

CARY INSTITUTE OF ECOSYSTEM STUDIES, INC.

FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

CARY INSTITUTE OF ECOSYSTEM STUDIES, INC.

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Cary Institute of Ecosystem Studies, Inc., which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and changes in net assets and cash flows 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.

Auditors' 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 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 audit to obtain reasonable assurance about whether the financial statements are free from 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 auditors' 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 auditors consider 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 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 Cary Institute of Ecosystem Studies, Inc., as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated October 23, 2018 on our consideration of Cary Institute of Ecosystem Studies, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that 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* in considering Cary Institute of Ecosystem Studies, Inc.'s internal control over financial reporting and compliance.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
October 23, 2018

CARY INSTITUTE OF ECOSYSTEM STUDIES, INC.

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 1,013,442	\$ 1,716,921
Investments	127,001,472	121,134,159
Grants and contracts receivable	1,234,405	1,315,952
Pledges receivable	2,145,000	2,660,000
Other assets	310,499	275,726
Property and equipment, net	<u>7,396,146</u>	<u>6,578,076</u>
Total Assets	<u>\$ 139,100,964</u>	<u>\$ 133,680,834</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 87,920	\$ 302,336
Deferred revenue	515,842	228,398
Accrued vacation	603,202	538,710
Postretirement benefits	529,915	512,703
Capital lease obligation	14,072	22,168
Total liabilities	<u>1,750,951</u>	<u>1,604,315</u>
Net Assets		
Unrestricted	30,906,442	28,830,408
Temporarily restricted	25,958,302	22,761,599
Permanently restricted	80,485,269	80,484,512
Total net assets	<u>137,350,013</u>	<u>132,076,519</u>
Total Liabilities and Net Assets	<u>\$ 139,100,964</u>	<u>\$ 133,680,834</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, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating Revenues				
Government grants and contracts	\$ 5,125,343	\$ -	\$ -	\$ 5,125,343
Private grants and contributions	1,435,160	1,344,909	757	2,780,826
Other income	241,152	-	-	241,152
Auxiliary enterprises	139,580	-	-	139,580
Tuition and fees	41,428	-	-	41,428
Investment return designated for operations	-	5,355,480	-	5,355,480
Net assets released from restrictions	7,076,883	(7,076,883)	-	-
Total operating revenues	<u>14,059,546</u>	<u>(376,494)</u>	<u>757</u>	<u>13,683,809</u>
Operating Expenses				
Program services:				
Science	8,260,713	-	-	8,260,713
Education	851,759	-	-	851,759
Auxiliary enterprises	482,342	-	-	482,342
Outreach, public programs and visitation	348,376	-	-	348,376
Library	329,576	-	-	329,576
Grounds	235,174	-	-	235,174
Total program services	<u>10,507,940</u>	<u>-</u>	<u>-</u>	<u>10,507,940</u>
Supporting services:				
Finance and administration	1,714,195	-	-	1,714,195
Executive management	524,969	-	-	524,969
Development	526,448	-	-	526,448
Total supporting services	<u>2,765,612</u>	<u>-</u>	<u>-</u>	<u>2,765,612</u>
Total operating expenses	<u>13,273,552</u>	<u>-</u>	<u>-</u>	<u>13,273,552</u>
Operating revenues in excess of operating expenses	785,994	(376,494)	757	410,257
Other Changes in Net Assets				
Investment gain, net in excess of amounts designated for operations	1,290,040	3,573,197	-	4,863,237
Increase in Net Assets	2,076,034	3,196,703	757	5,273,494
Net Assets - Beginning of Year	<u>28,830,408</u>	<u>22,761,599</u>	<u>80,484,512</u>	<u>132,076,519</u>
Net Assets - End of Year	<u>\$ 30,906,442</u>	<u>\$ 25,958,302</u>	<u>\$ 80,485,269</u>	<u>\$ 137,350,013</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, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating Revenues				
Government grants and contracts	\$ 5,198,014	\$ -	\$ -	\$ 5,198,014
Private grants and contributions	851,059	196,785	551	1,048,395
Other income	226,549	-	-	226,549
Auxiliary enterprises	129,665	-	-	129,665
Tuition and fees	39,128	-	-	39,128
Investment return designated for operations	-	5,237,853	-	5,237,853
Net assets released from restrictions	6,566,291	(6,566,291)	-	-
Total operating revenues	<u>13,010,706</u>	<u>(1,131,653)</u>	<u>551</u>	<u>11,879,604</u>
Operating Expenses				
Program services:				
Science	7,991,977	-	-	7,991,977
Education	715,796	-	-	715,796
Auxiliary enterprises	443,099	-	-	443,099
Outreach, public programs and visitation	296,974	-	-	296,974
Library	299,428	-	-	299,428
Grounds	226,352	-	-	226,352
Total program services	<u>9,973,626</u>	<u>-</u>	<u>-</u>	<u>9,973,626</u>
Supporting services:				
Finance and administration	1,584,807	-	-	1,584,807
Executive management	503,338	-	-	503,338
Development	330,125	-	-	330,125
Total supporting services	<u>2,418,270</u>	<u>-</u>	<u>-</u>	<u>2,418,270</u>
Total operating expenses	<u>12,391,896</u>	<u>-</u>	<u>-</u>	<u>12,391,896</u>
Operating revenues in excess of operating expenses	618,810	(1,131,653)	551	(512,292)
Other Changes in Net Assets				
Investment gain, net in excess of amounts designated for operations	2,280,342	8,205,580	-	10,485,922
Increase in Net Assets	2,899,152	7,073,927	551	9,973,630
Net Assets - Beginning of Year	<u>25,931,256</u>	<u>15,687,672</u>	<u>80,483,961</u>	<u>122,102,889</u>
Net Assets - End of Year	<u>\$ 28,830,408</u>	<u>\$ 22,761,599</u>	<u>\$ 80,484,512</u>	<u>\$ 132,076,519</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, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Increase in net assets	\$ 5,273,494	\$ 9,973,630
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation and amortization	478,168	453,207
Realized and unrealized gains on investments, net	(11,103,226)	(16,407,262)
(Increase) decrease in operating assets:		
Grants and contracts receivable	81,547	(182,202)
Pledges receivable	509,243	1,019,449
Other assets	(34,773)	(6,787)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(214,416)	169,614
Deferred revenue	287,444	(48,312)
Accrued vacation	64,492	(13,308)
Postretirement benefits	17,212	17,142
Net cash used in operating activities	<u>(4,640,815)</u>	<u>(5,024,829)</u>
Cash Flows from Investing Activities		
Proceeds from sale of investments	11,431,793	14,954,374
Purchase of investments	(6,195,880)	(9,286,692)
Purchase of property and equipment	(1,296,238)	(255,457)
Net cash provided by investing activities	<u>3,939,675</u>	<u>5,412,225</u>
Cash Flows from Financing Activities		
Proceeds from contributions to endowment	5,757	5,551
Payments on capital lease obligation	(8,096)	(8,097)
Net cash used in financing activities	<u>(2,339)</u>	<u>(2,546)</u>
Increase (Decrease) in Cash and Cash Equivalents	(703,479)	384,850
Cash and Cash Equivalents - Beginning of Year	<u>1,716,921</u>	<u>1,332,071</u>
Cash and Cash Equivalents - End of Year	<u>\$ 1,013,442</u>	<u>\$ 1,716,921</u>
Cash Paid During the Year for Interest	\$ 1,675	\$ 1,675

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), formally 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 valuation of alternative investments and the post-retirement medical liability.

Cash and Cash Equivalents

Cash equivalents are defined as highly liquid investments with original maturities of 90 days or less. As of June 30, 2018 and 2017, endowed cash of \$631,176 and \$956,539, respectively, was included in cash and cash equivalents on the statements of financial position. 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

Investment Valuation and Income Recognition

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. Investments are reported at fair value. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. 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 2. These estimated values could differ significantly from values that would have been determined had there been a ready market for the underlying investments. Purchases and sales of securities are recorded on the trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation includes the Institute's gains and losses on investments bought and sold as well as held during the year. Realized and unrealized gains and losses on these investments are reported in the statement 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. 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.

CARY INSTITUTE OF ECOSYSTEM STUDIES, INC.

NOTES TO FINANCIAL STATEMENTS

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; however, the Institute is subject to federal income tax on any unrelated business taxable income.

Reclassifications

Certain amounts on the financial statements as of June 30, 2017 have been reclassified to conform to the current year presentation.

Subsequent Events

In preparing these financial statements, management has evaluated subsequent events through October 23, 2018, which represents the date the financial statements were available to be issued.

NOTE 2 - FAIR VALUE MEASUREMENTS

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 (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 in active markets that the Institute has the ability to access.

Level 2

Inputs to the valuation methodology include:

- Quoted prices for similar assets in active markets;
- Quoted prices for identical or similar assets in inactive markets;
- Inputs other than quoted prices that are observable for the asset;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset.

Level 3

Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset'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. As a practical expedient, certain investments are measured at fair value on the basis of net asset value, its classification as Level 2 or 3 will be impacted by the ability to redeem the investment as net asset value at the measurement date. If there is uncertainty or the inability to redeem an investment at net asset value in the near term subsequent to the measurement date, the investment is categorized as Level 3.

CARY INSTITUTE OF ECOSYSTEM STUDIES, INC.

NOTES TO FINANCIAL STATEMENTS

Financial Instruments Measured at Fair Value

The following is a description of the valuation methodologies and investment strategies used for assets measured at fair value:

Money Market Funds

Money market funds are valued at the quoted net asset value of shares reported in the active market in which the funds are traded. The purpose of this investment is to maintain safe, highly liquid assets as opposed to generating significant yield.

Fixed Income

Fixed income is valued at the closing price reported in the active market in which the individual securities are traded. 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

Equity is valued at the closing price reported in the active market in which the individual securities are traded. 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

Interests in alternative assets are valued using net asset values as determined by the investment manager of the fund. This net asset value is based on the fair value of the underlying assets and liabilities of the related fund at the measurement date. 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.

Real Assets

Real assets are valued at the quoted net asset value of shares held by the Institute at year end or valued using net asset values as determined by the investment manager of the fund. Real asset strategies tend to be utilized to diversify portfolio risk. 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.

CARY INSTITUTE OF ECOSYSTEM STUDIES, INC.

NOTES TO FINANCIAL STATEMENTS

Hybrid

Interests in hybrid investments are valued using net asset values as determined by the investment manager of the fund. This net asset value is based on the fair value of the underlying assets and liabilities of the related fund at the measurement date. This investment class seeks to capitalize on opportunistic investments across the credit spectrum.

Private Investments

Interests in private investments are valued using net asset values as determined by the investment manager of the fund. This net asset value is based on the fair value of the underlying assets and liabilities of the related fund at the measurement date. This investment class encompasses diverse strategies including buyout/growth, venture capital and control-oriented distressed. These investments generally have 4- to 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.”

There have been no changes in the methodologies used at June 30, 2018 and 2017.

The following is a summary of the source of fair value measurements for assets as of June 30, 2018 and 2017:

Description	June 30	Assets Measured at Net Asset Value (a)	2018		
			Source of Fair Value Inputs		
			Level 1	Level 2	Level 3
Money market funds	\$ 7,634,365	\$ -	\$ 7,634,365	\$ -	\$ -
Fixed income:					
Domestic	27,641,279	5,072,862	22,568,417	-	-
Equity:					
Global equity - managed	35,675,578	25,709,695	9,965,883	-	-
Domestic equity - managed	10,777,898	10,777,898	-	-	-
Emerging equities - managed	5,410,320	5,410,320	-	-	-
Alternative assets:					
Absolute return	17,132,572	17,132,572	-	-	-
Equity hedge	7,285,234	7,285,234	-	-	-
Real assets	2,759,295	2,759,295	-	-	-
Hybrid	2,964,125	2,964,125	-	-	-
Private investments:					
Fund of funds	8,397,388	8,397,388	-	-	-
Buyout/growth	1,323,418	1,323,418	-	-	-
Total Assets at Fair Value	\$ 127,001,472	\$ 86,832,807	\$ 40,168,665	\$ -	\$ -

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NOTES TO FINANCIAL STATEMENTS

Description	June 30	Assets Measured at Net Asset Value (a)	2017 Source of Fair Value Inputs		
			Level 1	Level 2	Level 3
Money market funds	\$ 3,780,039	\$ -	\$ 3,780,039	\$ -	\$ -
Fixed income:					
Domestic	21,817,908	5,603,336	16,214,572	-	-
Equity:					
Global equity - managed	37,853,232	26,025,127	11,828,105	-	-
Domestic equity - managed	13,578,670	13,578,670	-	-	-
Emerging equities - managed	4,964,933	4,964,933	-	-	-
Alternative assets:					
Absolute return	18,281,323	18,281,323	-	-	-
Equity hedge	7,576,260	7,576,260	-	-	-
Real assets	2,137,284	2,137,284	-	-	-
Hybrid	2,293,861	2,293,861	-	-	-
Private investments:					
Fund of funds	7,599,290	7,599,290	-	-	-
Buyout/growth	1,251,359	1,251,359	-	-	-
Total Assets at Fair Value	\$ 121,134,159	\$ 89,311,443	\$ 31,822,716	\$ -	\$ -

- a. Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient, which is a reasonable estimate of fair value, have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

There were no transfers between levels of investments during the years ended June 30, 2018 and 2017.

CARY INSTITUTE OF ECOSYSTEM STUDIES, INC.

NOTES TO FINANCIAL STATEMENTS

Additional information regarding investments that report fair value based on net asset value per share or unit as of June 30, 2018 is as follows:

<u>Description</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Terms</u>	<u>Redemption Restrictions</u>
Fixed income - domestic	\$ 5,072,862	\$ -	Daily	0 days' notice
Global equity - managed	25,709,695	-	Quarterly, semiannually,	30 days' notice
Domestic equity - managed	10,777,898	-	Daily	0 days' notice
Emerging equities - managed	5,410,320	-	Annually expiring and every 5 th anniversary expiring 6/30/2023	90 days' notice
Absolute return	17,132,572	-	Quarterly, semi-annually and biannually	60-65 days' notice
Equity hedge	7,285,234	-	Monthly and every third anniversary expiring 1/1/2019 and 4/1/2019	60-180 days' notice
Real assets	2,759,295	5,220,000	Illiquid	Illiquid
Hybrid	2,964,125	23,217	Illiquid	Illiquid
Fund of funds	8,397,388	3,747,500	Illiquid	Illiquid
Buyout/growth	<u>1,323,418</u>	<u>47,858</u>	Illiquid	Illiquid
Total	<u>\$ 86,832,807</u>	<u>\$ 9,038,575</u>		

CARY INSTITUTE OF ECOSYSTEM STUDIES, INC.

NOTES TO FINANCIAL STATEMENTS

The following table presents a summary of investment results for the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Investment income	\$ 180,861	\$ 95,467
Net realized and unrealized gains	11,103,226	16,407,262
Investment fees	<u>(1,065,370)</u>	<u>(778,954)</u>
Total investment gain	10,218,717	15,723,775
Less distribution from endowment for current operations	<u>5,355,480</u>	<u>5,237,853</u>
Investment Gain, Net in Excess of Amounts Designated for Operations	<u>\$ 4,863,237</u>	<u>\$ 10,485,922</u>

Financial Instruments Not Measured at Fair Value

The carrying amounts of cash and cash equivalents, grants and contracts receivable, pledges receivable and accounts payable and accrued expenses approximate their fair value because of the short-term nature of these instruments.

NOTE 3 - GRANTS AND CONTRACTS RECEIVABLE

Grants and contracts receivable consist of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Government agencies (primarily federal agencies)	\$ 907,165	\$ 1,029,617
University and other research institutions	270,056	258,576
Foundations	<u>57,184</u>	<u>27,759</u>
	<u>\$ 1,234,405</u>	<u>\$ 1,315,952</u>

The Institute has been awarded approximately \$10 million and \$7.5 million in grants and contracts that have not been advanced or expended as of June 30, 2018 and 2017, respectively, and, accordingly, are not recognized in the financial statements.

At June 30, 2018 and 2017, grant proceeds in the amount of \$465,556 and \$179,435, 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 4 - PLEDGE RECEIVABLE

Unconditional pledge receivable as of June 30, 2018 and 2017, is expected to be collected as follows:

	<u>2018</u>	<u>2017</u>
Receivable in less than one year	\$ 1,540,000	\$ 1,055,000
Receivable in one to five years	<u>605,000</u>	<u>1,605,000</u>
	<u>\$ 2,145,000</u>	<u>\$ 2,660,000</u>

CARY INSTITUTE OF ECOSYSTEM STUDIES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Land	\$ 2,601,368	\$ 2,601,368
Land improvements	1,002,996	1,002,996
Buildings	8,668,579	8,668,579
Building improvements	5,292,295	5,061,006
Equipment, furniture and fixtures	3,657,514	3,430,982
Construction in progress	758,589	-
	<u>21,981,341</u>	<u>20,764,931</u>
Less accumulated depreciation and amortization	<u>14,585,195</u>	<u>14,186,855</u>
	<u>\$ 7,396,146</u>	<u>\$ 6,578,076</u>

Depreciation and amortization expense was \$478,168 and \$453,207 for the years ended June 30, 2018 and 2017, respectively.

Construction in progress represents costs incurred for building renovations, which are scheduled to be completed by October 2018. As of June 30, 2018, the cost to complete the renovations was approximately \$950,000.

NOTE 6 - LEASE COMMITMENT

Capital Lease

The Institute entered into a capital lease for a copier expiring in June 2019. The lease agreement requires monthly principal and interest payments of \$165. The Institute also entered into a postage lease agreement expiring April 2019. The lease agreement requires monthly principal and interest payments of \$244. The Institute also entered into a vehicle lease agreement for four vehicles expiring April 2021. The lease agreement requires monthly principal and interest payments of \$66 for each vehicle, with a payout option at the end of the lease of \$57 for each vehicle.

The following is a summary of property under capital lease as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Equipment	\$ 41,938	\$ 41,938
Less accumulated amortization	<u>27,865</u>	<u>19,769</u>
Net Equipment Under Capital Lease	<u>\$ 14,072</u>	<u>\$ 22,168</u>

Amortization expense relative to the above property is included in depreciation and amortization expense as disclosed in Note 5.

CARY INSTITUTE OF ECOSYSTEM STUDIES, INC.

NOTES TO FINANCIAL STATEMENTS

At June 30, 2018, minimum future payments under the capital leases were as follows:

Year Ending June 30

2019	\$	8,222
2020		3,188
2021		<u>2,662</u>
Total	\$	<u><u>14,072</u></u>

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purpose or time periods at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Accumulated gains and income on endowment assets available for appropriation by the Board of Trustees	\$ 22,370,580	\$ 18,794,754
Future periods	140,000	-
Purpose restrictions:		
Lyme disease research	1,954,967	3,475,821
Urban ecology research	827,319	-
Strategic planning	377,830	246,080
Forest ecology research	143,197	156,288
Manglesdorf Trust	78,675	75,478
Science and education initiatives	52,000	-
Program initiatives	<u>13,734</u>	<u>13,178</u>
	<u>\$ 25,958,302</u>	<u>\$ 22,761,599</u>

NOTE 8 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from restrictions by incurring expenses satisfying the following purpose or time restrictions for the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Board appropriations of accumulated gains and income	\$ 5,355,480	\$ 5,237,853
Lyme disease research	1,599,620	1,259,726
Urban ecology research	73,693	-
Passage of time	35,000	25,000
Forest ecology research	<u>13,090</u>	<u>43,712</u>
	<u>\$ 7,076,883</u>	<u>\$ 6,566,291</u>

CARY INSTITUTE OF ECOSYSTEM STUDIES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 9 - 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 in 2010. 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 Institute's endowment consists of a board-designated fund and nine 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.

Changes in endowment net assets for the years ended June 30, 2018 and 2017, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets - June 30, 2016	\$ 15,384,101	\$ 10,620,215	\$ 80,483,961	\$ 106,488,277
Investment return	2,379,813	14,065,711	-	16,445,524
Contributions	-	-	551	551
Endowment assets appropriated for expenditure	(3,577,493)	(5,237,853)	-	(8,815,346)
Management fees	(112,447)	(653,319)	-	(765,766)
Additional board designation	<u>269,205</u>	<u>-</u>	<u>-</u>	<u>269,205</u>
Endowment net assets - June 30, 2017	14,343,179	18,794,754	80,484,512	113,622,445
Investment return	1,435,659	9,840,808	-	11,276,467
Contributions	-	-	757	757
Endowment assets appropriated for expenditure	(1,422,507)	(5,355,481)	-	(6,777,988)
Management fees	(134,375)	(909,501)	-	(1,043,876)
Additional board designation	<u>196,611</u>	<u>-</u>	<u>-</u>	<u>196,611</u>
Endowment Net Assets - June 30, 2018	<u>\$ 14,418,567</u>	<u>\$ 22,370,580</u>	<u>\$ 80,485,269</u>	<u>\$ 117,274,416</u>

CARY INSTITUTE OF ECOSYSTEM STUDIES, INC.

NOTES TO FINANCIAL STATEMENTS

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, there were no deficiencies of this nature that are reported in temporarily restricted net assets as of June 30, 2018 and 2017.

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.

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 income (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 20 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. The actual amount spent was \$5,355,480 and \$5,237,853 for the years ended June 30, 2018 and 2017, 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. During the year ended June 30, 2017, the Board appropriated an additional \$5 million from the unrestricted endowment to support strategic planning, of which \$1,422,507 and \$3,577,493 was drawn during the years ended June 30, 2018 and 2017, respectively.

NOTE 10 - PENSION AND OTHER POSTRETIREMENT BENEFITS

Retirement benefits for professional staff are provided under a defined contribution program with the Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF). The Institute makes biweekly contributions to TIAA-CREF based on eligible employees' earnings. Contributions for the years ended June 30, 2018 and 2017, were \$488,046 and \$433,004, respectively.

The Institute participates in the Cultural Institution Retirement System (CIRS) Pension, 401(k) Savings, and Group Life and Welfare Benefits Plans. Each plan is a multiemployer plan covering employees from multiple cultural institutions and NYC daycare centers.

CARY INSTITUTE OF ECOSYSTEM STUDIES, INC.

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The CIRS pension plan - EIN number 11-2001170 Plan number 001 - offers benefits related to years of service and final average salary. Eligible employees enter the plan on the first day of the month after completing 12 months of service and attainment of age 21. Participants become 100% vested after five years of service. CIRS is responsible for administering the benefits of the pension plan and investing the plan assets. For the plan years 2018 and 2017, the zone status under the Pension Reform Act is certified by the pension plan's actuary to be in the green zone, and therefore there are no surcharges for the pension plan and no financial improvement plan or rehabilitation plan is required. The Institute's pension expense related to this Plan was \$104,332 and \$105,529 for the years ended June 30, 2018 and 2017, respectively.

Eligible employees may participate in the 401(k) Savings and Group Life and Welfare Benefits Plans on the first day of the month after completing 3 months of service and attainment of age 21. The requirement for all participants to contribute at least 2% of their salary on either an after-tax basis or a pre-tax basis was eliminated as of January 1, 2017. The employer may make matching contributions to the 401(k) plan; however, as specified in the current Collective Bargaining Agreement, the match has been suspended until further notice. The Institute's expenses for the 401(k) Savings Plan, Group Life and Welfare Benefits Plans and the administrative costs for all three plans was \$15,697 and \$14,831 for the years ended June 30, 2018 and 2017, respectively.

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 when they reach normal retirement age. Included in accrued expenses is a postretirement medical liability of \$529,915 and \$512,703 for the fiscal years 2018 and 2017, respectively. For the years ended June 30, 2018 and 2017, approximately \$27,712 of postretirement benefit expense was recognized. Payments of \$10,570 were made to beneficiaries in fiscal years 2018 and 2017. This Plan is no longer applicable to new employees who began their employment on or after January 1, 2012.