

CONSOLIDATED FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITORS' REPORT

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

DECEMBER 31, 2011 AND 2010

Salzburg Global Seminar, Inc. and Subsidiary

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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 (the Seminar) as of December 31, 2011 and 2010, 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 2011 or 2010 consolidated financial statements of the operations that occurred in Salzburg, Austria, which statements reflect total assets of \$10,350,840 and \$10,548,008 as of December 31, 2011 and 2010, respectively, and the total change in net assets of \$1,841,936 and \$1,942,770, 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 and the report of the other auditor provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the other auditors, 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, 2011 and 2010, 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.

As discussed in note 15, the consolidated financial statements have been restated for the effects of an understated payroll tax liability.

*Reznick Group, P.C.*

Bethesda, Maryland  
June 4, 2012

Salzburg Global Seminar, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2011 and 2010

ASSETS		
	2011	As restated 2010
	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 324,338	\$ 812,517
Accounts receivable and other assets	478,275	608,959
Pledges receivable, net of discount	2,525,675	1,131,959
Investments (of which \$7,018,107 and \$7,233,537 is pledged as collateral for loans as of December 31, 2011 and 2010, respectively)	16,964,610	18,220,907
Property and equipment, net	<u>4,311,397</u>	<u>4,335,036</u>
Total assets	<u>\$ 24,604,295</u>	<u>\$ 25,109,378</u>
LIABILITIES AND NET ASSETS (DEFICIT)		
Liabilities		
Accounts payable and accrued liabilities	\$ 2,443,961	\$ 2,341,678
Line of credit	368,720	43,820
Bank overdraft facility	7,155,099	5,772,383
Notes payable	<u>7,913,663</u>	<u>8,102,514</u>
Total liabilities	<u>17,881,443</u>	<u>16,260,395</u>
Net assets (deficit)		
Unrestricted	(15,608,054)	(13,899,102)
Temporarily restricted	6,088,306	5,695,479
Permanently restricted	<u>16,242,600</u>	<u>17,052,606</u>
Total net assets (deficit)	<u>6,722,852</u>	<u>8,848,983</u>
Total liabilities and net assets (deficit)	<u>\$ 24,604,295</u>	<u>\$ 25,109,378</u>

See accompanying notes to consolidated financial statements

## Salzburg Global Seminar, Inc. and Subsidiary

## CONSOLIDATED STATEMENTS OF ACTIVITIES

Year ended December 31, 2011  
(with comparative totals for 2010)

	Unrestricted	Temporarily restricted	Permanently restricted	2011	As restated 2010
<b>Revenues</b>					
Individual	\$ 565,072	\$ 350,717	\$ 14,560	\$ 930,349	\$ 1,561,552
Corporate	77,241	-	-	77,241	227,427
Foundation	600,979	2,412,042	-	3,013,021	2,000,297
Government	293,206	144,828	-	438,034	268,085
Participant funded tuition	920,232	-	-	920,232	1,004,545
Conference income	1,735,061	-	-	1,735,061	1,249,643
Investment return	343,994	(215,245)	(180,763)	(52,014)	1,271,160
Other income	152,071	-	-	152,071	156,658
Net foreign currency transaction gain (loss)	9,006	(1,767)	88,461	95,700	(624,324)
Net assets released from restriction and reclassification	2,759,025	(2,291,646)	(467,379)	-	-
<b>Total revenues</b>	<b>7,455,887</b>	<b>398,929</b>	<b>(545,121)</b>	<b>7,309,695</b>	<b>7,115,043</b>
<b>Expenses</b>					
Wages and benefits	4,799,893	-	-	4,799,893	4,400,429
Travel	568,412	-	-	568,412	581,285
Office	340,967	-	-	340,967	364,548
Publications	24,355	-	-	24,355	35,412
Meierhof and Schloss building operating cost	1,044,907	-	-	1,044,907	846,268
Taxes	158,399	-	-	158,399	119,193
Professional fees	1,043,257	-	-	1,043,257	606,179
Interest and bank fees	530,665	-	-	530,665	379,711
Miscellaneous	720,790	-	-	720,790	429,726
Depreciation	363,643	-	-	363,643	390,680
<b>Total expenses</b>	<b>9,595,288</b>	<b>-</b>	<b>-</b>	<b>9,595,288</b>	<b>8,153,431</b>
Change in net assets before foreign currency translation adjustments	(2,139,401)	398,929	(545,121)	(2,285,593)	(1,038,388)
Foreign currency translation adjustments	430,449	(6,102)	(264,885)	159,462	(78,414)
<b>Change in net assets</b>	<b>(1,708,952)</b>	<b>392,827</b>	<b>(810,006)</b>	<b>(2,126,131)</b>	<b>(1,116,802)</b>
Net assets at beginning of year	(13,899,102)	5,695,479	17,052,606	8,848,983	9,965,785
<b>Net assets at end of year</b>	<b>\$ (15,608,054)</b>	<b>\$ 6,088,306</b>	<b>\$ 16,242,600</b>	<b>\$ 6,722,852</b>	<b>\$ 8,848,983</b>

(continued)

Salzburg Global Seminar, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF ACTIVITIES - CONTINUED

Year ended December 31, 2010

	As restated Unrestricted	Temporarily Restricted	Permanently Restricted	As restated 2010
<b>Revenues</b>				
Individual	\$ 923,939	\$ 634,463	\$ 3,150	\$ 1,561,552
Corporate	227,427	-	-	227,427
Foundation	708,903	1,289,710	1,684	2,000,297
Government	118,085	150,000	-	268,085
Participant funded tuition	1,004,545	-	-	1,004,545
Conference income	1,249,643	-	-	1,249,643
Investment return	945,181	200,137	125,842	1,271,160
Other income	156,658	-	-	156,658
Net foreign currency transaction gain	(681,328)	-	57,004	(624,324)
Net assets released from restriction and reclassification	2,362,817	(2,240,899)	(121,918)	-
	<u>7,015,870</u>	<u>33,411</u>	<u>65,762</u>	<u>7,115,043</u>
<b>Expenses</b>				
Wages and benefits	4,400,429	-	-	4,400,429
Travel	581,285	-	-	581,285
Office	364,548	-	-	364,548
Publications	35,412	-	-	35,412
Meierhof and Schloss building operating cost	846,268	-	-	846,268
Taxes	119,193	-	-	119,193
Professional fees	606,179	-	-	606,179
Interest and bank fees	379,711	-	-	379,711
Miscellaneous	429,726	-	-	429,726
Depreciation	390,680	-	-	390,680
	<u>8,153,431</u>	<u>-</u>	<u>-</u>	<u>8,153,431</u>
Change in net assets before foreign currency translation adjustments	(1,137,561)	33,411	65,762	(1,038,388)
Foreign currency translation adjustments	194,876	(22,979)	(250,311)	(78,414)
Change in net assets	<u>(942,685)</u>	<u>10,432</u>	<u>(184,549)</u>	<u>(1,116,802)</u>
Net assets at beginning of year before prior period adjustment	(12,439,421)	5,685,047	17,237,155	10,482,781
Prior period adjustment	(516,996)	-	-	(516,996)
Net assets at beginning of year after prior period adjustment	<u>(12,956,417)</u>	<u>5,685,047</u>	<u>17,237,155</u>	<u>9,965,785</u>
Net assets at end of year	<u>\$ (13,899,102)</u>	<u>\$ 5,695,479</u>	<u>\$ 17,052,606</u>	<u>\$ 8,848,983</u>

See accompanying notes to consolidated financial statements

Salzburg Global Seminar, Inc. and Subsidiary  
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>As restated 2010</u>
Cash flows from operating activities		
Change in net assets	\$ (2,126,131)	\$ (1,116,802)
Adjustments to reconcile changes in net assets to net cash used in operating activities		
Depreciation	363,643	390,680
Realized and unrealized depreciation (appreciation)	570,445	(755,271)
Foreign currency translation adjustments	(159,462)	78,414
Foreign currency loss (gain) on long-term debt	189,090	(482,759)
Fair value adjustment on foreign currency hedging contracts	101,587	(30,441)
Bad debt	24,612	-
Contributions restricted for long-term investment	(103,021)	(61,838)
Releases from restricted long term investment	467,379	121,918
Interest and dividends restricted for long-term investment	180,763	(125,842)
Changes in cash based on change in		
Pledges receivable	(1,393,716)	463,767
Accounts receivable and other assets	96,089	(176,277)
Accounts payable and accrued liabilities	187,426	104,595
Net cash used in operating activities	<u>(1,601,296)</u>	<u>(1,589,856)</u>
Cash flows from investing activities		
Purchase of investments	(339,415)	(4,201,410)
Proceeds from sales of investments	862,230	4,569,135
Purchase of property and equipment	<u>(472,401)</u>	<u>(70,111)</u>
Net cash provided by investing activities	<u>50,414</u>	<u>297,614</u>
Cash flows from financing activities		
Contributions, interest and dividends restricted for long-term investment	(545,121)	65,762
Change in bank overdraft facility	1,666,625	4,804,291
Loans from affiliates	-	500,000
Proceeds from long-term debt borrowings	65,584	2,815,066
Principal payments on long-term debt	(211,267)	(190,280)
Net advances (payments) on line of credit	<u>324,900</u>	<u>(7,092,828)</u>
Net cash provided by financing activities	<u>1,300,721</u>	<u>902,011</u>
Effect of exchange rates on cash	<u>(238,018)</u>	<u>882,475</u>
Net (decrease) increase in cash and cash equivalents	(488,179)	492,244
Cash and cash equivalents at beginning of year	<u>812,517</u>	<u>320,273</u>
Cash and cash equivalents at end of year	<u>\$ 324,338</u>	<u>\$ 812,517</u>
Supplemental data		
Interest paid	<u>\$ 429,242</u>	<u>\$ 373,649</u>

See accompanying notes to consolidated financial statements

Salzburg Global Seminar, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011 and 2010

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 office in Washington, D.C. 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.



Salzburg Global Seminar, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

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

Salzburg Global Seminar, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

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 collectibility of pledges. As of December 31, 2011 and 2010, management estimates that no allowance for uncollectible pledges is necessary. It is reasonably possible that management's estimate of the allowance will change. When collection efforts have been exhausted, the account is written off against the established allowance, see note 4.

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

Salzburg Global Seminar, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

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, 2011 and 2010.

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.

Salzburg Global Seminar, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

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.

In-Kind Contributions

The Seminar reports revenue for the fair value of contributed services received where the services require specialized skills, are provided by individuals possessing these skills and represent services that would have been purchases had they not been donated. In-kind contributions of equipment and other materials are recorded at fair value of the items contributed. During the years ended December 31, 2011 and 2010, the amounts of \$42,991 and \$94,515, see note 15, were recorded for contributed services.

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, 2011 and 2010 was 0.7717 and 0.7493, respectively. The weighted average rate used for conversion of the activities during 2011 and 2010 was 0.7180 and 0.7537, respectively.

Foreign Currency Derivatives

The Seminar's foreign exchange contracts and options are reported at fair market value and are reported in accounts receivable and other assets or accounts payable and accrued liabilities, as applicable. Gains or losses in fair value on forward contracts are recognized in earnings monthly and are included in other income or interest and bank fees, as applicable.

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.

Salzburg Global Seminar, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

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, 2011 and 2010.

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.

Salzburg Global Seminar, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

NOTE 2 - NET ASSETS

Net assets (deficit) consist of the following:

	<u>2011</u>	<u>Restated 2010</u>
Unrestricted		
Unrestricted	\$ (15,767,699)	\$ (13,628,298)
Cumulative translation adjustments	<u>159,645</u>	<u>(270,804)</u>
	<u>\$ (15,608,054)</u>	<u>\$ (13,899,102)</u>
Temporarily restricted		
Contributions and gifts to support future sessions	\$ 3,350,162	\$ 3,418,612
Contributions to support future sessions or to be reclassified to permanently restricted net assets	2,800,765	2,333,386
Cumulative translation adjustments	<u>(62,621)</u>	<u>(56,519)</u>
	<u>\$ 6,088,306</u>	<u>\$ 5,695,479</u>
Permanently restricted		
Endowments	\$ 16,197,312	\$ 16,742,433
Cumulative translation adjustments	<u>45,288</u>	<u>310,173</u>
	<u>\$ 16,242,600</u>	<u>\$ 17,052,606</u>

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 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. During 2011, the Seminar received pledges and cash contributions which qualify as matching endowments gifts of \$14,560. Accordingly, \$7,280 was reclassified from temporarily restricted to permanently restricted net assets in the statement of activities in 2011. Matching endowment gifts consist of gifts received and recorded in the statements

Salzburg Global Seminar, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

of activities along with the future value of unconditional and conditional gifts, including bequests and other conditional gifts totaling approximately \$100,000 and \$150,000 as of December 31, 2011 and 2010, respectively. As of December 31, 2011 and 2010, 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 2011 and 2010, \$72,138 and \$73,276, 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.

Salzburg Global Seminar, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

The changes in endowment net assets for the years ending December 31, 2011 and 2010 consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2011	\$ (1,579,959)	\$ 2,751,486	\$ 17,052,606	\$ 18,224,133
Investment return:				
Investment income	506,477	5,445	6,509	518,431
Net appreciation (depreciation) (realized and unrealized)	<u>(162,483)</u>	<u>(220,690)</u>	<u>(187,272)</u>	<u>(570,445)</u>
Total investment return	343,994	(215,245)	(180,763)	(52,014)
Contributions	-	-	14,560	14,560
Appropriation of endowment assets for expenditure	(1,061,343)	-	-	(1,061,343)
Net assets released from restriction and reclassification	542,450	(75,071)	(467,379)	-
Changes - foreign currency translation	<u>645</u>	<u>(4,906)</u>	<u>(176,424)</u>	<u>(180,685)</u>
Endowment net assets, December 31, 2011	<u>\$ (1,754,213)</u>	<u>\$ 2,456,264</u>	<u>\$ 16,242,600</u>	<u>\$ 16,944,651</u>



Salzburg Global Seminar, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
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)	<u>457,266</u>	<u>191,570</u>	<u>106,435</u>	<u>755,271</u>
Total investment return	945,181	200,137	125,842	1,271,160
Contributions	-	-	4,834	4,834
Appropriation of endowment assets for expenditure	(1,034,807)	-	-	(1,034,807)
Net assets released from restriction and reclassification	85,071	36,847	(121,918)	-
Other changes - foreign currency translation	<u>362</u>	<u>(11,113)</u>	<u>(193,307)</u>	<u>(204,058)</u>
Endowment net assets, December 31, 2010	<u>\$ (1,579,959)</u>	<u>\$ 2,751,486</u>	<u>\$ 17,052,606</u>	<u>\$ 18,224,133</u>

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 \$1,543,635 and \$1,347,613 as of December 31, 2011 and 2010, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred during the year ending December 31, 2011 and 2010.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

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 2011 and 2010, the difference between interest income and dividends and the total amount spent under the policy, funded by endowment corpus was \$510,830 and none, respectively.

Salzburg Global Seminar, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

NOTE 4 - PLEDGES RECEIVABLE

Pledges outstanding at December 31, 2011 and 2010 are summarized as follows:

	<u>2011</u>	<u>2010</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 1,297,635	\$ 1,042,553
One year to five years	1,212,000	36,728
Thereafter	<u>100,000</u>	<u>100,000</u>
 Total gross pledges	 2,609,635	 1,179,281
 Less: Discount to present value	 <u>(83,960)</u>	 <u>(47,322)</u>
 Total pledges, net	 <u><u>\$ 2,525,675</u></u>	 <u><u>\$ 1,131,959</u></u>

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, 2011 and 2010, pledge receivables of \$24,612 and \$0, respectively, were written off and recorded in miscellaneous expense.

In 1999, one individual signed an irrevocable pledge agreement 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, 2011 and 2010. 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. 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

NOTE 5 - INVESTMENTS

Investments at December 31, 2011 and 2010 consisted of the following:

	<u>2011</u>	<u>2010</u>
Cash equivalents	\$ 515,397	\$ 777,515
Mutual funds in the United States	10,931,106	11,709,855
Mutual funds and bonds in Austria	<u>5,518,107</u>	<u>5,733,537</u>
Total fair value of investments	<u>\$ 16,964,610</u>	<u>\$ 18,220,907</u>

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 investments in bonds are used as security for long term debt.

Total investment return for the years ended December 31, 2011 and 2010 consisted of the following:

	<u>2011</u>	<u>2010</u>
Interest income and dividends	\$ 518,431	\$ 515,889
Realized gain	271,204	445,268
Exchange gain	-	74,411
Unrealized (loss) gain, net	<u>(841,649)</u>	<u>235,592</u>
Total investment return	<u>\$ (52,014)</u>	<u>\$ 1,271,160</u>

Investment fees amounted to \$6,305 and \$7,268, respectively. Total investment return is net of investment fees.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2011 and 2010 consisted of the following:

	Estimated useful life in years	2011	2010
		<u>          </u>	<u>          </u>
Land	-	\$ 180,477	\$ 185,882
Buildings			
Schloss Leopoldskron	10 - 50	1,684,452	1,376,740
Meierhof	10 - 50	8,617,776	8,839,608
Equipment	4 - 10	<u>669,408</u>	<u>649,138</u>
		11,152,113	11,051,368
Less accumulated depreciation and amortization		<u>(6,840,716)</u>	<u>(6,716,332)</u>
Property and equipment, net		<u>\$ 4,311,397</u>	<u>\$ 4,335,036</u>

A component of the net change in fixed assets from December 31, 2011 and 2010 is the effect of foreign currency translation (see note 1). At December 31, 2009 the appraised replacement value of the property held in Austria totaled \$32,054,098.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

NOTE 7 - NOTES PAYABLE AND LINE OF CREDIT

Notes payable at December 31, 2011 and 2010 consisted of the following:

	<u>2011</u>	<u>2010</u>
Note payable (denominated in CHF) to an Austrian bank with principal and interest payments through 2018. Interest is at 3-month LIBOR plus 1.125% (1.143% and 1.303% at December 31, 2011 and 2010, respectively). The loan is collateralized by investments and real estate in Austria.	\$ 2,687,821	\$ 2,801,268
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 (2.75% and 2.625% at December 31, 2011 and 2010, 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.	1,805,042	1,945,845
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% (1.875% and 2.125% at December 31, 2011 and 2010, respectively). Interest and principal payments are deferred until mid-2012. The loan is collateralized by investments and real estate in Austria.	2,920,800	2,855,401

Salzburg Global Seminar, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
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. In October 2011, the loan payable was extended until May 13, 2014 with the same interest rate.	500,000	500,000
	<u>\$ 7,913,663</u>	<u>\$ 8,102,514</u>

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

2012	\$ 200,498
2013	424,164
2014	1,138,503
2015	1,006,016
2016	1,580,390
Thereafter	<u>3,564,092</u>
	<u>\$ 7,913,663</u>

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% (2.55% and 2.51% at December 31, 2011 and 2010, 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 at December 31, 2011 and 2010. Eligible assets which collateralize the line of credit are subject to approval by the bank and total approximately \$1.5 million at December 31, 2011 and 2010. The Seminar's balance on the demand line of credit at December 31, 2011 and 2010 was \$368,720 and \$43,820, respectively. On February 29, 2012 the line of credit was terminated and the Seminar entered into a new line of credit agreement with UBS Bank (see note 15).

The Seminar has two overdraft facilities in Austria under which it pays interest at a variable rate of Euribor plus 1.25% (2.875% and 2.25% at December 31, 2011 and 2010, respectively). The written limits on this agreement are \$8,162,910. At December 31, 2011 and 2010, the Seminar had overdrafts relating to this agreement that totaled \$7,155,099 and \$5,772,383, respectively. The overdraft facility is collateralized by investments and real estate in Austria.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

NOTE 8 - EMPLOYEE BENEFITS

Severance pay expense for Austrian employees amounted to \$3,731 and \$46,819 in 2011 and 2010, respectively, including foreign currency gain of \$7,770 and loss of \$20,283, respectively. The related accrual at December 31, 2011 and 2010 was \$265,100 and \$276,909, respectively, and is included as part of accounts payable and accrued liabilities.

Severance pay expense for a US employee in the amount of \$123,142 was incurred, of which, \$92,357 remained payable as of December 31, 2011, and is included as part of accounts payable and accrued liabilities.

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, included in wages and benefits, related to this plan and another benefit plan was approximately \$76,917 and \$56,477 in 2011 and 2010, 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, 2011 and 2010, \$71,000 and \$121,913, respectively, was accrued relating to these future payments and is included within accounts payable and accrued liabilities. The final payment of \$71,000 is due within the next year.

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 \$4,429 and escalates each year (see note 11). As of December 31, 2011, expenses incurred related to this agreement were \$54,702 and are included in office expenses.



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The Seminar in Salzburg, Austria entered into various operating leases that include a fire alarm system, vehicle, computers and office equipment. One leasing agreement concerning office equipment will expire in 2012. These agreements have lease terms beyond one year.

Minimum future rental payments under these leases as of December 31, 2011 are as follows:

2012	\$	94,176
2013		25,016
2014		20,211
2015		17,042
2016		15,335
Thereafter		<u>4,040</u>
	\$	<u><u>175,820</u></u>

Rent paid under these leases amounted to \$152,150 and \$151,336 in 2011 and 2010, 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, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Educational programs and projects	\$ 4,344,466	\$ 3,299,447
Conference center	3,826,464	3,414,683
Management and general	915,902	1,051,033
Fundraising and reporting	<u>508,456</u>	<u>388,268</u>
	<u>\$ 9,595,288</u>	<u>\$ 8,153,431</u>

NOTE 11 - RELATED PARTY

The Seminar holds investments in various mutual funds managed by the Capital Group. Senior executives of the Capital Group are members of the Board of Directors of the Seminar. The Board of Directors of the Seminar approved the initial and continuing investment in all investment funds.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2011 and 2010

The market value of mutual funds for the years ended December 31, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Bond Fund of America	\$ 741,127	\$ 3,278,842
Capital Income Builder Fund	5,672,195	6,028,208
Euro Pacific Growth Fund	1,805,870	2,429,476
New World Fund A	553,637	-
American Wash Mutual Inv A	2,187,128	-
	<u>\$ 10,959,957</u>	<u>\$ 11,736,526</u>

The President and CEO of the Seminar, holds a seat on the Board of Directors of Guidestar USA, Inc. Guidestar USA, Inc. is the lessor of the Seminar's office suite in Washington, DC. His term ended on December 15, 2011.

During 2011 and 2010, the Seminar received loan financing from a member of the Board (see note 7).

The Seminar entered into a foreign currency derivative contract with Raiffeisenverband Salzburg (RVS). RVS is a shareholder of Raiffeisen Zentralbank Osterreich AG (RZB). The chairman of the supervisory board of RZB is a member of the Board of Directors of the Seminar as of December 31, 2011 (see note 12).

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.

During 2011, the Seminar, through its operations in Austria, entered into foreign currency forward contracts with RVS for €100,000 per month for the period January - June 2012 at a rate of \$1.35, €50,000 per month for the period January - June 2012 at the rate of \$1.33, and €100,000 per month for the period July - December 2012 at the rate of \$1.33. The fair value

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of the foreign currency forward contracts is a liability of \$69,852 as of December 31, 2011 and is included in accounts payable and accrued liabilities. The corresponding unrealized loss in the amount of \$69,852 during 2011 is recorded in interest and bank fees expense.

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 expired in January, February, March, April and May of 2011. The fair value of the foreign currency option was an asset of \$23,563 as of December 31, 2010 and was included in accounts receivable and other assets. The corresponding unrealized gain in the amount of \$23,563 during 2010 is recorded in other income. As of December 31, 2011, the call and put options expired and a realized loss of \$7,702 was recorded in interest and bank fees expense.

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 expired in June, July, September, October and December of 2011. The fair value of the foreign currency call option was 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 was recorded in other income. As of December 31, 2011, the call options expired and a realized gain of \$26,755 was recorded in interest and bank fees expense.

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.

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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.

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The following table presents the fair value of assets and liabilities measured on a recurring basis at December 31, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Net balance</u>
Cash and cash equivalents	\$ 515,397	\$ -	\$ 515,397
Mutual funds in the United States	10,931,106	-	10,931,106
Mutual funds and bonds in Austria	5,518,107	-	5,518,107
Foreign currency exchange forward contracts	<u>-</u>	<u>(69,852)</u>	<u>(69,852)</u>
Total	<u>\$ 16,964,610</u>	<u>\$ (69,852)</u>	<u>\$ 16,894,758</u>

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Net balance</u>
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	<u>-</u>	<u>50,788</u>	<u>50,788</u>
Total	<u>\$ 18,220,907</u>	<u>\$ 50,788</u>	<u>\$ 18,271,695</u>

NOTE 14 - CONTINGENCY

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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management, adequate provisions have been made in the accompanying financial statements for adjustments, if any, which may result from review.

NOTE 15 - PRIOR PERIOD ADJUSTMENT AND RESTATEMENT

In a prior year, management identified a potential payroll tax liability related to four United States employees who are residents in Austria. A \$100,000 reserve was recorded. During 2011, a government review of the liability revealed the estimated reserve was materially understated and additional liabilities have been accruing on an annual basis related to these employees. Therefore, a prior period adjustment of \$516,996 was recorded to beginning net assets and accounts payable and accrued liabilities in the statement of activities and financial position as of December 31, 2010. In addition, the 2010 wages and benefits expense and accounts payable and accrued liabilities in the statement of activities and financial position were restated by \$30,933 for the effects of the cost incurred during 2010.

In 2010, services were provided to the Seminar as an in-kind contribution. Accordingly, 2010 has been restated by \$94,515 which was recorded in corporate revenues and wages and benefits expense in the statement of activities as of December 31, 2010.

NOTE 16 - 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 June 4, 2012 (the date the financial statements were available to be issued) and concluded the following subsequent events require disclosure in the notes to the financial statements.

In February 2012, the line of credit held with Citizen's Bank was terminated. The Seminar entered into a securities-backed lending arrangement with UBS Financial Services Inc. (UBS). The Seminar has available credit equal to 70 - 90% of the fair value of eligible securities held with UBS. Interest on the line of credit is at a rate of 30 Day LIBOR + 1.375% and is collateralized by the underlying securities.