Reznick Group

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

**SALZBURG GLOBAL SEMINAR, INC.**

DECEMBER 31, 2008 AND 2007

Salzburg Global Seminar, Inc.

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Reznick Group

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# INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Salzburg Global Seminar, Inc.

We have audited the accompanying statements of financial position of Salzburg Global Seminar, Inc. as of December 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the 2008 financial statements of the foreign operations that occurred in Salzburg, Austria, which statements reflect total assets of $9,138,857 as of December 31, 2008 and the total change in net assets of $4,885,669 for the year 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 foreign 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 financial statements referred to above present fairly, in all material respects, the financial position of Salzburg Global Seminar, Inc. as of December 31, 2008 and 2007, 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 21, 2009

Salzburg Global Seminar, Inc.

STATEMENTS OF FINANCIAL POSITION

December 31, 2008 and 2007

## ASSETS

| | 2008 | 2007 |
|---|---|---|
| Cash and cash equivalents | $ 259,725 | $ 109,683 |
| Accounts receivable and other assets | 687,842 | 503,024 |
| Pledges receivable, net of discount | 2,746,285 | 1,903,351 |
| Investments (of which $10,600,772 and $12,216,839 is pledged as collateral for loans as of December 31, 2008 and 2007, respectively) | 16,881,714 | 22,649,843 |
| Property and equipment, net | 5,152,870 | 5,662,145 |
| Total assets | $ 25,728,436 | $ 30,828,046 |

## LIABILITIES AND NET ASSETS (DEFICIT)

| | 2008 | 2007 |
|---|---|---|
| Liabilities | | |
| Accounts payable and accrued liabilities | $ 1,940,293 | $ 1,856,197 |
| Line of credit | 6,576,801 | 5,095,921 |
| Bank overdraft facility | 917,099 | 778,057 |
| Notes payable | 4,897,290 | 4,910,721 |
| Total liabilities | 14,331,483 | 12,640,896 |
| Net assets (deficit) | | |
| Unrestricted | (12,202,465) | (5,822,453) |
| Temporarily restricted | 6,779,578 | 6,645,098 |
| Permanently restricted | 16,819,840 | 17,364,505 |
| Total net assets (deficit) | 11,396,953 | 18,187,150 |
| Total liabilities and net assets (deficit) | $ 25,728,436 | $ 30,828,046 |

See accompanying notes to financial statements

Salzburg Global Seminar, Inc.

STATEMENTS OF ACTIVITIES

Year ended December 31, 2008
(with comparative totals for 2007)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2008 | 2007 |
|---|---|---|---|---|---|
| Revenues | | | | | |
| Individual | $ 585,949 | $ 395,349 | $ 19,782 | $ 1,001,080 | $ 1,457,983 |
| Corporate | 91,010 | 25,164 | - | 116,174 | 494,432 |
| Foundation | 1,464,060 | 2,002,229 | - | 3,466,289 | 3,351,243 |
| Government | 491,258 | 350,407 | - | 841,665 | 156,148 |
| Participant funded tuition | 1,368,369 | - | - | 1,368,369 | 1,309,029 |
| Conference income | 1,118,176 | - | - | 1,118,176 | 1,182,596 |
| Investment return | (3,484,177) | (648,263) | (406,353) | (4,538,793) | 1,776,563 |
| Other income | 95,251 | 1,335 | - | 96,586 | 78,335 |
| Net foreign currency transaction gain | 860 | 6,825 | 10,483 | 18,168 | 1,040,854 |
| Net assets released from restriction and reclassification | 1,967,755 | (1,976,155) | 8,400 | - | - |
| Total revenues | 3,698,511 | 156,891 | (367,688) | 3,487,714 | 10,847,183 |
| Expenses | | | | | |
| Wages and benefits | 5,381,216 | - | - | 5,381,216 | 4,731,856 |
| Travel | 1,013,032 | - | - | 1,013,032 | 889,742 |
| Office | 459,890 | - | - | 459,890 | 434,561 |
| Publications | 14,487 | - | - | 14,487 | 41,117 |
| Meierhof and Schloss building operating cost | 902,421 | - | - | 902,421 | 821,928 |
| Taxes | 70,003 | - | - | 70,003 | 63,378 |
| Professional fees | 582,297 | - | - | 582,297 | 557,286 |
| Interest and bank fees | 530,142 | - | - | 530,142 | 561,037 |
| Miscellaneous | 496,876 | - | - | 496,876 | 459,566 |
| Depreciation | 409,201 | - | - | 409,201 | 403,190 |
| Loss on uncollectible pledge | - | - | - | - | 3,003 |
| Total expenses | 9,859,565 | - | - | 9,859,565 | 8,966,664 |
| Change in net assets before foreign currency translation adjustments | (6,161,054) | 156,891 | (367,688) | (6,371,851) | 1,880,519 |
| Foreign currency translation adjustments | (218,958) | (22,411) | (176,977) | (418,346) | (740,230) |
| Change in net assets | (6,380,012) | 134,480 | (544,665) | (6,790,197) | 1,140,289 |
| Net assets at beginning of year | (5,822,453) | 6,645,098 | 17,364,505 | 18,187,150 | 17,046,861 |
| Net assets at end of year | $ (12,202,465) | $ 6,779,578 | $ 16,819,840 | $ 11,396,953 | $ 18,187,150 |

(continued)

Salzburg Global Seminar, Inc.

STATEMENTS OF ACTIVITIES - CONTINUED

Year ended December 31, 2007

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2007 |
|---|---|---|---|---|
| Revenues | | | | |
| Individual | $ 1,040,807 | $ 347,076 | $ 70,100 | $ 1,457,983 |
| Corporate | 268,020 | 226,412 | - | 494,432 |
| Foundation | 1,161,066 | 2,190,177 | - | 3,351,243 |
| Government | 145,265 | 10,883 | - | 156,148 |
| Participant funded tuition | 1,309,029 | - | - | 1,309,029 |
| Conference income | 1,182,596 | - | - | 1,182,596 |
| Investment return | 1,679,374 | (85,660) | 182,849 | 1,776,563 |
| Other income | 78,335 | - | - | 78,335 |
| Net foreign currency transaction gain | 1,019,789 | 9,103 | 11,962 | 1,040,854 |
| Net assets released from restriction and reclassification | 1,221,360 | (1,256,410) | 35,050 | - |
| Total revenues | 9,105,641 | 1,441,581 | 299,961 | 10,847,183 |
| Expenses | | | | |
| Wages and benefits | 4,731,856 | - | - | 4,731,856 |
| Travel | 889,742 | - | - | 889,742 |
| Office | 434,561 | - | - | 434,561 |
| Publications | 41,117 | - | - | 41,117 |
| Meierhof and Schloss building operating cost | 821,928 | - | - | 821,928 |
| Taxes | 63,378 | - | - | 63,378 |
| Professional fees | 557,286 | - | - | 557,286 |
| Interest and bank fees | 561,037 | - | - | 561,037 |
| Miscellaneous | 459,566 | - | - | 459,566 |
| Depreciation | 403,190 | - | - | 403,190 |
| Loss on uncollectible pledge | 3,003 | - | - | 3,003 |
| Total expenses | 8,966,664 | - | - | 8,966,664 |
| Change in net assets before foreign currency translation adjustments | 138,977 | 1,441,581 | 299,961 | 1,880,519 |
| Foreign currency translation adjustments | (1,153,345) | 19,107 | 394,008 | (740,230) |
| Change in net assets | (1,014,368) | 1,460,688 | 693,969 | 1,140,289 |
| Net assets at beginning of year | (4,808,085) | 5,184,410 | 16,670,536 | 17,046,861 |
| Net assets at end of year | $ (5,822,453) | $ 6,645,098 | $ 17,364,505 | $ 18,187,150 |

See accompanying notes to financial statements

Salzburg Global Seminar, Inc.

STATEMENTS OF CASH FLOWS

Years ended December 31, 2008 and 2007

| | 2008 | 2007 |
|---|---|---|
| Cash flows from operating activities | | |
| Change in net assets | $ (6,790,197) | $ 1,140,289 |
| Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities | | |
| Depreciation | 409,201 | 403,190 |
| Loss on disposal of property and equipment | 14,129 | 9,418 |
| Realized and unrealized depreciation (appreciation) | 5,603,200 | (21,357) |
| Foreign currency translation adjustments | 418,346 | 740,230 |
| Foreign currency (gain) on long-term debt | 251,211 | (511,388) |
| Loss on uncollectible pledges | - | 3,003 |
| Changes in cash based on change in | | |
| Pledges receivable | (842,934) | (784,443) |
| Accounts receivable and other assets | (184,887) | 137,185 |
| Accounts payable and accrued liabilities | 57,971 | (253,530) |
| Contributions restricted for long-term investment | (38,665) | (117,112) |
| Interest and dividends restricted for long-term investment | 406,353 | (182,849) |
| Net cash provided by (used in) operating activities | (696,272) | 562,635 |
| Cash flows from investing activities | | |
| Purchase of investments | (939,683) | (814,472) |
| Proceeds from sales of investments | 924,356 | 1,623,156 |
| Purchase of property and equipment | (145,920) | (94,865) |
| Net cash provided by (used in) investing activities | (161,247) | 713,819 |
| Cash flows from financing activities | | |
| Contributions, interest and dividends restricted for long-term investment | (367,688) | 299,961 |
| Change in bank overdraft | 139,157 | (214,976) |
| Net proceeds from borrowings on line of credit | 1,480,880 | 712,266 |
| Principal payments on long-term debt | (15,885) | (36,947) |
| Net cash provided by financing activities | 1,236,464 | 760,304 |
| Effect of exchange rates on cash | (228,904) | (2,131,961) |
| Net increase (decrease) in cash and cash equivalents | 150,042 | (95,203) |
| Cash and cash equivalents at beginning of year | 109,683 | 204,886 |
| Cash and cash equivalents at end of year | $ 259,725 | $ 109,683 |
| Supplemental data | | |
| Interest paid | $ 530,142 | $ 561,037 |

See accompanying notes to financial statements

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Activities and Organization

The Salzburg Global Seminar, Inc. (the Seminar) is an independent, not-for-profit 501(c)(3) 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 Middlebury, Vermont, and Washington, D.C. In addition, the Seminar has teaching and conference facilities in Austria. 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 as defined by Statement of Financial Accounting Standards (SFAS) No. 116, “Accounting for Contributions Received and Contributions Made,” and SFAS No. 117, “Financial Statements of Not-for-Profit Organizations.” SFAS No. 116 requires that unconditional promises to give (pledges) be recorded as receivables and revenues within the appropriate net asset category. SFAS No. 117 establishes 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. SFAS No. 117 further 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. All 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.

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, 2008 and 2007, management estimates that no allowance for uncollectible pledges is necessary.

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 statement 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 carrying value of property and equipment is reviewed when and if the facts and circumstances suggest that it may be impaired.

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. 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 (note 7).

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.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 157, *Fair Value Measurements.* FASB Statement No. 157 provides guidance for using fair value to measure assets and liabilities. The standard expands required disclosures about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. FASB Statement No. 157 is effective for fiscal years beginning after November 15, 2007. On November 14, 2007, the FASB agreed to partially defer the effective date of the standard for certain nonfinancial assets and liabilities. The FASB also issued FASB Staff Position (FSP) No. 157-1 *Application of FAB Statement No. 157 to FASB Statement No. 13 and Other Accounting and Pronouncements that Address Fair Value Measurements for Purposes of Lease Classification or Measurement Under Statement 13,* and FSP No. 157-2 *Effective Date of FASB No. 157.* FSP No. 157-1 excludes certain lease transactions from the scope of FASB Statement No. 157 and FSP No. 157-2 delayed the Seminar's effective date of the adoption of FASB Statement 157 for certain non-financial assets and liabilities to December 31, 2009. The Seminar adopted FASB Statement No. 157 for financial assets and liabilities effective January 1, 2008, and there has been no impact on the financial statement amounts; however, additional disclosures have been made.

In June 2006, FASB issued FIN 48, "Accounting for Uncertainty in Income Taxes" an interpretation of FASB Statement No. 109. The effective date of FIN 48 was for fiscal years beginning after December 15, 2006. The effective date was delayed in 2007 and was delayed again in 2008 for nonpublic companies. The new effective date for FIN 48 for nonpublic companies is fiscal years beginning after December 15, 2008. The Seminar has elected to defer application of FIN 48, as permitted by FSP FIN 48-3, "Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises," until 2009. The Seminar does not anticipate that the provisions of FIN 48 will have any significant impact on its financial statements. However, additional disclosures may be required for situations, if any, where the Seminar's tax positions are considered uncertain. Currently, the FASB is deliberating the manner and extent to which non-profit corporations will need to apply the provisions of FIN 48.

Foreign Currency Translation

The Seminar follows the provisions of Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation." Under this standard, 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, 2008 and 2007 was 0.7096 and 0.6790, respectively. The weighted average rate used for conversion of the activities during 2008 and 2007 was 0.6799 and 0.7297, respectively.

Foreign Exchange Contracts

The Seminar accounts for foreign exchange future contracts by following the provisions of Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, (SFAS 133) as amended, which establishes accounting and reporting standards for derivative instruments and hedging activities. Gains or losses in fair value on forward contracts are recognized in earnings monthly and are included in other income (expense).

Income 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.

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

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.

Net assets (deficit) consist of the following:

| | 2008 | 2007 |
|---|---|---|
| Unrestricted | | |
| Unrestricted | $ (12,190,764) | $ (6,029,710) |
| Cumulative translation adjustments | (11,701) | 207,257 |
| | $ (12,202,465) | $ (5,822,453) |
| Temporarily restricted | | |
| Contributions and gifts to support future sessions | $ 4,537,184 | $ 4,371,893 |
| Contributions to support future sessions or to be reclassified to permanently restricted net assets | 2,278,794 | 2,287,194 |
| Cumulative translation adjustments | (36,400) | (13,989) |
| | $ 6,779,578 | $ 6,645,098 |
| Permanently restricted | | |
| Endowments | $ 16,338,335 | $ 16,706,023 |
| Cumulative translation adjustments | 481,505 | 658,482 |
| | $ 16,819,840 | $ 17,364,505 |

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 2008 and 2007, the Seminar received pledges and cash contributions which qualify as matching endowment gifts of $16,800 and $70,100, respectively. Accordingly, $8,400 and $35,050 were reclassified from temporarily restricted to permanently restricted net assets in the statement of activities in 2008 and 2007, respectively. Matching endowment gifts consist of gifts received and recorded in the statement of activities along with the unrecorded future value of unconditional and conditional gifts, including bequests and other conditional gifts totaling approximately $680,000 as of December 31, 2008 and 2007. As of December 31, 2008 and 2007, the Seminar reported approximately $5.4 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 2008 and 2007, $206,897 and $184,672, respectively, of investment return was used for grant purposes and administrative expense in accordance with the Agreement.

Salzburg Global Seminar, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2008 and 2007

The changes in endowment Net Assets for the years ending December 31, 2008 and 2007 consisted of the following:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, January 1, 2008 | $ 2,694,466 | $ 3,146,596 | $ 16,808,781 | $ 22,649,843 |
| Investment return: | | | | |
| Investment income | 755,650 | 20,778 | 75,562 | 851,990 |
| Net depreciation (realized and unrealized) | (4,239,829) | (669,040) | (481,914) | (5,390,783) |
| Total investment return | (3,484,179) | (648,262) | (406,352) | (4,538,793) |
| Contributions | - | (8,400) | 8,400 | - |
| Appropriation of endowment assets for expenditure | (989,421) | (77,897) | | (1,067,318) |
| Other changes - foreign currency translation | 2,529 | 36,951 | (201,499) | (162,018) |
| Endowment net assets, December 31, 2008 | $ (1,776,605) | $ 2,448,988 | $ 16,209,330 | $ 16,881,714 |

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, January 1, 2007 | $ 1,969,192 | $ 3,329,709 | $ 16,164,421 | $ 21,463,321 |
| Investment return: | | | | |
| Investment income | 1,058,393 | 86,487 | 154,053 | 1,298,933 |
| Net depreciation (realized and unrealized) | 620,981 | (172,147) | 28,796 | 477,630 |
| Total investment return | 1,679,374 | (85,660) | 182,849 | 1,776,563 |
| Contributions | - | (35,050) | 104,675 | 69,625 |
| Appropriation of endowment assets for expenditure | (953,724) | (72,891) | - | (1,026,615) |
| Other changes - foreign currency translation | (376) | 10,488 | 356,837 | 366,949 |
| Endowment net assets, December 31, 2007 | $ 2,694,466 | $ 3,146,596 | $ 16,808,782 | $ 22,649,843 |

## NOTE 3 - PLEDGES AND ACCOUNTS RECEIVABLE

Pledges outstanding at December 31, 2008 and 2007 are summarized as follows:

| | 2008 | 2007 |
|---|---|---|
| Unconditional promises expected to be collected in: | | |
| Less than one year | $ 1,552,922 | $ 983,133 |
| One year to five years | 1,170,000 | 920,080 |
| Thereafter | 181,712 | 181,712 |
| Total gross pledges | 2,904,634 | 2,084,925 |
| Less: Discount to present value | (158,349) | (181,574) |
| Total pledges, net | $ 2,746,285 | $ 1,903,351 |

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, 2008 and 2007, management estimates that no allowance for uncollectible pledges is necessary.

Included in Permanently restricted pledges receivable is $100,335 for gifts that will be received upon the death of the donor. In 1999, one individual has pledged to donate $100,000 upon his death. This is discounted using a 6% rate and 12 years for a receivable of $52,679 as of December 31, 2008. Another individual established a trust in 1998 which will become available upon the donor’s death. The principal of the trust is $81,712 on December 31, 2008, and the present value based on a 6% rate for 10 years, assuming 5% income and 3% capital appreciation is $47,656.

## NOTE 4 - INVESTMENTS

Investments at December 31, 2008 and 2007 consisted of the following:

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Fair value | Cost | Fair value | Cost |
| Cash equivalents | $ 1,901,161 | $ 1,608,275 | $ 2,122,375 | $ 1,730,264 |
| Mutual funds in the United States | 11,191,297 | 12,492,978 | 16,267,665 | 11,969,953 |
| Mutual funds in Austria | 3,311,351 | 3,235,289 | 3,322,305 | 3,376,002 |
| Euro bonds | 477,905 | 427,423 | 937,498 | 764,795 |
| | $ 16,881,714 | $ 17,763,965 | $ 22,649,843 | $ 17,841,014 |

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

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 balanced principal growth and annual income return. In 2008 the Seminar adopted a policy whereby only interest and dividends earned on endowments that are below historic value, excluding endowment investments with specified spending rates, will be distributed each year to support current operations. This policy will be in effect until endowments exceed historic value. Any endowment that exceeds historic value will also spend a potion of accumulated gains up to a maximum spending rate of 5%. During 2008 and 2007, the difference between interest income and dividends and the total amount spent under the policy was funded by accumulated realized and unrealized gains of $263,636 and $239,196, respectively.

Total investment return for the years ended December 31, 2008 and 2007 consisted of the following:

| | 2008 | 2007 |
|---|---|---|
| Interest income and dividends | $ 851,990 | $ 1,298,933 |
| Realized gain | 206,962 | 440,301 |
| Exchange gain (loss) | (158,257) | (56,047) |
| Unrealized gains (losses), net | (5,439,488) | 93,376 |
| Total investment return | $ (4,538,793) | $ 1,776,563 |

Investment fees amounted to approximately $6,816 and $6,967, respectively. Total investment return is net of investment fees.

## NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2008 and 2007 consisted of the following:

| | Estimated useful life in years | 2008 | 2007 |
|---|---|---|---|
| Land | - | $ 196,259 | $ 205,139 |
| Buildings | | | |
| Schloss Leopoldskron | 10 - 50 | 1,342,298 | 1,393,075 |
| Meierhof | 10 - 50 | 9,399,182 | 9,834,393 |
| Equipment | 4 - 10 | 737,710 | 729,904 |
| Leasehold improvements | 5 - 10 | 135,055 | 135,055 |
| | | 11,810,504 | 12,297,566 |
| Less accumulated depreciation and amortization | | (6,657,634) | (6,635,421) |
| Property and equipment, net | | $ 5,152,870 | $ 5,662,145 |

A significant component of the net change in fixed assets from December 31, 2008 and 2007 is the effect of foreign currency translation (see note 1).

## NOTE 6 - NOTES PAYABLE AND LINE OF CREDIT

Notes payable at December 31, 2008 and 2007 consisted of the following:

| | 2008 | 2007 |
|---|---|---|
| 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 .875% (3.805% and 3.660% at December 31, 2008 and 2007, respectively). The loan is collateralized by investments of $3,051,643 and $3,064,795 at December 31, 2008 and 2007 held at the bank. | $ 2,674,682 | $ 2,571,638 |

| | 2008 | 2007 |
|---|---|---|
| Note payable (denominated in euros) to an Austrian bank with interest payments through 2016 and principal payments beginning in 2009 and ending in 2016. Interest is at the Austrian Federal Ministry of Economic Affairs published rate (2.875% and 2.875% at December 31, 2008 and 2007, respectively). The loan is collateralized by real estate in Austria. | 2,222,608 | 2,323,177 |
| Note payable (denominated in euros) to an Austrian bank with principal and interest payments through 2008. Interest is at an Austrian government secondary market rate plus .5% (4.875% at December 31, 2007). The loan was collateralized by equipment. | - | 15,906 |
| | $ 4,897,290 | $ 4,910,721 |

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

| | |
|---|---|
| 2009 | $ 180,355 |
| 2010 | 185,373 |
| 2011 | 380,779 |
| 2012 | 390,814 |
| 2013 | 400,849 |
| Thereafter | 3,359,120 |
| | $ 4,897,290 |

The Seminar has a demand line of credit agreement with a U.S. bank. Interest on the line of credit is at LIBOR Advantage Rate + 1.25% (2.69% and 6.48% at December 31, 2008 and 2007, respectively) and the Seminar has available 70% of the fair value of the eligible assets held in a custody account, not to exceed $8,000,000. Eligible assets which collateralize the line of credit are subject to approval by the bank and total approximately $7.5 million and $9.2 million at December 31, 2008 and 2007, respectively. The Seminar's balance on the demand line of credit at December 31, 2008 and 2007 was $6,576,801 and $5,095,921, respectively. On May 8, 2008, an extension of the line of credit was provided through May 31, 2010.

The Seminar has an overdraft facility in Austria under which it pays interest at a variable rate of Euribor plus 1.25% (6.375% and 6.0% at December 31, 2008 and 2007, respectively). The written limits on this agreement are $1,127,200. At December 31, 2008 and 2007, the Seminar had overdrafts relating to this agreement of $917,099 and $778,057, respectively.

## NOTE 7 - EMPLOYEE BENEFITS

Severance pay expense for Austrian employees amounted to $441 in 2008 including $11,215 of foreign currency gain and $63,040 in 2007 including $28,779 of foreign currency loss. The related accrual at December 31, 2008 and 2007 was $247,843 and $259,499, respectively, 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 related to this plan and another benefit plan was approximately $120,010 and $130,000 in 2008 and 2007, 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, 2008 and 2007, $316,288 and $430,460, 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, 2008 are as follows:

| | | |
|---|---|---|
| 2009 | $ | 140,000 |
| 2010 | | 140,000 |
| 2011 | | 71,000 |
| | $ | 351,000 |

## NOTE 8 - 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.

Minimum future rental payments under these leases as of December 31, 2008 are as follows:

| | |
|---|---|
| 2009 | $ 151,107 |
| 2010 | 101,280 |
| 2011 | 77,381 |
| 2012 | 32,978 |
| 2013 | 31,052 |
| Thereafter | 20,021 |
| | $ 413,819 |

On January 31, 2006, the Seminar entered into a month-to-month sublease for an office suite in Washington, DC. Assuming that the month-to-month tenancy of the premises continues, there shall be an additional 2.3% increase in the fixed monthly rental charges in January of each year. The monthly rent expense was $2,089 and $2,042 as of December 31, 2008 and 2007, respectively.

Rent paid for office space and equipment amounted to $153,322 and $111,221 in 2008 and 2007, respectively.

NOTE 9 - FUNCTIONAL EXPENSES

Operating and non-operating expenses related to providing the services of the Seminar for the years ended December 31, 2008 and 2007 are as follows:

| | 2008 | 2007 |
|---|---|---|
| Educational programs and projects | $ 4,275,360 | $ 3,640,538 |
| Conference center | 3,729,556 | 3,375,118 |
| Management and general | 1,316,457 | 1,056,785 |
| Fundraising and reporting | 538,192 | 894,223 |
| | $ 9,859,565 | $ 8,966,664 |

NOTE 10 - RELATED PARTY

The Seminar holds investments in the Bond Fund of America, the Capital Income Builder 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, 2008, the market values of these funds were $621,864, $9,909,792 and $781,737, respectively. As of December 31, 2007, the market values of these funds were $764,191, $13,074,349 and $1,221,516.

At December 31, 2007, the Seminar also held $1,204,116 in the American Mutual Fund. The President Emeritus of the Seminar is on the Board of Directors of the American Mutual Fund. During 2008, the investments in the American Mutual Fund were sold, and invested in the Euro Pacific Growth Fund. As of December 31, 2008, the investment in the Euro Pacific Growth Fund had a market value of $643,102. Both funds are managed by the Capital Group. The Board of Directors of the Seminar approved the initial and continuing investment in all investment funds.

In 2005, Salzburg Seminar Global Forum (the Forum) was established as an independent Austrian association for the purpose of obtaining grants from the European Union for projects related to the "Institute for Historical Justice and Reconciliation." Both the Forum and the Seminar share the same management and Board of Directors. When a grant is received by the Forum, the Seminar charges the Forum with the costs that arise from the Seminar's implementation of these projects. The grants are reported as temporarily restricted revenue by the Seminar until the projects for which the grants were designated occurs. At that time, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restriction. Grants of $120,416 and $0 were received for the years ending December 31, 2008 and 2007, respectively.

## NOTE 11 - FOREIGN CURRENCY CONTRACTS

Salzburg Global Seminar enters into foreign exchange contracts 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 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 as of December 31, 2008 is $3,365,066. 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 as of December 31, 2008 is $27,136 and is included in Other Assets and the corresponding earnings of $27,136 are recorded in other income.

NOTE 12 - FAIR VALUE MEASUREMENT

The Seminar has adopted FASB Statement No. 157. FASB Statement No. 157 establishes a fair value measurement framework, provides a single definition of fair value, and requires expanded disclosure summarizing fair value measurements. FASB Statement No. 157 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 statement 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 measured on a recurring basis at December 31, 2008:

| | Level 1 | Level 2 | Level 3 | Net Balance |
|---|---|---|---|---|
| Mutual funds in the United States | $ 11,191,297 | $ - | $ - | $ 11,191,297 |
| Mutual funds in Austria | 3,311,351 | - | - | 3,311,351 |
| Euro Bonds | 477,905 | - | - | 477,905 |
| Foreign currency exchange swap contracts | - | 27,136 | - | 27,136 |
| Total | $ 14,980,553 | $ 27,136 | $ - | $ 15,007,689 |

NOTE 13 - CONTINGENCY

Management has identified a potential payroll tax liability related to three United States employees who are resident in Austria. Only two of these employees remain with the Seminar as of December 31, 2008. A $100,000 reserve was recorded as of December 31, 2008 and 2007 related to this potential liability. There has been no resolution to this potential liability as of December 31, 2008.

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 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.