

Financial Statements

STATEMENT OF FINANCIAL POSITION

AS OF JUNE 30, 2008 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2007)

	2008	2007
Assets		
Cash and cash equivalents (Notes 2, 8, and 12)	\$ 32,265,100	\$ 6,917,100
Accounts receivable, net, and prepaid expenses (Note 2)	2,650,300	2,186,900
Grants and contributions receivable (Notes 2 and 4)	22,416,900	4,980,600
Contributions receivable for endowment (Notes 2 and 4)	36,836,000	43,740,400
Inventory (Note 2)	212,000	168,900
Investments (Notes 2 and 3)	266,311,100	263,753,700
Land, buildings and building improvements, and equipment, net (Notes 2, 5, and 8)	65,053,000	23,970,000
Deferred financing cost (net of amortization) (Note 8)	2,888,600	—
Total assets	<u>\$428,633,000</u>	<u>\$345,717,600</u>
Liabilities		
Accounts payable and accrued expenses (Notes 2, 5, and 6)	\$ 9,262,300	\$ 5,853,200
Deferred subscription revenue (Note 2)	3,016,000	3,053,600
Accrued postretirement benefits (Note 7)	3,165,000	3,172,000
Bonds payable (Note 8)	62,680,000	—
Total liabilities	<u>78,123,300</u>	<u>12,078,800</u>
Commitments (Note 11)		
Net assets (Note 2)		
Unrestricted	137,259,900	148,828,700
Temporarily restricted (Note 9)	68,640,100	52,007,100
Permanently restricted (Note 10)	144,609,700	132,803,000
Total net assets	<u>350,509,700</u>	<u>333,638,800</u>
Total liabilities and net assets	<u>\$428,633,000</u>	<u>\$345,717,600</u>

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

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2008 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2007)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	2008 TOTAL	2007 TOTAL
Operating revenue and support					
Membership dues (Note 2)	\$ 4,827,400	\$ —	\$ —	\$ 4,827,400	\$ 4,402,100
Annual giving	5,701,100	—	—	5,701,100	5,765,000
Corporate memberships and related income	6,892,100	—	—	6,892,100	6,451,100
Meetings	—	1,196,800	—	1,196,800	109,000
DC meetings	—	674,300	—	674,300	1,200
International Affairs Fellowships	—	236,600	—	236,600	75,100
Grants and contributions for Studies	—	17,750,900	—	17,750,900	6,658,900
Other grants and contributions	—	10,581,900	—	10,581,900	1,510,900
Foreign Affairs publications	7,924,800	—	—	7,924,800	7,642,200
Book publications	53,600	—	—	53,600	40,600
Investment return used for current operations (Note 3)	4,645,700	4,759,800	—	9,405,500	6,362,500
Rental income	1,771,500	—	—	1,771,500	1,579,400
Miscellaneous	186,100	705,600	—	891,700	685,400
Total operating revenue and support	32,002,300	35,905,900	—	67,908,200	41,283,400
Net assets released from restrictions (Note 9)	11,712,900	(11,712,900)	—	—	—
Total operating revenue and support	43,715,200	24,193,000	—	67,908,200	41,283,400
Operating expenses					
Program expenses:					
Studies Program	14,004,900	—	—	14,004,900	12,187,300
Meetings Program	1,678,300	—	—	1,678,300	1,309,900
DC Meetings Program	2,359,900	—	—	2,359,900	1,620,500
Special Events	581,800	—	—	581,800	555,900
Foreign Affairs publications	8,146,600	—	—	8,146,600	7,335,900
Book publications	412,100	—	—	412,100	419,600
National Program	1,454,000	—	—	1,454,000	1,285,300
Website	1,993,200	—	—	1,993,200	1,588,300
International Affairs Fellowships	883,400	—	—	883,400	789,300
Communications	1,451,700	—	—	1,451,700	1,209,100
Total program expenses	32,965,900	—	—	32,965,900	28,301,100
Supporting services:					
Fundraising:					
Development	1,093,000	—	—	1,093,000	1,042,600
Corporate Program	1,556,800	—	—	1,556,800	1,274,100
Total fundraising	2,649,800	—	—	2,649,800	2,316,700
Management and general	6,658,300	—	—	6,658,300	6,755,500
Membership	714,200	—	—	714,200	917,500
Total supporting services	10,022,300	—	—	10,022,300	9,989,700
Total operating expenses	42,988,200	—	—	42,988,200	38,290,800
Excess of operating revenue and support over operating expenses	727,000	24,193,000	—	24,920,000	2,992,600
Nonoperating revenue (Note 2)					
Investment (loss)/gain in excess of spending rate (Notes 2 and 3)	(14,423,700)	(7,560,200)	—	(21,983,900)	40,017,800
Endowment contributions (Note 4)	—	—	11,806,700	11,806,700	24,763,100
Gain on sale of fixed asset (Note 5)	2,191,100	—	—	2,191,100	—
Total nonoperating revenue	(12,232,600)	(7,560,200)	11,806,700	(7,986,100)	64,780,900
Change in net assets before postretirement changes other than net periodic costs (Note 7)	(11,505,600)	16,632,800	11,806,700	16,933,900	67,773,500
Effect of adoption of recognition and measurement date provisions of FASB No. 158	—	—	—	—	(848,000)
Postretirement changes other than net periodic costs	(63,000)	—	—	(63,000)	—
Change in net assets	(11,568,600)	16,632,800	11,806,700	16,870,900	66,925,500
Net assets, beginning of year	148,828,500	52,007,300	132,803,000	333,638,800	266,713,300
Net assets, end of year	\$137,259,900	\$68,640,100	\$144,609,700	\$350,509,700	\$333,638,800

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2008 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2007)

	2008	2007
Cash flows from operating activities:		
Change in net assets	\$16,870,900	\$ 66,925,500
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	1,983,000	1,908,200
Amortization of financing costs	49,000	—
Change in discount on grants and contributions receivable	(1,286,200)	3,583,500
Gain on disposal of fixed assets	(2,191,100)	—
Effect of adoption of recognition and measurement date provisions of FASB No. 158	—	848,000
Net realized and unrealized loss/(gain) on investments	12,312,800	(46,935,000)
Bad debt expense	77,000	43,600
Contributions restricted for investment in endowment	(11,806,700)	(24,763,100)
Changes in operating assets and liabilities:		
Accounts receivable and prepaid expenses	(540,400)	(553,400)
Grants and contributions receivable	(16,150,100)	(6,295,700)
Inventory	(43,100)	(70,700)
Accounts payable and accrued expenses	3,409,100	1,111,800
Deferred subscription revenue	(37,600)	94,300
Accrued postretirement benefits	(7,000)	94,000
Net cash provided by/(used in) operating activities	<u>2,639,600</u>	<u>(4,009,000)</u>
Cash flows from investing activities:		
Purchases of building improvements and equipment	(43,902,800)	(1,423,200)
Proceeds from sale of fixed asset	3,027,900	—
Purchases of investments	(227,931,000)	(140,523,200)
Proceeds from sales of investments	213,060,800	131,712,900
Net cash used in investing activities	<u>(55,745,100)</u>	<u>(10,233,500)</u>
Cash flows from financing activities:		
Contributions restricted for investment in endowment	18,711,100	13,468,600
Proceeds from bonds and bridge loan	98,207,100	—
Deferred financing costs	(2,937,600)	—
Principal repayments of bonds payable and bridge loan	(35,527,100)	—
Net cash provided by financing activities	<u>78,453,500</u>	<u>13,468,600</u>
Net increase (decrease) in cash and cash equivalents	25,348,000	(773,900)
Cash and cash equivalents, beginning of year	6,917,100	7,691,000
Cash and cash equivalents, end of year	<u>\$32,265,100</u>	<u>\$ 6,917,100</u>
Supplemental disclosure of cash flow information:		
Interest paid on capital lease	<u>\$ 21,300</u>	<u>\$ 31,000</u>
Interest paid on bonds and bridge loan	<u>\$ 2,246,600</u>	<u>—</u>

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

1. ORGANIZATION AND NATURE OF ACTIVITIES

The Council on Foreign Relations, Inc. (the "Council"), is an independent, nonpartisan membership organization, think tank, and publisher dedicated to being a resource for its members, government officials, business executives, journalists, educators and students, civic and religious leaders, and other interested citizens in order to help them better understand the world and the foreign policy choices facing the United States and other countries. Founded in 1921, the Council takes no institutional positions on matters of policy. The Council carries out its mission by maintaining a diverse membership; convening meetings; supporting a Studies Program that fosters independent research; publishing *Foreign Affairs*, the preeminent journal on international affairs and U.S. foreign policy; sponsoring Independent Task Forces; and providing up-to-date information and analysis about world events and American foreign policy on its 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.

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 in investments, to be cash equivalents.

Allowance for Doubtful Accounts—As of June 30, 2008 and 2007, the Council determined that an allowance for uncollectible accounts of \$44,100 and \$32,600, respectively, is necessary for uncollectible membership receivables. In addition, the Council determined that no allowance is necessary for grants and contributions receivable, and contributions receivable for endowment as of June 30, 2008 and 2007. 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 receivables, current economic conditions, and historical experience.

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 the Council's 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's Board of Directors (the "Board"). Amounts allocated to the temporarily restricted net asset class are based on the donor's stipulation.

The Council's investments in alternative investment companies 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 alternative investment company's investment portfolio as determined by the management of the alternative investment company. Most of the Council's investments in alternative investment companies are in limited partnerships.

Investments held by the limited partnerships generally are carried at fair value as determined by the respective general partners, and may be based on historical cost, appraisals, obtainable prices for similar assets, or other estimates. The Council's ability to liquidate its investments in limited partnerships is restricted in accordance with the provisions of respective partnership agreements.

The fair value 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. The financial statements of the investees are audited annually by independent auditors. Investment income and gains are recorded on accrual basis.

Land, Buildings and Building Improvements, and Equipment—Land, buildings and building improvements, and equipment are stated at cost less accumulated depreciation or amortization. These amounts do not purport to represent replacement or realizable values. The Council follows the practice of capitalizing expenditures for land, buildings and building improvements, and equipment having a cost of \$1,500 or more and a useful life of greater than one year. Depreciation is provided on the straight-line basis over the estimated useful lives of these assets (see Note 5). The fair value of donated property and equipment is similarly capitalized and depreciated.

In accordance with Statement of Financial Accounting Standards ("SFAS No. 34"), *Capitalization of Interest Costs*, amended by SFAS No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants*, the Council capitalized interest costs as part of constructing its Washington, DC, building (see Note 5 for further information).

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.

Deferred Subscription Revenue—The Council's subscription fees are recognized as revenue in the applicable period. Deferred subscription revenue represents subscription fees received in advance.

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, an investment allocation is made for general purposes (unrestricted) and specific program activities (temporarily restricted), unless specified by the donor.

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 represent resources received that have not been restricted by the donor and that have no time restrictions. Such resources are available for support of the Council's operations over which the Board has discretionary control.

Temporarily restricted net assets represent contributions and other inflows of assets whose use by the Council is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Council pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reported in the statements of activities as net assets released from restrictions.

Permanently restricted net assets represent contributions and other inflows of assets whose use by the Council is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Council 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 which the dues relate.

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.

Postretirement Benefits—During fiscal 2007, the Council adopted the Financial Accounting Standards Board ("FASB") Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, which was issued on September 29, 2006. FASB No. 158 was an amendment of FASB Statements No. 87, 88, 106, and 132R. FASB No. 158 requires an employer to: (a) recognize in its statement of financial position an asset for a plan's overfunded status or a liability for a plan's underfunded status; (b) measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year; and (c) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. Those changes were reported in the change in unrestricted in net assets of the Council as of June 30, 2007.

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.

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 statement 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.

Summarized Comparative Information—The 2008 financial statements include certain prior-year summarized comparative information. The statement of activities does not reflect all net asset classes for the year ended June 2007. As a result, the 2007 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 2007 information should be read in conjunction with the Council's financial statements for the year ended June 30, 2007, from which the information was derived.

3. INVESTMENTS

The components of the Council's long-term investments as of June 30, 2008 and 2007, are as follows:

	2008	2007
Money markets	\$ 20,258,800	\$ 15,186,000
Domestic equity securities	32,492,800	51,050,600
International equity securities	44,531,300	44,095,800
Foreign and corporate bonds	17,481,500	5,393,400
U.S. government agency obligations	8,625,600	37,559,500
Subtotal	<u>123,390,000</u>	<u>153,285,300</u>
Alternate investments:		
Hedge and real assets funds	105,355,100	77,166,300 ^A
Absolute return fund of funds	5,810,200	17,542,900 ^B
Private equity funds	27,923,500	12,667,200 ^C
Real estate fund of funds	3,832,300	3,092,000 ^D
Subtotal	<u>142,921,100</u>	<u>110,468,400</u>
Total	<u>\$266,311,100</u>	<u>\$263,753,700</u>

A. Hedge and real assets funds are investments in limited partnerships that invest primarily in domestic and international equity and government securities. The hedge and real assets funds may also trade various financial instruments with off-balance sheet risk. These financial instruments include securities sold short and long, option contracts, differential and foreign currency forward contracts. Such transactions subject the hedge and real assets 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 counter party fails to perform. The respective hedge and real assets 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 a 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, as well as in limited partnerships.

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.

As of June 30, 2008, the Council has unfunded commitments to limited partnerships of approximately \$31.3 million, and intends to sell a portion of its other investments to fund these commitments.

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 statements of activities.

Investment return consists of the following for the years ended June 30, 2008 and 2007:

	2008			2007
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL	
Dividends and interest	\$ 1,613,000	\$ 1,373,900	\$ 2,986,900	\$ 2,972,400
Realized gain	8,732,900	2,580,700	11,313,600	25,632,400
Unrealized (loss)/gain	(18,305,100)	(5,321,300)	(23,626,400)	21,302,600
Net realized and unrealized (loss)/gain	(9,572,200)	(2,740,600)	(12,312,800)	46,935,000
Total return on investments	(7,959,200)	(1,366,700)	(9,325,900)	49,907,400
Investment return used for current operations	(4,645,700)	(4,759,800)	(9,405,500)	(6,362,500)
Investment expenses	(1,818,800)	(1,433,700)	(3,252,500)	(3,527,100)
Investment (loss)/gain in excess of spending rate	<u>\$ (14,423,700)</u>	<u>\$ (7,560,200)</u>	<u>\$ (21,983,900)</u>	<u>\$ 40,017,800</u>

4. GRANTS AND CONTRIBUTIONS RECEIVABLE AND CONTRIBUTIONS RECEIVABLE FOR ENDOWMENT

Receivables consist primarily 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, 2008 and 2007, are due to be collected as follows:

	2008	2007
Amount due in less than one year:		
Grants and contributions receivable	\$10,587,900	\$ 3,367,900
Contributions receivable for endowment	14,029,700	14,961,600
Total	<u>24,617,600</u>	<u>18,329,500</u>
Amount due in one to five years:		
Grants and contributions receivable	12,672,700	1,811,900
Contributions receivable for endowment	24,853,500	32,756,700
Total	<u>37,526,200</u>	<u>34,568,600</u>
Gross receivable	62,143,800	52,898,100
Less discount (at rates varying from 2.27% to 5.12%)	(2,890,900)	(4,177,100)
Total net	<u>\$59,252,900</u>	<u>\$48,721,000</u>

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

The Council embarked on an endowment campaign in 2006. Contributions totaling \$17,457,700 and \$24,763,100 were received during the years ended June 30, 2008 and 2007, respectively. During the year ended June 30, 2008, the Council received notification from donors that \$5,351,000 in gifts pledged in fiscal year 2007 previously recorded as permanently restricted are to be temporarily restricted for the Council's Studies program. In addition, the Council reduced current year permanently restricted contributions by \$300,000 for changes in verbal pledges made in fiscal year 2007.

5. LAND, BUILDINGS AND BUILDING IMPROVEMENTS, AND EQUIPMENT

Land, buildings and building improvements, and equipment, at cost, as of June 30, 2008 and 2007, are summarized as follows:

	2008	2007	ESTIMATED USEFUL LIFE
Land (New York)	\$ 1,854,300	\$ 1,854,300	
Land (Washington, DC)	5,397,700	—	
Buildings and building improvements (New York)	30,626,100	31,508,500	10–55 years
Building purchase (Washington, DC)	30,129,400	—	Not in service
Construction in progress (Washington, DC)	7,312,000	357,900	
Equipment (New York)	5,863,900	7,000,000	3–15 years
Total	81,183,400	40,720,700	
Less accumulated depreciation	(16,130,400)	(16,750,700)	
Total net	\$65,053,000	\$23,970,000	

Depreciation expense amounted to \$1,983,000 and \$1,908,200 for the years ended June 30, 2008 and 2007, respectively. During 2008 and 2007, assets that were fully depreciated were written off in the amounts of \$2,127,500 and \$5,500, respectively. During 2008, the Council sold an apartment with a net book value of \$836,800. The gain on the sale of the apartment of \$2,191,100 is reflected as nonoperating revenue in the accompanying statement of activities.

Construction in progress consists of costs incurred through June 30, 2008, related to architectural and renovation costs for a Washington, DC, building. In addition, interest on the Council's bonds is being capitalized until the construction of the building is completed. As of June 30, 2008, approximately \$2,200,000 of interest has been capitalized and is included as part of the deferred financing costs balance (see Note 8). The estimated remaining renovation, furnishing, and equipping costs to complete the building is \$16,952,300 and the approximate move in date is January 2009. (See Note 8 for further information.)

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 \$105,400 and \$210,700 as of June 30, 2008 and 2007, respectively (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 maturing in 2009. The minimum future lease payments subsequent to June 30, 2008, are included in Note 11.

6. RETIREMENT AND DEFERRED COMPENSATION PLANS

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 the Teachers Insurance and Annuity Association and College Retirement Equities Fund to purchase individual annuities for plan participants. The expense for the plan was \$1,241,300 for the fiscal year ended June 30, 2008, and \$1,069,200 for 2007, respectively. Participants must contribute 2.5 percent of their salaries and have the option to make additional contributions on their own behalf.

The Council has deferred compensation arrangements with former employees. Investment earnings accrue to the benefit of the employees. The bonus payments and accrued earnings of \$112,300 and \$154,800 as of June 30, 2008 and 2007, respectively, are included in accounts payable and accrued expenses in the accompanying financial statements.

7. OTHER POSTRETIREMENT BENEFITS

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

The benefit obligations as determined as of the end of the year measurement date are as follows:

	2008	2007
Change in benefit obligation:		
Benefit obligation at beginning	\$3,172,000	\$3,723,000
Service cost	35,000	37,000
Interest cost	182,000	203,000
Actuarial net gain	(29,000)	(584,000)
Benefits paid	(195,000)	(207,000)
Benefit obligation, end of year	\$3,165,000	\$3,172,000

The Council accrues expenses and makes 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 6.5 percent and 6.25 percent for the years ended June 30, 2008 and 2007, respectively.

The net periodic benefit obligations and the components of benefit cost for the years ended June 30, 2008 and 2007, are as follows:

	2008	2007
Service cost	\$ 35,000	\$ 37,000
Interest cost	182,000	203,000
Amortization of net loss	52,000	72,000
Amortization of prior service cost	(11,000)	(11,000)
Net periodic cost	\$258,000	\$301,000

The postretirement benefit cost for the years ended June 30, 2008 and 2007, respectively, amounted to \$63,000 and \$94,000 and was based on actuarial assumptions and a discount rate set as of the beginning of the year. The discount rate was 6.25 percent and the projected credit unit method was used for determining benefits earned during the year.

The net periodic pension cost for the years ended June 30, 2008 and 2007, includes reclassifications of amounts previously recognized as changes in unrestricted net assets as follows:

	2008	2007
Amortization of net loss	\$ 52,000	\$ 72,000
Amortization of prior service cost	(11,000)	(11,000)

Amounts that have not been recognized as components of net periodic benefit costs but included in unrestricted net assets to date as the effect of adoption of Statement 158 are as follows:

Net actuarial loss	\$810,000
Prior service cost (credit)	<u>(32,000)</u>
	<u>\$778,000</u>

Assumed health-care cost trend rates at June 30:

	2008	2007
Health-care cost trend rate assumed for next year	9%	7%
Rate to which the cost trend rate is assumed to decline	5%	5%
Year that the rate reaches the ultimate trend rate	2012	2009

Increasing the assumed medical care cost trend rates by 1 percent in each year would increase the accumulated postretirement benefit obligation by \$375,000 as of June 30, 2008, and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year by \$28,000. Decreasing the assumed health-care cost trend rates by 1 percent would decrease the accumulated postretirement benefit obligation by \$318,000 as of June 30, 2008, and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year ended by \$24,000.

Amounts in unrestricted net assets and expected to be recognized as components of net periodic benefit cost over fiscal year 2009 are as follows:

Net loss	\$60,000
Prior service cost	(11,000)

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

<i>YEAR ENDING JUNE 30,</i>	
2009	\$ 209,000
2010	230,000
2011	238,000
2012	237,000
2013	241,000
2014–2018	1,234,000

8. BONDS PAYABLE

Bonds payable amounted to \$62,680,000 as of June 30, 2008 (which approximates fair value), and consist of tax-exempt variable rate demand revenue bonds (the "Bonds") issued by the District of Columbia on behalf of the Council in August 2007. Proceeds of the Bonds were used for the acquisition, renovation, furnishing, and equipping of an office building, located at 1777 F Street, NW, Washington, DC, to be used by the Council for office and conference space.

The Bonds have a stated maturity of August 1, 2042, but the Council can repay the payment obligation at any time and retire the bond issue. Repayment of the principal on the Bonds commences on August 1, 2013. The Bonds currently bear interest at a weekly rate, which is determined by the remarketing agent and is payable monthly, in arrears, on the first day of each month. In no event shall the interest rate exceed the lesser of the highest interest rate which may be borne by the Bonds under the laws of the District of Columbia and 12 percent per annum.

As of June 30, 2008, the weekly interest rate on the Bonds was 1.550 percent per annum. The weekly rates ranged from 1.1 percent to 4 percent during fiscal 2008.

In accordance with the Trust Indenture dated August 1, 2007, a Project Fund has been established with Wells Fargo Bank, N.A. (the "Trustee"). As of June 30, 2008, approximately \$21,500,000 is held with the Trustee.

The Bonds are collateralized by a letter of credit in the amount of \$63,401,300 consisting of \$62,680,000, which may be drawn upon with respect to payment of unpaid principal amount and \$721,300, which may be drawn upon with respect to the payment of up to 35 days of accrued interest on the Bonds or portion of the purchase price representing accrued interest on the Bonds, in each case assuming a maximum interest rate of 12 percent per annum and computed on the basis of the actual number of days elapsed over a year of 365 days. The letter of credit was issued by Bank of America, N.A., and expires on August 14, 2017. Under the current agreement with Bank of America, the Council has agreed to repay the Bonds over a 30-year term.

Principal and interest payments to be paid are as follows for the years subsequent to June 30, 2008:

YEAR ENDING JUNE 30,	PRINCIPAL	INTEREST	TOTAL
2009	\$ —	\$ 2,421,400	\$ 2,421,400
2010	—	2,503,700	2,503,700
2011	—	2,507,200	2,507,200
2012	—	2,507,200	2,507,200
2013	—	2,510,700	2,510,700
Thereafter	<u>62,680,000</u>	<u>37,622,400</u>	<u>100,302,400</u>
Total	<u>\$62,680,000</u>	<u>\$50,072,600</u>	<u>\$112,752,600</u>

In connection with the issuance of the Bonds, the Council incurred financing costs in the amount of \$2,937,600 that have been capitalized and are being amortized over the life of the Bonds using the half-year convention, which approximates the effective interest method. Amortization expense amounted to \$49,000 for the year ended June 30, 2008. As of June 30, 2008, the deferred financing costs consist of the following:

	2008
Deferred financing costs	\$2,937,600
Less accumulated amortization	<u>(49,000)</u>
Deferred financing costs, net	<u>\$2,888,600</u>

9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2008 and 2007, are restricted for the following purposes or time periods:

	2008	2007
Studies	\$45,450,500	\$37,409,900
International Affairs Fellowships	3,686,200	5,860,300
Next Generation Fellowship	796,400	935,500
Meetings	9,408,500	2,783,500
Capital expenditures	4,075,800	4,335,800
Other	5,222,700	682,100
Total	<u>\$68,640,100</u>	<u>\$52,007,100</u>

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, 2008 and 2007, as follows:

	2008	2007
Studies	\$ 9,685,400	\$ 8,983,600
International Affairs Fellowships	507,200	719,600
Meetings	1,246,000	472,100
Capital expenditures	260,000	260,000
Other	14,300	14,600
Total	<u>\$11,712,900</u>	<u>\$10,449,900</u>

10. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets as of June 30, 2008 and 2007, are shown below. The income earned on these related investments is available for the following purposes:

	2008	2007
Studies	\$ 48,016,300	\$ 47,304,700
International Affairs Fellowships	6,066,100	6,066,100
Meetings	6,189,400	5,187,800
Library	1,021,000	1,021,000
Unrestricted as to use	83,316,900	73,223,400
Total	<u>\$144,609,700</u>	<u>\$132,803,000</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, 2008, are as follows:

YEAR ENDING JUNE 30,	REAL PROPERTY	EQUIPMENT	TOTAL
2009	\$161,000	\$217,900	\$378,900
2010	—	57,300	57,300
2011	—	24,500	24,500
2012	—	3,500	3,500
Total	<u>\$161,000</u>	<u>\$303,200</u>	<u>\$464,200</u>

Rent expense under the operating leases amounted to \$241,500 for each of the years ended June 30, 2008 and 2007.

12. CONCENTRATION

The Council maintains cash and cash equivalents at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. During the year, the Council may have cash balances in these financial institutions in excess of the FDIC limits. As of June 30, 2008 and 2007, certain cash equivalents (including outstanding checks) exceeded federally insured limits by approximately \$1,094,000 and \$2,597,000, respectively. Management believes that credit risk related to these accounts is minimal.



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, 2008, 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 summarized information has been derived from the Council's 2007 financial statements and, in our report dated August 9, 2007, we 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, 2008, 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

New York, NY
September 12, 2008

622 THIRD AVENUE
NEW YORK, NY 10017-6701
P. 212.503.8800 F. 212.370.3759
WWW.MARKSPANETH.COM

MANHATTAN
LONG ISLAND
WESTCHESTER
CAYMAN ISLANDS

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