

Financial Statements and Report of
Independent Certified Public
Accountants

Council on Foreign Relations, Inc.

June 30, 2020 and 2019

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

Report on the financial statements

We have audited the accompanying financial statements of the Council on Foreign Relations, Inc. ("CFR"), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to CFR's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CFR's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Council on Foreign Relations, Inc. as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

New York, New York
October 6, 2020

Council on Foreign Relations, Inc.
STATEMENTS OF FINANCIAL POSITION
As of June 30, 2020 and 2019

	2020	2019
ASSETS		
Cash and cash equivalents (Notes 2 and 13)	\$ 37,195,600	\$ 33,648,800
Accounts receivable, net (Notes 2 and 13)	2,117,200	3,178,000
Prepaid expenses and inventory (Note 2)	1,484,500	1,093,100
Grants and contributions receivable, net (Notes 2 and 4)	21,935,000	23,569,900
Contributions receivable for endowment, net (Notes 2, 4, and 10)	15,304,600	20,136,100
Investments (Notes 2, 3, 11 and 13)	479,956,700	475,831,800
Land, buildings and building improvements, and equipment, net (Notes 2 and 5)	66,242,100	68,866,000
Total assets	\$ 624,235,700	\$ 626,323,700
LIABILITIES		
Accounts payable and accrued expenses (Notes 2, 5, and 6)	\$ 8,087,800	\$ 8,515,200
Deferred revenue (Note 2)	6,183,300	6,523,400
Accrued postretirement benefits (Note 7)	5,848,000	5,852,000
Interest-rate swap agreement (Notes 2, 8, and 11)	10,918,900	6,912,200
Bonds payable (Note 8)	50,599,100	52,493,200
Total liabilities	81,637,100	80,296,000
COMMITMENTS (Note 12)		
NET ASSETS (Note 2)		
Without donor restrictions	113,484,900	116,990,300
With donor restrictions (Notes 9 and 10)	429,113,700	429,037,400
Total net assets	542,598,600	546,027,700
Total liabilities and net assets	\$ 624,235,700	\$ 626,323,700

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

Council on Foreign Relations, Inc.

STATEMENT OF ACTIVITIES

For the year ended June 30, 2020

	Net assets without donor restrictions	Net assets with donor restrictions	Total
Operating revenue and support			
Membership dues	\$ 7,708,800	\$ -	\$ 7,708,800
Annual giving	9,736,900	-	9,736,900
Corporate memberships and related income	6,678,000	217,000	6,895,000
Grants and contributions	1,685,800	16,317,400	18,003,200
<i>Foreign Affairs</i> publications	8,650,100	-	8,650,100
Investment return used for current operations (Note 3)	5,929,900	16,016,200	21,946,100
Rental income	1,204,000	-	1,204,000
Miscellaneous	326,800	1,500	328,300
Net assets released from restrictions (Note 9)	34,023,900	(34,023,900)	-
	75,944,200	(1,471,800)	74,472,400
Total operating revenue and support			
Operating expenses			
Program expenses:			
Studies Program	24,243,300	-	24,243,300
Task Force	326,000	-	326,000
NY meetings	1,392,100	-	1,392,100
DC Programs	1,605,400	-	1,605,400
Special events	796,000	-	796,000
<i>Foreign Affairs</i>	10,569,200	-	10,569,200
National Program	1,183,100	-	1,183,100
Outreach Program	1,864,900	-	1,864,900
Term member	494,900	-	494,900
Digital Program	6,198,900	-	6,198,900
Education Program	4,539,100	-	4,539,100
Global Board of Advisors	88,100	-	88,100
	53,301,000	-	53,301,000
Total program expenses			
Supporting services			
Fundraising:			
Development	2,382,000	-	2,382,000
Corporate Program	2,090,400	-	2,090,400
Total fundraising	4,472,400	-	4,472,400
Management and general	16,284,300	-	16,284,300
Membership	1,660,100	-	1,660,100
	22,416,800	-	22,416,800
Total supporting services			
Total operating expenses	75,717,800	-	75,717,800
Excess (deficiency) of operating revenue and support over operating expenses	226,400	(1,471,800)	(1,245,400)
Nonoperating activities (Note 2)			
Investment loss in excess of spending rate (Notes 2 and 3)	(2,101,800)	(4,753,400)	(6,855,200)
Endowment contributions (Note 4)	2,360,000	6,521,200	8,881,200
Change in value of interest-rate swap agreement (Notes 2 and 8)	(4,006,700)	-	(4,006,700)
Other	(5,300)	(219,700)	(225,000)
Total nonoperating activities	(3,753,800)	1,548,100	(2,205,700)
Changes in net assets before postretirement changes other than net periodic costs (Note 7)	(3,527,400)	76,300	(3,451,100)
Postretirement changes other than net periodic costs	22,000	-	22,000
Changes in net assets	(3,505,400)	76,300	(3,429,100)
Net assets, beginning of year	116,990,300	429,037,400	546,027,700
Net assets, end of year	\$ 113,484,900	\$ 429,113,700	\$ 542,598,600

The accompanying notes are an integral part of this financial statement.

Council on Foreign Relations, Inc.

STATEMENT OF ACTIVITIES

For the year ended June 30, 2019

	Net assets without donor restrictions	Net assets with donor restrictions	Total
Operating revenue and support			
Membership dues	\$ 7,337,600	\$ -	\$ 7,337,600
Annual giving	10,497,000	-	10,497,000
Corporate memberships and related income	5,934,700	172,700	6,107,400
Grants and contributions	2,065,100	22,960,500	25,025,600
<i>Foreign Affairs</i> publications	9,238,200	-	9,238,200
Investment return used for current operations (Note 3)	5,512,600	15,072,100	20,584,700
Rental income	1,967,100	-	1,967,100
Miscellaneous	952,200	-	952,200
Net assets released from restrictions (Note 9)	32,481,200	(32,481,200)	-
	75,985,700	5,724,100	81,709,800
Total operating revenue and support			
Operating expenses			
Program expenses:			
Studies Program	23,551,800	-	23,551,800
Task Force	297,600	-	297,600
NY meetings	1,378,500	-	1,378,500
DC Programs	1,881,300	-	1,881,300
Special events	1,217,100	-	1,217,100
<i>Foreign Affairs</i>	10,417,800	-	10,417,800
National Program	1,429,400	-	1,429,400
Outreach Program	2,016,500	-	2,016,500
Term member	526,600	-	526,600
Digital Program	5,638,100	-	5,638,100
Education Program	3,752,300	-	3,752,300
Global Board of Advisors	102,300	-	102,300
	52,209,300	-	52,209,300
Total program expenses			
Supporting services			
Fundraising:			
Development	2,454,900	-	2,454,900
Corporate Program	2,166,500	-	2,166,500
Total fundraising	4,621,400	-	4,621,400
Management and general	17,040,900	-	17,040,900
Membership	1,792,500	-	1,792,500
	23,454,800	-	23,454,800
Total supporting services			
Total operating expenses	75,664,100	-	75,664,100
Excess of operating revenue and support over operating expenses	321,600	5,724,100	6,045,700
Nonoperating activities (Note 2)			
Investment loss in excess of spending rate (Notes 2 and 3)	(2,357,400)	(5,821,700)	(8,179,100)
Endowment contributions (Note 4)	20,650,000	11,606,800	32,256,800
Change in value of interest-rate swap agreement (Notes 2 and 8)	(3,053,300)	-	(3,053,300)
Other	553,800	(553,800)	-
Total nonoperating activities	15,793,100	5,231,300	21,024,400
Changes in net assets before postretirement changes other than net periodic costs (Note 7)	16,114,700	10,955,400	27,070,100
Postretirement changes other than net periodic costs	(600,000)	-	(600,000)
Changes in net assets	15,514,700	10,955,400	26,470,100
Net assets, beginning of year	101,475,600	418,082,000	519,557,600
Net assets, end of year	\$ 116,990,300	\$ 429,037,400	\$ 546,027,700

The accompanying notes are an integral part of this financial statement.

Council on Foreign Relations, Inc.
STATEMENT OF FUNCTIONAL EXPENSE
For the year ended June 30, 2020

	Program Services												Total Programs
	Studies Program	Task Force	NY Meetings	DC Programs	Special Events	Foreign Affairs	National Program	Outreach Program	Term Member	Digital Program	Education Program	Global Board of Advisors	
Salaries and wages	\$ 12,027,500	\$ 171,200	\$ 591,700	\$ 647,500	\$ 381,400	\$ 3,810,900	\$ 454,300	\$ 829,200	\$ 214,900	\$ 3,180,300	\$ 1,854,600	\$ 8,400	\$ 24,171,900
Other compensation	820,600	8,300	62,000	103,500	67,000	431,700	57,300	101,700	23,900	337,500	196,900	600	2,211,000
Payroll taxes and employee benefits	3,526,600	52,200	184,600	191,500	117,300	1,173,500	138,100	251,800	65,700	975,100	559,900	2,700	7,239,000
Meetings	276,100	16,300	342,500	291,800	600	38,100	334,200	119,700	110,100	9,900	11,000	34,700	1,585,000
Printing, publication, and promotion	88,600	29,500	1,500	1,800	13,800	2,192,900	3,300	38,300	500	87,300	383,200	1,600	2,842,300
Research materials	277,600	200	9,500	26,700	200	62,000	8,200	44,700	100	23,600	17,300	-	470,100
Travel-related expenses	515,200	5,300	21,300	40,600	4,300	51,600	36,000	96,200	32,300	86,300	31,400	16,400	936,900
Administration and finance expenses	409,400	4,900	6,800	35,700	12,600	482,000	7,400	32,300	3,300	73,500	32,700	-	1,100,600
Interest	802,200	7,200	-	71,800	22,000	-	-	61,300	-	87,800	-	-	1,052,300
Depreciation	1,369,600	4,700	54,000	46,500	66,600	288,500	38,500	78,200	8,600	260,900	116,800	12,900	2,345,800
Business expenses	81,100	1,500	8,900	8,000	4,500	409,800	7,700	31,800	3,400	27,900	22,400	400	607,400
Operations	487,100	1,800	21,200	18,300	23,300	96,700	12,800	28,300	2,900	90,200	35,400	4,300	822,300
Professional services	2,715,800	11,300	59,000	61,100	56,200	901,600	49,800	84,000	12,400	672,100	668,400	6,100	5,297,800
Information technology	845,900	11,600	29,100	60,600	26,200	629,900	35,500	67,400	16,800	286,500	609,100	-	2,618,600
Total expenses	\$ 24,243,300	\$ 326,000	\$ 1,392,100	\$ 1,605,400	\$ 796,000	\$ 10,569,200	\$ 1,183,100	\$ 1,864,900	\$ 494,900	\$ 6,198,900	\$ 4,539,100	\$ 88,100	\$ 53,301,000

The accompanying notes are an integral part of this financial statement.

Council on Foreign Relations, Inc.

STATEMENT OF FUNCTIONAL EXPENSE - CONTINUED

For the year ended June 30, 2020

	Total Programs	Supporting Services				Total Supporting	2020 Total
		Development	Corporate Program	Management and General	Membership		
Salaries and wages	\$ 24,171,900	\$ 1,310,100	\$ 1,095,600	\$ 5,409,000	\$ 637,800	\$ 8,452,500	\$ 32,624,400
Other compensation	2,211,000	163,000	71,500	2,929,800	78,400	3,242,700	5,453,700
Payroll taxes and employee benefits	7,239,000	412,700	339,700	1,388,900	192,800	2,334,100	9,573,100
Meetings	1,585,000	123,900	134,100	198,100	7,800	463,900	2,048,900
Printing, publication, and promotion	2,842,300	14,400	18,200	183,600	245,900	462,100	3,304,400
Research materials	470,100	29,200	26,600	95,200	6,800	157,800	627,900
Travel-related expenses	936,900	41,600	51,800	115,100	7,200	215,700	1,152,600
Administration and finance expenses	1,100,600	32,300	36,700	535,900	317,100	922,000	2,022,600
Interest	1,052,300	-	60,500	848,800	-	909,300	1,961,600
Depreciation	2,345,800	99,400	85,700	1,798,500	52,300	2,035,900	4,381,700
Business expenses	607,400	13,200	6,500	393,900	11,700	425,300	1,032,700
Operations	822,300	33,800	31,000	759,500	17,400	841,700	1,664,000
Professional services	5,297,800	54,400	69,400	1,037,300	37,700	1,198,800	6,496,600
Information technology	2,618,600	54,000	63,100	590,700	47,200	755,000	3,373,600
Total expenses	\$ 53,301,000	\$ 2,382,000	\$ 2,090,400	\$ 16,284,300	\$ 1,660,100	\$ 22,416,800	\$ 75,717,800

The accompanying notes are an integral part of this financial statement.

Council on Foreign Relations, Inc.
STATEMENT OF FUNCTIONAL EXPENSE
For the year ended June 30, 2019

	Program Services												Total Programs
	Studies Program	Task Force	NY Meetings	DC Programs	Special Events	Foreign Affairs	National Program	Outreach Program	Term Member	Digital Program	Education Program	Global Board of Advisors	
Salaries and wages	\$ 10,576,500	\$ 168,000	\$ 471,000	\$ 784,300	\$ 552,200	\$ 3,525,500	\$ 430,800	\$ 773,200	\$ 178,900	\$ 2,900,500	\$ 1,608,000	\$ 7,400	\$ 21,976,300
Other compensation	836,400	17,000	68,900	102,100	204,100	499,800	64,800	121,000	25,000	362,800	193,000	600	2,495,500
Payroll taxes and employee benefits	3,108,400	49,900	141,900	230,400	165,400	1,065,600	127,300	232,300	52,400	878,500	473,500	2,500	6,528,100
Meetings	558,000	4,500	423,600	360,600	2,500	55,600	522,600	227,900	157,900	8,000	6,800	38,700	2,366,700
Printing, publication, and promotion	75,800	1,100	5,200	5,200	16,300	2,257,100	9,700	35,000	2,400	106,600	35,700	2,700	2,552,800
Research materials	275,600	100	10,700	26,600	300	63,500	8,600	33,400	100	18,700	18,200	400	456,200
Travel-related expenses	877,500	13,000	37,800	77,600	6,800	73,300	83,200	213,800	45,700	79,900	31,800	21,200	1,561,600
Administration and finance expenses	1,193,200	4,900	6,900	35,500	15,200	343,300	7,500	28,800	4,400	65,900	28,400	-	1,734,000
Interest	848,200	7,600	-	75,900	23,200	-	-	64,800	-	92,800	-	-	1,112,500
Depreciation	1,264,800	1,200	71,500	12,500	73,100	381,500	51,000	61,700	11,300	285,500	140,500	17,100	2,371,700
Business expenses	107,400	1,900	14,000	10,800	6,300	411,500	10,400	34,400	4,500	27,200	17,900	1,500	647,800
Operations	570,700	2,200	21,900	21,800	27,600	112,300	14,800	33,300	3,300	104,900	40,700	5,000	958,500
Professional services	2,373,700	11,200	67,800	60,200	77,900	983,800	54,900	90,000	19,900	480,100	704,500	5,200	4,929,200
Information technology	885,600	15,000	37,300	77,800	46,200	645,000	43,800	66,900	20,800	226,700	453,300	-	2,518,400
Total expenses	\$ 23,551,800	\$ 297,600	\$ 1,378,500	\$ 1,881,300	\$ 1,217,100	\$ 10,417,800	\$ 1,429,400	\$ 2,016,500	\$ 526,600	\$ 5,638,100	\$ 3,752,300	\$ 102,300	\$ 52,209,300

The accompanying notes are an integral part of this financial statement.

Council on Foreign Relations, Inc.

STATEMENT OF FUNCTIONAL EXPENSE - CONTINUED

For the year ended June 30, 2019

	Total Programs	Supporting Services				Total Supporting	2019 Total
		Development	Corporate Program	Management and General	Membership		
Salaries and wages	\$ 21,976,300	\$ 1,285,300	\$ 1,002,300	\$ 4,633,100	\$ 669,400	\$ 7,590,100	\$ 29,566,400
Other compensation	2,495,500	149,500	120,200	3,288,100	89,500	3,647,300	6,142,800
Payroll taxes and employee benefits	6,528,100	399,300	303,000	1,206,300	198,500	2,107,100	8,635,200
Meetings	2,366,700	151,800	232,500	218,300	21,800	624,400	2,991,100
Printing, publication, and promotion	2,552,800	9,200	19,500	32,700	240,000	301,400	2,854,200
Research materials	456,200	28,000	22,600	102,500	46,400	199,500	655,700
Travel-related expenses	1,561,600	77,700	93,200	150,100	18,600	339,600	1,901,200
Administration and finance expenses	1,734,000	26,800	33,000	990,200	302,100	1,352,100	3,086,100
Interest	1,112,500	-	64,000	897,400	-	961,400	2,073,900
Depreciation	2,371,700	131,600	72,000	1,678,700	69,200	1,951,500	4,323,200
Business expenses	647,800	20,400	8,000	291,000	11,400	330,800	978,600
Operations	958,500	40,300	36,200	1,643,200	20,100	1,739,800	2,698,300
Professional services	4,929,200	66,500	73,100	1,176,300	44,200	1,360,100	6,289,300
Information technology	2,518,400	68,500	86,900	733,000	61,300	949,700	3,468,100
Total expenses	\$ 52,209,300	\$ 2,454,900	\$ 2,166,500	\$ 17,040,900	\$ 1,792,500	\$ 23,454,800	\$ 75,664,100

The accompanying notes are an integral part of this financial statement.

Council on Foreign Relations, Inc.

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Changes in net assets	\$ (3,429,100)	\$ 26,470,100
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	4,381,700	4,323,200
Change in discount on grants and contributions and contributions for endowment receivables	(427,900)	(630,000)
Change in fair value of interest-rate swap agreement	4,006,700	3,053,300
Net realized and unrealized gain on investments	(11,727,000)	(8,840,600)
Bad debt expense	548,000	1,635,600
Contributions restricted for investment in endowment	(8,881,200)	(32,256,900)
Changes in operating assets and liabilities:		
Accounts receivable	512,800	(2,706,000)
Prepaid expenses and inventory	(391,600)	(25,600)
Grants and contributions receivable	2,062,800	3,424,000
Accounts payable and accrued expenses	(427,400)	531,700
Deferred revenue	(340,100)	445,100
Accrued postretirement benefits	(4,000)	604,000
	<u>(14,116,300)</u>	<u>(3,972,100)</u>
Cash flows from investing activities		
Purchases of building improvements and equipment	(1,757,700)	(2,185,500)
Proceeds from sale of fixed asset	-	82,600
Purchases of investments	(114,067,300)	(350,073,100)
Proceeds from sales of investments	121,669,400	331,212,200
	<u>5,844,400</u>	<u>(20,963,800)</u>
Cash flows from financing activities		
Contributions restricted for investment in endowment	13,712,800	34,616,300
Principal payments on bonds payable	(1,894,100)	(2,026,800)
	<u>11,818,700</u>	<u>32,589,500</u>
Net increase in cash and cash equivalents	3,546,800	7,653,600
Cash and cash equivalents, beginning of year	<u>33,648,800</u>	<u>25,995,200</u>
Cash and cash equivalents, end of year	<u>\$ 37,195,600</u>	<u>\$ 33,648,800</u>
Supplemental disclosure of cash flow information		
Interest paid on bonds	<u>\$ 1,961,600</u>	<u>\$ 2,073,900</u>

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

Council on Foreign Relations, Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES

Council on Foreign Relations, Inc. ("CFR") 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, CFR takes no institutional positions on matters of policy. CFR carries out its mission by maintaining a diverse membership; convening meetings at its headquarters in New York, and in Washington, DC, and other cities where senior government officials, members of Congress, global leaders, and prominent thinkers come together with CFR members to discuss and debate major international issues; 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.

CFR is a Section 501(c)(3) not-for-profit organization, incorporated in the State of New York, exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (the "Code" or "IRC") and is a publicly supported organization, as described in Section 509(a)(1) of the Code. CFR is also exempt from state and local income taxes.

The COVID-19 pandemic, the effects of which first became known in January 2020, is having a broad and negative impact on commerce and financial markets around the world. Despite the operating challenges the pandemic has presented, CFR remains focused on delivering on its core mission. In early March, the pandemic caused CFR to close both its offices, in New York City and DC, and shift its operations and events to a remote status, which has remained in effect. While CFR's donor- and member-based revenues have not been materially impacted, its outside-events rental and *Foreign Affairs* newsstand revenues have experienced significant declines. Fortunately, these are CFR's only location-reliant revenue streams, representing approximately 2 percent of total revenues. Although grant revenues have declined at an appreciable level since the start of the pandemic, given they often rely on travel and in-person meetings to be completed, the impact on CFR's financial performance has been minimal. The shift to a remote-work and meeting environment also lowered some operating expenses as business travel has been suspended, facilities operating costs reduced due to physical office closures, and meeting expenses lessened with the shift to virtual events. CFR continues to closely monitor the ongoing impacts of the pandemic and is focused on ensuring a careful balance between delivering on its mission and maintaining a strong financial position.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Cash and Cash Equivalents

CFR considers all highly liquid investments purchased with original maturities 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, 2020 and 2019, CFR determined that an allowance for uncollectible accounts of \$231,800 and \$179,800, respectively, is necessary for certain potentially uncollectible membership and *Foreign Affairs* receivables. In addition, CFR determined that no allowance is necessary for grants and contributions receivable, and contributions receivable for its endowment as of June 30, 2020 and 2019. This

Council on Foreign Relations, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

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 collection experience. Receivables are written-off in the net asset category in which they reside when determined to be uncollectible.

Investments

CFR's investments in marketable debt and equity securities are recorded at fair value based on quoted market prices as of the measurement date. Donated securities are recorded at fair value as determined 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 CFR's policy to make an annual investment allocation for the support of its operations up to 5 percent of the average fair value of its endowment investments for the five previous years.

CFR's investments in alternative investment companies are carried at the aggregate net asset value ("NAV") of the shares held by CFR. The NAV is based on the fair value of the respective alternative investment company's investment portfolio, as determined by the management of the alternative investment company as of the measurement date. CFR's investments in alternative investment companies are primarily in limited partnerships.

In certain instances, CFR's ability to liquidate its investments in limited partnerships is restricted in accordance with the provisions of the respective partnership agreement.

The reported value of CFR's investments that do not have readily determinable fair values is determined on an estimated basis by the investment managers as of the measurement date. Because of the inherent uncertainty of valuation, the fair values determined by the respective investment managers may differ from values that would be used had a ready market for these investments existed, and such differences could be material. The financial statements of the investees are audited annually by independent auditors. Investment income and gains (losses) attributable to CFR pertaining to these funds are recorded on the accrual basis of accounting in the accompanying financial statements.

Land, Buildings and Building Improvements, and Equipment

Land, buildings and building improvements, and equipment are stated at cost if purchased or at fair value at the date of gift if donated, less accumulated depreciation. These amounts do not purport to represent replacement or realizable values. CFR capitalizes expenditures for land, buildings and building improvements, and equipment having a cost of \$1,500 or more and which have useful lives of greater than three years. Depreciation is provided on the straight-line basis over the estimated useful lives of these assets (see Note 5).

Costs incurred for repairs, maintenance, and minor improvements that do not substantially extend an asset's useful life are charged to expense as incurred. Major improvements, which substantially extend the useful lives of assets, are capitalized.

Inventory

Inventory consists primarily 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

CFR's subscriptions are recognized as revenue ratably over the applicable period. Deferred revenue represents subscription payments received in advance.

Council on Foreign Relations, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Net Assets Without Donor Restrictions

Represent net assets which are not subject to donor-imposed stipulations and are fully available to be utilized in any of CFR's programs or supporting services. Net assets without donor restrictions include amounts designated for specific purposes by CFR's Board of Directors.

Net Assets With Donor Restrictions

Represent net assets which are subject to donor-imposed stipulations whose use is restricted by time and/or purpose. A portion of CFR's net assets with donor restrictions requires CFR to use or expend the gifts as specified, based on purpose or passage of time.

Accounting for Uncertainty in Income Taxes

CFR has adopted the provisions of the Accounting Standards Codification ("ASC") 740, *Accounting for Uncertainties in Income Taxes*. ASC 740-10 clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This section provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

CFR is exempt from federal and New York State income taxation by virtue of being an organization described in Section 501(c)(3) of the IRC and similar provisions of the New York State tax code. Nevertheless, CFR may be subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. CFR believes that there are no material uncertain tax positions within its financial statements.

Support and Revenue

Contributions (including unconditional promises to give) are recorded when received at fair value. Contributions received with donor stipulations that limit the use of the donated assets are reported as part of net assets with donor restrictions (restricted support). Unconditional promises to give, with payments due in future years, are reported as part of net assets with donor restrictions, discounted to present value using credit adjusted discount rates which articulate with the collection period of the respective pledge. Such discounts are not subsequently revised and are amortized over the collection period of the respective pledge as additional contribution revenue in accord with donor stipulated restrictions, if any.

Conditional contributions, such as grants with matching requirements, are recognized in the appropriate net asset class when the conditions on which they depend have been satisfied. Bequests are recognized as receivables at the time unassailable rights to the gifts have been established and the proceeds are measurable.

Membership dues are recorded as revenue over the period to which the dues relate.

Rental Income

Rental income includes income derived from renting space at CFR's New York office location for various events as well as sublease rental income, for CFR's DC office location, which is recorded over the term of the lease, based on fixed monthly payments. No deferred rent liability or asset is required to be recorded as of June 30, 2020 and 2019, in accordance with U.S. GAAP.

Council on Foreign Relations, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Foreign Affairs Publication

Foreign Affairs is a bimonthly magazine published by CFR dedicated to improving the understanding of U.S. foreign policy and international affairs through the free exchange of ideas. Subscription, advertising, and other publishing revenues pertaining to *Foreign Affairs* are recorded in the relevant period in accordance with U.S. GAAP.

Postretirement Benefits

U.S. GAAP requires an employer to: (a) recognize on 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.

Interest-Rate Swap Agreement

CFR uses an interest-rate swap agreement as part of its risk management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its variable rate debt. The interest-rate swap agreement was not entered into for trading or speculative purposes and does not qualify as a hedge for financial reporting purposes. In accordance with U.S. GAAP, the interest-rate swap agreement is measured at fair value and recognized as either an asset or a liability as of the measurement date. Changes in fair value are recorded as part of nonoperating activities on the statement of activities.

Measure of Operations

CFR includes in its definition of operations all revenues and expenses that are an integral part of its programs and supporting activities, including a Board authorized investment income allocation and all contributions, except for those that pertain to the establishment of permanent endowments. Investment income, including net realized and unrealized gains and losses, earned in excess of (or less than) CFR's aggregate authorized spending amount for operations, the change in value of the interest-rate swap agreement, endowment contributions, and other items that are considered to be unusual or non-recurring in nature are recognized as part of nonoperating activities.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates and assumptions embodied in the accompanying financial statements relate to actuarial assumptions used to calculate postretirement benefit obligations, the determination of allowances for doubtful accounts, loans and contributions receivables, the useful lives assigned to fixed assets, and the fair value of certain financial instruments, particularly non-exchange traded alternative investments. Actual results could differ from those estimates.

Allocation of Expenses

The costs of operating CFR's various programs and providing the related supporting services are summarized on a functional basis on the statements of activities and functional expenses. Accordingly, certain costs have been allocated amongst the programs and supporting services benefited, principally based on square footage occupied by the respective functional areas.

Council on Foreign Relations, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Concentration

Cash and cash equivalents that potentially subject CFR to concentrations of credit risk include cash accounts with banks that exceed the Federal Deposit Insurance Corporation ("FDIC") insurance limits. Interest-bearing accounts are insured up to \$250,000 per depositor. Through December 31, 2012, noninterest-bearing accounts were fully insured. Beginning in 2013, noninterest-bearing accounts are insured similarly to interest-bearing accounts. As of June 30, 2020 and 2019, there is approximately \$33,450,100 and \$30,377,000, respectively, of cash and cash equivalents held in banks that exceed FDIC insurance limits. Such excess amounts include outstanding checks. CFR routinely monitors the financial institutions in which it transacts with and does not believe a significant risk of nonperformance presently exists.

New Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842), which requires entities that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statement of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. ASU No. 2016-02 is effective for CFR for fiscal year 2022. Early adoption is permitted. CFR is in the process of evaluating the impact this standard will have on its financial statements.

Subsequent Events

CFR has evaluated, for potential recognition and disclosure, events subsequent to the date of its financial statements through October 6, 2020, the date the financial statements were available to be issued.

Council on Foreign Relations, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE 3 - INVESTMENTS

The components of CFR's investment portfolio as of June 30, 2020 and 2019, are as follows:

	2020	2019
Cash and cash equivalents	\$ 15,771,400	\$ 9,860,200
Long-only equities	184,238,400	164,385,700
Deflation hedges and fixed income	57,894,900	107,290,700
Subtotal	257,904,700	281,536,600
Alternative investments:		
Growth-oriented hedge funds	48,884,400	52,088,100
Diversifiers	143,562,500	121,077,700
Private equity & venture capital	27,210,200	16,938,700
Private hard assets	2,394,900	4,190,700
Subtotal	222,052,000	194,295,200
Total	\$ 479,956,700	\$ 475,831,800

Growth-oriented assets are long-only equities and growth-oriented hedge funds include all equity and equity-like investments in the portfolio. This allocation will exhibit high correlation to the equity markets and generally have equity-like volatility. This allocation also includes private hard assets given their equity-like characteristics, although these investments may also help protect against unexpected inflation. The expected return from growth-oriented assets varies; global equities have returned roughly 9.9 percent in real terms based on annualized trailing 3 years.

Long-only equities include investments in public equities and, therefore, a high beta and correlation with equity markets. Diversification across market cap, geographic region, and sector are important for providing long-term growth to the portfolio. Return expectations track closely with global equities.

Deflation hedges include fixed income investments. This allocation will generally protect value during an economic contraction as investors flee to quality. Since cash and fixed income exhibit low volatility and are liquid in nature, these investments can provide a source of funding during times of market stress. The return expectation for this asset class is typically around 3 to 4 percent for U.S. and developed-market government bonds based on historical assumptions.

Council on Foreign Relations, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Alternative investments include the following as of June 30, 2020 and 2019:

- a. Growth-oriented hedge funds include long-biased long/short equity and distressed credit managers, given their equity-like characteristics. Given the hedged exposure, return expectations are slightly lower than equities.
- b. Diversifiers include investments that exhibit generally low correlation to equity markets and lower volatility than public equities. By providing differentiated sources of return and strong downside protection, the diversifiers improve the overall portfolio's risk/return characteristics. The return expectation from this asset class is typically between equities and bonds and varies based on the respective strategy employed.
- c. Private equity funds include investments in private companies using a long investment time horizon of seven-plus years. Private equity funds exhibit equity-like characteristics given their reliance on debt financing, mergers and acquisitions, and equity markets for exits. Return expectations are slightly higher than global equities to compensate for the longer lock-up periods.
- d. Private hard assets are nonpublic investments in oil and gas, timber, and other natural resources that exhibit equity-like characteristics and may also help protect against unexpected inflation. Private hard assets tend to be sensitive to commodity prices as well as mergers and acquisitions and debt and equity markets. Return expectations are typically slightly higher than global equities to compensate for the longer lock-up periods.

As of June 30, 2020 and 2019, CFR has unfunded commitments to limited partnerships totaling approximately \$11.6 million and \$11.4 million, respectively, and intends to sell a portion of its other investments to fund these commitments. Such purchase commitments as of June 30, 2020 are expected to be satisfied by fiscal year 2025.

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 fair values of investments will occur in the near-term and that such changes could materially affect the amounts reported on the accompanying financial statements.

Council on Foreign Relations, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Investment return (loss) consists of the following for the years ended June 30, 2020 and 2019:

	2020		
	Net assets without donor restrictions	Net assets with donor restrictions	Total
Dividends and interest	\$ 1,355,400	\$ 3,988,400	\$ 5,343,800
Realized gains	4,071,700	11,978,700	16,050,400
Unrealized losses	(1,096,800)	(3,226,600)	(4,323,400)
Net realized and unrealized gains	<u>2,974,900</u>	<u>8,752,100</u>	<u>11,727,000</u>
Total gain on investments	4,330,300	12,740,500	17,070,800
Investment return used for current operations	(5,929,900)	(16,016,200)	(21,946,100)
Investment expenses	<u>(502,200)</u>	<u>(1,477,700)</u>	<u>(1,979,900)</u>
Investment loss in excess of spending rate	<u>\$ (2,101,800)</u>	<u>\$ (4,753,400)</u>	<u>\$ (6,855,200)</u>
	2019		
	Net assets without donor restrictions	Net assets with donor restrictions	Total
Dividends and interest	\$ 1,405,700	\$ 4,120,400	\$ 5,526,100
Realized gains	10,796,900	31,649,300	42,446,200
Unrealized losses	(8,548,200)	(25,057,400)	(33,605,600)
Net realized and unrealized gains	<u>2,248,700</u>	<u>6,591,900</u>	<u>8,840,600</u>
Total gain on investments	3,654,400	10,712,300	14,366,700
Investment return used for current operations	(5,512,600)	(15,072,100)	(20,584,700)
Investment expenses	<u>(499,200)</u>	<u>(1,461,900)</u>	<u>(1,961,100)</u>
Investment loss in excess of spending rate	<u>\$ (2,357,400)</u>	<u>\$ (5,821,700)</u>	<u>\$ (8,179,100)</u>

Council on Foreign Relations, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE 4 - GRANTS AND CONTRIBUTIONS RECEIVABLE AND CONTRIBUTIONS RECEIVABLE FOR ENDOWMENT, NET

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, 2020 and 2019, are due to be collected as follows:

	2020	2019
Amounts due in less than one year:		
Grants and contributions receivable	\$ 10,827,400	\$ 11,064,300
Contributions receivable for endowment	6,118,300	8,854,500
Total	16,945,700	19,918,800
Amounts due in one to five years:		
Grants and contributions receivable	10,978,600	13,144,300
Contributions receivable for endowment	9,451,000	11,756,500
Total	20,429,600	24,900,800
Amounts due in greater than five years:		
Grants and contributions receivable	500,000	-
Contributions receivable for endowment	-	-
Total	500,000	-
Gross receivables	37,875,300	44,819,600
Less: discount (at rates varying from 0.16% to 2.77%)	(635,700)	(1,113,600)
Total receivables, net	\$ 37,239,600	\$ 43,706,000

Endowment contributions receivable, net of discount, totaled \$15,304,600 and \$20,136,100 as of June 30, 2020 and 2019, respectively. CFR also has been named as a beneficiary of various wills and trusts as of June 30, 2020 and 2019. As described in Note 2, CFR does not recognize such intentions as contribution revenue until they become unconditional promises to give and the proceeds of which are measurable.

Council on Foreign Relations, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE 5 - LAND, BUILDINGS AND BUILDING IMPROVEMENTS, AND EQUIPMENT, NET

Land, buildings and building improvements, and equipment, at cost, net of accumulated depreciation, as of June 30, 2020 and 2019, are summarized as follows:

	2020	2019	Estimated Useful Lives
Land (New York)	\$ 1,854,300	\$ 1,854,300	
Land (Washington, DC)	5,397,700	5,397,700	
Buildings and building improvements (New York)	37,166,300	36,247,000	3–55 years
Building and building improvements (Washington, DC)	53,722,300	53,708,200	3–55 years
Equipment (New York)	19,218,400	19,045,100	3–15 years
Equipment (Washington, DC)	5,185,300	5,251,700	3–15 years
Construction in progress	218,600	663,500	
Total	122,762,900	122,167,500	
Less: accumulated depreciation	(56,520,800)	(53,301,500)	
Total net	\$ 66,242,100	\$ 68,866,000	

Construction in progress predominately consists of project costs related to building improvements, facade and office renovations. Substantially all projects are expected to be completed by January 2021, and the estimated costs remaining to complete these projects is approximately \$106,300.

Depreciation expense amounted to \$4,381,700 and \$4,323,200 for the years ended June 30, 2020 and 2019, respectively. During fiscal 2020, certain assets totaling \$1,162,400 became fully depreciated and the related asset cost values and accumulated depreciation were removed from the balances presented above.

NOTE 6 - RETIREMENT PLAN

CFR has a defined contribution retirement plan under Section 403(b) of the IRC (the “403(b) Plan”) covering all employees who meet the minimum service requirements. Payments to the 403(b) Plan, which are calculated at 8 percent of each participant’s salary for all employees, are made to the Teachers Insurance and Annuity Association and College Retirement Equities Fund (“TIAA-CREF”) to purchase individual annuities for plan participants. CFR’s 403(b) Plan expense amounted to approximately \$2,389,600 and \$2,184,700 for the years ended June 30, 2020 and 2019, respectively. Participants over the age of thirty must contribute 2.5 percent of their salaries and have the option to make additional contributions to the 403(b) Plan on their own behalf.

Council on Foreign Relations, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE 7 - OTHER POSTRETIREMENT BENEFITS

CFR provides medical and dental benefits for certain retired employees. Current employees receiving benefits will continue to be eligible to receive medical and dental benefits upon retirement under the Postretirement Plan (the "Plan"). Participation in the Plan requires that in order to be eligible to receive plan benefits, an employee must attain the earlier of either age of 60 with 15 years of continuous service, or attain the age of 55 with 25 years of continuous service. Employees hired on or after January 1, 1987 are not eligible for postretirement benefits, with the exception of the current and future Presidents of CFR, Executive Vice President, Senior Vice Presidents, and Editor of Foreign Affairs, hired on or before July 1, 2002 (must have been in the position as of July 1, 2002), with a minimum of 10 years of service and a retirement date on or after July 1, 2003.

The benefit obligation, as determined as of the end of the year measurement date, is as follows:

	2020	2019
Change in benefit obligation		
Benefit obligation, beginning of year	\$ 5,852,000	\$ 5,248,000
Service cost	-	-
Interest cost	183,000	202,000
Actuarial net loss	156,000	727,000
Benefits paid	(343,000)	(325,000)
Benefit obligation, end of year	\$ 5,848,000	\$ 5,852,000

CFR accrues expenses and makes benefit payments as they are incurred annually and has not contributed funds to a separate trustee's account to fund the accumulated postretirement benefit obligation. The discount rate used to determine the end-of-year obligation was 2.27 percent and 3.22 percent as of June 30, 2020 and 2019, respectively.

During fiscal 2020, the mortality assumption was updated from the RPEC-2006 White Collar Mortality Table projected generationally with scale MP-2018 to the RPEC-2006 White Collar Mortality Table projected generationally with scale MP-2019. The update in the mortality table resulted in an actuarial loss of \$156,000 for the year ended June 30, 2020.

The net periodic benefit obligations and the components of benefit cost for the years ended June 30, 2020 and 2019, are as follows:

	2020	2019
Service cost	\$ -	\$ -
Interest cost	183,000	202,000
Amortization of net loss	188,000	137,000
Amortization of prior service credit	(10,000)	(10,000)
Net periodic cost included in operating expenses	\$ 361,000	\$ 329,000

Council on Foreign Relations, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

The postretirement benefit cost, net of retiree benefit payments, for the years ended June 30, 2020 and 2019 amounted to \$18,000 and \$4,000, respectively, and was based on actuarial assumptions and a discount rate set as of the beginning of the year. The discount rate was 2.27 percent and 3.22 percent for fiscal years 2020 and 2019, respectively, and the projected unit credit method was used for determining benefits earned during the year.

The net periodic pension cost for the years ended 2020 and 2019, includes reclassifications of amounts previously recognized as part of changes in net assets without donor restrictions as follows:

	2020	2019
Amortization of net loss	\$ 188,000	\$ 137,000
Amortization of prior service credit	(10,000)	(10,000)

Amounts that have not yet been recognized as components of net periodic benefit cost, but are included in net assets without donor restrictions are as follows:

	2020	2019
Net actuarial loss	\$ 2,672,000	\$ 2,704,000
Prior service credit	(11,000)	(21,000)
	\$ 2,661,000	\$ 2,683,000

Assumed health-care cost trend rates at June 30 are as follows:

	2020	2019
Health care-cost trend rate assumed for next year	6 percent	6 percent
Rate to which the cost trend rate is assumed to decline	4.5 percent	4.5 percent
Year that the rate reaches the ultimate trend rate	2032	2032

Increasing the assumed medical care cost trend rate by 1 percent in each year would increase the accumulated postretirement benefit obligation by \$688,000 and \$682,000 as of June 30, 2020 and 2019, respectively, and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the years then ended by \$22,000 and \$25,000, respectively. Decreasing the assumed health-care cost trend rate by 1 percent would decrease the accumulated postretirement benefit obligation by \$581,000 and \$577,000 as of June 30, 2020 and 2019, respectively, and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the years then ended by \$19,000 and \$20,000, respectively.

Amounts in net assets without donor restrictions expected to be recognized as components of net periodic benefit cost during fiscal year 2021 are as follows:

Net actuarial loss	\$ 197,000
Prior service credit	\$ (8,000)

Council on Foreign Relations, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

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

<u>Year ending June 30</u>	
2021	\$ 345,000
2022	350,000
2023	352,000
2024	342,000
2025	346,000
2026-2030	1,597,000

NOTE 8 - BONDS PAYABLE

Bonds payable amounted to \$50,599,100 and \$52,493,200 as of June 30, 2020 and 2019, respectively, (which approximates fair value) and consist of tax-exempt variable rate demand revenue bonds (the "Bonds"), which were originally issued by the District of Columbia on behalf of CFR in August 2007. On September 4, 2012, these Bonds were purchased by Wells Fargo Municipal Capital Strategies, LLC ("Wells Fargo"). 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 CFR for office and conference space.

In connection with the original issuance of the Bonds, CFR incurred \$3,297,400 in financing costs, which were capitalized and were being amortized on a straight-line basis through the conversion date. The remaining unamortized balance of \$2,796,400 was written-off as of June 30, 2013, in accordance with the amended and restated loan agreement dated September 4, 2012.

The Bonds have a stated maturity of August 1, 2042, but CFR can repay the obligation at any time and retire the bond issue. Repayment of principal on the Bonds commenced on August 1, 2013. The Bonds currently bear interest at 80 percent of 1 month LIBOR plus 1 percent, which is determined by the calculation agent and is payable monthly, in arrears, on the first day of each month ("index rate"). The index rate resets on the first business day of each month utilizing one month LIBOR from two London business days prior to the reset date (first business 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.

During each of the years ended June 30, 2020 and 2019, the index rate ranged between .79 percent and 2.6 percent. The LIBOR index rate mode began September 4, 2012 (the "Conversion Date"), and ranged from .13 percent to 2.00 percent during each of the years ended June 30, 2020 and 2019. Interest expense on the bonds totaled \$988,400 and \$1,379,100 for the years ended June 30, 2020 and 2019, respectively.

Pursuant to the Security and Inter-creditor Agreement executed in connection with the reissuance of the bonds, CFR has pledged and granted to Wells Fargo a first priority, security interest in all of CFR's gross revenues as collateral.

With respect to the tax-exempt variable rate demand revenue bonds discussed above, during fiscal 2019, CFR and the issuing authority opted to further amend and restate the First Amended and Restated Indenture and the First Amended Loan Agreement to extend the Put Date (i.e., the date CFR must repurchase the bonds from the holder) and to modify the rate at which the bonds bear interest. Such modification caused a reissuance of the Series 2012 Bonds for federal tax purposes. Substantially all of the other previous provisions and covenants remain in force as well as the interest-rate swap agreement.

Council on Foreign Relations, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Principal payments are as follows for years subsequent to June 30, 2020:

Year ending June 30	Principal	Refinance Fees	Total
2021	\$ 1,980,000	\$ (10,360)	\$ 1,969,640
2022	2,060,000	(10,360)	2,049,640
2023	2,140,000	(10,360)	2,129,640
2024	2,225,000	(10,360)	2,214,640
2025	2,315,000	(10,360)	2,304,640
Thereafter	40,065,000	(134,100)	39,930,900
Total	<u>\$ 50,785,000</u>	<u>\$ (185,900)</u>	<u>\$ 50,599,100</u>

CFR entered into an interest-rate swap agreement, with an effective date of December 7, 2007, whereby CFR agreed to swap its variable rate of interest on the Bonds for a fixed rate equal to 3.719 percent. The interest-rate swap was novated on September 4, 2012, to Wells Fargo Bank, N.A., with an effective date of September 1, 2012, and a fixed rate equal to 3.37 percent. The notional amount, per the novated swap agreement, is \$50,599,100 and \$52,493,200 as of June 30, 2020 and 2019, respectively, and is amortized annually until the termination date on August 1, 2037. The fair value of the swap agreement as of June 30, 2020 and 2019, is a liability of \$10,918,900 and \$6,912,200, respectively. Net settlement transactions related to the swap agreement resulted in a net loss to CFR totaling \$973,200 and \$694,800 for the years ended June 30, 2020 and 2019, respectively.

As of and for the years ended June 30, 2020 and 2019, amounts included within the accompanying financial statements relating to the interest-rate swap agreement are as follows:

2020				
Fair Value at June 30, 2020	Statement of Financial Position Location	Change in Value of Interest-Rate Swap Agreement for the Year Ended June 30, 2020	Statement of Activities Location	Level Within Fair Value Hierarchy
\$ 10,918,900	Interest-rate swap agreement (liabilities)	\$ (4,006,700)	Change in value of interest-rate swap agreement	Level 2
2019				
Fair Value at June 30, 2019	Statement of Financial Position Location	Change in Value of Interest-Rate Swap Agreement for the Year Ended June 30, 2019	Statement of Activities Location	Level Within Fair Value Hierarchy
\$ 6,912,200	Interest-rate swap agreement (liabilities)	\$ (3,053,300)	Change in value of interest-rate swap agreement	Level 2

Council on Foreign Relations, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Effective February 1, 2014, CFR entered into a credit agreement with Wells Fargo Bank, N.A., to provide a revolving line of credit note in the amount of \$6 million. The line of credit was originally available between the date of the agreement and January 31, 2015. The maturity date of the line of credit was extended during fiscal years 2020 and 2019 and is now January 31, 2021. No amounts were outstanding under the line of credit as of June 30, 2020 and 2019.

NOTE 9 - NET ASSETS WITH DONOR RESTRICTIONS

Restricted net assets as of June 30, 2020 and 2019, which are subject to expenditure for specified purposes, are as follows:

	2020	2019
Studies Program	\$ 48,288,000	\$ 50,443,500
NY Meetings	2,270,500	2,342,300
Term member	1,460,700	-
<i>Foreign Affairs</i> publications	1,094,000	1,204,300
National Program	781,500	1,079,400
Digital Program	48,500	700,000
Education Program	9,123,500	7,807,600
Capital	1,062,800	1,322,700
Various other programs/operating purposes	111,979,800	117,434,700
Total	\$ 176,109,300	\$ 182,334,500

Restricted net assets were released from restrictions by incurring expenses satisfying the donor-restricted purposes or by the occurrence of other events specified by the donors for the years ended June 30, 2020 and 2019, as follows:

	2020	2019
Studies Program	\$ 12,689,700	\$ 12,934,000
NY Meetings	609,100	496,700
Term member	290,100	142,600
<i>Foreign Affairs</i> publications	310,400	200,100
National Program	354,700	349,300
Outreach Program	120,700	100,000
Digital Program	651,500	584,900
Education Program	4,688,100	3,423,300
Capital	260,000	262,900
Various other programs/operating programs	14,049,600	13,987,400
Total	\$ 34,023,900	\$ 32,481,200

Council on Foreign Relations, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Restricted net assets comprising CFR's permanent endowment as of June 30, 2020 and 2019, the income from which is subject to CFR's spending policy and Board appropriation, consist of the following.

	<u>2020</u>	<u>2019</u>
Studies Program	\$ 94,759,300	\$ 94,758,400
NY Meetings	9,202,600	8,177,000
National Program	2,700,000	2,000,000
Library	156,700	156,700
<i>Foreign Affairs</i> publications	2,620,200	2,620,200
Term member	2,500,000	2,500,000
Investment management	3,731,000	-
Various other programs/operating purposes	<u>137,334,600</u>	<u>136,490,600</u>
Total	<u>\$ 253,004,400</u>	<u>\$ 246,702,900</u>

NOTE 10 - ENDOWMENT NET ASSETS

The State of New York passed the New York Prudent Management of Institutional Funds Act ("NYPMIFA"), its version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). All not-for-profit organizations formed in New York must apply this law. It was effective for CFR's 2011 fiscal year. One of the provisions of NYPMIFA created a rebuttable presumption of imprudence if an organization appropriates more than 7 percent of a donor-restricted permanent endowment fund's fair value (averaged over a period of not less than the preceding five years) in any year. Any unappropriated earnings that would otherwise be considered without donor restrictions will be reflected as part of net assets with donor restrictions until appropriated for expenditure.

CFR classifies as net assets with donor restrictions: (a) the original value of gifts donated to its permanent endowment; (b) the original value of subsequent gifts to its permanent endowment; and (c) accumulations to its permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Unspent endowment earnings remain classified as part of net assets with donor restrictions until such amounts are appropriated for expenditure by the Board of Directors of CFR in a manner consistent with the standard of prudence prescribed by NYPMIFA. In accordance with NYPMIFA, CFR considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the endowment fund;
- The purposes of CFR and its donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation or deflation;
- The expected total return from income and appreciation of endowment investments;
- Other resources of CFR;
- The investment policies of CFR; and
- Where appropriate, alternatives to spending from the donor-restricted endowment fund and the possible effects on CFR.

Council on Foreign Relations, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

CFR's endowment investment policy is to invest primarily in a mix of equities, fixed income securities, and alternative investments based on an asset allocation to satisfy its overall endowment financial and investment objectives, such as to preserve principal, protect against inflation, receive stable returns, and achieve long-term growth. CFR relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Annual spending from the endowment fund is described further in Note 2.

The asset allocation plan provides for diversification of assets in an effort to maximize investment returns and manage risk to CFR consistent with market conditions.

Changes in endowment net assets for the years ended June 30, 2020 and 2019, follow:

2020	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions		Total Funds 2020
		Spendable	Corpus	
Board-Designated/Quasi-Endowment	\$ 120,186,900	\$ -	\$ -	\$ 120,186,900
Donor-Restricted Endowment:				
Underwater	-	-	-	-
Other	-	122,068,600	237,701,200	359,769,800
Total endowment funds	<u>\$ 120,186,900</u>	<u>\$ 122,068,600</u>	<u>\$ 237,701,200</u>	<u>\$ 479,956,700</u>
Endowment net assets, beginning of year	\$ 122,441,700	\$ 126,822,000	\$ 226,568,100	\$ 475,831,800
Investment activity	3,828,300	11,262,800	-	15,091,100
Contributions/cash collected on endowment multi-year pledges	2,360,000	-	11,352,800	13,712,800
Proceeds from sale of investments/purchases, net	(2,513,200)	-	-	(2,513,200)
Write-Offs of Endowment	-	-	(219,700)	(219,700)
Amounts appropriated for expenditure	(5,929,900)	(16,016,200)	-	(21,946,100)
Total endowment activity	<u>(2,254,800)</u>	<u>(4,753,400)</u>	<u>11,133,100</u>	<u>4,124,900</u>
Endowment net assets, end of year	<u>\$ 120,186,900</u>	<u>\$ 122,068,600</u>	<u>\$ 237,701,200</u>	<u>\$ 479,956,700</u>

Council on Foreign Relations, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

As of June 30, 2019, all of CFR's investments correspond with the endowment balance presented above. Certain other investments of CFR, including cash and cash equivalents, which have not been donor-restricted or board-designated for the endowment, are held separately. Such amounts are, at present, available for the general operating purposes of CFR, however, may be Board-designated for specific purposes or to be added to the endowment in a future period.

2019	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions		Total Funds 2019
		Spendable	Corpus	
Board-Designated/Quasi-Endowment	\$ 122,441,700	\$ -	\$ -	\$ 122,441,700
Donor-Restricted Endowment:				
Underwater	-	-	-	-
Other	-	126,822,000	226,568,100	353,390,100
Total endowment funds	<u>\$ 122,441,700</u>	<u>\$ 126,822,000</u>	<u>\$ 226,568,100</u>	<u>\$ 475,831,800</u>
Endowment net assets, beginning of year	\$ 83,472,200	\$ 132,643,700	\$ 213,154,300	\$ 429,270,200
Investment activity	3,155,800	9,250,400	-	12,406,200
Contributions/cash collected on endowment multi-year pledges	20,650,000	-	13,966,300	34,616,300
Proceeds from sale of investments/purchases, net	(4,171,400)	-	-	(4,171,400)
Transfer in to Endowment	24,847,700	-	-	24,847,700
Write-Offs of Endowment	-	-	(552,500)	(552,500)
Amounts appropriated for expenditure	(5,512,600)	(15,072,100)	-	(20,584,700)
Total endowment activity	<u>38,969,500</u>	<u>(5,821,700)</u>	<u>13,413,800</u>	<u>46,561,600</u>
Endowment net assets, end of year	<u>\$ 122,441,700</u>	<u>\$ 126,822,000</u>	<u>\$ 226,568,100</u>	<u>\$ 475,831,800</u>

Endowment net asset amounts are net of contributions receivable for endowment and the associated discount on these receivables.

Endowment net assets of \$479,956,700 and \$475,831,800 are included within investments on the accompanying statements of financial position as of June 30, 2020 and 2019, respectively. In addition, CFR recorded endowment receivables of \$15,304,600 and \$20,136,100 as of June 30, 2020 and 2019, respectively, which are recorded as part of net assets with donor restrictions on the accompanying statements of financial position. Such endowment receivables are excluded from the endowment until such time payment is received and are then included as part of contributions/cash collected on endowment multi-year pledges.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires CFR to retain as a fund of perpetual duration. In accordance with CFR's policy, see Note 2, deficiencies of this nature are reported in net assets with donor restrictions. These deficiencies result from unfavorable market fluctuations whereby the respective fair value of a donor-restricted endowment fund falls below the amount that is required to be maintained by law or donor restriction. As of June 30, 2020 and 2019, there were no such deficiencies.

Council on Foreign Relations, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE 11 - FAIR VALUE MEASUREMENTS

Fair value measurements are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy was established by the FASB, which prioritizes observable and unobservable inputs used to measure fair value into three levels, as described below.

Level 1 - Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 measurements also include U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.

Level 3 - Valuations for assets and liabilities that are derived using other valuation methodologies, including option pricing models, discounted cash flow models or similar techniques, and not based on market exchange, dealer, or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

Observable inputs reflect assumptions market participants would use in pricing the asset or liabilities developed from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity's own assumptions about what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

CFR uses NAV to determine the fair value of all underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The value represents the ownership interest in the hedge fund or respective partnership. The NAV of the investments held by limited partnerships and hedge funds that do not have readily determinable fair values are determined by the general partner or hedge fund manager and are based on appraisals, or other estimates that require varying degrees of judgment. CFR performs due diligence around these investments to ensure NAV is an appropriate measure of fair value as of June 30. Because of the inherent uncertainty of valuing these investments and certain underlying investments held by them, CFR's estimate of fair value may differ significantly from the values that would have been used had a ready market for such investments existed. These investments may be illiquid and thus there can be no assurance that CFR will be able to realize the value of such investments in a timely manner. For partnership interests, gains and losses are dependent upon the general partners' distributions during the life of each partnership.

Council on Foreign Relations, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Financial assets and liabilities reported at fair value on the accompanying financial statements, excluding pending purchases and redemptions as of June 30, 2020 and 2019, are classified in the leveling hierarchy described above as follows:

	2020			
	Level 1	Level 2	Net Asset Value	Total
Assets reported at fair value				
Investments:				
Cash and cash equivalents	\$ 15,771,400	\$ -	\$ -	\$ 15,771,400
Long-only equities	-	-	184,238,400	184,238,400
Deflation hedges	-	57,894,900	-	57,894,900
Growth-oriented hedge funds	-	-	48,884,400	48,884,400
Diversifiers	-	-	143,562,500	143,562,500
Private equity & venture capital	-	-	27,210,200	27,210,200
Private hard assets	-	-	2,394,900	2,394,900
Total investments	<u>15,771,400</u>	<u>57,894,900</u>	<u>406,290,400</u>	<u>479,956,700</u>
Total assets reported at fair value	<u>15,771,400</u>	<u>57,894,900</u>	<u>406,290,400</u>	<u>479,956,700</u>
Liabilities reported at fair value				
Interest rate-swap agreement	<u>\$ -</u>	<u>\$ (10,918,900)</u>	<u>\$ -</u>	<u>\$ (10,918,900)</u>
Total liabilities reported at fair value	<u>\$ -</u>	<u>\$ (10,918,900)</u>	<u>\$ -</u>	<u>\$ (10,918,900)</u>
	2019			
	Level 1	Level 2	Net Asset Value	Total
Assets reported at fair value				
Investments:				
Cash and cash equivalents	\$ 9,860,200	\$ -	\$ -	\$ 9,860,200
Long-only equities	-	-	164,385,700	164,385,700
Deflation hedges	-	107,290,700	-	107,290,700
Growth-oriented hedge funds and venture capital	-	-	52,088,100	52,088,100
Diversifiers	-	-	121,077,700	121,077,700
Private equity	-	-	16,938,700	16,938,700
Private hard assets	-	-	4,190,700	4,190,700
Total investments	<u>9,860,200</u>	<u>107,290,700</u>	<u>358,680,900</u>	<u>475,831,800</u>
Total assets reported at fair value	<u>\$ 9,860,200</u>	<u>\$ 107,290,700</u>	<u>\$ 358,680,900</u>	<u>\$ 475,831,800</u>
Liabilities reported at fair value				
Interest rate-swap agreement	<u>\$ -</u>	<u>\$ (6,912,200)</u>	<u>\$ -</u>	<u>\$ (6,912,200)</u>
Total liabilities reported at fair value	<u>\$ -</u>	<u>\$ (6,912,200)</u>	<u>\$ -</u>	<u>\$ (6,912,200)</u>

Council on Foreign Relations, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Investments in money market funds and corporate equities are valued using quoted market prices in active markets (Level 1). Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets as of the measurement date. Investments in corporate obligations and U.S. government bonds and notes are valued using quoted prices in inactive markets (Level 2). Level 2 valuations are obtained from similar assets or liabilities or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

The fair value of the interest-rate swap agreement is determined using observable market inputs such as current interest rates, credit risk of CFR, and that of its counterparty (Level 2).

Certain of CFR's investments classified as alternative investments are recorded at fair value in an amount equal to the NAV, as reported by the investment managers, of shares of units held by CFR at year-end. Such investments have not been categorized within the fair value hierarchy in accordance with ASU 2015-07. The financial statements of these alternative investments are prepared in accordance with U.S. GAAP and are audited annually by independent auditors.

CFR's alternative investment strategies include diversified portfolio allocations across a broad range of equity, debt, derivative, and commodity investments. Redemptions, at NAV, of shares in these investments range from quarterly to annually, generally with ten to ninety days' notice, and typically after the expiration of any defined lock-up period(s).

The following tables summarize CFR's investments valued at NAV:

Investment Type	# of Funds	Fair Value	2020		
			Unfunded Commitments	Redemption Terms	Redemption Restrictions
Long-only equities	9	\$ 184,238,400	\$ -	Daily - 23% Monthly - 33% Quarterly - 33% Annually - 11%	100% have no Lock-Up 1 Fund has 25% Investor Gate of NAV 2 Funds have 33% Investor Gate of NAV 1 Fund has 0.4% Exit Fee of NAV 5 Funds have no Investor Gate
Growth-oriented hedge funds	7	48,884,400	-	Quarterly - 42% Biennially - 29% Liquidating - 29%	1 Fund has 30 month Lock-Up 1 Fund has 20% Investor Gate of NAV 1 Fund has 33% Investor Gate of NAV 4 Funds have no Investor Gate
Diversifiers	5	143,562,500	-	Quarterly - 40% Semi-Annually - 20% Annually - 40%	1 Fund has 2 year Lock-Up 2 Funds have 25% Investor Gate of NAV 1 Fund has 50% Investor Gate of NAV 1 Fund has 1.75% Exit Fee of NAV
Private equity & venture capital	12	27,210,200	10,440,200	Illiquid	n/a
Private hard assets	3	2,394,900	1,119,000	Illiquid	n/a
	<u>36</u>	<u>\$ 406,290,400</u>	<u>\$ 11,559,200</u>		

Council on Foreign Relations, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

Investment Type	# of Funds	Fair Value	2019		
			Unfunded Commitments	Redemption Terms	Redemption Restrictions
Long-only equities	8	\$ 164,385,700	\$ 2,000,000	Daily - 30% Monthly - 37% Quarterly - 19% Annually - 14%	100% have no Lock-Up 1 Fund has 25% Investor Gate of NAV 1 Fund has 33% Investor Gate of NAV 1 Fund has 0.5% Exit Fee of NAV 5 Funds have no Investor Gate
Growth-oriented hedge funds & venture capital	10	52,088,100	5,713,100	Quarterly - 70% Biennially - 19% Liquidating - 1% N/A(VC) - 11%	1 Fund has 30 month Lock-Up 1 Fund has 20% Investor Gate of NAV 1 Fund has 33% Investor Gate of NAV 7 Funds have no Investor Gate
Diversifiers	4	121,077,700	-	Quarterly - 44% Semi-Annually - 36% Annually - 20%	100% have no Lock-Up 2 Funds have 25% Investor Gate of NAV 1 Fund has 50% Investor Gate of NAV 1 Fund has 1.75% Exit Fee of NAV
Private equity	9	16,938,700	1,788,700	Illiquid	n/a
Private hard assets	3	4,190,700	1,928,300	Illiquid	n/a
	<u>34</u>	<u>\$ 358,680,900</u>	<u>\$ 11,430,100</u>		

NOTE 12 - COMMITMENTS

Operating Leases

CFR leases certain equipment under operating lease arrangements.

Future minimum payments for non-cancelable operating leases as of June 30, 2020, are as follows:

<u>Year ending June 30</u>	
2021	\$ 120,400
2022	86,800
2023	<u>51,400</u>
Total	<u>\$ 258,600</u>

Rent expense under the operating leases described above amounted to \$117,700 and \$90,800 for the years ended June 30, 2020 and 2019, respectively.

Council on Foreign Relations, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2020 and 2019

NOTE 13 - LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

CFR regularly monitors liquidity required to meet its operating needs. CFR's financial assets available within one year of the statement of financial position date for general expenditure are as follows:

Available financial assets as of June 30, 2020 and 2019:

	2020	2019
Cash and cash equivalents	\$ 37,195,600	\$ 33,648,800
Accounts receivables, net, due within one year	2,117,200	3,178,000
Grants receivable, due within one year	10,827,400	11,064,300
Total financial assets available within one year	50,140,200	47,891,100
Add: Anticipated investment return used for current operations (endowment spending)	23,022,500	22,069,900
Total financial assets available to management for general expenditures within one year	\$ 73,162,700	\$ 69,961,000

Excluded from the detail provided above are all investment amounts pertaining to CFR's endowment fund totaling \$479,956,700 and \$475,831,800 as of June 30, 2020 and 2019, respectively. CFR's endowment fund includes both donor-restricted investments (original gift amount and accumulated gains) and CFR's board-designated endowment (quasi-endowment) (See Note 10 for a detail of CFR's endowment fund). Earnings from donor-restricted endowment funds are unavailable for general use. The endowment is subject to an annual spending rate of 5%, as further described in Note 2. Although CFR does not intend to spend from its board-designated endowment, other than amounts appropriated for operations annually, as of June 30, 2020 and 2019, CFR had \$120,186,900 and \$122,441,700, respectively, of board-designated endowment funds available to support operations if necessary, following Board approval. Accordingly, the extent of available financial assets as of June 30, 2020 and 2019 only includes an approximation of investment return that will be made available to fund current operations, pursuant to CFR's Board approved endowment spending policy.

As part of CFR's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.