

# FINANCIAL STATEMENTS

The Council's financial position was enhanced during the fiscal year through generous gifts and pledges for operating expenses and endowment, through continued growth in the portfolio, which increased 11 percent over the prior fiscal year, and through growth in other major sources of revenue, particularly the Corporate Program, which increased 24 percent over fiscal year 2005, and annual giving, which grew 18 percent over last year. *Foreign Affairs* also had an exceptionally strong year; revenues increased 22 percent.

As always, we are deeply grateful to the Investment Subcommittee, chaired by J. Tomilson Hill, for structuring the

Council's investment portfolio to achieve significant growth in good economic times while buffering our resources during down markets. The Board Committee on Finance and Budget, chaired by Michael H. Moskow, oversees the Council's budget and finances, and, as of July 1, 2006, the Council's audit committee is an independent standing committee of the Board, further strengthening financial oversight of the institution.

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

## STATEMENTS OF FINANCIAL POSITION

As of June 30, 2006 and 2005

	2006	2005
<b>Assets</b>		
Cash and cash equivalents ( <i>Note 2</i> )	\$ 7,691,000	\$ 3,572,300
Accounts receivable (net of allowance of \$113,700 in 2006 and \$238,600 in 2005) and prepaid expenses ( <i>Note 2</i> )	1,677,100	1,140,100
Grants and contributions receivable ( <i>Notes 2 and 4</i> )	2,268,400	2,219,800
Contributions receivable for endowment ( <i>Notes 2 and 4</i> )	32,445,900	2,605,500
Inventories ( <i>Note 2</i> )	98,200	246,600
Investments ( <i>Notes 2 and 3</i> )	208,008,400	187,797,200
Land, buildings and building improvements, and equipment, net ( <i>Notes 2 and 5</i> )	24,455,000	24,478,800
<b>Total assets</b>	<b>\$276,644,000</b>	<b>\$222,060,300</b>
<b>Liabilities</b>		
Accounts payable and accrued expenses ( <i>Note 2</i> )	\$ 4,741,400	\$ 4,671,600
Deferred subscription revenue	2,959,300	2,563,300
Accrued postretirement benefits ( <i>Note 7</i> )	2,230,000	2,037,000
<b>Total liabilities</b>	<b>9,930,700</b>	<b>9,271,900</b>
Commitments ( <i>Note 10</i> )		
<b>Net assets</b> ( <i>Notes 2, 8, and 9</i> )		
Unrestricted	116,907,100	102,460,900
Temporarily restricted	41,766,300	39,129,800
Permanently restricted	108,039,900	71,197,700
<b>Total net assets</b>	<b>266,713,300</b>	<b>212,788,400</b>
<b>Total liabilities and net assets</b>	<b>\$276,644,000</b>	<b>\$222,060,300</b>

The accompanying notes are an integral part of these financial statements.

## STATEMENT OF ACTIVITIES

For the year ended June 30, 2006, with comparative totals for 2005

	Unrestricted	Restricted		2006 Total	2005 Total
		Temporarily	Permanently		
<b>Operating revenue, support, and reclassifications</b>					
Membership dues <i>(Note 2)</i>	\$ 4,361,500	\$	\$	\$ 4,361,500	\$ 4,396,700
Annual giving	5,031,000			5,031,000	4,277,000
Corporate memberships and related income	6,758,300	65,300		6,823,600	5,504,200
Meetings	1,000	238,200		239,200	114,300
International Affairs Fellowships		59,900		59,900	85,000
Grants and contributions for Studies	304,000	5,769,200		6,073,200	3,941,450
Other grants and contributions	168,700	151,900		320,600	586,300
<i>Foreign Affairs</i>	7,522,200			7,522,200	6,329,100
Book publication	32,800			32,800	39,900
Investment return used for current operations <i>(Note 3)</i>	817,500	3,873,300		4,690,800	5,257,200
Rental income	1,204,500			1,204,500	1,324,500
Miscellaneous	267,200	66,000		333,200	184,450
Total operating revenue and support	26,468,700	10,223,800		36,692,500	32,040,100
Net assets released from restrictions <i>(Note 8)</i>	9,727,700	(9,727,700)			
Total operating revenue, support, and reclassifications	36,196,400	496,100		36,692,500	32,040,100
<b>Operating expenses</b>					
Program expenses:					
Studies Program	11,916,900			11,916,900	11,000,600
Meetings Program	3,203,800			3,203,800	2,939,200
Special Events	623,000			623,000	609,500
<i>Foreign Affairs</i>	6,435,700			6,435,700	5,931,700
Book publication	433,200			433,200	383,200
National Program	1,008,700			1,008,700	882,500
Websites	1,275,500			1,275,500	1,042,500
International Affairs Fellowships	888,000			888,000	456,300
Communications	1,173,500			1,173,500	994,300
Total program expenses	26,958,300			26,958,300	24,239,800
Supporting services:					
Management and general	5,203,000			5,203,000	4,187,800
Membership	897,700			897,700	1,301,000
Fundraising:					
Development	788,400			788,400	328,000
Corporate Program	1,225,600			1,225,600	1,224,300
Total fundraising	2,014,000			2,014,000	1,552,300
Total supporting services	8,114,700			8,114,700	7,041,100
Total operating expenses	35,073,000			35,073,000	31,280,900
<b>Excess of operating revenue, support, and reclassifications over operating expenses</b>	1,123,400	496,100		1,619,500	759,200
<b>Nonoperating revenue <i>(Note 2)</i></b>					
Investment gain in excess of spending rate <i>(Notes 2 and 3)</i>	13,322,800	2,140,400		15,463,200	12,843,900
Endowment contributions			36,842,200	36,842,200	3,039,000
Total nonoperating revenue	13,322,800	2,140,400	36,842,200	52,305,400	15,882,900
Change in net assets	14,446,200	2,636,500	36,842,200	53,924,900	16,642,100
Net assets, beginning of year	102,460,900	39,129,800	71,197,700	212,788,400	196,146,300
Net assets, end of year	\$ 116,907,100	\$ 41,766,300	\$ 108,039,900	\$ 266,713,300	\$ 212,788,400

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF CASH FLOWS

For the years ended June 30, 2006 and 2005

	2006	2005
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 53,924,900	\$ 16,642,100
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	1,713,600	1,555,300
Net realized and unrealized gain on investments	(20,170,500)	(18,210,800)
Bad debt expense	42,800	36,500
Contributions restricted for investment in endowment	(36,842,100)	(1,630,200)
Changes in operating assets and liabilities:		
Accounts receivable and prepaid expenses	(579,800)	250,900
Grants and contributions receivable	(48,600)	1,147,000
Inventories	148,400	(148,100)
Accounts payable and accrued expenses	69,800	(72,200)
Deferred subscription revenue	396,000	248,300
Accrued postretirement benefits	193,000	66,000
Net cash used in operating activities	(1,152,500)	(115,200)
<b>Cash flows from investing activities:</b>		
Purchases of building improvements and equipment	(1,689,800)	(964,600)
Purchases of investments	(130,226,500)	(255,933,500)
Proceeds from sales of investments	130,185,800	255,387,000
Net cash used in investing activities	(1,730,500)	(1,511,100)
<b>Cash flows from financing activities:</b>		
Contributions restricted for investment in endowment	7,001,700	1,766,900
Net increase in cash	4,118,700	140,600
Cash and cash equivalents, beginning of year	3,572,300	3,431,700
Cash and cash equivalents, end of year	\$ 7,691,000	\$ 3,572,300
<b>Supplemental noncash information:</b>		
Interest paid on capital lease	\$ 2,700	
<b>Supplemental disclosure of noncash investing and financing activities:</b>		
Equipment acquired under capital lease	\$ 314,100	

The accompanying notes are an integral part of these financial statements.

## NOTES TO FINANCIAL STATEMENTS

As of and for the years ended June 30, 2006 and 2005

## 1. ORGANIZATION AND NATURE OF ACTIVITIES

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, which is headquartered in New York with an office in Washington, DC, 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 providing up-to-date information about the world and U.S. foreign policy on the Council's website, 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. The Council adheres to accounting principles generally accepted in the United States of America, which include some specialized requirements described more fully in publications of the Financial Accounting Standards Board and the American Institute of Certified Public Accountants.

**Cash and Cash Equivalents**—The Council considers all highly liquid investments purchased with a maturity of three months or less, excluding cash and money market funds held as investment, 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. Donated securities are recorded at their fair market value on the date received using an average of the high and low price on the date received. Interest income is recorded on an accrual basis and dividend income is recorded based on the ex-dividend date.

It is Council policy to make an annual investment allocation for the support of operations up to 5 percent of the average market value of investments for the three previous years. Amounts allocated to the unrestricted net asset class are at the discretion of the Council. Amounts allocated to the temporarily restricted net asset class are based on the donor’s stipulation.

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. The Council has the ability to liquidate its investments in limited partnerships only periodically in accordance with the provisions of respective partnership agreements.

The fair value of certain of the Council’s investments without readily quoted market prices is determined on an estimated basis by the investment managers. Because of the inherent uncertainty of valuation, the values determined by the investment managers may differ from values that would be used had a ready market for these investments existed, and the differences could be material.

**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 5). Leasehold improvements are capitalized and amortized over the shorter of the period of the lease or the life of the improvements. The fair value of donated property and equipment is similarly capitalized and depreciated.

**Deferred Compensation**—The Council has deferred compensation arrangements with certain current employees. Investment earnings accrue to the benefit of the employees. The bonus payments and accrued earnings are included in accounts payable and accrued expenses in the financial statements. As of the year ended June 30, 2006, the amount is \$168,600.

**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 percent spending policy (see Note 2), 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. When 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 as net assets released from restrictions.

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.

**Support and Revenue**—Contributions 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 in which the dues relate 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. Bequests are recognized as receivables at the time unassailable rights to the gifts have been established and the proceeds are measurable.

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

**Allowance for Doubtful Accounts**—As of June 30, 2006 and 2005, the Council determined that an allowance for uncollectible accounts of \$113,700 and \$238,600, respectively, is necessary. This determination is based on a combination of factors, such as management’s estimate of the creditworthiness of its members and contributors, a review of individual accounts outstanding, the aged basis of receivable, current economic conditions, and historical experience.

**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 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.

## FINANCIAL STATEMENTS

*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.

*Reclassifications*—Certain 2005 amounts have been reclassified to conform to the 2006 presentation. These reclassifications did not affect total net assets.

### 3. INVESTMENTS

The components of the Council's long-term investments as of June 30, 2006 and 2005, respectively, are as follows:

	2006	2005
Domestic equity securities	\$ 57,955,100	\$ 48,137,100
International equity securities	33,015,200	26,367,600
Foreign and corporate bonds	8,990,800	13,083,500
U.S. government agency obligations	15,502,800	13,019,800
Alternate investments:		
Equity hedge funds	54,663,900	46,026,300 <sup>A</sup>
Absolute return fund of funds	23,870,100	27,318,500 <sup>B</sup>
Private equity funds	4,029,500	942,500 <sup>C</sup>
Real estate fund of funds	1,524,800	266,400 <sup>D</sup>
Money markets	8,456,200	12,635,500
Total	<u>\$208,008,400</u>	<u>\$187,797,200</u>

- A. Hedge funds are investments in limited partnerships that invest primarily in domestic and international equity securities. The hedge funds may also trade various financial instruments with off-balance-sheet risk. These financial instruments include securities sold short and long, option 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. These instruments do not subject the Council to off-balance-sheet risk.
- B. The absolute return fund of funds is an investment in limited partnership that invests primarily through a diversified group of other funds. The goal of the fund is to achieve consistent long-term growth of capital with reduced volatility. The underlying assets consist primarily of equity and fixed-income securities.
- C. Private equity funds are funds whose purpose is to achieve capital appreciation through investments primarily in foreign and domestic securities of companies that are not publicly traded.
- D. The real estate fund of funds is an investment in a limited partnership that invests in real estate managers pursuing traditional commercial property strategies.

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.

Investment return consists of the following for the years ended June 30, 2006 and 2005:

	2006			2005
	Unrestricted	Temporarily Restricted	Total	
Dividends and interest (net of investment expenses of \$2,561,900 and \$2,182,600 in 2006 and 2005, respectively)	\$ (11,500)	\$ (4,900)	\$ (16,400)	\$ (109,700)
Realized gain	6,508,700	2,768,000	9,276,700	14,231,200
Unrealized gain	7,643,100	3,250,600	10,893,700	3,869,600
Net realized and unrealized gain	<u>14,151,800</u>	<u>6,018,600</u>	<u>20,170,400</u>	<u>18,210,800</u>
Total return on investments	14,140,300	6,013,700	20,154,000	18,101,100
Investment return used for current operations	(817,500)	(3,873,300)	(4,690,800)	(5,257,200)
Investment gain in excess of spending rate	<u>\$ 13,322,800</u>	<u>\$ 2,140,400</u>	<u>\$ 15,463,200</u>	<u>\$ 12,843,900</u>

### 4. GRANTS AND CONTRIBUTIONS RECEIVABLE AND CONTRIBUTIONS RECEIVABLE FOR ENDOWMENT

Receivables consist substantially of promises to give and are due from individuals, corporations, and foundations. Grants and contributions receivable and contributions receivable for endowment as of June 30, 2006 and 2005, respectively, are due to be collected as follows:

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	2006	2005
Amount due in less than one year:		
Grants and contributions receivable	\$ 1,555,300	\$1,442,100
Contributions receivable for endowment	28,094,500	2,434,500
Total	29,649,800	3,876,600
Amount due in one to five years:		
Grants and contributions receivable	780,000	825,000
Contributions receivable for endowment	4,878,100	184,000
Total	5,658,100	1,009,000
Gross receivable	35,307,900	4,885,600
Less discount (at rates varying from 2.27% to 5.12%)	(593,600)	(60,600)
Total net	\$34,714,300	\$4,825,000

The amortization of pledge discount is reflected as additional contribution revenue.

The Council embarked on an endowment campaign in 2006. Contributions totaling \$36,100,000 were received in pledges during the year ended June 30, 2006. Included in this total is \$26,050,000 in contributions from Board members, of which \$26,040,000 was receivable as of June 20, 2006. The principal contributions are permanently restricted for the endowment campaign. The earnings can be used for general or specified purposes.

**5. LAND, BUILDINGS AND BUILDING IMPROVEMENTS, AND EQUIPMENT**

Land, buildings and building improvements, and equipment, at cost, as of June 30, 2006 and 2005, are summarized as follows:

	2006	2005	Estimated Useful Life
Land	\$ 1,854,300	\$ 1,854,300	
Buildings and building improvements	31,240,200	30,828,600	10–55 years
Construction in progress		114,000	
Equipment	6,208,500	5,854,400	3–15 years
Total	39,303,000	38,651,300	
Less accumulated depreciation	(14,848,000)	(14,172,500)	
Total net	\$ 24,455,000	\$ 24,478,800	

Depreciation expense was \$1,713,600 and \$1,555,300 for the years ended June 30, 2006 and 2005, respectively. During 2006, assets that are fully depreciated were written off in the amount of \$1,038,100.

Certain long-term leases for equipment are classified as capital leases. Accordingly, such equipment is capitalized and depreciated on a straight-line basis over the life of the lease. The corresponding obligation of approximately \$306,200 as of June 30, 2006 (included in accounts payable and accrued expenses), under the capital lease represents the present value of the rental payments discounted by the interest rates implicit in the lease agreements of 10.13 percent. The obligations are all maturing in 2009. The minimum future lease payments subsequent to June 30, 2006, are included in Note 10.

**6. RETIREMENT PLAN**

The Council has a defined contribution retirement plan covering all employees who meet the minimum service requirements. Payments, which are 12.5 percent of each participant's salary for employees hired prior to July 1, 1998, and 10 percent for each participant hired after that 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 \$1,037,400 for 2006 and \$977,400 for 2005, respectively. Participants must contribute 2.5 percent of their salaries and have the option to make additional contributions on their own behalf.

**7. 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").

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

	2006	2005
Benefit obligation, end of year	\$(3,723,000)	\$(3,541,000)
Net amount recognized in the statements of financial position	\$(2,230,000)	\$(2,037,000)

The Council funds expenses and benefit payments as they are incurred annually and has not contributed funds to separate trusteed accounts to fund the accumulated postretirement benefit obligations. The discount rate used to determine the end of year obligation is 6.25 percent and 5.5 percent for the years ended June 30, 2006 and 2005, respectively. The postretirement benefits paid during the years ended June 30, 2006 and 2005, respectively, were \$227,000 and \$228,000.

The postretirement benefit cost for the years ended June 30, 2006 and 2005, respectively, was \$193,000 and \$66,000 and was based on actuarial assumptions and a discount rate set as of the beginning of the year. The discount rate was 6.5 percent and the projected credit unit method was used for determining benefits earned during the year.

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Assumed health care cost trend rates at June 30:

	2006	2005
Health care cost trend rate assumed for next year	8%	9%
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 percent in each year would increase the accumulated postretirement benefit obligation at June 30, 2006, by \$42,000. Decreasing the assumed health care cost trend rates by 1 percent would decrease the accumulated postretirement benefit obligation by \$35,000.

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

Year ending June 30,	
2007	\$ 239,000
2008	242,000
2009	257,000
2010	268,000
2011	271,000
2012–2016	1,377,000

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the “Act”) was signed into law in December 2003. The Act introduces a prescription drug benefit under Medicare. The Council applied for the subsidy in 2005. The accumulated postretirement benefit obligation was reduced in 2005 by \$332,000, with no further impact in 2006.

**8. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets as of June 30, 2006 and 2005, are restricted for the following purposes or time periods:

	2006	2005
Studies	\$29,448,900	\$27,616,100
International Affairs Fellowships	4,379,600	4,391,800
Next Generation Fellowship	935,500	
Meetings	2,123,500	2,331,500
Capital expenditures	4,492,100	4,745,300
Other	386,700	45,100
Total	\$41,766,300	\$39,129,800

Temporarily restricted net assets were released from restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by the donors for the years ended June 30, 2006 and 2005, as follows:

	2006	2005
Studies	\$8,309,900	\$7,248,900
International Affairs Fellowships	596,400	474,800
Meetings	536,200	514,700
Capital expenditures	260,000	260,000
Other	25,200	11,600
Total	\$9,727,700	\$8,510,000

**9. PERMANENTLY RESTRICTED NET ASSETS**

Income earned on permanently restricted net assets is available for the following purposes as of June 30, 2006 and 2005:

	2006	2005
Studies	\$ 45,176,200	\$44,442,700
International Affairs Fellowships	6,066,200	6,066,200
Meetings	4,686,400	4,681,800
Library	1,021,000	1,021,000
Unrestricted as for use	51,090,100	14,986,000
Total	\$108,039,900	\$71,197,700

**10. 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, 2006, are as follows:

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Year ending June 30,	Real Property	Equipment	Total
2007	\$241,500	\$223,300	\$ 464,800
2008	241,500	203,600	445,100
2009	—	164,500	164,500
2010	—	17,700	17,700
2011		1,400	1,400
Total	\$483,000	\$610,500	\$1,093,500

Rent expense under the operating leases was \$241,500 and \$280,000 for the years ended June 30, 2006 and 2005, respectively.



**INDEPENDENT AUDITORS' REPORT**

The Board of Directors  
Council on Foreign Relations, Inc.

We have audited the accompanying statement of financial position of the Council on Foreign Relations, Inc. (the "Council"), as of June 30, 2006, and the related statements of activities and cash flows for the year then ended. 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 audit. The prior year financial statements were audited by other auditors whose report, dated August 13, 2005, expressed an unqualified opinion on those financial statements.

We conducted our audit 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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., as of June 30, 2006, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

*Marks Paneth & Shron LLP*

August 11, 2006

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