income on endowment assets available for appropriation by the Board of Trustees	\$ 11,293,627	\$ 3,319,475
Manglesdorf Trust	51,863	46,262
Program initiatives	9,055	8,076
	\$ 11,354,545	\$ 3,373,813

NOTE 10 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from restrictions represent the appropriation of accumulated gains and income on permanently endowed assets as approved by the Board of Trustees in the amounts of \$4,874,815 and \$4,545,956 for the years ended June 30, 2011 and 2010, respectively.

NOTE 11 - ENDOWMENT

GAAP provides accounting standards on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). GAAP also provides for other disclosures concerning an organization's endowment funds whether or not the organization is subject to UPMIFA. The State of New York introduced legislation in 2009, and UPMIFA was enacted on September 17, 2010. Endowment assets of the Institute continued to be subject to the Uniform Management of Institutional Funds Act (UMIFA) under New York state law through June 30, 2010. Since the Institute's policy has always been to classify accumulated gains and income on donor-restricted endowment assets as temporarily restricted net assets until appropriated for expenditure, the enactment of UPMIFA had no effect on the Institute's financial statements.

The Institute's endowment consists of a board-designated fund and six individual funds established for a variety of purposes. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

CARY INSTITUTE OF ECOSYSTEM STUDIES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 11 - ENDOWMENT (Continued)

Endowment Net Assets - Endowment net asset composition by type of fund is as follows as of June 30, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	11,293,627	\$ 80,421,875	\$ 91,715,502
Board-designated endowment funds	<u>11,321,770</u>	<u>-</u>	<u>-</u>	<u>11,321,770</u>
Total	\$ <u>11,321,770</u>	\$ <u>11,293,627</u>	\$ <u>80,421,875</u>	\$ <u>103,037,272</u>

Changes in endowment net assets for the year ended June 30, 2011 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets - beginning of year	\$ -	\$ 3,319,475	\$ 80,416,464	\$ 83,735,939
Investment return:				
Investment income	122	53,010	-	53,132
Investment gains	<u>27,350</u>	<u>12,795,957</u>	<u>-</u>	<u>12,823,307</u>
Total investment return	<u>27,472</u>	<u>12,848,967</u>	<u>-</u>	<u>12,876,439</u>
Contributions	<u>-</u>	<u>-</u>	<u>5,411</u>	<u>5,411</u>
Board designation of assets	<u>11,295,669</u>	<u>-</u>	<u>-</u>	<u>11,295,669</u>
Endowment assets appropriated for expenditure	<u>-</u>	<u>(4,874,815)</u>	<u>-</u>	<u>(4,874,815)</u>
Other changes:				
Investment fees	<u>(1,371)</u>	<u>-</u>	<u>-</u>	<u>(1,371)</u>
Endowment Net Assets - End of Year	\$ <u>11,321,770</u>	\$ <u>11,293,627</u>	\$ <u>80,421,875</u>	\$ <u>103,037,272</u>

CARY INSTITUTE OF ECOSYSTEM STUDIES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 11 - ENDOWMENT (Continued)

Endowment Net Assets - Endowment net asset composition by type of fund is as follows as of June 30, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	3,319,475	\$ 80,416,464	\$ 83,735,939
Board-designated endowment funds	-	-	-	-
Total	\$ <u>-</u>	\$ <u>3,319,475</u>	\$ <u>80,416,464</u>	\$ <u>83,735,939</u>

Changes in endowment net assets for the year ended June 30, 2010 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets - beginning of year	\$ (3,735,496)	\$ -	\$ 80,406,067	\$ 76,670,571
Investment return:				
Investment income	4,601	-	-	4,601
Investment losses	3,730,895	7,865,431	-	11,596,326
Total investment return	<u>3,735,496</u>	<u>7,864,431</u>	<u>-</u>	<u>11,600,927</u>
Contributions	-	-	10,397	10,397
Endowment assets appropriated for expenditure	-	(4,545,956)	-	(4,545,956)
Endowment Net Assets - End of Year	\$ <u>-</u>	\$ <u>3,319,475</u>	\$ <u>80,416,464</u>	\$ <u>83,735,939</u>

The portion of perpetual endowment funds that is required to be retained permanently by explicit donor stipulation as of June 30, 2011 and 2010, is \$80,421,875 and \$80,416,464, respectively. The portion of perpetual endowment funds subject to restriction by UPMIFA without purpose restrictions and classified as temporarily restricted net assets as of June 30, 2011 and 2010, is \$11,293,627 and \$3,103,978, respectively.

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Institute to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$386,520 and \$518,036 as of June 30, 2011 and 2010, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

CARY INSTITUTE OF ECOSYSTEM STUDIES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 11 - ENDOWMENT (Continued)

Return Objectives and Risk Parameters - The Institute has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Institute must hold in perpetuity. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to provide sufficient liquidity, preserve capital in inflation-adjusted terms and grow capital with moderate risk. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the Institute relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Institute targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy - The Institute has a policy of appropriating for distribution each year 5% of the endowment fund's average fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. The actual amount spent was \$4,874,815 and \$4,545,956 for the years ended June 30, 2011 and 2010, respectively. In establishing this policy, the Institute considered the long-term expected return on its endowment. The policy is consistent with the Institute's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

NOTE 12 - PENSION AND OTHER POSTRETIREMENT BENEFITS

Pension benefits are provided to eligible employees of the Institute through the Cultural Institutions Retirement System (CIRS), a consortium of the City of New York not-for-profit organizations. CIRS is a defined benefit multi-employer retirement system. Pension expense for the years ended June 30, 2011 and 2010, was \$119,268 and \$97,190, respectively.

Retirement benefits for professional staff are also provided under a defined contribution program with the Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF). The Institute makes annual contributions to TIAA-CREF based on eligible employees' earnings. Contributions for the years ended June 30, 2011 and 2010, were \$466,959 and \$417,755, respectively.

CARY INSTITUTE OF ECOSYSTEM STUDIES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 12 - PENSION AND OTHER POSTRETIREMENT BENEFITS (Continued)

In addition, the Institute has a Post Retirement Medical Plan (the Plan) for eligible retired employees. Under the terms of the Plan, certain medical care expenses are reimbursed subject to a \$1,200 limit per eligible retiree for any calendar year. Substantially all of the Institute's employees may become eligible for those benefits if they reach normal retirement age while working for the Institute. Included in accrued expenses is a postretirement medical liability of \$458,404 and \$448,091 for the fiscal years 2011 and 2010, respectively. For the years ended June 30, 2011 and 2010, approximately \$26,500 of postretirement benefit expense was recognized each year. Payments of \$16,158 and \$15,457 were made to beneficiaries in fiscal years 2011 and 2010, respectively. This Plan will no longer be applicable to new employees beginning their employment on or after January 1, 2012.