

COUNCIL *on*  
FOREIGN  
RELATIONS

# 2013 Financial Statements



STATEMENT OF FINANCIAL POSITION

AS OF JUNE 30, 2013 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2012)

	2013	2012
<b>Assets</b>		
Cash and cash equivalents (Notes 2, 8, and 13)	\$ 26,159,600	\$ 20,753,100
Accounts receivable, net, and prepaid expenses (Note 2)	2,485,600	2,036,000
Grants and contributions receivable, net (Notes 2 and 4)	18,713,700	23,262,100
Contributions receivable for endowment, net (Notes 2 and 4)	4,435,800	10,342,900
Inventory (Note 2)	111,400	102,300
Investments (Notes 2, 3, 10, and 11)	333,666,100	301,728,400
Land, buildings and building improvements, and equipment, net (Notes 2, 5, and 8)	76,313,300	78,161,300
Deferred financing costs, net (Note 8)	—	2,814,800
<b>Total assets</b>	<u>\$461,885,500</u>	<u>\$439,200,900</u>
<b>Liabilities</b>		
Accounts payable and accrued expenses (Notes 2, 5, and 6)	\$ 6,327,600	\$ 5,192,000
Deferred revenue (Note 2)	3,505,100	3,694,900
Accrued postretirement benefits (Note 7)	4,689,000	4,866,000
Interest rate swap agreement (Notes 2, 8, and 11)	7,799,200	10,358,100
Bonds payable (Note 8)	62,680,000	62,680,000
<b>Total liabilities</b>	<u>85,000,900</u>	<u>86,791,000</u>
<b>Net assets (Note 2)</b>		
Unrestricted	135,020,100	115,296,300
Temporarily restricted (Note 9)	75,848,400	71,837,100
Permanently restricted (Notes 9 and 10)	166,016,100	165,276,500
<b>Total net assets</b>	<u>376,884,600</u>	<u>352,409,900</u>
<b>Total liabilities and net assets</b>	<u>\$461,885,500</u>	<u>\$439,200,900</u>

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

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2013 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2012)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	2013 TOTAL	2012 TOTAL
<b>Operating revenue and support</b>					
Membership dues	\$ 5,640,400	\$ —	\$ —	\$ 5,640,400	\$ 5,447,600
Annual giving	8,043,500	—	—	8,043,500	8,085,800
Corporate memberships and related income	8,194,700	299,000	—	8,493,700	6,881,200
Grants and contributions	102,600	9,670,600	—	9,773,200	26,236,300
Foreign Affairs publications	7,992,700	—	—	7,992,700	7,248,800
Investment return used for current operations (Note 3)	9,474,400	4,424,800	—	13,899,200	12,437,400
Rental income	2,036,900	—	—	2,036,900	1,784,600
Miscellaneous	82,700	—	—	82,700	350,300
Net assets released from restrictions (Note 9)	16,675,800	(16,675,800)	—	—	—
<b>Total operating revenue and support</b>	<b>58,243,700</b>	<b>(2,281,400)</b>	<b>—</b>	<b>55,962,300</b>	<b>68,472,000</b>
<b>Operating expenses</b>					
Program expenses:					
Studies Program	21,832,900	—	—	21,832,900	21,436,400
Task Force	448,300	—	—	448,300	576,600
NY Meetings	1,193,700	—	—	1,193,700	1,357,700
DC programs	1,892,500	—	—	1,892,500	1,600,600
Special Events	982,900	—	—	982,900	950,600
Foreign Affairs	9,517,000	—	—	9,517,000	8,883,300
National Program	991,700	—	—	991,700	1,047,600
Outreach Program	1,198,300	—	—	1,198,300	921,400
Term member	369,600	—	—	369,600	447,800
Websites	3,485,700	—	—	3,485,700	2,648,000
Communications	1,977,400	—	—	1,977,400	1,677,800
Global Board of Advisers	54,400	—	—	54,400	—
Education	479,200	—	—	479,200	—
<b>Total program expenses</b>	<b>44,423,600</b>	<b>—</b>	<b>—</b>	<b>44,423,600</b>	<b>41,547,800</b>
Supporting services:					
Fundraising:					
Development	1,610,500	—	—	1,610,500	1,736,700
Corporate Program	2,229,800	—	—	2,229,800	1,819,300
Total fundraising	3,840,300	—	—	3,840,300	3,556,000
Management and general	8,380,200	—	—	8,380,200	7,514,100
Membership	927,700	—	—	927,700	1,081,300
<b>Total supporting services</b>	<b>13,148,200</b>	<b>—</b>	<b>—</b>	<b>13,148,200</b>	<b>12,151,400</b>
<b>Total operating expenses</b>	<b>57,571,800</b>	<b>—</b>	<b>—</b>	<b>57,571,800</b>	<b>53,699,200</b>
<b>(Deficiency)/excess of operating revenue and support over operating expenses</b>	<b>671,900</b>	<b>(2,281,400)</b>	<b>—</b>	<b>(1,609,500)</b>	<b>14,772,800</b>
<b>Nonoperating revenue (loss) (Note 2)</b>					
Investment gain/(loss) in excess of spending rate (Notes 2 and 3)	19,008,400	6,292,700	(2,300)	25,298,800	(13,807,900)
Endowment contributions (Note 4)	—	—	741,900	741,900	169,300
Return of endowment contribution	—	—	—	—	(300,000)
Write-off of deferred financing costs (Note 8)	(2,796,400)	—	—	(2,796,400)	—
Gain/(loss) on interest rate swap agreement (Notes 2 and 8)	2,558,900	—	—	2,558,900	(5,162,300)
<b>Total nonoperating revenue (loss)</b>	<b>18,770,900</b>	<b>6,292,700</b>	<b>739,600</b>	<b>25,803,200</b>	<b>(19,100,900)</b>
Change in net assets before postretirement changes other than net periodic costs (Note 7)	19,442,800	4,011,300	739,600	24,193,700	(4,328,100)
Postretirement changes other than net periodic costs	281,000	—	—	281,000	(433,000)
<b>Change in net assets</b>	<b>19,723,800</b>	<b>4,011,300</b>	<b>739,600</b>	<b>24,474,700</b>	<b>(4,761,100)</b>
Net assets, beginning of year	115,296,300	71,837,100	165,276,500	352,409,900	357,171,000
<b>Net assets, end of year</b>	<b>\$135,020,100</b>	<b>\$75,848,400</b>	<b>\$166,016,100</b>	<b>\$376,884,600</b>	<b>\$352,409,900</b>

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2013 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2012)

	2013	2012
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 24,474,700	\$ (4,761,100)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	3,673,600	3,778,400
Amortization of financing costs	18,400	109,900
Change in discount on grants and contributions and contribution for endowment receivable	(102,900)	36,300
Fair value of interest rate swap	(2,558,900)	5,162,300
Net realized and unrealized loss/(gain) on investments	(42,274,400)	(301,700)
Bad debt expense	182,700	113,000
Contributions restricted for investment in endowment	(741,900)	213,900
Write-off of deferred financing costs	2,796,400	—
Postretirement changes other than net periodic pension costs	(281,000)	433,000
Donated securities	(691,100)	(289,400)
Changes in operating assets and liabilities:		
Accounts receivable and prepaid expenses	(632,300)	(300,800)
Grants and contributions receivable	4,651,300	(11,265,700)
Inventory	(9,100)	(7,500)
Accounts payable and accrued expenses	1,135,600	(315,500)
Deferred revenue	(189,800)	363,300
Accrued postretirement benefits	104,000	81,000
<b>Net cash used by operating activities</b>	<u>(10,444,700)</u>	<u>(6,950,600)</u>
<b>Cash flows from investing activities:</b>		
Purchases of building improvements and equipment	(1,825,600)	(1,715,000)
Purchase of investments	(101,790,100)	(90,516,900)
Proceeds from sales of investments	112,817,900	93,210,300
<b>Net cash provided by investing activities</b>	<u>9,202,200</u>	<u>978,400</u>
<b>Cash flows from financing activities:</b>		
Contributions restricted for investment in endowment	6,649,000	8,890,300
<b>Net cash provided by financing activities</b>	<u>6,649,000</u>	<u>8,890,300</u>
<b>Net increase in cash and cash equivalents</b>	5,406,500	2,918,100
Cash and cash equivalents, beginning of year	20,753,100	17,835,000
<b>Cash and cash equivalents, end of year</b>	<u>\$ 26,159,600</u>	<u>\$ 20,753,100</u>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid on capital lease	\$ 300	\$ 1,000
Interest paid on bonds and bridge loan	<u>\$ 2,686,200</u>	<u>\$ 2,313,300</u>

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

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

### 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 financial statements are prepared on the accrual basis. CFR adheres to accounting principles generally accepted in the United States of America.

**Cash and Cash Equivalents**—CFR considers all highly liquid investments purchased with a maturity of three months or less, excluding cash and money market funds held in investments, to be cash equivalents.

**Allowance for Doubtful Accounts**—As of June 30, 2013 and 2012, CFR determined that an allowance for uncollectible accounts of \$206,200 and \$143,300, respectively, is necessary for uncollectible membership and uncollectible *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, 2013 and 2012. This determination is based on a combination of factors, such as management’s estimate of the creditworthiness of its members and contributors, a review of individual accounts outstanding, the aged basis of receivables, current economic conditions, and historical experience.

**Investments**—CFR’s investments in marketable debt and equity securities are recorded at their fair values, which are based on quoted market prices. Donated securities are recorded at their fair market value on the date received. 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 operations up to 5 percent of the average market value of investments for the three previous years. Amounts allocated to the unrestricted net asset class are at the discretion of CFR’s Board of Directors (the “Board”). Amounts allocated to the temporarily restricted net asset class are based on the donors’ stipulations.

CFR’s investments in alternative investment companies are carried at the aggregate net asset value of the shares held by CFR. The net asset value is based on the net market value of the alternative investment company’s investment portfolio as determined by the management of the alternative investment company. 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. CFR’s ability to liquidate its investments in limited partnerships is restricted in accordance with the provisions of respective partnership agreements.

The fair value of CFR’s investments without readily quoted market prices is determined on an estimated basis by the investment managers. Because of the inherent uncertainty of valuation, the values determined by the investment managers may differ from values that would be used had a ready market for these investments existed, and the differences could be material. The financial statements of the investees are audited annually by independent auditors. Investment income and gains are recorded on the accrual basis.

**Fair Value**—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 prioritizes observable and unobservable inputs used to measure fair value into three levels, as described in Note 11.

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

**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 in the applicable period. Deferred revenue represents subscriptions received in advance.

**Net Asset Classifications**—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 for general purposes (unrestricted) and specific program activities (temporarily restricted). (See Note 10 for further information.)

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

Unrestricted net assets represent resources received that have not been restricted by the donor and that have no time restrictions. Such resources are available for support of 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 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 purpose restriction is fulfilled—temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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

**ASC Topic 740**—CFR has no uncertain tax positions as of June 30, 2013 and 2012, in accordance with Accounting Standards Codification ("ASC") Topic 740 ("Income Taxes"), which provides standards for establishing and classifying any tax provisions for uncertain tax positions. CFR is no longer subject to federal or state and local tax examinations by tax authorities for fiscal years before 2010.

**Support and Revenue**—Contributions are recorded when received unconditionally, at their fair value. Gifts received with donor stipulations that limit the use of donated assets are reported as either temporarily or permanently restricted support.

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

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

**Postretirement Benefits**—Generally Accepted Accounting Principles in the United States of America ("GAAP") require an employer to: (a) recognize in its statement of financial position an asset for a plan's overfunded status or a liability for a plan's underfunded status; (b) measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year; and (c) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur.

**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 debt. The interest rate swap agreement was not entered into for trading or speculative purposes. In accordance with GAAP, the interest rate swap agreement is measured at fair value and recognized as either an asset or a liability. Gains or losses resulting from changes in fair value are recorded as nonoperating changes in net assets in 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 an 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 and contributions to permanently restricted net assets are recognized as nonoperating activities.

**Use of Estimates**—The preparation of financial statements in conformity with 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 cost of providing the various programs and the supporting services has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated by management among the programs and supporting services benefited as a percentage of all direct program expenses.

**Summarized Comparative Information**—The 2013 financial statements include certain prior year summarized comparative information. The statement of activities does not reflect all net asset classes for the year ended June 30, 2012. As a result, the 2012 information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such 2012 information should be read in conjunction with CFR's financial statements for the year ended June 30, 2012, from which the information was derived.

**Reclassifications**—Certain line items in the summarized June 30, 2012, financial statements have been reclassified to conform to the June 30, 2013, presentation.



### 3. INVESTMENTS

The components of CFR's investments as of June 30, 2013 and 2012, are as follows:

	2013	2012
Money market	\$ 15,970,000	\$ 24,336,900
Domestic equity securities	28,361,600	7,048,800
Global equity	34,068,800	18,631,100
Global ex-U.S. equity	15,773,500	12,582,200
Corporate bonds	6,850,200	6,555,200
Subtotal	<u>101,024,100</u>	<u>69,154,200</u>
Alternative investments:		
Equity hedge funds	27,408,300	11,992,200 <sup>A</sup>
Multi-strategy/open mandate	80,252,700	82,216,700
Credit/distressed	28,842,800	32,103,000
Global macro	52,741,200	60,175,900
Absolute return fund of funds	161,836,700	174,495,600 <sup>B</sup>
Liquidating trusts/side pockets	3,622,700	2,122,700 <sup>C</sup>
Private equity funds	31,647,600	36,273,400 <sup>D</sup>
Private RE/NR fund of funds	8,126,700	7,690,300 <sup>E</sup>
Subtotal	<u>232,642,000</u>	<u>232,574,200</u>
Total	<u>\$333,666,100</u>	<u>\$301,728,400</u>

A. Equity hedge funds are investments in limited partnerships that invest primarily in domestic and international equity and government securities. The hedge and real assets funds may also trade various financial instruments with off-balance-sheet risk. These financial instruments include securities sold short and long, option contracts, and differential and foreign currency forward contracts. Such transactions subject the hedge and real assets funds and their investors to market risk associated with changes in the value of the underlying securities, financial instruments, and foreign currencies, as well as the risk of loss if counterparty fails to perform. The respective hedge and real assets fund managers endeavor to limit the risk associated with such transactions. These instruments do not subject CFR to off-balance-sheet risk.

B. The absolute return fund of funds describes investments in limited partnerships that invest primarily through a diversified group of other funds. The goal of the fund is to achieve consistent long-term growth of capital with reduced volatility. The underlying assets consist primarily of equity and fixed income securities.

Multi-strategy/open mandate: Hedge fund managers that invest across asset classes (e.g., public equities, credit, etc.) and strategies (e.g., value investments, risk arbitrage, event driven, special situations, etc.).

Credit/distressed: Hedge fund managers that invest predominately in credit and/or distressed securities.

Global macro: Hedge fund managers that invest primarily based on macroeconomic views, typically in liquid markets (e.g., rates, currencies, equities, commodities, etc.).

C. Liquidating trusts/side pockets are investments in the process of liquidation. These investments are in illiquid instruments.

D. Private equity funds are funds whose purpose is to achieve capital appreciation through investments primarily in foreign and domestic securities of companies that are not publicly traded, as well as in limited partnerships.

E. The private RE/NR fund of funds are investments in limited partnerships that invest in real estate managers pursuing traditional commercial property strategies.

As of June 30, 2013, CFR has unfunded commitments to limited partnerships of approximately \$11.2 million, and intends to sell a portion of its other investments to fund these commitments.

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

Investment return consists of the following for the years ended June 30, 2013 and 2012:

	2013			TOTAL	2012 TOTAL
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED		
Dividends and interest	\$ 1,425,500	\$ 536,400	\$ —	\$ 1,961,900	\$ 1,377,200
Realized gain/(loss)	7,570,800	2,848,800	(2,300)	10,417,300	19,023,100
Unrealized gain/(loss)	23,147,300	8,709,800	—	31,857,100	(18,721,400)
Net realized and unrealized gain	<u>30,718,100</u>	<u>11,558,600</u>	<u>(2,300)</u>	<u>42,274,400</u>	<u>301,700</u>
Total return on investments	32,143,600	12,095,000	(2,300)	44,236,300	1,678,900
Investment return used for current operations	(9,474,400)	(4,424,800)	—	(13,899,200)	(12,437,400)
Investment expenses	(3,660,800)	(1,377,500)	—	(5,038,300)	(3,049,400)
Investment gain/(loss) in excess of spending rate	<u>\$19,008,400</u>	<u>\$ 6,292,700</u>	<u>\$ (2,300)</u>	<u>\$ 25,298,800</u>	<u>\$(13,807,900)</u>

4. GRANTS AND CONTRIBUTIONS RECEIVABLE AND CONTRIBUTIONS RECEIVABLE FOR ENDOWMENT

Receivables consist primarily of promises to give and are due from individuals, corporations, and foundations. Grants and contributions receivable and contributions receivable for endowment as of June 30, 2013 and 2012, are due to be collected as follows:

	2013	2012
Amounts due in one year:		
Grants and contributions receivable	\$ 9,254,500	\$ 9,853,600
Contributions receivable for endowment	4,435,800	4,990,500
Total	<u>13,690,300</u>	<u>14,844,100</u>
Amount due in two to five years:		
Grants and contributions receivable	9,618,000	13,589,300
Contributions receivable for endowment	—	5,433,300
Total	<u>9,618,000</u>	<u>19,022,600</u>
Gross receivable	23,308,300	33,866,700
Less discount (at rates varying from 0.36% to 1.41%)	(158,800)	(261,700)
Total, net	<u>\$ 23,149,500</u>	<u>\$ 33,605,000</u>

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

Endowment contributions, net of discount, write-offs, and returns, totaled \$739,600 for the year ended June 30, 2013, and (\$130,700), which included a return on a prior-year contribution of \$300,000, for the year ended June 30, 2012.

5. LAND, BUILDINGS AND BUILDING IMPROVEMENTS, AND EQUIPMENT

Land, buildings and building improvements, and equipment, at cost, as of June 30, 2013 and 2012, are summarized as follows:

	2013	2012	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)	34,449,800	33,790,300	5–55 years
Buildings and building improvements (Washington, DC)	53,090,500	52,902,500	5–55 years
Equipment (New York)	10,671,500	9,904,400	3–15 years
Equipment (Washington, DC)	4,414,300	4,291,000	3–15 years
Total	<u>109,878,100</u>	<u>108,140,200</u>	
Less accumulated depreciation	<u>(33,564,800)</u>	<u>(29,978,900)</u>	
Total, net	<u>\$ 76,313,300</u>	<u>\$ 78,161,300</u>	

Depreciation expense amounted to \$3,673,600 and \$3,778,400 for the years ended June 30, 2013 and 2012, respectively. During 2013 and 2012, assets that were fully depreciated were written off in the amount of \$87,700 and \$116,700, respectively.

Certain long-term leases for equipment are classified as capital leases. Accordingly, such equipment is capitalized and depreciated on a straight-line basis over the life of the lease. The corresponding obligation of approximately \$19,300 and \$96,200 as of June 30, 2013 and 2012, respectively (included in accounts payable and accrued expenses), under the capital lease represents the present value of the rental payments discounted by the interest rates implicit in the lease agreements of 0.2 percent.

6. RETIREMENT AND DEFERRED COMPENSATION PLANS

CFR has a defined contribution retirement plan covering all employees who meet the minimum service requirements. Payments, which are 8 percent of each participant's salary for all employees, are made to the Teachers Insurance and Annuity Association and College Retirement Equities Fund to purchase individual annuities for plan participants. The expense amounted to \$1,588,700 and \$1,484,300 for the fiscal years ended June 30, 2013 and 2012, 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.

7. OTHER POSTRETIREMENT BENEFITS

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

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

	2013	2012
Change in benefit obligation:		
Benefit obligation, beginning of year	\$4,866,000	\$4,352,000
Service cost	42,000	29,000
Interest cost	181,000	207,000
Actuarial net (loss)/gain	(151,000)	528,000
Benefits paid	(249,000)	(250,000)
Benefit obligation, end of year	<u>\$4,689,000</u>	<u>\$4,866,000</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 is 4.39 percent and 3.74 percent for the years ended June 30, 2013 and 2012, respectively.

The net periodic benefit obligations and the components of benefit cost for the years ended June 30, 2013 and 2012, are as follows:

	2013	2012
Service cost	\$ 42,000	\$ 29,000
Interest cost	181,000	207,000
Amortization of net loss	140,000	105,000
Amortization of prior service cost	<u>(10,000)</u>	<u>(10,000)</u>
Net periodic cost	<u>\$353,000</u>	<u>\$331,000</u>

The postretirement benefit cost, net of retiree benefit payments for the years ended June 30, 2013 and 2012, amounted to \$104,000 and \$81,000, respectively, and was based on actuarial assumptions and a discount rate set as of the beginning of the year. The discount rate was 4.39 percent 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, 2013 and 2012, includes reclassifications of amounts previously recognized as changes in unrestricted net assets as follows:

	2013	2012
Amortization of net loss	\$140,000	\$105,000
Amortization of prior service cost	<u>(10,000)</u>	<u>(10,000)</u>

Amounts that have not been recognized as components of net periodic benefit costs but included in unrestricted net assets to date, as the effect of adoption of FASB No. 158, are as follows:

Net actuarial loss	\$2,049,000
Prior service cost (credit)	<u>(81,000)</u>
	<u>\$1,968,000</u>

Assumed health-care cost trend rates at June 30:

	2013	2012
Health-care cost trend rate assumed for next year	7.33%	7%
Rate to which the cost trend rate is assumed to decline	5%	5%
Year that the rate reaches the ultimate trend rate	2020	2016

Increasing the assumed medical care cost trend rates by 1 percent in each year would increase the accumulated postretirement benefit obligation by \$610,000 as of June 30, 2013, and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year by \$33,000. Decreasing the assumed health-care cost trend rates by 1 percent would decrease the accumulated postretirement benefit obligation by \$511,000 as of June 30, 2013, and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year ended by \$27,000.

Amounts in unrestricted net assets are expected to be recognized as components of net periodic benefit cost over fiscal year 2014 are as follows:

Net gain/loss	\$113,000
Prior service cost	(8,000)

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

YEAR ENDING JUNE 30,

2014	\$ 272,000
2015	282,000
2016	295,000
2017	301,000
2018	308,000
2019–2023	1,492,000

8. BORROWING

Bonds payable amounted to \$62,680,000 as of June 30, 2013 and 2012 (which approximates fair value), and consist of tax-exempt variable rate demand revenue bonds (the "Bonds") issued by the District of Columbia on behalf of CFR in August 2007. Proceeds of the Bonds were used for the acquisition, renovation, furnishing, and equipping of an office building, located at 1777 F Street, NW, Washington DC, to be used by CFR for office and conference space. On September 4, 2012, these bonds were purchased by Wells Fargo Municipal Capital Strategies, LLC.

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 a LIBOR index rate, which is determined by the calculation agent and is payable monthly, in arrears, on the first day of each month. In no event shall the interest rate exceed the lesser of the highest interest rate, which may be borne by the Bonds under the laws of the District of Columbia and 12 percent per annum.

As of June 30, 2013, the LIBOR index rate on the Bonds was 1.14 percent per annum. The LIBOR index rate mode began September 4, 2012 (the "Conversion Date"), and ranged from 1.14 percent to 1.16 percent. Prior to the conversion date, the weekly rates ranged from 0.21 percent to 0.37 percent during fiscal year 2013.

In accordance with the Trust Indenture dated August 1, 2007, a Project Fund was established with Wells Fargo Bank, N.A. (the "Trustee"). As of June 30, 2013 and 2012, approximately \$498,400 was held by the Trustee. Pursuant to the amended and restated Trust Indenture agreement dated September 4, 2012, the Project Fund was closed and the funds released to CFR.

The Bonds were collateralized by a letter of credit in the amount of \$63,401,300, consisting of \$62,680,000, which could have been drawn upon with respect to payment of unpaid principal amount, and \$721,300, which could have been drawn upon with respect to the payment of up to 35 days of accrued interest on the Bonds or the portion of the purchase price representing accrued interest on the Bonds. In each case a maximum interest rate of 12 percent per annum is assumed and computed on the basis of the actual number of days elapsed over a year of 365 days. The letter of credit was issued by Bank of America, N.A., and expires on August 14, 2017. The letter of credit was terminated on September 4, 2012.

Principal, interest, and fee payments are as follows for the years subsequent to June 30, 2013:

YEAR ENDING JUNE 30,	PRINCIPAL	INTEREST AND FEES	TOTAL
2014	\$ 1,510,000	\$ 2,659,700	\$ 4,169,700
2015	1,565,000	2,389,500	3,954,500
2016	1,630,000	2,330,900	3,960,900
2017	1,690,000	2,257,100	3,947,100
2018	1,765,000	2,186,800	3,951,800
Thereafter	54,520,000	23,737,700	78,257,700
Total	<u>\$62,680,000</u>	<u>\$35,561,700</u>	<u>\$98,241,700</u>

In connection with the original issuance of the Bonds, CFR incurred a total of \$3,297,400 in financing costs that have been capitalized and are being amortized up to the conversion date. Amortization expense amounted to \$18,400 and \$109,900 for each of the years ended June 30, 2013 and 2012, respectively. The remaining balance of \$2,796,400 was written off in accordance with the amended and restated loan agreement dated September 4, 2012.

CFR entered into an interest rate swap agreement with an effective date of December 7, 2007, whereby CFR agreed to swap its variable rate interest on the Bonds for a fixed rate equal to 3.719 percent. The notional amount of the swap agreement totals \$60,000,000, in which the agreement term is \$30,000,000 maturing in ten years and \$30,000,000 remaining for the life of the Bonds. The interest rate swap was notated 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 of the swap agreement is \$62,680,000, which will be amortized annually until the termination date of August 1, 2037. The fair value of the swap agreement as of June 30, 2013 and 2012, is a liability of \$7,799,200 and \$10,358,100, respectively.

Effective August 12, 2010, CFR had entered into a loan agreement with Bank of America, N.A., to provide a revolving line of credit in the amount of \$5 million. The line of credit was available between the date of the agreement and December 31, 2012. The loan agreement was not renewed after December 31, 2012, and there was no outstanding balance as of June 30, 2013.

9. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2013 and 2012, were restricted for the following purposes or time periods:

	2013	2012
Studies Program	\$47,751,300	\$46,101,400
Task Force	358,800	379,200
NY Meetings	2,617,600	2,100,600
DC programs	308,500	468,000
Term member	964,500	463,300
Foreign Affairs publications	1,239,100	1,692,300
National Program	374,900	240,300
Outreach Program	90,000	163,900
Websites	432,100	143,200
Communications	67,700	—
Capital	2,924,700	3,236,900
Various programs/operating	18,719,200	16,848,000
Total	<u>\$75,848,400</u>	<u>\$71,837,100</u>

Temporarily restricted net assets were released from restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by the donors for the years ended June 30, 2013 and 2012, as follows:

	2013	2012
Studies Program	\$12,028,000	\$12,233,500
Task Force	39,600	149,300
NY Meetings	609,600	582,700
DC programs	159,400	38,000
Term member	285,000	343,100
Foreign Affairs publications	191,000	223,700
National Program	277,600	249,500
Outreach Program	436,200	260,000
Websites	539,200	507,000
Communications	17,500	63,200
Capital	407,100	360,000
Various programs/operating	1,685,600	1,167,700
Total	<u>\$16,675,800</u>	<u>\$ 16,177,700</u>

Permanently restricted net assets as of June 30, 2013 and 2012, are shown below. The income earned on these related investments is available for the following purposes:

	2013	2012
Studies Program	\$ 76,366,700	\$ 75,707,000
NY Meetings	7,416,800	7,415,800
National Program	2,000,000	2,000,000
Library	156,700	156,700
Foreign Affairs publications	2,620,200	2,620,200
Other	2,082,600	2,082,600
Unrestricted as to use	75,373,100	75,294,200
Total	<u>\$166,016,100</u>	<u>\$ 165,276,500</u>

#### 10. ENDOWMENT NET ASSETS

CFR recognizes that New York State adopted as law the New York Prudent Management of Institutional Funds Act ("NYPMIFA") on September 17, 2010. NYPMIFA replaced the prior law which was the Uniform Management of Institutional Funds Act ("UMIFA"). 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. CFR's Board of Directors has appropriated all earnings as of and prior to June 30, 2013, whether deemed spent or not, as unrestricted.

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 the 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.

Changes in endowment net assets for year ended June 30, 2013:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL ENDOWMENT INVESTMENTS
Investment activity:				
Interest and dividends	\$ 1,425,500	\$ 536,400	\$ —	\$ 1,961,900
Unrealized gain on investments	23,147,300	8,709,800	—	31,857,100
Realized gain on investments	7,570,800	2,848,800	(2,300)	10,417,300
Investment expenses	(3,660,800)	(1,377,500)	—	(5,038,300)
Total investment activity	28,482,800	10,717,500	(2,300)	39,198,000
Contributions/cash collected on endowment multiyear pledges	—	—	6,649,000	6,649,000
Proceeds from sale of investments/ purchases, net	(100)	—	—	(100)
Amount appropriated for expenditure	(9,474,400)	(4,424,800)	—	(13,899,200)
Total endowment activity	19,008,300	6,292,700	6,646,700	31,947,700
Endowment net assets, beginning of year	126,283,900	20,500,900	154,933,600	301,718,400
Endowment net assets, end of year	<u>\$145,292,200</u>	<u>\$26,793,600</u>	<u>\$161,580,300</u>	<u>\$333,666,100</u>

Changes in endowment net assets for year ended June 30, 2012:

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL ENDOWMENT INVESTMENTS
<b>Investment activity:</b>				
Interest and dividends	\$ 1,030,100	\$ 347,100	\$ —	\$ 1,377,200
Unrealized loss on investments	(14,003,000)	(4,718,400)	—	(18,721,400)
Realized gain on investments	14,228,700	4,794,400	—	19,023,100
Investment expenses	(2,280,900)	(768,500)	—	(3,049,400)
Total investment activity	(1,025,100)	(345,400)	—	(1,370,500)
<b>Contributions/cash collected on</b>				
endowment multiyear pledges	—	—	9,190,300	9,190,300
Return of endowment contribution	—	—	(300,000)	(300,000)
Proceeds from sale of investments/ purchases, net	3,528,500	—	—	3,528,500
Amount appropriated for expenditure	(8,292,800)	(4,144,600)	—	(12,437,400)
Total endowment activity	(5,789,400)	(4,490,000)	8,890,300	(1,389,100)
Endowment net assets, beginning of year	132,073,300	24,990,900	146,043,300	303,107,500
Endowment net assets, end of year	\$126,283,900	\$20,500,900	\$154,933,600	\$301,718,400

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 \$333,666,100 and \$301,718,400 are included with investments on the statement of financial position for the years ended June 30, 2013 and 2012, respectively. In addition, for the years ended June 30, 2013 and 2012, endowment receivables of \$4,435,800 and \$10,342,900, respectively, are also endowed.

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 noted in Note 2, deficiencies of this nature are reported in either restricted or unrestricted net assets. These deficiencies resulted from unfavorable market fluctuations that occurred in the economy as a whole, whereby the fair market value of the donor-restricted endowment fund was below the amount that is required to be retained permanently. As of June 30, 2013, there was no deficiency. As of June 30, 2012, there was a deficiency of \$6,100.

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 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 also includes 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 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.

Financial assets and liabilities carried at fair value on June 30, 2013, are classified in the table as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
<b>Assets carried at fair value</b>				
<b>Cash equivalents:</b>				
Money market funds	\$ 2,823,700	\$ —	\$ —	\$ 2,823,700
<b>Investments:</b>				
Money market funds	15,970,000	—	—	15,970,000
Equity funds	17,123,300	25,326,600	35,754,000	78,203,900
Corporate obligations	—	6,850,200	—	6,850,200
Alternative investments	—	20,664,500	211,977,500	232,642,000
<b>Total assets at fair value</b>	<b>\$ 35,917,000</b>	<b>\$ 52,841,300</b>	<b>\$247,731,500</b>	<b>\$336,489,800</b>
<b>Liabilities carried at fair value</b>				
Interest rate swap agreement	\$ —	\$ (7,799,200)	\$ —	\$ (7,799,200)
<b>Total liabilities at fair value</b>	<b>\$ —</b>	<b>\$ (7,799,200)</b>	<b>\$ —</b>	<b>\$ (7,799,200)</b>

Financial assets and liabilities carried at fair value on June 30, 2012, are classified in the table as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
<b>Assets carried at fair value</b>				
Cash equivalents:				
Money market funds	\$ 2,823,300	\$ —	\$ —	\$ 2,823,300
Investments:				
Money market funds	24,336,900	—	—	24,336,900
Equity funds	7,059,100	11,710,700	19,492,300	38,262,100
Corporate obligations	—	6,555,200	—	6,555,200
Alternative investments	—	39,290,800	193,283,400	232,574,200
<b>Total assets at fair value</b>	<b>\$ 34,219,300</b>	<b>\$ 57,556,700</b>	<b>\$ 212,775,700</b>	<b>\$ 304,551,700</b>
<b>Liabilities carried at fair value</b>				
Interest rate swap agreement	\$ —	\$ (10,358,100)	\$ —	\$ (10,358,100)
<b>Total liabilities at fair value</b>	<b>\$ —</b>	<b>\$ (10,358,100)</b>	<b>\$ —</b>	<b>\$ (10,358,100)</b>

Investments in money market funds and corporate equities are valued using 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. Investments in corporate obligations and U.S. government bonds and notes are valued using quoted prices in inactive markets (Level 2). Level 2 instruments 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. It is not meant to be indicative of the classification of the investments in the underlying portfolio of the investment in alternative investments into the fair value hierarchy.

The fair value of the interest rate swaps is determined using observable market inputs such as current interest rates, credit risk of CFR, and that of its counterparties (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 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 a defined lock-up period.

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, 2013 and 2012:

	2013	2012
Balance, beginning of the year	\$212,775,700	\$212,739,300
Contributions	31,750,300	35,217,600
Redemptions	(29,993,000)	(36,325,000)
Investment income:		
Other income	1,013,100	661,400
Realized and unrealized gains	36,738,400	3,087,400
Fees	(4,553,000)	(2,605,000)
Balance, end of the year	<u>\$247,731,500</u>	<u>\$212,775,700</u>

CFR's policy is to recognize transfers in and transfers out as of the beginning of the reporting period of the event or change in circumstance that caused the transfer.

The following table summarizes CFR's investments in Level 2 and Level 3 investments:

INVESTMENT OBJECTIVE	FAIR VALUE	UNFUNDED COMMITMENTS	REDEMPTION FREQUENCY	NOTICE PERIOD
Equity funds	\$ 61,080,600	\$ —	Various	1–90 days
Corporate bonds	6,850,200	—	Various	5 days
Alternative investments				
Equity hedge funds	27,408,300	—	Various	1–90 days
Absolute return fund of funds	161,836,700	—	Various	60–180 days
Liquidating trusts/sidepockets	3,622,700	—	Illiquid	n/a
Private equity funds	31,647,600	5,468,400	Illiquid	n/a
Private RE/NE funds of funds	8,126,700	5,740,500	Illiquid	n/a
	<u>\$300,572,800</u>	<u>\$11,208,900</u>		

12. *COMMITMENTS*

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

Future minimum payments for noncancelable capital and operating leases as of June 30, 2013, are as follows:

<i>YEAR ENDING JUNE 30,</i>	<i>EQUIPMENT</i>
2014	\$125,800
2015	56,700
2016	<u>56,700</u>
Total	<u>\$239,200</u>

Rent expense under the operating leases amounted to \$173,000 and \$197,100 for the years ended June 30, 2013 and 2012, respectively. In July 2009, CFR entered into an agreement for a capital lease of which future minimum payments will amount to \$172,600 over the life of the lease, which ran through July 2013.

13. *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, non-interest-bearing accounts were fully insured. Beginning in 2013, non-interest-bearing accounts are insured the same as interest-bearing accounts. As of June 30, 2013 and 2012, there was approximately \$26,160,000 and \$0, respectively, of cash and cash equivalents held by banks that exceeded FDIC limits. Such excess includes outstanding checks.

14. *SUBSEQUENT EVENTS*

CFR has evaluated for potential recognition and disclosure events subsequent to the date of the statements of the financial position through October 4, 2013, the date the financial statements were available to be issued. No events have occurred subsequent to June 30, 2013, through October 4, 2013, that would require adjustment to or disclosure in the accompanying financial statements.



SUPPLEMENTAL SCHEDULE OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2013 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2012)

	PROGRAM SERVICES						
	STUDIES PROGRAM	TASK FORCE	NY MEETINGS	DC PROGRAMS	SPECIAL EVENTS	FOREIGN AFFAIRS PUBLICATIONS	NATIONAL PROGRAM
Salaries	\$ 9,617,300	\$176,300	\$ 421,000	\$ 808,800	\$432,900	\$2,183,000	\$326,900
Other compensation	2,843,800	33,000	44,400	111,200	191,000	607,700	36,300
Payroll taxes and employee benefits	3,002,000	52,800	131,900	248,000	122,300	665,700	101,800
<b>Total salaries and related costs</b>	<b>15,463,100</b>	<b>262,100</b>	<b>597,300</b>	<b>1,168,000</b>	<b>746,200</b>	<b>3,456,400</b>	<b>465,000</b>
Meetings and conferences	459,200	19,800	373,600	242,600	6,200	48,200	325,500
Publication, printing, and promotions	213,100	12,100	2,200	5,900	27,200	2,602,100	7,100
Research materials	295,100	900	2,200	14,000	1,200	22,700	2,400
Travel and business	1,276,400	31,600	30,400	34,700	4,400	80,800	48,200
General and administrative	157,500	1,500	2,000	5,400	1,900	63,500	1,700
Depreciation	1,038,200	36,500	47,600	128,800	45,000	369,400	41,100
Office expenses	156,900	5,000	9,400	14,900	9,700	1,188,400	11,800
Office equipment repairs and maintenance	56,500	2,000	2,600	7,000	3,300	20,100	2,200
Interest expenses and related costs	767,600	27,000	35,200	95,200	33,200	273,100	30,400
Occupancy	3,300	100	100	400	100	1,100	100
Utilities	140,400	4,900	7,400	17,200	6,000	50,300	5,500
Operations	214,600	7,500	10,000	26,600	9,300	76,400	8,500
Repairs and maintenance	29,400	1,000	1,400	3,700	1,300	10,500	1,200
Professional services	1,327,000	29,800	63,800	105,100	43,900	863,100	33,500
Computer services	234,600	6,500	8,500	23,000	44,000	128,600	7,500
Web operations	—	—	—	—	—	262,300	—
<b>Total expenses</b>	<b>\$21,832,900</b>	<b>\$448,300</b>	<b>\$1,193,700</b>	<b>\$1,892,500</b>	<b>\$982,900</b>	<b>\$9,517,000</b>	<b>\$991,700</b>

	PROGRAM SERVICES (continued)						
	OUTREACH PROGRAM	TERM MEMBER	WEBSITES	COMMUNICATIONS	GLOBAL BOARD OF ADVISERS	EDUCATION	TOTAL PROGRAM SERVICES
Salaries	\$ 493,400	\$123,300	\$1,409,300	\$ 862,200	\$2,900	\$197,500	\$17,054,800
Other compensation	42,800	14,400	230,000	98,200	1,600	33,700	4,288,100
Payroll taxes and employee benefits	155,400	38,600	440,400	260,700	700	72,600	5,292,900
<b>Total salaries and related costs</b>	<b>691,600</b>	<b>176,300</b>	<b>2,079,700</b>	<b>1,221,100</b>	<b>5,200</b>	<b>303,800</b>	<b>26,635,800</b>
Meetings and conferences	139,700	102,600	4,900	22,900	28,300	700	1,774,200
Publication, printing, and promotions	22,500	4,900	46,600	236,700	—	300	3,180,700
Research materials	1,300	400	5,600	40,300	500	500	387,100
Travel and business	160,100	37,700	45,200	25,600	11,600	7,400	1,794,100
General and administrative	2,100	600	7,000	4,200	—	700	248,100
Depreciation	50,600	14,100	167,700	98,900	2,000	17,400	2,057,300
Office expenses	19,700	2,600	16,300	43,800	2,400	1,400	1,482,300
Office equipment repairs and maintenance	2,800	800	9,100	5,400	100	900	112,800
Interest expenses and related costs	37,400	10,400	124,000	73,100	1,500	12,900	1,521,000
Occupancy	100	—	500	300	—	100	6,200
Utilities	6,700	1,900	23,100	16,800	300	2,300	282,800
Operations	10,500	2,900	34,700	20,400	400	3,600	425,400
Repairs and maintenance	1,400	400	4,800	2,800	100	500	58,500
Professional services	41,200	11,500	227,300	145,600	1,600	123,600	3,017,000
Computer services	10,600	2,500	353,300	19,500	400	3,100	842,100
Web operations	—	—	335,900	—	—	—	598,200
<b>Total expenses</b>	<b>\$1,198,300</b>	<b>\$369,600</b>	<b>\$3,485,700</b>	<b>\$1,977,400</b>	<b>\$54,400</b>	<b>\$479,200</b>	<b>\$44,423,600</b>

## SUPPORTING SERVICES

	DEVELOPMENT	CORPORATE PROGRAM	MANAGEMENT AND GENERAL	MEMBERSHIP	TOTAL SUPPORTING SERVICES	2013 TOTAL	2012 TOTAL
Salaries	\$ 800,500	\$1,097,100	\$2,035,700	\$348,000	\$ 4,281,300	\$21,336,100	\$19,981,600
Other compensation	63,200	100,800	1,158,700	38,700	1,361,400	5,649,500	5,518,800
Payroll taxes and employee benefits	253,100	346,000	466,600	109,300	1,175,000	6,467,900	6,246,400
<b>Total salaries and related costs</b>	<b>1,116,800</b>	<b>1,543,900</b>	<b>3,661,000</b>	<b>496,000</b>	<b>6,817,700</b>	<b>33,453,500</b>	<b>31,746,800</b>
Meetings and conferences	119,600	231,900	22,000	19,600	393,100	2,167,300	2,197,200
Publication, printing, and promotions	4,100	38,900	18,600	190,300	251,900	3,432,600	3,262,300
Research materials	17,000	9,200	35,100	1,200	62,500	449,600	393,600
Travel and business	66,800	33,400	78,700	10,000	188,900	1,983,000	2,205,000
General and administrative	3,100	4,500	58,700	2,900	69,300	317,400	236,400
Depreciation	75,300	109,200	1,393,900	37,900	1,616,300	3,673,600	3,778,400
Office expenses	39,700	20,900	103,200	85,600	249,400	1,731,700	1,648,300
Office equipment repairs and maintenance	4,900	5,900	76,100	2,100	89,000	201,800	236,500
Interest expenses and related costs	55,700	80,700	1,030,500	28,200	1,195,100	2,716,100	2,681,500
Occupancy	200	300	4,100	1,500	6,100	12,300	14,000
Utilities	11,100	14,500	185,700	5,000	216,300	499,100	495,900
Operations	15,600	22,600	288,200	7,800	334,200	759,600	710,900
Repairs and maintenance	2,100	3,100	39,500	1,000	45,700	104,200	114,600
Professional services	65,100	91,300	1,136,000	31,900	1,324,300	4,341,300	2,825,500
Computer services	13,400	19,500	248,800	6,700	288,400	1,130,500	682,100
Web operations	—	—	—	—	—	598,200	470,200
<b>Total expenses</b>	<b>\$1,610,500</b>	<b>\$2,229,800</b>	<b>\$8,380,200</b>	<b>\$927,700</b>	<b>\$13,148,200</b>	<b>\$57,571,800</b>	<b>\$53,699,200</b>

INDEPENDENT AUDITOR'S REPORT

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 statement of financial position as of June 30, 2013, and the related statements of activities and cash flows for the year 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 of 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 the entity'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 the entity'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, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other-Matters**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 20 is presented for purposes of additional analysis and is not a required part of the financial statements. Such 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 audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

We have previously audited CFR's 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 12, 2012. In our opinion the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Marks Paneth LLP*  
New York, NY  
October 4, 2013

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