CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT

**SALZBURG GLOBAL SEMINAR, INC.
AND SUBSIDIARY**

DECEMBER 31, 2010 AND 2009

Salzburg Global Seminar, Inc. and Subsidiary

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Reznick Group
ACCOUNTING • TAX • BUSINESS ADVISORY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Salzburg Global Seminar, Inc. and Subsidiary

We have audited the accompanying consolidated statements of financial position of Salzburg Global Seminar, Inc. and Subsidiary as of December 31, 2010 and 2009, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Seminar's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the 2010 or 2009 consolidated financial statements of the operations that occurred in Salzburg, Austria, which statements reflect total assets of $10,548,008 and $7,728,597 as of December 31, 2010 and 2009, respectively, and the total change in net assets of $1,942,770 and $1,389,616, respectively, for the years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Salzburg operations, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Salzburg Global Seminar, Inc. and Subsidiary as of December 31, 2010 and 2009, and the results of its activities and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Reznick Group, P.C.

Bethesda, Maryland
May 24, 2011

Salzburg Global Seminar, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2010 and 2009

ASSETS

	2010	2009
Cash and cash equivalents	$ 812,517	$ 320,273
Accounts receivable and other assets	608,959	472,639
Pledges receivable, net of discount	1,131,959	1,595,726
Investments (of which $7,233,537 and $13,762,918 is pledged as collateral for loans as of December 31, 2010 and 2009, respectively)	18,220,907	17,971,921
Property and equipment, net	4,335,036	5,035,038
Total assets	$ 25,109,378	$ 25,395,597

LIABILITIES AND NET ASSETS (DEFICIT)

	2010	2009
Liabilities		
Accounts payable and accrued liabilities	$ 1,793,749	$ 1,912,480
Line of credit	43,820	7,136,648
Bank overdraft facility	5,772,383	1,017,005
Notes payable	8,102,514	4,846,683
Total liabilities	15,712,466	14,912,816
Net assets (deficit)		
Unrestricted	(13,351,173)	(12,439,421)
Temporarily restricted	5,695,479	5,685,047
Permanently restricted	17,052,606	17,237,155
Total net assets	9,396,912	10,482,781
Total liabilities and net assets	$ 25,109,378	$ 25,395,597

See accompanying notes to consolidated financial statements

Salzburg Global Seminar, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF ACTIVITIES

Year ended December 31, 2010
(with comparative totals for 2009)

	Unrestricted	Temporarily restricted	Permanently restricted	2010	2009
Revenues					
Individual	$ 923,939	$ 634,463	$ 3,150	$ 1,561,552	$ 884,177
Corporate	132,912	-	-	132,912	113,000
Foundation	708,903	1,289,710	1,684	2,000,297	1,776,310
Government	118,085	150,000	-	268,085	226,199
Participant funded tuition	1,004,545	-	-	1,004,545	1,206,934
Conference income	1,249,643	-	-	1,249,643	1,280,741
Investment return	945,181	200,137	125,842	1,271,160	1,989,984
Other income	156,658	-	-	156,658	86,421
Net foreign currency transaction gain (loss)	(681,328)	-	57,004	(624,324)	427,086
Net assets released from restriction and reclassification	2,362,817	(2,240,899)	(121,918)	-	-
Total revenues	6,921,355	33,411	65,762	7,020,528	7,990,852
Expenses					
Wages and benefits	4,274,981	-	-	4,274,981	4,784,030
Travel	581,285	-	-	581,285	582,955
Office	364,548	-	-	364,548	430,708
Publications	35,412	-	-	35,412	40,539
Meierhof and Schloss building operating cost	846,268	-	-	846,268	910,225
Taxes	119,193	-	-	119,193	147,950
Professional fees	606,179	-	-	606,179	442,770
Interest and bank fees	379,711	-	-	379,711	364,172
Miscellaneous	429,726	-	-	429,726	432,852
Depreciation	390,680	-	-	390,680	396,683
Total expenses	8,027,983	-	-	8,027,983	8,532,884
Change in net assets before foreign currency translation adjustments	(1,106,628)	33,411	65,762	(1,007,455)	(542,032)
Foreign currency translation adjustments	194,876	(22,979)	(250,311)	(78,414)	(372,140)
Change in net assets	(911,752)	10,432	(184,549)	(1,085,869)	(914,172)
Net assets at beginning of year	(12,439,421)	5,685,047	17,237,155	10,482,781	11,396,953
Net assets at end of year	$ (13,351,173)	$ 5,695,479	$ 17,052,606	$ 9,396,912	$ 10,482,781

(continued)

Salzburg Global Seminar, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF ACTIVITIES - CONTINUED

Year ended December 31, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	2009
Revenues				
Individual	$ 484,682	$ 396,962	$ 2,533	$ 884,177
Corporate	80,439	32,561	-	113,000
Foundation	613,315	1,014,679	148,316	1,776,310
Government	111,681	114,518	-	226,199
Participant funded tuition	1,206,934	-	-	1,206,934
Conference income	1,280,741	-	-	1,280,741
Investment return	1,670,312	168,133	151,539	1,989,984
Other income	86,421	-	-	86,421
Net foreign currency transaction gain	459,573	(1,109)	(31,378)	427,086
Net assets released from restriction and reclassification	2,755,809	(2,823,135)	67,326	-
Total revenues	8,749,907	(1,097,391)	338,336	7,990,852
Expenses				
Wages and benefits	4,784,030	-	-	4,784,030
Travel	582,955	-	-	582,955
Office	430,708	-	-	430,708
Publications	40,539	-	-	40,539
Meierhof and Schloss building operating cost	910,225	-	-	910,225
Taxes	147,950	-	-	147,950
Professional fees	442,770	-	-	442,770
Interest and bank fees	364,172	-	-	364,172
Miscellaneous	432,852	-	-	432,852
Depreciation	396,683	-	-	396,683
Total expenses	8,532,884	-	-	8,532,884
Change in net assets before foreign currency translation adjustments	217,023	(1,097,391)	338,336	(542,032)
Foreign currency translation adjustments	(453,979)	2,860	78,979	(372,140)
Change in net assets	(236,956)	(1,094,531)	417,315	(914,172)
Net assets at beginning of year	(12,202,465)	6,779,578	16,819,840	11,396,953
Net assets at end of year	$ (12,439,421)	$ 5,685,047	$ 17,237,155	$ 10,482,781

See accompanying notes to consolidated financial statements

Salzburg Global Seminar, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2010 and 2009

	2010	2009
Cash flows from operating activities		
Change in net assets	$ (1,085,869)	$ (914,172)
Adjustments to reconcile changes in net assets to net cash used in operating activities		
Depreciation	390,680	396,683
Realized and unrealized appreciation	(782,154)	(1,283,541)
Foreign currency translation adjustments	78,414	372,140
Foreign currency gain on long-term debt	(482,759)	(3,335)
Bad debt	-	2,471
Changes in cash based on change in		
Pledges receivable	463,767	1,150,559
Accounts receivable and other assets	(176,277)	253,204
Accounts payable and accrued liabilities	73,662	(99,917)
Contributions restricted for long-term investment	(61,838)	(186,797)
Releases from restricted long term investment	121,918	-
Interest and dividends restricted for long-term investment	(125,842)	(151,539)
Net cash used in operating activities	(1,586,298)	(464,244)
Cash flows from investing activities		
Purchase of investments	(4,204,968)	(358,635)
Proceeds from sales of investments	4,569,135	619,401
Purchase of property and equipment	(70,111)	(161,643)
Net cash provided by investing activities	294,056	99,123
Cash flows from financing activities		
Contributions, interest and dividends restricted for long-term investment	65,762	338,336
Change in bank overdraft facility	4,804,291	100,144
Change in bank overdraft (included in accounts payable and accrued liabilities)	-	48,309
Loans from affiliates	500,000	-
Proceeds from long-term debt borrowings	2,815,066	-
Net proceeds from borrowings on line of credit	(7,092,828)	559,847
Principal payments on long-term debt	(190,280)	(177,912)
Net cash provided by financing activities	902,011	868,724
Effect of exchange rates on cash	882,475	(443,054)
Net increase in cash and cash equivalents	492,244	60,549
Cash and cash equivalents at beginning of year	320,273	259,724
Cash and cash equivalents at end of year	$ 812,517	$ 320,273
Supplemental data		
Interest paid	$ 373,649	$ 364,172

See accompanying notes to consolidated financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Activities and Organization

The Salzburg Global Seminar, Inc. and Subsidiary (the Seminar) is an independent, not-for-profit educational organization incorporated in 1947. The purpose of the Seminar is the study, at the highest level, of contemporary problems of worldwide scope. The Seminar is administered from its offices in Washington, D.C. and Middlebury, Vermont. In addition, the Seminar has teaching and conference facilities in Austria.

In 2005, Salzburg Global Seminar, Austria (formerly known as Salzburg Global Forum) was established as an independent Austrian association. Salzburg Global Seminar, Austria and the Seminar share some members of management and the Board of Directors.

The consolidated financial statements include both the Salzburg Global Seminar, Austria and Salzburg Global Seminar, Inc. collectively called the Seminar. The financial statements of each location have been combined and all significant transactions between locations have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis and in accordance with the reporting principles of Not-for-Profit accounting. Accounting standards require that unconditional promises to give (pledges) be recorded as receivables and revenues within the appropriate net asset category. Authoritative accounting guidance has established standards for general-purpose external financial statements of not-for-profit organizations, including a statement of financial position, a statement of activities and a statement of cash flows. This requires classification of net assets and its revenues, expenses, gains and losses into three categories, based on the existence or absence of externally imposed restrictions. Accordingly, net assets of the Seminar are classified and defined as follows:

Unrestricted

Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

Temporarily Restricted

Net assets whose use is limited by law or donor-imposed stipulations that will either expire with the passage of time or be fulfilled or removed by actions of the Seminar.

Permanently Restricted

Reflects gifts (and in certain circumstances earnings from those gifts), subject to donor-imposed stipulations, which require the corpus to be invested in perpetuity to produce income for general or specific purposes.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, cash on deposit with financial institutions and money market accounts, excluding cash equivalents held as investments. Highly liquid instruments purchased with an original maturity of three months or less are classified as cash equivalents.

Accounts Receivable and Bad Debts

Trade accounts receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

Inventories

Inventories are stated at the lower of cost or market value. Cost is determined using the last in, first-out method. The inventory balances mainly consist of souvenirs, food and beverages and is included in accounts receivable and other assets. Usage is expensed to miscellaneous expenses.

Pledges Receivable and Bad Debts

Pledges receivable are recorded at the present value of estimated future cash flows using a discount rate equal to the risk free rate of return for U.S. Treasury Bills. Pledges greater than $5,000 with a time period over one year are discounted. The Seminar provides an allowance for uncollectible pledges receivable based on the estimated collectability of pledges. As of December 31, 2010 and 2009, management estimates that no allowance for uncollectible pledges is necessary. It is reasonably possible that management’s estimate of the allowance will change.

Investments

Investments in equity and debt securities are reported at fair value at quoted market prices. Investment return includes interest and dividends, realized gains or losses, and changes in unrealized appreciation (depreciation), and is presented in the statements of activities based on donor restrictions. Realized gains/losses and changes in unrealized appreciation (depreciation) are added to or deducted from unrestricted, temporarily and permanently restricted net assets, as appropriate, and gains can be expended under statutes governing use of fund appreciation. The specific cost of investments sold is used to determine the basis for computing realized gains or losses.

Property and Equipment

Property and equipment, including major renewals and improvements, are carried at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The carrying amount of assets sold or otherwise disposed of and the related accumulated depreciation are eliminated from the financial statements in the year of disposal, and the resulting gain or loss is credited or charged to the change in net assets, included in miscellaneous expense. Maintenance and repairs are charged to expense as incurred; renewals and betterments are capitalized.

The Seminar reviews its property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. When recovery is reviewed, if the undiscounted cash flows estimated to be generated by the property are less than its carrying amount, management compares the carrying amount of the property to its fair value in order to determine whether an impairment loss has occurred. The amount of the impairment loss is equal to the excess of the asset's carrying value over its estimated fair value. No impairment loss has been recognized during the years ended December 31, 2010 and 2009.

Severance Pay

Under Austrian law, Austrian employees, upon retirement or certain other terminations, are entitled to up to one year's salary dependent upon length of service. This is valid for employment contracts that have been entered into in the year 2003 and before. The cost is accrued over the active service period of the employees. The estimated liability has been included in accounts payable and accrued liabilities in the financial statements (see note 8).

Revenue Recognition

Contributions received to fund specific seminars are included in revenue when received or pledged. Gifts of cash and other noncapital assets are reported as temporarily restricted revenue if the gifts are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when the earlier of stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restriction.

Gifts of cash and pledges to be invested in property and equipment are reported as temporarily restricted net assets until the property and equipment is placed in service.

Temporarily restricted contributions and gifts received and expended for the restricted purpose of the contribution and gifts in the same fiscal year are recorded as unrestricted net assets. Donated noncash assets are recorded at estimated fair value on the date of the gift.

A significant portion of the Seminar's revenue is derived through contributions from foundations, corporations and individuals. The Seminar is dependent on these contributions to carry out its operating activities.

Conference revenue is recognized when the conference or event is held, or a hotel guest stays at the facility and is reported as unrestricted revenue.

Foreign Currency Translation

In accordance with accounting guidance for foreign currency translation, the effects of translation rate changes related to net assets denominated in Euros are recorded as foreign currency translation adjustments rather than in revenues and expenses. Transaction gains and losses are included in revenue as foreign currency translation gains or losses. The functional currency of the Austrian operation is the Euro. The year-end rate used for conversion as of December 31, 2010 and 2009 was 0.7493 and 0.6928, respectively. The weighted average rate used for conversion of the activities during 2010 and 2009 was 0.7537 and 0.7169, respectively.

Foreign Currency Derivatives

The Seminar's foreign exchange contracts and options are reported at fair market value. Gains or losses in fair value on forward contracts are recognized in earnings monthly and are included in other income (expense).

Taxes

The Seminar is exempt from U.S. income taxes under Section 501(c)(3) of the Internal Revenue Code, but is subject to certain taxes in Austria and U.S. personal property tax.

The Seminar evaluates its uncertain tax positions using the provisions of authoritative guidance. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position, or for all uncertain tax positions in the aggregate, could differ from the amount recognized. The Seminar has no uncertain tax positions as of December 31, 2010 and 2009.

Concentration of Credit Risk

The Seminar has cash and cash equivalents and marketable securities which subject the Seminar to concentrations of credit risk. The Seminar mitigates this risk by evaluating the capital structure of the financial institutions which hold these deposits.

Reclassifications

Certain items from the prior year financial statements have been reclassified to conform to the current year presentation.

NOTE 2 - NET ASSETS

Net assets (deficit) consist of the following:

	2010	2009
Unrestricted		
Unrestricted	$ (13,080,369)	$ (11,973,741)
Cumulative translation adjustments	(270,804)	(465,680)
	$ (13,351,173)	$ (12,439,421)
Temporarily restricted		
Contributions and gifts to support future sessions	$ 3,418,612	$ 3,507,119
Contributions to support future sessions or to be reclassified to permanently restricted net assets	2,333,386	2,211,468
Cumulative translation adjustments	(56,519)	(33,540)
	$ 5,695,479	$ 5,685,047
Permanently restricted		
Endowments	$ 16,742,433	$ 16,676,671
Cumulative translation adjustments	310,173	560,484
	$ 17,052,606	$ 17,237,155

During 1995, the Seminar received a $10 million gift from a foundation, of which $5 million was classified as permanently restricted net assets and $5 million was classified as temporarily restricted net assets. When the Seminar raises $10 million in matching endowment gifts, the $5 million of temporarily restricted net assets will be reclassified to permanently restricted net assets. During 2009, the Seminar received pledges and cash contributions which qualify as matching endowment gifts of $155,532. Accordingly, $77,766 was reclassified from temporarily restricted to permanently restricted net assets in the statement of activities in 2009. During 2010, an individual who established a trust as a matching endowment gift in a previous year renounced his rights to the trust and donated the trust to the Seminar as an unrestricted gift. Accordingly, matching funds of $39,590 were reclassified from permanently restricted to unrestricted net assets in the statement of activities in 2010. Matching endowment gifts consist of gifts received and recorded in the statements of activities along with the future value of unconditional and conditional gifts, including bequests and other conditional gifts totaling approximately $150,000 and $300,000 as of December 31, 2010 and 2009, respectively. As of December 31, 2010 and 2009, the Seminar reported approximately $5.5 million of matching endowment gifts toward the $10 million goal.

Included in the permanently restricted net assets is a $2 million gift for the Sasakawa Endowment Fund Program which supports fellowships and travel for individuals to attend sessions at the Seminar. Under terms of the Agreement on the Sasakawa Endowment Fund between Salzburg Seminar and the Nippon Foundation (the Agreement), the Seminar can expend up to ninety percent of the income earned annually. The Agreement also contains a provision that would allow the Nippon Foundation to recover unexpended funds if the Seminar does not comply with the terms of the Agreement. During 2010 and 2009, $73,276 and $83,876, respectively, of investment return was used for grant purposes and administrative expense in accordance with the Agreement.

NOTE 3 - ENDOWMENT FUNDS

The Seminar classifies net assets of donor-restricted endowment funds based on the interpretation of the Law of Massachusetts and according to generally accepted accounting principles (GAAP). As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Seminar interprets the Uniform Prudent Management of Institutional Funds Acts (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowments funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Seminar classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the 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 as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Seminar in a manner consistent with the standard of prudence prescribed by UPMIFA.

The changes in endowment net assets for the years ending December 31, 2010 and 2009 consisted of the following:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, January 1, 2010	$ (1,575,766)	$ 2,525,615	$ 17,237,155	$ 18,187,004
Investment return:				
Investment income	487,915	8,567	19,407	515,889
Net appreciation (depreciation) (realized and unrealized)	457,266	191,570	106,435	755,271
Total investment return	945,181	200,137	125,842	1,271,160
Contributions	-	-	4,834	4,834
Appropriation of endowment assets for expenditure	(1,032,064)	(2,743)	-	(1,034,807)
Net assets released from restriction and reclassification	82,328	39,590	(121,918)	-
Changes - foreign currency translation	362	(11,133)	(193,307)	(204,078)
Endowment net assets, December 31, 2010	$ (1,579,959)	$ 2,751,466	$ 17,052,606	$ 18,224,113

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, January 1, 2009	$ (2,292,591)	$ 2,448,988	$ 16,819,840	$ 16,976,237
Investment return:				
Investment income	701,414	19,811	(16,984)	704,241
Net appreciation (depreciation) (realized and unrealized)	968,900	148,322	168,523	1,285,745
Total investment return	1,670,314	168,133	151,539	1,989,986
Contributions	-	-	150,849	150,849
Appropriation of endowment assets for expenditure	(985,576)	(17,746)	-	(1,003,322)
Net assets released from restriction and reclassification	10,440	(77,766)	67,326	-
Net present value adjustments to remainder trust	34,673	-	-	34,673
Other changes - foreign currency translation	(13,026)	4,006	47,601	38,581
Endowment net assets, December 31, 2009	$ (1,575,766)	$ 2,525,615	$ 17,237,155	$ 18,187,004

Funds with Deficiencies

From time-to-time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the organization to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature that are reported in unrestricted net assets were $623,810 and $1,264,648, as of December 31, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred during the year ending December 31, 2010 and 2009.

Return Objectives and Risk Parameters

The Seminar's investment strategy as approved by the Board of Directors is to invest in a mixed portfolio of funds with the objective of principal growth and annual income return. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce a real return (after inflation) of 5 percent annually on a rolling 12 quarter basis while assuming a minimal amount of risk. The Seminar expects its endowment funds, over time, to provide this annual rate of return. Actual returns in any given period may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long term rate of return investment objectives, the Seminar 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). The organization targets a diversified asset allocation that places an emphasis on income based investments and to a lesser extent equity investments to maximize income and to achieve long term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

In 2009, with passage of UPMIFA legislation, the Commonwealth of Massachusetts authorized the use of endowment funds in situations deemed reasonable and prudent by an institution's governing board. As a result of this legislation, the Board of Directors authorized the Seminar to spend up to 3% of endowment corpus, excluding endowment investments with specified spending rates. This policy will be in effect until endowments exceed historic value. Any endowment that exceeds historic value will also spend a portion of accumulated gains up to a maximum spending rate of 5%. During 2010 and 2009, the difference between interest income and dividends and the total amount spent under the policy, funded by endowment corpus was $440,000 in 2010 and $375,000 in 2009.

NOTE 4 - PLEDGES RECEIVABLE

Pledges outstanding at December 31, 2010 and 2009 are summarized as follows:

	2010	2009
Unconditional promises expected to be collected in:		
Less than one year	$ 1,042,553	$ 1,035,566
One year to five years	36,728	465,000
Thereafter	100,000	182,329
Total gross pledges	1,179,281	1,682,895
Less: Discount to present value	(47,322)	(87,169)
Total pledges, net	$ 1,131,959	$ 1,595,726

The discount to present value was calculated using discount factors based on U.S. Treasury Notes rates. Pledges greater than $5,000 with a time period over one year are discounted. As of December 31, 2010 and 2009, management estimates that no allowance for uncollectible pledges is necessary.

Included in permanently restricted pledges receivable is $102,679 which includes a gift that will be received upon the death of the donor. In 1999, one individual pledged to donate $100,000 upon his death. This is discounted using a 6% rate and 10 years for a receivable of $52,679 as of December 31, 2010 and 2009. Another individual established a trust in 1998 which will become available upon the donor’s death. The gift, which was held in marketable securities, was originally recorded at present value, based on a 6% rate for 10 years, assuming, 5% income and 3% capital appreciation. As of December 31, 2009, the principal of the trust was $82,329. During 2010, the donor renounced his rights to the trust and contributed the trust to the Seminar. The Seminar received $76,968 for the value of the marketable securities, and incurred a loss on the investment of $5,361 for the year ended December 31, 2010.

NOTE 5 - INVESTMENTS

Investments at December 31, 2010 and 2009 consisted of the following:

	2010 Fair value	2009 Fair value
Cash equivalents	$ 777,515	$ 363,054
Mutual funds in the United States	11,709,855	14,921,558
Mutual funds and bonds in Austria	5,733,537	2,191,155
Euro bonds	-	496,154
	$ 18,220,907	$ 17,971,921

Cash equivalents represent money market instruments which are invested primarily in Euros. Mutual funds in the United States include domestic intermediate fixed income funds, as well as a blend of domestic and international stock funds which present opportunity for growth.

Mutual funds in Austria include investments in two Euro denominated fixed income funds, one which invests primarily in longer term Austrian government fixed income securities and one which invests in intermediate term European fixed income securities. The investment in bonds are used as security for long term debt.

Euro bonds represent ownership of individual investment grade bonds with maturities ranging from less than one year to five years.

Total investment return for the years ended December 31, 2010 and 2009 consisted of the following:

	2010	2009
Interest income and dividends	$ 515,889	$ 704,240
Realized (loss) gain	445,268	(800,044)
Exchange gain (loss)	74,411	3,088
Unrealized gains, net	235,592	2,082,700
Total investment return	$ 1,271,160	$ 1,989,984

Investment fees amounted to $7,268 and $7,840, respectively. Total investment return is net of investment fees.

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2010 and 2009 consisted of the following:

	Estimated useful life in years	2010	2009
Land	-	$ 185,882	$ 201,064
Buildings			
Schloss Leopoldskron	10 - 50	1,376,740	1,482,005
Meierhof	10 - 50	8,839,608	9,633,892
Equipment	4 - 10	649,138	792,312
Leasehold improvements	5 - 10	-	135,055
		11,051,368	12,244,328
Less accumulated depreciation and amortization		(6,716,332)	(7,209,290)
Property and equipment, net		$ 4,335,036	$ 5,035,038

A component of the net change in fixed assets from December 31, 2010 and 2009 is the effect of foreign currency translation (see note 1).

NOTE 7 - NOTES PAYABLE AND LINE OF CREDIT

Notes payable at December 31, 2010 and 2009 consisted of the following:

	2010	2009
Note payable (denominated in CHF) to an Austrian bank with interest payments though 2018, and principal payments beginning in 2009 and ending in 2018. Interest is at 3-month LIBOR plus 1.125% (1.303% and 1.413% at December 31, 2010 and 2009, respectively). The loan is collateralized by investments and real estate in Austria.	$ 2,801,268	$ 2,653,208
Note payable (denominated in Euros) to an Austrian bank with principal and interest payments through 2016. Interest is at the Austrian Federal Ministry of Economic Affairs published rate (2.625 and 3.625% at December 31, 2010 and 2009, respectively). The loan is collateralized by investments and real estate in Austria. This collateral is a subset of the amounts supporting the CHF notes payable.	1,945,845	2,193,475
Note payable (denominated in US-$) to an Austrian bank with principal and interest payments through 2025. Interest is at refinancing interest rate plus 1.5% (2.125% at December 31, 2010). Interest and principal payments are deferred until mid-2012. The loan is collateralized by investments and real estate in Austria.	2,855,401	-

	2010	2009
Bridge loan payable to a board member with interest, accrued at a rate of 2% per annum. Principal and accrued interest are due at maturity in 2012.	500,000	-
	$ 8,102,514	$ 4,846,683

The principal repayment amounts due over the next five years and thereafter are as follows:

2011	$ 198,476
2012	925,331
2013	434,835
2014	444,340
2015	733,855
Thereafter	5,365,677
	$ 8,102,514

The Seminar has a revolving line of credit agreement with a U.S. bank. Interest on the line of credit is at LIBOR Advantage Rate + 1.25% (2.51% and 2.48% at December 31, 2010 and 2009, respectively) and the Seminar has available credit equal to 70% of the fair value of the eligible assets held in a custody account, not to exceed $1,050,000 and $8,000,000 at December 31, 2010 and 2009, respectively. Eligible assets which collateralize the line of credit are subject to approval by the bank and total approximately $1.5 million and $11.6 million at December 31, 2010 and 2009, respectively. The Seminar's balance on the demand line of credit at December 31, 2010 and 2009 was $43,820 and $7,136,648, respectively. On January 19, 2010, the bank indicated that the demand facility has no explicit maturity date. Absent of payment demand by the lender the credit facility remains available to the Seminar.

The Seminar has two overdraft facilities in Austria under which it pays interest at a variable rate of Euribor plus 1.25% (2.25% and 2.125% at December 31, 2010 and 2009, respectively). The written limits on this agreement are $8,407,350. At December 31, 2010 and 2009, the Seminar had overdrafts relating to this agreement that totaled $5,772,383 and $1,017,005, respectively. The overdraft facility is collateralized by investments and real estate in Austria.

NOTE 8 - EMPLOYEE BENEFITS

Severance pay expense for Austrian employees amounted to $46,819 and $23,236 in 2010 and 2009, respectively, including $20,283 and $7,056 of foreign currency loss, respectively. The related accrual at December 31, 2010 and 2009 was $276,909 and $270,656, respectively, and is included as part of accounts payable and accrued liabilities.

During 2009, the Seminar down sized its Middlebury office in response to the economic down turn. Severance pay expense for Middlebury employees in the amount of $85,271 was incurred, of which, $52,996 remained payable as of December 31, 2009, and is included as part of accounts payable and accrued liabilities. As of December 31, 2010, the remaining accrued severance was paid in full.

The Seminar sponsors a defined contribution plan which covers substantially all United States employees. The Seminar contributes a fixed percentage of the employees' wages. The expense related to this plan and another benefit plan was approximately $56,477 and $58,280 in 2010 and 2009, respectively.

Under an agreement dated November 24, 1998, the Seminar is committed to providing compensation to an employee of the Seminar upon retirement for a period of six years. As of December 31, 2010 and 2009, $121,913 and $187,951, respectively, was accrued relating to these future payments and is included within accounts payable and accrued liabilities.

Minimum future payments under the compensation agreement as of December 31, 2010 are as follows:

2011	$	70,000
2012		71,000
	$	141,000

NOTE 9 - LEASE COMMITMENTS

The Seminar has operating lease agreements for the rental of office space and equipment. The office space leases provide for minimum annual rent plus payments for real estate taxes and insurance. The lease agreement for the rental of office space in Middlebury, VT was terminated in 2010. On February 8, 2010, the Seminar entered into a three-year lease agreement with an educational institution for office space in Middlebury, VT commencing on March 1, 2010. In lieu of rent, the Seminar will provide the educational institution with four fellowships for each lease year.

On December 11, 2009, the Seminar entered into a three year sublease agreement for an office suite in Washington, DC commencing on January 1, 2010. Rent is paid in monthly installments of $4,300 and escalates each year (see note 11). As of December 31, 2010, expenses incurred related to this agreement were $51,600 and are included in office expenses.

The Seminar in Salzburg, Austria entered into various operating leases that include a vehicle, computers and office equipment that expire in 2011. The Seminar in Salzburg, Austria also entered into operating leases for a fire alarm system and other office equipment that have lease terms beyond one year.

Minimum future rental payments under these leases as of December 31, 2010 are as follows:

2011	$	125,210
2012		74,303
2013		14,418
2014		3,704
2015		3,704
Thereafter		3,704
	$	225,043

Rent paid under these leases amounted to $151,336 and $152,032 in 2010 and 2009, respectively, and is included in office expenses.

NOTE 10 - FUNCTIONAL EXPENSES

Operating and non-operating expenses related to providing the services of the Seminar for the years ended December 31, 2010 and 2009 are as follows:

	2010	2009
Educational programs and projects	$ 3,204,932	$ 3,544,597
Conference center	3,414,683	3,602,109
Management and general	1,020,100	1,060,590
Fundraising and reporting	388,268	325,588
	$ 8,027,983	$ 8,532,884

NOTE 11 - RELATED PARTY

The Seminar holds investments in the Bond Fund of America, the Capital Income Builder Fund, the Euro Pacific Growth Fund and the Income Fund of America, all of which are funds managed by the Capital Group. A senior executive of the Capital Group is a member of the Board of Directors of the Seminar. As of December 31, 2009, the market values of these funds were $6,083,689, $4,812,222, $2,220,360 and $1,805,125, respectively. In 2010, the Seminar no longer held investments in the Income Fund of America. As of December 31, 2010, the market values of the remaining funds were $3,278,842, $6,028,208 and $2,429,176, respectively. The Board of Directors of the Seminar approved the initial and continuing investment in all investment funds.

The President and CEO of the Seminar holds a seat on the Board of Directors of Guidestar USA, Inc. Guidestar USA, Inc. is the sub lessor of the Seminar's office suite in Washington, DC.

During the year, the Seminar received loan financing from a member of the Board (see note 7).

NOTE 12 - FOREIGN CURRENCY DERIVATIVES

Salzburg Global Seminar enters into foreign currency derivatives to reduce the short-term effects of foreign currency fluctuations on its foreign currency cash flow requirements. A larger percentage of the organization's expenses are denominated in Euros than its revenues and as a result, the organization is subject to increases in cash outflows if the USD dollar weakens against the Euro. The Seminar also principally enters into derivative contracts that allow it to participate in the strengthening of the USD at the time the contracts are executed.

The notional amount of foreign exchange forward exchange swap contracts outstanding is \$2,448,073 as of December 31, 2009. The notional amount represents the future cash flows available to buy or sell Euros based on a pre-determined exchange rate. The fair value of the contracts is a liability of \$40,517 as of December 31, 2009 and is included in accounts payable and accrued liabilities. The corresponding unrealized loss in the amount of \$67,653 during 2009 is recorded in other income.

On June 18, 2010, the Seminar entered into five call and put foreign currency option contracts at a strike price of \$1.30 for underlying amounts of €100,000 and €50,000, respectively. These call and put options expire in January, February, March, April and May of 2011. The fair value of the foreign currency option is an asset of \$23,563 as of December 31, 2010 and is included in accounts receivable and other assets. The corresponding unrealized gain in the amount of \$23,563 during 2010 is recorded in other income.

In December 2010, the Seminar through its operations in Austria purchased five €100,000 call options to buy Euros at a rate no greater than \$1.35. These call options expire in June, July, September, October and December of 2011. The fair value of the foreign currency call option is an asset of \$27,225 as of December 31, 2010 and is included in accounts receivable and other assets. The corresponding unrealized gain in the amount of \$27,225 during 2010 is recorded in other income.

NOTE 13 - FAIR VALUE MEASUREMENT

Effective January 1, 2008, the Seminar has adopted accounting guidance establishing a framework for measuring fair value and expanding disclosures regarding related fair value measurements for its financial assets and liabilities. The guidance emphasizes that fair value is a market-based measurement, not an entity specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing an asset or liability.

The guidance establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable input be used when available. Observable inputs are inputs that the market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Seminar. Unobservable inputs are inputs that reflect the Seminar’s assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is measured in three levels based on the reliability of inputs:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 - Quoted prices for similar assets or liabilities, or inputs that are observable, either directly or indirectly, for substantially the full term through corroboration with observable market data. Level 2 includes investments valued at quoted prices adjusted for legal or contractual restrictions specific to the assets or liabilities.

Level 3 - Pricing inputs are unobservable for the asset or liability, that is, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability.

In instances where the determination of fair value measurement is based on inputs from different levels of the fair value hierarchy, the fair value measurement will fall within the lowest level input that is significant to the fair value measurement in its entirety.

The following table presents the fair value of assets and liabilities measured on a recurring basis at December 31, 2010:

	Level 1	Level 2	Net balance
Cash and cash equivalents	$ 777,515	$ -	$ 777,515
Mutual funds in the United States	11,709,855	-	11,709,855
Mutual funds and bonds in Austria	5,733,537	-	5,733,537
Foreign currency exchange option contracts	-	50,788	50,788
Total	$ 18,220,907	$ 50,788	$ 18,271,695

The following table presents the fair value of assets measured on a recurring basis at December 31, 2009:

	Level 1	Level 2	Net balance
Cash and cash equivalents	$ 363,054	$ -	$ 363,054
Mutual funds in the United States	14,921,558	-	14,921,558
Mutual funds in Austria	2,191,155	-	2,191,155
Euro bonds	496,154	-	496,154
Foreign currency exchange swap contracts	-	(40,517)	(40,517)
Total	$ 17,971,921	$ (40,517)	$ 17,931,404

NOTE 14 - CONTINGENCY

Management has identified a potential payroll tax liability related to three United States employees who are resident in Austria. Only one of these employees remains with the Seminar as of December 31, 2010. A $100,000 reserve was recorded as of December 31, 2010 and 2009 related to this potential liability. There has been no resolution to this potential liability as of December 31, 2010.

The Seminar recognizes grant revenue from government agencies based on actual costs incurred and reimbursable expenses from the granting agencies. These costs are subject to review by the officials of the European Union and U.S. government, and ultimate realization of revenue recognized is contingent upon the outcome of such review. In the opinion of management, adequate provisions have been made in the accompanying financial statements for adjustments, if any, which may result from review.

NOTE 15 - SUBSEQUENT EVENTS

Events that occur after the balance sheet date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date require disclosure in the accompanying notes. Management evaluated the activity of the Seminar through May 24, 2011 (the date the financial statements were available to be issued) and concluded that no subsequent events require disclosure in the notes to the financial statements.