

Financial Statements and Supplementary
Information Together with
Report of Independent Certified Public Accountants

COUNCIL ON FOREIGN RELATIONS, INC.

June 30, 2015 and 2014

COUNCIL ON FOREIGN RELATIONS, INC.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

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, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

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

Auditors’ Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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, 2015 and 2014, 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.

Supplementary Information

Our audits were conducted for the purposes of forming an opinion on the basic financial statements of CFR as of and for the years ended June 30, 2015 and 2014, taken as a whole. The supplementary information included on pages 30 to 31 is presented for purposes of additional analysis and is not a required part of the financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the 2015 and 2014 financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the 2015 and 2014 financial statements or to the 2015 and 2014 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the 2015 and 2014 financial statements as a whole.

A handwritten signature in black ink that reads "Grant Thornton LLP". The signature is written in a cursive, flowing style.

New York, New York
October 8, 2015

COUNCIL ON FOREIGN RELATIONS, INC.
Statements of Financial Position
As of June 30, 2015 and 2014

Assets	2015	2014
Cash and cash equivalents (<i>Notes 2 and 13</i>)	\$ 25,363,300	\$ 29,265,900
Accounts receivable, net (<i>Note 2</i>)	2,850,600	1,655,700
Prepaid expenses (<i>Note 2</i>)	530,300	607,900
Property held for sale (<i>Note 5</i>)	-	2,594,500
Grants and contributions receivable, net (<i>Notes 2 and 4</i>)	17,790,800	14,218,900
Contributions receivable for endowment, net (<i>Notes 2 and 4</i>)	9,406,800	1,462,400
Inventory (<i>Note 2</i>)	142,300	158,700
Investments (<i>Notes 2, 3, and 11</i>)	341,346,500	369,190,600
Pending investment purchases (<i>Note 3</i>)	30,000,000	-
Land, buildings and building improvements, and equipment, net (<i>Notes 2 and 5</i>)	<u>74,623,100</u>	<u>72,715,300</u>
Total assets	<u>\$ 502,053,700</u>	<u>\$ 491,869,900</u>
Liabilities		
Accounts payable and accrued expenses (<i>Notes 2, 5, and 6</i>)	\$ 7,113,000	\$ 6,498,200
Deferred revenue (<i>Note 2</i>)	4,789,200	4,397,100
Accrued postretirement benefits (<i>Note 7</i>)	6,048,000	5,318,000
Interest-rate swap agreement (<i>Notes 2, 8, and 11</i>)	7,826,100	7,610,600
Bonds payable (<i>Note 8</i>)	<u>59,605,000</u>	<u>61,170,000</u>
Total liabilities	<u>85,381,300</u>	<u>84,993,900</u>
Commitments (<i>Note 12</i>)		
Net assets (<i>Note 2</i>)		
Unrestricted	69,006,500	68,391,300
Temporarily restricted (<i>Note 9</i>)	168,138,000	170,218,700
Permanently restricted (<i>Notes 9 and 10</i>)	<u>179,527,900</u>	<u>168,266,000</u>
Total net assets	<u>416,672,400</u>	<u>406,876,000</u>
Total liabilities and net assets	<u>\$ 502,053,700</u>	<u>\$ 491,869,900</u>

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, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating revenue and support				
Membership dues	\$ 6,263,900	\$ -	\$ -	\$ 6,263,900
Annual giving	9,651,200	-	-	9,651,200
Corporate memberships and related income	6,543,300	241,000	-	6,784,300
Grants and contributions	1,446,100	15,989,600	-	17,435,700
<i>Foreign Affairs</i> publications	8,839,000	-	-	8,839,000
Investment return used for current operations (<i>Note 3</i>)	3,913,900	12,151,100	-	16,065,000
Rental income	2,072,000	-	-	2,072,000
Miscellaneous	467,800	-	-	467,800
Net assets released from restrictions (<i>Note 9</i>)	25,145,700	(25,145,700)	-	-
Total operating revenue and support	<u>64,342,900</u>	<u>3,236,000</u>	<u>-</u>	<u>67,578,900</u>
Operating expenses				
Program expenses:				
Studies Program	24,207,700	-	-	24,207,700
Task Force	490,800	-	-	490,800
NY Meetings	1,358,300	-	-	1,358,300
DC programs	2,144,700	-	-	2,144,700
Special events	1,134,300	-	-	1,134,300
<i>Foreign Affairs</i>	10,079,900	-	-	10,079,900
National Program	1,157,000	-	-	1,157,000
Outreach Program	1,507,600	-	-	1,507,600
Term member	310,800	-	-	310,800
Digital Program	2,481,300	-	-	2,481,300
Education Program	1,602,600	-	-	1,602,600
Global Board of Advisors	90,000	-	-	90,000
Total program expenses	<u>46,565,000</u>	<u>-</u>	<u>-</u>	<u>46,565,000</u>
Supporting Services				
Fundraising:				
Development	2,268,600	-	-	2,268,600
Corporate Program	2,040,200	-	-	2,040,200
Total fundraising	4,308,800	-	-	4,308,800
Management and general	11,512,300	-	-	11,512,300
Membership	1,198,400	-	-	1,198,400
Total supporting services	<u>17,019,500</u>	<u>-</u>	<u>-</u>	<u>17,019,500</u>
Total operating expenses	<u>63,584,500</u>	<u>-</u>	<u>-</u>	<u>63,584,500</u>
Excess of operating revenue and support over operating expenses	<u>758,400</u>	<u>3,236,000</u>	<u>-</u>	<u>3,994,400</u>
Nonoperating revenue (loss) (<i>Note 2</i>)				
Investment loss in excess of spending rate (<i>Notes 2 and 3</i>)	(1,726,000)	(4,437,000)	-	(6,163,000)
Endowment contributions (<i>Note 4</i>)	-	-	11,261,900	11,261,900
Change in value of interest rate swap agreement (<i>Notes 2 and 8</i>)	(215,600)	-	-	(215,600)
Gain on sale of property	2,392,400	-	-	2,392,400
Write-off of grant receivable pertaining to terminated program	-	(879,700)	-	(879,700)
Total nonoperating revenue (loss)	<u>450,800</u>	<u>(5,316,700)</u>	<u>11,261,900</u>	<u>6,396,000</u>
Changes in net assets before postretirement changes other than net periodic costs (<i>Note 7</i>)	1,209,200	(2,080,700)	11,261,900	10,390,400
Postretirement changes other than net periodic costs	(594,000)	-	-	(594,000)
Changes in net assets	615,200	(2,080,700)	11,261,900	9,796,400
Net assets, beginning of year	<u>68,391,300</u>	<u>170,218,700</u>	<u>168,266,000</u>	<u>406,876,000</u>
Net assets, end of year	<u>\$ 69,006,500</u>	<u>\$ 168,138,000</u>	<u>\$ 179,527,900</u>	<u>\$ 416,672,400</u>

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, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating revenue and support				
Membership dues	\$ 5,970,300	\$ -	\$ -	\$ 5,970,300
Annual giving	8,433,100	-	-	8,433,100
Corporate memberships and related income	6,436,600	186,000	-	6,622,600
Grants and contributions	1,546,300	10,949,200	-	12,495,500
<i>Foreign Affairs</i> publications	8,213,400	-	-	8,213,400
Investment return used for current operations (<i>Note 3</i>)	5,956,300	9,015,600	-	14,971,900
Rental income	2,076,800	-	-	2,076,800
Miscellaneous	146,700	-	-	146,700
Net assets released from restrictions (<i>Note 9</i>)	22,913,500	(22,913,500)	-	-
Total operating revenue and support	<u>61,693,000</u>	<u>(2,762,700)</u>	<u>-</u>	<u>58,930,300</u>
Operating expenses				
Program expenses:				
Studies Program	22,563,900	-	-	22,563,900
Task Force	334,100	-	-	334,100
NY Meetings	1,340,600	-	-	1,340,600
DC programs	1,709,300	-	-	1,709,300
Special events	1,046,100	-	-	1,046,100
<i>Foreign Affairs</i>	10,561,400	-	-	10,561,400
National Program	1,147,000	-	-	1,147,000
Outreach Program	1,268,700	-	-	1,268,700
Term member	341,200	-	-	341,200
Digital Program	3,438,000	-	-	3,438,000
Education Program	784,600	-	-	784,600
Global Board of Advisors	59,200	-	-	59,200
Total program expenses	<u>44,594,100</u>	<u>-</u>	<u>-</u>	<u>44,594,100</u>
Supporting services:				
Fundraising:				
Development	1,551,500	-	-	1,551,500
Corporate Program	2,270,000	-	-	2,270,000
Total fundraising	3,821,500	-	-	3,821,500
Management and general	11,463,800	-	-	11,463,800
Membership	1,199,100	-	-	1,199,100
Total supporting services	<u>16,484,400</u>	<u>-</u>	<u>-</u>	<u>16,484,400</u>
Total operating expenses	<u>61,078,500</u>	<u>-</u>	<u>-</u>	<u>61,078,500</u>
Excess (deficiency) of operating revenue and support over operating expenses	<u>614,500</u>	<u>(2,762,700)</u>	<u>-</u>	<u>(2,148,200)</u>
Nonoperating revenue (<i>Note 2</i>)				
Investment gains in excess of spending rate (<i>Notes 2 and 3</i>)	4,027,400	26,236,700	-	30,264,100
Endowment contributions (<i>Note 4</i>)	-	-	2,249,900	2,249,900
Change in value of interest rate swap agreement (<i>Notes 2 and 8</i>)	188,600	-	-	188,600
Total nonoperating revenue	<u>4,216,000</u>	<u>26,236,700</u>	<u>2,249,900</u>	<u>32,702,600</u>
Changes in net assets before postretirement changes other than net periodic costs (<i>Note 7</i>)	4,830,500	23,474,000	2,249,900	30,554,400
Postretirement changes other than net periodic costs	(563,000)	-	-	(563,000)
Changes in net assets	<u>4,267,500</u>	<u>23,474,000</u>	<u>2,249,900</u>	<u>29,991,400</u>
Net assets, beginning of year	<u>64,123,800</u>	<u>146,744,700</u>	<u>166,016,100</u>	<u>376,884,600</u>
Net assets, end of year	<u>\$ 68,391,300</u>	<u>\$ 170,218,700</u>	<u>\$ 168,266,000</u>	<u>\$ 406,876,000</u>

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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Changes in net assets	\$ 9,796,400	\$ 29,991,400
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	3,135,600	3,497,200
Change in discount on grants and contributions and contributions for endowment receivable	395,400	(7,500)
Gain on sale of property	(2,392,400)	-
Change in fair value of interest rate swap agreement	215,600	(188,600)
Net realized and unrealized gain on investments	(10,609,800)	(47,466,700)
Bad debt expense	187,300	601,100
Write-off of grant receivable pertaining to terminated program	879,700	-
Contributions restricted for investment in endowment	(11,261,900)	(2,256,100)
Postretirement changes other than net periodic pension costs	594,000	563,000
Donated securities	(642,600)	(423,900)
Changes in operating assets and liabilities:		
Accounts receivable	(1,382,200)	(457,800)
Prepaid expenses	77,600	78,700
Grants and contributions receivable	(4,204,500)	4,508,400
Inventory	16,400	(47,300)
Accounts payable and accrued expenses	614,800	170,600
Deferred revenue	392,100	892,000
Accrued postretirement benefits	136,000	66,000
Net cash used in operating activities	<u>(14,052,500)</u>	<u>(10,479,500)</u>
Cash flows from investing activities:		
Purchases of building improvements and equipment	(5,043,400)	(2,493,700)
Proceeds from sale of fixed asset	4,986,900	-
Purchases of investments	(115,016,600)	(106,996,200)
Proceeds from sales of investments	123,470,500	119,362,300
Net cash provided by investing activities	<u>8,397,400</u>	<u>9,872,400</u>
Cash flows from financing activities:		
Contributions restricted for investment in endowment	3,317,500	5,223,400
Principal payments on bonds payable	(1,565,000)	(1,510,000)
Net cash provided by financing activities	<u>1,752,500</u>	<u>3,713,400</u>
Net (decrease) increase in cash and cash equivalents	(3,902,600)	3,106,300
Cash and cash equivalents, beginning of year	29,265,900	26,159,600
Cash and cash equivalents, end of year	<u>\$ 25,363,300</u>	<u>\$ 29,265,900</u>
Supplemental disclosure of cash flow information:		
Interest paid on bonds	<u>\$ 2,646,700</u>	<u>\$ 2,716,000</u>

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

COUNCIL ON FOREIGN RELATIONS, INC.
Notes to Financial Statements
June 30, 2015 and 2014

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”) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on 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 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, 2015 and 2014, CFR determined that an allowance for uncollectible accounts of \$165,400 and \$267,200, respectively, is necessary for certain uncollectible membership and *Foreign Affairs* receivables. In addition, CFR determined that no allowance is necessary for grants and contributions receivable, and contributions receivable for endowment as of June 30, 2015 and 2014. 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 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 values 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.

COUNCIL ON FOREIGN RELATIONS, INC.
Notes to Financial Statements
June 30, 2015 and 2014

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 investments for the three previous years. Amounts allocated to the unrestricted net asset class are at the discretion of CFR's Board of Directors (the "Board"). Amounts allocated to the temporarily restricted net asset class are based on donors' stipulations.

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 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.

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. 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 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) pertaining to these funds are recorded on the accrual basis.

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 or amortization. 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
June 30, 2015 and 2014

Net Asset Classifications

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. CFR 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 CFR's 5 percent spending policy, an investment allocation is made in accordance with donor stipulations for either general purposes (unrestricted) or specific program activities (temporarily restricted) (see note 10 for further information).

Accordingly, the net assets of CFR and changes therein are classified and reported in three net asset classes: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted net assets represent resources received that have not been restricted by a donor and have no time restrictions. Such resources are available in support of CFR's operations over which the Board has discretionary control.

Temporarily restricted net assets represent contributions and other inflows of assets whose use by CFR is limited by express donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of CFR pursuant to those stipulations. When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported on the statement of activities as net assets released from restrictions.

Permanently restricted net assets represent contributions and other inflows of assets whose use by CFR is limited by express donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of CFR, but permit CFR to expend part or all of the income derived from the investment of the donated assets for either specified or unspecified purposes.

Accounting for Uncertainty in Income Taxes

CFR has adopted the provisions of the Accounting Standard 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. The tax years ended June 30, 2013, 2014, and 2015 are still open to audit for both federal and state purposes. CFR believes that there are no material uncertain tax positions within its financial statements.

COUNCIL ON FOREIGN RELATIONS, INC.
Notes to Financial Statements
June 30, 2015 and 2014

Support and Revenue

Contributions (including unconditional promises to give) are recorded when received, at their fair value. Contributions received with donor stipulations that limit the use of the donated assets are reported as either temporarily restricted or permanently restricted support. Unconditional promises to give, with payments due in future years, are reported as either temporarily restricted or permanently restricted support, 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 any 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 in 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, which is recorded over the term of the lease based on fixed monthly payments. No deferred rent liability or asset was required to be recorded as of June 30, 2015 and 2014, in accordance with U.S. GAAP.

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 income pertaining to *Foreign Affairs* are recorded as revenue 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 reporting date. Changes in fair value are recorded as part of nonoperating changes in net assets on the statement of activities.

COUNCIL ON FOREIGN RELATIONS, INC.
Notes to Financial Statements
June 30, 2015 and 2014

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 have been permanently restricted by donors. Investment income, including net realized and unrealized gains and losses, earned in excess of (or less than) CFR's aggregate authorized spending amount, the change in value on interest rate swap agreement, contributions to permanently restricted net assets, 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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Allocation of Expenses

The costs of operating the various programs and providing the supporting services have been summarized on a functional basis on the accompanying statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited as a percentage of all direct program expenses incurred for the respective reporting period.

Concentration

Cash and cash equivalents that potentially subject CFR to a concentration 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, 2015 and 2014, there is approximately \$22,321,500 and \$26,852,200, respectively, of cash and cash equivalents held by banks that exceed FDIC insurance limits. Such excess includes outstanding checks.

Reclassification

Certain reclassifications were made to the 2014 financial statements to conform to the 2015 presentation. Such reclassifications did not affect the changes in net assets as reflected in the 2014 financial statements.

Subsequent Events

CFR has evaluated, for potential recognition and disclosure, events subsequent to the date of its financial statements through October 8, 2015, the date the financial statements were issued. No events have occurred subsequent to June 30, 2015, that would require adjustment to or disclosure in the accompanying financial statements.

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3. INVESTMENTS

The components of CFR's investment portfolio as of June 30, 2015 and 2014, are as follows:

	<u>2015</u>	<u>2014</u>	
Cash and cash equivalents	\$ 26,835,200	\$ 32,496,000	
Long-only equities	119,791,700	96,813,100	
Deflation hedges	<u>6,887,300</u>	<u>6,773,600</u>	
Subtotal	<u>153,514,200</u>	<u>136,082,700</u>	
Alternative investments:			
Growth-oriented hedge funds	59,855,400	67,235,200	(A)
Diversifiers	98,134,400	128,884,700	(B)
Private equity	24,943,600	29,163,200	(C)
Private hard assets	<u>4,898,900</u>	<u>7,824,800</u>	(D)
Subtotal	<u>187,832,300</u>	<u>233,107,900</u>	
Total	<u>\$ 341,346,500</u>	<u>\$ 369,190,600</u>	

Growth-oriented assets are long-only equity and growth-oriented hedge funds that 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. Although the expected return from growth-oriented assets varies, global equities have returned roughly 7.5 percent in real terms based on historical assumptions.

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 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.

Alternative investments include the following as of June 30, 2015 and 2014:

- 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.

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- 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, 2015 and 2014, CFR has unfunded commitments to limited partnerships of approximately \$12.9 million and \$9.7 million, respectively, 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 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.

Investment return consists of the following for the years ended June 30, 2015 and 2014:

	2015		
	Unrestricted	Temporarily Restricted	Total
Dividends and interest	\$ 353,300	\$ 1,245,700	\$ 1,599,000
Realized gains	2,619,000	9,233,600	11,852,600
Unrealized losses	(274,600)	(968,200)	(1,242,800)
Net realized and unrealized gains	2,344,400	8,265,400	10,609,800
Total return on investments	2,697,700	9,511,100	12,208,800
Investment return used for current operations	(3,913,900)	(12,151,100)	(16,065,000)
Investment expenses	(509,800)	(1,797,000)	(2,306,800)
Investment loss in excess of spending rate	\$ (1,726,000)	\$ (4,437,000)	\$ (6,163,000)

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	2014		
	Unrestricted	Temporarily Restricted	Total
Dividends and interest	\$ 542,700	\$ 1,917,000	\$ 2,459,700
Realized gains	2,963,600	10,464,500	13,428,100
Unrealized gains	7,512,600	26,526,000	34,038,600
Net realized and unrealized gains	10,476,200	36,990,500	47,466,700
Total return on investments	11,018,900	38,907,500	49,926,400
Investment return used for current operations	(5,956,300)	(9,015,600)	(14,971,900)
Investment expenses	(1,035,200)	(3,655,200)	(4,690,400)
Investment gain in excess of spending rate	<u>\$ 4,027,400</u>	<u>\$ 26,236,700</u>	<u>\$ 30,264,100</u>

Amounts reflected as pending investment purchases in the accompanying 2015 statement of financial position reflect cash disbursed to investment funds that have not yet been credited to CFR's capital accounts as of June 30, 2015.

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, 2015 and 2014, are due to be collected as follows:

	2015	2014
Amount due in less than one year:		
Grants and contributions receivable	\$ 7,453,200	\$ 6,039,300
Contributions receivable for endowment	3,043,200	1,324,500
Total	<u>10,496,400</u>	<u>7,363,800</u>
Amount due in one to five years:		
Grants and contributions receivable	10,619,000	8,324,900
Contributions receivable for endowment	6,629,000	144,000
Total	<u>17,248,000</u>	<u>8,468,900</u>
Gross receivable	27,744,400	15,832,700
Less discount (at rates varying from 0.28 percent to 0.32 percent)	<u>(546,800)</u>	<u>(151,400)</u>
Total, net	<u>\$ 27,197,600</u>	<u>\$ 15,681,300</u>

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Endowment contributions, net of discount, totaled \$11,261,900 and \$2,249,900 for the years ended June 30, 2015 and 2014, respectively.

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, 2015 and 2014, are summarized as follows:

	<u>2015</u>	<u>2014</u>	<u>Estimated Useful Lives</u>
Land (New York)	\$ 1,854,300	\$ 1,854,300	
Land (Washington, DC)	5,397,700	5,397,700	
Buildings and building improvements (New York)	32,503,000	32,020,900	5–55 years
Building and building improvements (Washington, DC)	53,281,000	53,175,300	5–55 years
Equipment (New York)	13,704,700	11,037,800	3–15 years
Equipment (Washington, DC)	4,644,000	4,419,400	3–15 years
Construction in progress	<u>1,754,800</u>	<u>1,868,400</u>	
Total	113,139,500	109,773,800	
Less: accumulated depreciation	<u>(38,516,400)</u>	<u>(37,058,500)</u>	
Total net	<u>\$ 74,623,100</u>	<u>\$ 72,715,300</u>	

Construction in progress predominately consists of project costs related to a customer relationship management system (CRM), new accounting software, façade project, NY/DC broadcast studio upgrade, and central air conditioning system upgrades. Most projects are expected to be completed between September 2015 and June 2016, and the estimated costs to complete these projects is approximately \$2,898,600.

Depreciation expense amounted to \$3,135,600 and \$3,497,200 for the years ended June 30, 2015 and 2014, respectively. During fiscal 2014, assets that were fully depreciated were written, off totaling \$3,500.

During fiscal 2014, CFR’s Board passed a resolution to place on the market with the intent to sell an apartment located in New York City (the “property”). CFR assessed the carrying value of the property as of June 30, 2014, and determined there to be no impairment. During fiscal 2015, CFR sold the property and recognized a gain on sale of \$2,392,400.

6. RETIREMENT PLAN

CFR has a defined contribution retirement plan covering all employees who meet the minimum service requirements. Payments to the 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 plan expense amounted to approximately \$1,715,000 and \$1,700,000 for the fiscal years ended June 30, 2015 and 2014, 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 supplemental plan on their own behalf.

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7. OTHER POSTRETIREMENT BENEFITS

CFR provides medical and dental benefits for its retired employees. Employees are eligible to continue to receive benefits when they meet the criteria for 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:

	<u>2015</u>	<u>2014</u>
Change in benefit obligation		
Benefit obligation, beginning of year	\$ 5,318,000	\$ 4,689,000
Service cost	39,000	47,000
Interest cost	240,000	219,000
Actuarial net loss	794,000	696,000
Benefits paid	<u>(343,000)</u>	<u>(333,000)</u>
Benefit obligation, end of year	<u>\$ 6,048,000</u>	<u>\$ 5,318,000</u>

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 4.14 percent and 3.92 percent as of June 30, 2015 and 2014, respectively.

During fiscal 2015, the mortality assumption was updated from the RP-2000 Combined Mortality Table projected generationally with scale AA to the RP-2014 White Collar Mortality Table projected generationally with scale MP-2014. The update in the mortality table resulted in an actuarial loss of \$1,107,000 for the year ended June 30, 2015.

The net periodic benefit obligations and the components of benefit cost for the years ended June 30, 2015 and 2014, is as follows:

	<u>2015</u>	<u>2014</u>
Service cost	\$ 39,000	\$ 47,000
Interest cost	240,000	219,000
Amortization of net loss	210,000	143,000
Amortization of prior service credit	<u>(10,000)</u>	<u>(10,000)</u>
Net periodic cost	<u>\$ 479,000</u>	<u>\$ 399,000</u>

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The postretirement benefit cost, net of retiree benefit payments for the years ended June 30, 2015 and 2014, amounted to \$136,000 and \$66,000, respectively, and was based on actuarial assumptions and a discount rate set as of the beginning of the year. The discount rate was 3.92 percent and 4.39 percent for fiscal years 2015 and 2014, 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 June 30, 2015 and 2014, includes reclassifications of amounts previously recognized as changes in unrestricted net assets as follows:

	<u>2015</u>	<u>2014</u>
Amortization of net loss	\$ 210,000	\$ 143,000
Amortization of prior service credit	(10,000)	(10,000)

Amounts that have not been recognized as components of net periodic benefit cost but are included in unrestricted net assets are as follows:

	<u>2015</u>	<u>2014</u>
Net actuarial loss	\$ 3,186,000	\$ 2,602,000
Prior service credit	<u>(61,000)</u>	<u>(71,000)</u>
	<u>\$ 3,125,000</u>	<u>\$ 2,531,000</u>

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

	<u>2015</u>	<u>2014</u>
Health care-cost trend rate assumed for next year	6.67 percent	7 percent
Rate to which the cost trend rate is assumed to decline	5 percent	5 percent
Year that the rate reaches the ultimate trend rate	2020	2020

Increasing the assumed medical care cost trend rate by 1 percent in each year would increase the accumulated postretirement benefit obligation by \$861,000 and \$676,000 as of June 30, 2015 and 2014, respectively, and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the years then ended by \$42,000 and \$35,000, respectively. Decreasing the assumed health-care cost trend rate by 1 percent would decrease the accumulated postretirement benefit obligation by \$712,000 and \$567,000 as of June 30, 2015 and 2014, respectively, and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the years then ended by \$34,000 and \$30,000, respectively.

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Amounts in unrestricted net assets expected to be recognized as components of net periodic benefit cost during 20 year 2016 are as follows:

Net actuarial loss	\$	184,000
Prior service credit		(10,000)

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

Year Ending June 30		
2016	\$	316,000
2017		334,000
2018		346,000
2019		353,000
2020		348,000
2021-2025		1,765,000

8. BONDS PAYABLE

Bonds payable amounted to \$59,605,000 and \$61,170,000 as of June 30, 2015 and 2014, 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 70 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.

As of June 30, 2015 and 2014, the index rate was 1.13 percent and 1.11 percent, respectively. The LIBOR index rate mode began September 4, 2012, (the "Conversion Date"), and ranged from 1.11 percent to 1.14 percent for fiscal years 2015 and 2014. Interest expense on the bonds was \$675,600 and \$694,700 for the years ended June 30, 2015 and 2014, respectively.

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Pursuant to the Security and Intercreditor 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.

Principal payments are as follows for the years subsequent to June 30, 2015 and 2014:

Year Ending June 30	<u>Principal</u>
2016	\$ 1,630,000
2017	1,690,000
2018	1,765,000
2019	1,830,000
2020	1,905,000
Thereafter	<u>50,785,000</u>
Total	<u>\$ 59,605,000</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 \$59,605,000 and \$61,170,000 as of June 30, 2015 and 2014, respectively, and is amortized annually until the termination date on August 1, 2037. The fair value of the swap agreement as of June 30, 2015 and 2014, is a liability of \$7,826,100 and \$7,610,600, respectively. Net settlement transactions related to the swap agreement resulted in a net loss to CFR totaling \$1,971,100 and \$2,021,100 for the years ended June 30, 2015 and 2014, respectively.

As of and for the years ended June 30, 2015 and 2014, amounts included within the financial statements relating to the interest rate swap agreement are as follows:

<u>2015</u>				
<u>Fair Value at June 30, 2015</u>	<u>Statement of Financial Position Location</u>	<u>Change in Value of Interest Rate Swap Agreement for the Year Ended June 30, 2014</u>	<u>Statement of Activities Location</u>	<u>Level Within Fair Value Hierarchy</u>
\$ 7,826,100	Interest-rate swap agreement (liabilities)	\$ (215,600)	Change in value of interest-rate swap agreement	Level 2

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2014				
Fair Value at June 30, 2014	Statement of Financial Position Location	Change in Value of Interest Rate Swap Agreement for the Year Ended June 30, 2014	Statement of Activities Location	Level Within Fair Value Hierarchy
\$ 7,610,600	Interest-rate swap agreement (liabilities)	\$ 188,600	Change in value of interest-rate swap agreement	Level 2

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. During fiscal 2015 the maturity date of the line of credit was extended to January 31, 2016. No amounts were outstanding under the line of credit as of June 30, 2015 and 2014.

9. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2015 and 2014, are restricted for the following purposes:

	2015	2014
Studies Program	\$ 59,127,500	\$ 60,972,200
NY Meetings	3,373,200	3,559,900
DC programs	-	154,200
Term member	839,900	700,900
<i>Foreign Affairs</i> publications	1,522,400	1,597,100
National Program	504,300	550,400
Outreach Program	-	121,700
Digital Program	-	169,800
Education Program	1,017,200	2,157,200
Capital	2,384,900	2,561,700
Various programs/operating purposes	99,368,600	97,673,600
Total	<u>\$ 168,138,000</u>	<u>\$ 170,218,700</u>

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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, 2015 and 2014, as follows:

	<u>2015</u>	<u>2014</u>
Studies Program	\$ 11,625,500	\$ 12,824,400
NY Meetings	554,300	633,900
DC programs	156,300	156,300
Term member	246,400	263,700
<i>Foreign Affairs</i> publications	192,700	191,200
National Program	267,100	264,100
Outreach Program	392,300	590,800
Digital Program	150,000	383,400
Education Program	994,300	595,300
Capital	176,800	395,100
Various programs/operating programs	<u>10,390,000</u>	<u>6,615,300</u>
Total	<u>\$ 25,145,700</u>	<u>\$ 22,913,500</u>

Permanently restricted net assets as of June 30, 2015 and 2014, consist of the following. The income earned on the related investments is available for the following purposes:

	<u>2015</u>	<u>2014</u>
Studies Program	\$ 78,900,800	\$ 78,400,800
NY Meetings	7,418,900	7,417,800
National Program	2,000,000	2,000,000
Library	156,700	156,700
<i>Foreign Affairs</i> publications	2,620,200	2,620,200
Term member	2,500,000	-
Other	2,082,600	2,082,600
Unrestricted as to use, awaiting Board appropriation for expenditure	<u>83,848,700</u>	<u>75,587,900</u>
Total	<u>\$ 179,527,900</u>	<u>\$ 168,266,000</u>

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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. In addition, 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 unrestricted by the donor will be reflected as temporarily restricted until appropriated for expenditure.

CFR classifies as permanently restricted net assets: (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. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets 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.

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 funds is described in Note 2.

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

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Changes in endowment net assets for the years ended June 30, 2015 and 2014, follow:

	2015			Total Endowment Investments
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Investment activity				
Interest and dividends	\$ 353,300	\$ 1,245,700	\$ -	\$ 1,599,000
Unrealized gains	(274,600)	(968,200)	-	(1,242,800)
Realized gains	2,619,000	9,233,600	-	11,852,600
Investment expenses	<u>(509,800)</u>	<u>(1,797,000)</u>	<u>-</u>	<u>(2,306,800)</u>
Total investment activity	<u>2,187,900</u>	<u>7,714,100</u>	<u>-</u>	<u>9,902,000</u>
Contributions/cash collected on endowment multiyear pledges	4,986,900	-	3,317,500	8,304,400
Proceeds from sale of investments/purchases, net	<u>14,500</u>	<u>-</u>	<u>-</u>	<u>14,500</u>
Amounts appropriated for expenditure	<u>(3,913,900)</u>	<u>(12,151,100)</u>	<u>-</u>	<u>(16,065,000)</u>
Total endowment activity	3,275,400	(4,437,000)	3,317,500	2,155,900
Endowment net assets, beginning of year	<u>78,460,300</u>	<u>123,926,600</u>	<u>166,803,600</u>	<u>369,190,500</u>
Endowment net assets, end of year	<u>\$ 81,735,700</u>	<u>\$ 119,489,600</u>	<u>\$ 170,121,100</u>	<u>\$ 371,346,400</u>
	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Investments
Investment activity				
Interest and dividends	\$ 542,700	\$ 1,917,000	\$ -	\$ 2,459,700
Unrealized gains	7,512,600	26,526,000	-	34,038,600
Realized gains	2,963,600	10,464,500	-	13,428,100
Investment expenses	<u>(1,035,200)</u>	<u>(3,655,200)</u>	<u>-</u>	<u>(4,690,400)</u>
Total investment activity	<u>9,983,700</u>	<u>35,252,300</u>	<u>-</u>	<u>45,236,000</u>
Contributions/cash collected on endowment multiyear pledges	-	-	5,223,400	5,223,400
Proceeds from sale of investments/purchases, net	<u>37,000</u>	<u>-</u>	<u>-</u>	<u>37,000</u>
Amount appropriated for expenditure	<u>(5,956,300)</u>	<u>(9,015,600)</u>	<u>-</u>	<u>(14,971,900)</u>
Total endowment activity	4,064,400	26,236,700	5,223,400	35,524,500
Endowment net assets, beginning of year	<u>74,395,900</u>	<u>97,689,900</u>	<u>161,580,200</u>	<u>333,666,000</u>
Endowment net assets, end of year	<u>\$ 78,460,300</u>	<u>\$ 123,926,600</u>	<u>\$ 166,803,600</u>	<u>\$ 369,190,500</u>

COUNCIL ON FOREIGN RELATIONS, INC.
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Endowment net asset amounts are net of contributions receivable for endowment and the associated discount on these receivables. Unrestricted net asset amounts represent investment earnings from endowment resources and net purchase of investments. Temporarily restricted net asset amounts represent endowment resources whose use is limited by donor-imposed stipulations.

Endowment net assets of \$371,346,500 and \$369,190,600 are included within investments on the accompanying statements of financial position as of June 30, 2015 and 2014, respectively. In addition, CFR recorded endowment receivables of \$9,406,800 and \$1,462,400 as of June 30, 2015 and 2014, respectively, which are recorded as permanently restricted net assets on the accompanying statements of financial position. Such endowment receivables are excluded from the endowment schedules 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 either temporarily restricted or unrestricted net assets. 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 retained permanently. As of June 30, 2015 and 2014, there were no deficiencies.

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 Financial Accounting Standards Board, 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. Also included in Level 2 are investments measured using a net asset value per share, or its equivalent, that may be redeemed at that NAV at the date of the statement of financial position or in the near term, which CFR has generally considered to be within ninety days.
- Level 3 - Valuations for assets and liabilities that are derived from 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. Also included in Level 3 are investments measured using a NAV per share, or its equivalent, that can never be redeemed at NAV or for which redemptions at NAV is uncertain due to lock-up periods or other investment restrictions.

COUNCIL ON FOREIGN RELATIONS, INC.
Notes to Financial Statements
June 30, 2015 and 2014

Financial assets and liabilities reported at fair value on the accompanying financial statements as of June 30, 2015 and 2014, are classified in the table as follows:

	2015			
	Level 1	Level 2	Level 3	Total
Assets reported at fair value				
Investments:				
Cash and cash equivalents	\$ 26,835,200	\$ -	\$ -	\$ 26,835,200
Long-only equities	13,873,000	74,469,800	31,448,900	119,791,700
Deflation hedges	-	6,887,300	-	6,887,300
Growth-oriented hedge funds	-	21,523,500	38,331,900	59,855,400
Diversifiers	-	16,087,500	82,046,900	98,134,400
Private equity	-	-	24,943,600	24,943,600
Private hard assets	-	-	4,898,900	4,898,900
Total investments	<u>\$ 40,708,200</u>	<u>\$ 118,968,100</u>	<u>\$ 181,670,200</u>	<u>\$ 341,346,500</u>
Total assets reported at fair value	<u>\$ 40,708,200</u>	<u>\$ 118,968,100</u>	<u>\$ 181,670,200</u>	<u>\$ 341,346,500</u>
Liabilities reported at fair value				
Interest rate swap agreement	<u>\$ -</u>	<u>\$ (7,826,100)</u>	<u>\$ -</u>	<u>\$ (7,826,100)</u>
Total liabilities reported at fair value	<u>\$ -</u>	<u>\$ (7,826,100)</u>	<u>\$ -</u>	<u>\$ (7,826,100)</u>
2014				
	Level 1	Level 2	Level 3	Total
Assets reported at fair value				
Investments:				
Cash and cash equivalents	\$ 32,496,000	\$ -	\$ -	\$ 32,496,000
Long-only equities	12,901,500	55,810,500	28,101,100	96,813,100
Deflation hedges	-	6,773,600	-	6,773,600
Growth-oriented hedge funds	-	21,949,100	45,286,100	67,235,200
Diversifiers	-	21,186,600	107,698,100	128,884,700
Private equity	-	-	29,163,200	29,163,200
Private hard assets	-	-	7,824,800	7,824,800
Total investments	<u>45,397,500</u>	<u>105,719,800</u>	<u>218,073,300</u>	<u>369,190,600</u>
Property held for sale	<u>-</u>	<u>2,594,500</u>	<u>-</u>	<u>2,594,500</u>
Total assets reported at fair value	<u>\$ 45,397,500</u>	<u>\$ 108,314,300</u>	<u>\$ 218,073,300</u>	<u>\$ 371,785,100</u>
Liabilities reported at fair value				
Interest rate swap agreement	<u>\$ -</u>	<u>\$ (7,610,600)</u>	<u>\$ -</u>	<u>\$ (7,610,600)</u>
Total liabilities reported at fair value	<u>\$ -</u>	<u>\$ (7,610,600)</u>	<u>\$ -</u>	<u>\$ (7,610,600)</u>

COUNCIL ON FOREIGN RELATIONS, INC.
Notes to Financial Statements
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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 model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data. Investments in hedge funds, funds of funds, and private equity funds are designated as Level 3, as indicative of the investment manager's classification of CFR's investment in the funds.

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). The property held for sale was compared with actual sale price per contract entered into subsequent to June 30, 2014, to ensure such property was being reflected at the lower of cost or market (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 are categorized as Level 2 or Level 3 fair value measurements in accordance with U.S. GAAP (see Note 2). The financial statements of these alternative investments are prepared in accordance with U.S. GAAP and are audited annually by independent auditors.

These alternative investments 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 forty-five to ninety days' notice, and typically after the expiration of any defined lock-up period(s).

CFR's policy is to recognize transfers in and transfers out of levels as of the beginning of the reporting period of the event or change in circumstance that caused the respective transfer. During the years ended June 30, 2015 and 2014, CFR transferred \$0 and \$21,180,800, respectively, classified as growth-oriented assets from Level 3 to Level 2, due to the expiration of lock-up periods during fiscal 2014. The changes in assets measured at fair value for which investment managers have reported as Level 3 inputs to determine fair value are as follows for the years ended June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Balance, beginning of the year	\$ 218,073,300	\$ 247,731,500
Transfers	-	(21,180,800)
Contributions	1,673,100	3,617,400
Redemptions	(44,168,700)	(43,092,600)
Investment income		
Interest and dividends	233,500	1,347,000
Realized and unrealized gains	7,256,400	33,596,500
Fees	(1,397,400)	(3,945,700)
Balance, end of the year	<u>\$ 181,670,200</u>	<u>\$ 218,073,300</u>

COUNCIL ON FOREIGN RELATIONS, INC.
Notes to Financial Statements
June 30, 2015 and 2014

The following tables summarize CFR's investments in Level 2 and Level 3 investments:

2015				
Investment Objective	Fair Value	Unfunded Commitments	Redemption Frequency	Notice Period
Deflation hedges	\$ 6,887,300	\$ -	Daily	1–5 days
Long-only equities	105,918,700	-	Daily–Quarterly	1–90 days
Growth-oriented hedge funds	59,855,400	-	Quarterly–Annually	30–90 days
Diversifiers	98,134,400	-	Monthly–Annually	60–180 days
Private equity	24,943,600	8,121,000	Illiquid	n/a
Private hard assets	<u>4,898,900</u>	<u>4,753,000</u>	Illiquid	n/a
	<u>\$ 300,638,300</u>	<u>\$ 12,874,000</u>		
2014				
Investment Objective	Fair Value	Unfunded Commitments	Redemption Frequency	Notice Period
Deflation hedges	\$ 6,773,600	\$ -	Daily	1–5 days
Long-only equities	83,911,600	-	Daily–Quarterly	1–90 days
Growth-oriented hedge funds	67,235,200	-	Quarterly–Annually	30–90 days
Diversifiers	128,884,700	-	Monthly–Annually	60–180 days
Private equity	29,163,200	3,913,300	Illiquid	n/a
Private hard assets	<u>7,824,800</u>	<u>5,800,000</u>	Illiquid	n/a
	<u>\$ 323,793,100</u>	<u>\$ 9,713,300</u>		

12. COMMITMENTS

Operating leases

CFR leases certain equipment under operating lease arrangements. These leases consist of various office equipment rentals.

Future minimum payments for noncancelable operating leases as of June 30, 2015, are as follows:

Year Ending June 30	
2016	\$ 153,200
2017	118,900
2018	58,600
2019	<u>36,000</u>
Total	<u>\$ 366,700</u>

Rent expense under the operating leases amounted to \$121,100 and \$128,100 for the years ended June 30, 2015 and 2014, respectively.

COUNCIL ON FOREIGN RELATIONS, INC.
Notes to Financial Statements
June 30, 2015 and 2014

Rental Income

CFR has entered into a sublease agreement to lease office space. Minimum future guaranteed rental income payments due under the sublease agreement are as follows:

Year Ending June 30

2016	\$ 328,900
2017	328,900
2018	<u>156,200</u>
	<u>\$ 814,000</u>

SUPPLEMENTARY INFORMATION

COUNCIL ON FOREIGN RELATIONS, INC.
Supplementary Schedule of Functional Expenses
For the year ended June 30, 2015, with comparative totals for 2014

	Program Services												Total Programs
	Studies Program	Task Force	NY Meetings	DC Programs	Special Events	Foreign Affairs	National Program	Outreach	Term Program	Digital Program	Education Program	Global Board of Advisors	
Salaries and wages	\$ 11,095,600	\$ 132,200	\$ 512,500	\$ 894,700	\$ 509,000	\$ 2,665,800	\$ 354,600	\$ 669,300	\$ 95,700	\$ 1,234,200	\$ 664,000	\$ 15,700	\$ 18,843,300
Other compensation	901,400	17,700	73,600	87,800	188,900	436,800	42,100	70,300	11,500	120,300	99,900	500	2,050,800
Payroll taxes and employee benefits	3,350,000	40,300	160,700	279,400	157,100	832,000	108,500	205,500	29,700	370,100	202,400	4,200	5,739,900
Meeting expenses	596,700	34,800	382,300	268,900	2,300	120,000	413,800	180,800	116,900	3,800	1,500	27,400	2,149,200
Printing, publication, and promotion expenses	164,000	70,500	2,300	5,600	18,800	2,711,900	7,200	18,800	3,600	92,200	3,200	1,200	3,099,300
Research materials	269,400	100	5,600	16,900	200	67,000	5,900	6,300	100	12,800	25,000	1,200	410,500
Travel-related expenses	1,253,600	50,400	44,100	35,000	4,700	111,900	80,400	160,000	21,200	60,400	16,300	10,200	1,848,200
Administration and finance expenses	411,000	8,500	7,800	53,900	14,800	346,900	5,800	11,000	1,800	31,800	13,600	800	907,700
Interest expenses	1,164,300	29,000	-	198,300	29,500	33,500	-	-	-	32,300	-	-	1,486,900
Depreciation	1,062,500	15,000	30,800	102,800	45,100	233,600	27,100	16,800	4,900	79,500	37,600	7,400	1,663,100
Business expenses	120,200	5,500	7,800	7,700	6,800	658,400	10,700	42,600	2,700	24,100	6,000	1,800	894,300
Operations	665,700	5,800	30,000	39,700	40,000	143,800	25,400	15,700	4,600	65,200	35,200	7,500	1,078,600
Professional services	2,572,800	72,500	77,200	108,600	90,800	1,399,000	56,800	73,700	13,000	271,400	451,900	9,500	5,197,200
Information technology	580,500	8,500	23,600	45,400	26,300	319,300	18,700	36,800	5,100	83,200	46,000	2,600	1,196,000
Total Expenses	<u>\$ 24,207,700</u>	<u>\$ 490,800</u>	<u>\$ 1,358,300</u>	<u>\$ 2,144,700</u>	<u>\$ 1,134,300</u>	<u>\$ 10,079,900</u>	<u>\$ 1,157,000</u>	<u>\$ 1,507,600</u>	<u>\$ 310,800</u>	<u>\$ 2,481,300</u>	<u>\$ 1,602,600</u>	<u>\$ 90,000</u>	<u>\$ 46,565,000</u>

This schedule should be read in conjunction with the accompanying report of independent certified public accountants and the financial statements and notes thereto.

COUNCIL ON FOREIGN RELATIONS, INC.
Supplementary Schedule of Functional Expenses (con't)
For the year ended June 30, 2015, with comparative totals for 2014

	Total Programs	Supporting Services				Total Supporting	2015 Total	2014
		Development	Corporate Program	Management and General	Membership			
Salaries and wages	\$ 18,843,300	\$ 1,141,500	\$ 942,600	\$ 2,464,700	\$ 398,700	\$ 4,947,500	\$ 23,790,800	\$ 23,315,600
Other compensation	2,050,800	108,300	100,100	2,217,800	48,100	2,474,300	4,525,100	4,007,200
Payroll taxes and employee benefits	5,739,900	365,100	294,000	783,000	125,000	1,567,100	7,307,000	7,097,700
Meeting expenses	2,149,200	175,700	210,000	137,300	17,000	540,000	2,689,200	2,493,700
Printing, publication, and promotion expenses	3,099,300	6,000	30,200	67,000	225,500	328,700	3,428,000	3,527,300
Research materials	410,500	17,600	8,000	62,900	1,000	89,500	500,000	479,000
Travel-related expenses	1,848,200	177,000	84,000	118,500	10,600	390,100	2,238,300	2,232,000
Administration and finance expenses	907,700	25,800	30,800	1,027,000	211,100	1,294,700	2,202,400	1,929,300
Interest expenses	1,486,900	-	73,200	1,086,600	-	1,159,800	2,646,700	2,716,000
Depreciation	1,663,100	55,900	64,400	1,322,600	29,800	1,472,700	3,135,800	3,497,200
Business expenses	894,300	21,600	9,100	305,500	8,000	344,200	1,238,500	895,600
Operations	1,078,600	53,700	40,300	653,400	27,900	775,300	1,853,900	1,785,300
Professional services	5,197,200	87,700	105,700	962,700	78,200	1,234,300	6,431,500	5,903,600
Information technology	1,196,000	32,700	47,800	303,300	17,500	401,300	1,597,300	1,199,000
Total Expenses	\$ 46,565,000	\$ 2,268,600	\$ 2,040,200	\$ 11,512,300	\$ 1,198,400	\$ 17,019,500	\$ 63,584,500	\$ 61,078,500