

BUDGET *and* FINANCE

The Council's finances continued to strengthen in fiscal year 2005, thanks to growth in the portfolio, which increased 11 percent over the prior fiscal year, and other major revenue streams, including membership, the corporate program, and annual giving (up 22 percent, 24 percent, and 15 percent, respectively, over fiscal year 2004).

We are grateful to the Council's investment subcommittee chaired by J. Tomilson Hill for its stewardship of the Council's

portfolio, and to the individuals, corporations, and foundations that helped the Council maintain a sound financial base. We also thank the Finance and Budget Committee, chaired by Michael Moskow, and the Audit Committee, chaired by John Biggs, for their oversight of the Council's finances.

Janice L. Murray
Senior Vice President, Treasurer,
and Chief Operating Officer

STATEMENT OF FINANCIAL POSITION

As of June 30, 2005 and 2004

	2005	2004
Assets		
Cash and cash equivalents	\$ 3,572,300	\$ 3,431,700
Accounts receivable (net of allowance of \$238,600 in 2005 and \$0 in 2004) and prepaid expenses	1,140,100	1,427,500
Grants and contributions receivable (<i>Note 5</i>)	2,219,800	3,366,800
Contributions receivable for endowment (<i>Note 5</i>)	2,605,500	2,742,200
Inventories	246,600	98,500
Investments (<i>Note 3</i>)	187,797,200	169,039,900
Land, buildings and building improvements, and equipment, net (<i>Note 6</i>)	24,478,800	25,069,500
Total	<u>\$ 222,060,300</u>	<u>\$ 205,176,100</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 4,671,600	\$ 4,743,800
Deferred subscription revenue	2,563,300	2,315,000
Accrued postretirement benefits (<i>Note 8</i>)	2,037,000	1,971,000
Total liabilities	<u>9,271,900</u>	<u>9,029,800</u>
Net assets (<i>Notes 9 and 10</i>):		
Unrestricted	102,460,900	88,378,200
Temporarily restricted	39,129,800	38,200,600
Permanently restricted	71,197,700	69,567,500
Total net assets	<u>212,788,400</u>	<u>196,146,300</u>
Total	<u>\$ 222,060,300</u>	<u>\$ 205,176,100</u>

See notes to financial statements.

BUDGET AND FINANCE

STATEMENT OF ACTIVITIES

For the year ended June 30, 2005, with comparative totals for the year ended June 30, 2004

	Unrestricted	Restricted		2005 Total	2004 Total
		Temporarily	Permanently		
Operating revenue, support, and reclassifications					
Membership dues	\$ 4,396,700			\$ 4,396,700	\$ 3,612,200
Annual giving	4,277,000			4,277,000	3,720,300
Corporate memberships and related income	5,504,200			5,504,200	4,429,500
Meetings	4,300	110,000		114,300	154,300
International Affairs Fellowships		85,000		85,000	80,000
Grants and contributions for Studies	531,750	3,409,700		3,941,450	2,686,600
Other grants and contributions	96,200	490,100		586,300	302,000
<i>Foreign Affairs</i>	6,329,100			6,329,100	6,605,800
Book publication	39,900			39,900	46,900
Investment return used for current operations (Note 4)	1,894,700	3,362,500		5,257,200	6,650,700
Rental income	1,324,500			1,324,500	794,500
Miscellaneous	89,050	95,400		184,450	212,300
Total operating revenue and support	24,487,400	7,552,700		32,040,100	29,295,100
Net assets released from restrictions (Note 9)	8,510,000	(8,510,000)		—	—
Total operating revenue, support, and reclassifications	32,997,400	(957,300)		32,040,100	29,295,100
Operating expenses					
Program expenses:					
Studies Program	11,000,600			11,000,600	11,560,400
Meetings Program	2,939,200			2,939,200	2,901,100
Special events	609,500			609,500	432,700
<i>Foreign Affairs</i>	5,931,700			5,931,700	5,171,900
Book publication	383,200			383,200	407,300
National Program	882,500			882,500	775,300
Websites	1,042,500			1,042,500	651,200
International Affairs Fellowships	456,300			456,300	995,200
Communications	994,300			994,300	834,800
Total program expenses	24,239,800			24,239,800	23,729,900
Supporting services:					
Management and general	4,187,800			4,187,800	4,228,800
Membership	1,301,000			1,301,000	835,500
Fund-raising:					
Development	328,000			328,000	318,000
Corporate Program	1,224,300			1,224,300	826,300
Total fund-raising	1,552,300			1,552,300	1,144,300
Total supporting services	7,041,100			7,041,100	6,208,600
Total operating expenses	31,280,900			31,280,900	29,938,500
Excess of operating revenue, support, and reclassifications over (under) operating expenses					
	1,716,500	(957,300)		759,200	(643,400)
Nonoperating revenue (Note 2)					
Investment gain in excess of spending rate (Note 4)	10,380,400	2,463,500		12,843,900	11,791,900
Endowment contributions and reclassifications (Note 2)	1,985,800	(577,000)	1,630,200	3,039,000	3,178,800
Total nonoperating revenue	12,366,200	1,886,500	1,630,200	15,882,900	14,970,700
Change in net assets	14,082,700	929,200	1,630,200	16,642,100	14,327,300
Net assets, beginning of year	88,378,200	38,200,600	69,567,500	196,146,300	184,007,700
Prior period adjustments (Note 12)					(2,188,700)
Net assets, beginning of year as adjusted					181,819,000
Net assets, end of year	\$102,460,900	\$39,129,800	\$71,197,700	\$212,788,400	\$196,146,300

See notes to financial statements.

STATEMENTS OF CASH FLOWS

For the year ended June 30, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Change in net assets	\$ 16,642,100	\$ 14,327,300
Prior period adjustments		(2,188,700)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	1,555,300	1,677,600
Net realized and unrealized gain on investments	(18,210,800)	(17,964,000)
Contributions restricted for investment in endowment	(1,630,200)	(3,178,800)
Changes in operating assets and liabilities:		
Accounts receivable and prepaid expenses	287,400	(397,200)
Grants and contributions receivable	1,147,000	3,575,400
Inventories	(148,100)	28,900
Accounts payable and accrued expenses	(72,200)	1,479,100
Deferred subscription revenue	248,300	(100,800)
Accrued postretirement benefits	66,000	113,000
Net cash used in operating activities	(115,200)	(2,628,200)
Cash flows from investing activities:		
Purchases of building improvements and equipment	(964,600)	(4,433,700)
Purchases of investments	(255,933,500)	(198,537,800)
Proceeds from sales of investments	255,387,000	197,596,600
Net cash used in investing activities	(1,511,100)	(5,374,900)
Cash flows from financing activities:		
Contributions restricted for investment in endowment	1,766,900	1,739,600
Net increase (decrease) in cash and cash equivalents	140,600	(6,263,500)
Cash and cash equivalents, beginning of year	3,431,700	9,695,200
Cash and cash equivalents, end of year	\$ 3,572,300	\$ 3,431,700

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended June 30, 2005 and 2004

1. ORGANIZATION

Founded in 1921, the Council on Foreign Relations, Inc. (the "Council"), is an independent, national membership organization and a nonpartisan center for scholars dedicated to producing and disseminating ideas so that individual and corporate members, as well as policymakers, journalists, students, and interested citizens in the United States and other countries, can better understand the world and the foreign policy choices facing the United States and other governments. The Council does this by convening meetings; conducting a wide-ranging Studies Program; publishing *Foreign Affairs*, the preeminent journal covering international affairs and U.S. foreign policy; maintaining a diverse membership; sponsoring Independent Task Forces and Special Reports; and providing up-to-date information about the world and U.S. foreign policy on the Council's website—www.cfr.org.

The Council is a Section 501(c)(3) not-for-profit organization exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (the "Code") and is a publicly supported organization as described in Section 509(a)(1) of the Code. The Council is also exempt from state and local income taxes. It is subject to tax on unrelated business income, which has not been significant.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting—The financial statements are prepared on the accrual basis of accounting in accordance with Statement of Financial Accounting Standards ("SFAS") No. 117, *Financial Statements of Not-for-Profit Organizations*. Accordingly, net assets and revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. The Statement of Activities includes certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America.

Accordingly, such information should be read in conjunction with the Council's financial statements for the year ended June 30, 2004, from which the summarized information was derived.

Cash and Cash Equivalents—The Council considers all highly liquid investments purchased with a maturity of three months or less, excluding cash equivalents held as investments, to be cash equivalents.

Investments—The Council's investments in marketable debt and equity securities are classified as available for sale and are recorded at their fair values, which are based on quoted market prices. Interest income is recorded on an accrual basis and dividend income is recorded based on the ex-dividend date. The Council's investment in hedge funds, which consist of interests in investment limited partnerships and investment companies, are carried as follows:

- The Council's investments in investment companies, represented by share ownership, are carried at the aggregate net asset value of the shares held by the Council. The net asset value is based on the net market value of the investment company's investment portfolio as determined by the management of the investment company.
- The carrying values of investments in investment limited partnerships reflect the Council's net contributions to the respective partnerships and its share of realized and unrealized investment income and expenses of the respective partnerships. Investments held by the investment limited partnerships generally are carried at fair value as determined by the respective general partners.

Investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. As such, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position and activities.

The fair value of certain of the Council's investments is determined by the investments managers. Because of the inherent uncertainty of valuation, the values determined by the investment managers may differ significantly from values that would have been used had a ready market for these investments existed, and the differences could be material. The Council has the ability to liquidate its investments in limited partnerships only periodically in accordance with the provisions of respective partnership agreements.

Land, Buildings and Building Improvements, and Equipment—The Council follows the practice of capitalizing expenditures for land, buildings and building improvements, and equipment and generally depreciates these assets on the straight-line basis over their estimated useful lives (see Note 6). The fair value of donated property and equipment is similarly capitalized and depreciated.

Deferred Compensation—The Council has deferred compensation arrangements with current employees. Investment earnings accrue to the benefit of the employees. Deferred compensation liabilities and accrued earnings are included in accounts payable and accrued expenses in the financial statements.

Inventory—Inventory consists of paper that is stored offsite and used in the printing of the bimonthly publication *Foreign Affairs*. Inventory is stated at the lower of cost (first in, first out method) or market.

Net Asset Classifications—The Council considers all contributions and grants to be available for unrestricted use unless specifically restricted by the donor or grantor. Endowment contributions are invested and, pursuant to the Council's 5% spending policy (see Note 4), an investment allocation is made for general purposes (unrestricted) and specific program activities (temporarily restricted).

In the accompanying financial statements, funds that have similar characteristics have been combined into three net asset classes: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted net assets consist of funds that are fully available, at the discretion of management and the Board of Directors, for the Council to utilize in any of its program or supporting services.

Temporarily restricted net assets consist of funds that are restricted by donors for a specific time period or purpose.

Permanently restricted net assets consist of funds that must be maintained intact in perpetuity but permit the Council to expend part or all of the income derived from the investment of the donated assets for either specified or unspecified purposes.

During the year, it was discovered that certain endowment contributions received in a prior year that were recorded as both temporarily and permanently restricted net assets, were intended to be unrestricted contributions. These contributions have been reclassified to unrestricted net assets.

Support and Revenue—Contributions, including a portion of membership dues, are recorded when received unconditionally, at their fair value. Gifts received with donor stipulations that limit the use of donated assets are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is fulfilled, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions. It is the Council's policy to imply a time restriction on gifts of long-lived assets and contributions to be used to acquire long-lived assets in the absence of explicit donor restrictions to that effect, using the estimated useful life of the asset.

Membership dues are recorded as membership dues revenue in the period that relates to the member's duration of membership.

Conditional contributions, such as grants with matching requirements, are recognized in the appropriate net asset class when the conditions have been met.

Payments for subscriptions to *Foreign Affairs* are recognized as revenue over the period during which the subscriptions are fulfilled.

Measure of Operations—The Council includes in its definition of operations all revenues and expenses that are an integral part of its programs and supporting activities, including an authorized investment income allocation (see Note 4) and all contributions except for those that are restricted for capital expenditures or have been permanently restricted by donors. Investment income, including net realized and unrealized gains and losses, earned in excess of (or less than) the Council's aggregate authorized spending amount, contributions for capital expenditures, and contributions to permanently restricted net assets are recognized as nonoperating activities.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Allocation of Expenses—The cost of providing the various programs and the supporting services has been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated by management among the programs and supporting services benefited as a percentage of all direct program expenses.

Recent Accounting Pronouncements—In December 2003, the FASB issued SFAS No. 132 (Revised), *Employer's Disclosure about Pensions and Other Postretirement Benefits*, an amendment of FASB Statements No. 87, 88, and 106 ("SFAS No. 132-R"). SFAS No. 132-R retains disclosure requirements of the original statement and requires additional disclosures relating to assets, obligations, cash flows, and net periodic benefit costs. The adoption of the disclosure provisions of SFAS No. 132-R in fiscal June 2004 did not have a material effect on the Council's financial statements.

Reclassifications—Certain 2004 amounts have been reclassified to conform to the 2005 presentation. Such reclassifications did not affect total net assets.

3. INVESTMENTS

The components of the Council's long-term investments as of June 30, 2005 and 2004, respectively, are as follows:

	2005		2004	
	Cost	Carrying Value	Cost	Carrying Value
Domestic equity securities	\$ 54,837,800	\$ 60,695,800	\$ 45,086,700	\$ 56,316,900
International equity securities	18,986,000	26,367,600	16,365,100	22,873,300
Foreign and corporate bonds	13,188,800	13,083,500	4,484,300	4,500,100
U.S. government agency obligations	13,087,900	13,019,800	22,654,700	22,644,400
Hedge funds	39,419,100	61,995,000	33,428,400	50,242,900
Money market funds	12,635,500	12,635,500	12,462,300	12,462,300
Total	<u>\$ 152,155,100</u>	<u>\$ 187,797,200</u>	<u>\$ 134,481,500</u>	<u>\$ 169,039,900</u>

The hedge funds in which the Council has invested may trade various financial instruments with off-balance sheet risk. These financial instruments include securities sold short and long, options contracts and foreign currency forward contracts. Such transactions subject the hedge funds and their investors to market risk associated with changes in the value of the underlying securities, financial instruments, and foreign currencies, as well as the risk of loss if a counterparty fails to perform. The respective hedge fund managers endeavor to limit the risk associated with such transactions.

4. INVESTMENT ALLOCATION

It is Council policy to make an annual investment allocation for the support of operations up to 5% of the average market value of investments for the three previous years. Amounts allocated to the unrestricted net asset classes is at the discretion of the Council. Amounts allocated to the temporarily restricted net asset class are based on the donors' stipulations. As of June 30, 2005, and June 30, 2004 (with comparative totals), investment income has been reported as follows:

	Year Ended June 30, 2005			2004 Total
	Unrestricted	Temporarily Restricted	Total	
Dividends and interest, net of investment expenses of \$2,182,600 (\$1,366,200 for 2004)	\$ (74,400)	\$ (35,300)	\$ (109,700)	\$ 478,600
Net realized and unrealized gain	12,349,500	5,861,300	18,210,800	17,964,000
Total return on investments	12,275,100	5,826,000	18,101,100	18,442,600
Investment return used for current operations	(1,894,700)	(3,362,500)	(5,257,200)	(6,650,700)
Investment gain in excess of spending rate	<u>\$ 10,380,400</u>	<u>\$ 2,463,500</u>	<u>\$ 12,843,900</u>	<u>\$ 11,791,900</u>

5. GRANTS AND CONTRIBUTIONS RECEIVABLE AND CONTRIBUTIONS RECEIVABLE FOR ENDOWMENT

Receivables consist substantially of promises to give and are due from individuals, corporations, and foundations. As of June 30, 2005 and 2004, amounts for contributions receivable for endowments that are due within one year are \$2,434,500 and \$2,742,200, respectively. Grants and contributions receivable and contributions receivable for endowment as of June 30, 2005 and 2004, respectively, are due to be collected as follows:

	2005	2004
Less than one year	\$ 3,876,900	\$ 4,247,100
One to five years	1,009,000	1,950,000
	<u>4,885,900</u>	<u>6,197,100</u>
Less discount (at rates varying from 1.5% to 3.8%)	(60,600)	(88,100)
Grants and contributions receivable, net	<u>\$ 4,825,300</u>	<u>\$ 6,109,000</u>

6. LAND, BUILDINGS AND BUILDING IMPROVEMENTS, AND EQUIPMENT

Land, buildings and building improvements, and equipment, at cost, as of June 30, 2005 and 2004, respectively, are summarized as follows:

	2005	2004	Estimated Useful Life
Land	\$ 1,854,300	\$ 1,854,300	
Buildings and building improvements	30,828,600	30,516,800	10–55 years
Construction in progress	114,000		
Equipment	5,854,400	8,589,400	3–15 years
	<u>38,651,300</u>	<u>40,960,500</u>	
Less accumulated depreciation	(14,172,500)	(15,891,000)	
	<u>\$ 24,478,800</u>	<u>\$ 25,069,500</u>	

Depreciation expense was \$1,555,300 and \$1,677,600 for the years ended June 30, 2005 and 2004, respectively. During 2005, assets fully depreciated were written off in the amount of \$3,273,859.

7. RETIREMENT PLAN

The Council has a defined contribution retirement plan covering all employees who meet the minimum service requirements. Payments, which are 12.5% of each participant's salary for employees hired prior to July 1, 1998, and 10% for each participant hired after this date, are made to Teachers Insurance and Annuity Association and College Retirement Equities Fund to purchase individual annuities for plan members. The expense for the plan was \$977,400 for 2005 and \$921,800 for 2004, respectively. Participants must contribute 2.5% of their salaries and have the option to make additional contributions on their own behalf.

8. OTHER POSTRETIREMENT BENEFITS

The Council provides certain health care and life insurance benefits for its retired employees. Employees are eligible for those benefits when they meet the criteria for retirement under the Postretirement Plan (the "Plan").

The following information presents the Plan's disclosures under the provisions of SFAS No. 132-R.

Obligations and funded status as determined as of the end of the year measurement date:

	2005	2004
Benefit obligation, end of year	\$(3,541,000)	\$(3,332,000)
Net amount recognized in the statements of financial position	<u>(2,037,000)</u>	<u>(1,971,000)</u>

The Council funds expenses and benefit payments as they are incurred annually and has not contributed funds to separate trustee accounts to fund the accumulated postretirement benefit obligations. The discount rate used to determine the end of year obligation is 5.5% and 6.5% for the years ended June 30, 2005 and 2004, respectively. The postretirement benefits paid during the years ended June 30, 2005 and 2004, respectively, was \$228,000 and \$213,000.

The postretirement benefit cost for the years ended June 30, 2005 and 2004, respectively, was \$66,000 and \$113,000 and was based on actuarial assumptions and a discount rate set as of the beginning of the year. The discount rate was 6.5% and 6.25% for the years ended June 30, 2005 and 2004, respectively, and the projected credit unit method was used for determining benefits earned during the year.

Assumed health care cost trend rates at June 30:

	2005	2004
Health care cost trend rate assumed for next year	9%	10%
Rate to which the cost trend rate is assumed to decline	5%	5%
Year that the rate reaches the ultimate trend rate	2009	2009

Increasing the assumed medical care cost trend rates by 1% in each year would increase the accumulated postretirement benefit obligation at June 30, 2005, by \$31,000.

The following postretirement benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Year ending June 30,	
2006	\$ 233,000
2007	234,000
2008	236,000
2009	243,000
2010	247,000
2011–2015	1,223,000

9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2005, are restricted for the following purposes or time periods:

	<u>2005</u>	<u>2004</u>
Studies	\$ 27,616,100	\$ 24,262,200
International Affairs Fellowships	4,391,800	4,200,500
Meetings	2,331,500	3,162,500
Capital expenditures	4,745,300	5,001,400
Other	45,100	1,574,000
	<u>\$ 39,129,800</u>	<u>\$ 38,200,600</u>

Temporarily restricted net assets were released from restrictions for the fulfillment of the following purpose and time periods during the year ended June 30, 2005:

	<u>2005</u>	<u>2004</u>
Studies	\$ 7,248,900	\$ 7,896,800
International Affairs Fellowships	474,800	537,400
Meetings	514,700	454,600
Capital expenditures	260,000	217,400
Other	11,600	277,700
	<u>\$ 8,510,000</u>	<u>\$ 9,383,900</u>

The amounts released from restrictions represent revenue recognized in prior years and expended in the current year. Some amounts of restricted gifts are received and spent in the same year and are also included in the release from restrictions.

10. PERMANENTLY RESTRICTED NET ASSETS

At June 30, 2005, income earned on permanently restricted net assets is available for the following purposes:

	<u>2005</u>	<u>2004</u>
Studies	\$ 44,442,700	\$ 43,398,300
International Affairs Fellowships	6,066,200	6,066,100
Meetings	4,681,800	4,096,100
Library	1,021,000	1,021,000
Unrestricted as to use	14,986,000	14,986,000
	<u>\$ 71,197,700</u>	<u>\$ 69,567,500</u>

11. COMMITMENTS

The Council leases certain office facilities and equipment under operating lease arrangements. These leases consist of the Washington, DC, office space and various office equipment rentals.

Future minimum payments for capital and noncancelable operating leases as of June 30, 2005, are as follows:

Year ending June 30,	
2006	\$299,400
2007	299,400
2008	286,700
2009	21,600
2010	<u>10,900</u>
Total	<u>\$918,000</u>

Rent expense under the operating leases was \$313,400 and \$324,772 for the years ended June 30, 2005 and 2004, respectively.

12. PRIOR YEAR ADJUSTMENTS

Subsequent to the issuance of the Council's 2003 financial statements, the Council's management discovered that a pledge from a donor in the amount of \$2,000,000 that had previously been recorded as a receivable and unrestricted net assets was to be paid from the donor's will. In accordance with Financial Accounting Standards, No. 116, *Accounting for Contributions Received and Contributions Made*, intentions to give are not unconditional promises to give and therefore should not be recognized until such conditionals are met. As a result, beginning unrestricted net assets have been adjusted to reflect the \$2,000,000 write-off. In addition, certain revenues from corporate memberships and rental activities had not been prorated between the fiscal periods over which the income was to be earned. At June 30, 2003, \$94,600 of rental income and \$85,300 of corporate memberships should have been deferred and recognized as revenues in fiscal 2004. As a result, beginning unrestricted net assets have been reduced to reflect the deferral of such income in the amount of \$179,900. Lastly, certain pledges had not been discounted at the appropriate discount rate at June 30, 2003, and were overstated. As a result, beginning unrestricted net assets have been reduced by \$8,800.

Beginning unrestricted net assets at July 1, 2003, as previously reported	\$79,214,200
Prior period adjustment, write-off receivable balance	(2,000,000)
Prior period adjustment, corporate memberships and rental activities	(179,900)
Prior period adjustment, discount rate for pledges	(8,800)
Adjusted beginning unrestricted net assets at July 1, 2003	<u>\$77,025,500</u>

Deloitte.

Deloitte & Touche LLP
Two World Financial Center
New York, NY 10281-1414
USA

Tel: +1 212 436 2000
Fax: +1 212 436 5000
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Council on Foreign Relations, Inc.

We have audited the accompanying statements of financial position of the Council on Foreign Relations, Inc. (the "Council"), as of June 30, 2005 and 2004, the related statements of cash flows for the years then ended, and the statement of activities for the year ended June 30, 2005. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year summarized comparative information has been derived from the Council's June 30, 2004, financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstance, but not for the purpose of expressing an opinion on the effectiveness of the Council'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 the Council on Foreign Relations, Inc. at June 30, 2005 and 2004, its cash flows for the years then ended, and the changes in its net assets for the year then ended June 30, 2005, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

August 19, 2005

Member of
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