

**Salzburg Global Seminar, Inc.
and Subsidiary**

**Consolidated Financial Statements
and Independent Auditor's Report**

December 31, 2015 and 2014

COHN  REZNICK
ACCOUNTING • TAX • ADVISORY

Salzburg Global Seminar, Inc. and Subsidiary

Index

	<u>Page</u>
Independent Auditor's Report	2
Consolidated Financial Statements	
Consolidated Statements of Financial Position	4
Consolidated Statements of Activities	5
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Salzburg Global Seminar, Inc. and Subsidiary (the "Seminar"), which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the 2015 and 2014 consolidated financial statements of the operations that occurred in Salzburg, Austria and the Subsidiary, which statements reflect total assets of \$9,892,158 and \$11,470,347 as of December 31, 2015 and 2014, respectively, and the total change in net assets of (\$523,167) and (\$281,988) 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 reports 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, 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 consolidated financial position of Salzburg Global Seminar, Inc. and Subsidiary as of December 31, 2015 and 2014, and the changes in their consolidated net assets and their consolidated cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

CohnReznick LLP

Bethesda, Maryland
June 17, 2016

Salzburg Global Seminar, Inc. and Subsidiary

**Consolidated Statements of Financial Position
December 31, 2015 and 2014**

Assets

	2015	2014
Cash and cash equivalents	\$ 969,302	\$ 462,564
Accounts receivable and other assets	651,765	785,967
Pledges receivable, net of discount	768,685	1,326,364
Investments (\$11,940,711 and \$13,402,481 pledged as collateral for loans as of December 31, 2015 and 2014, respectively)	16,883,189	18,523,928
Property and equipment, net	4,348,614	4,974,303
Total assets	\$ 23,621,555	\$ 26,073,126

Liabilities and Net Assets (Deficit)

Liabilities		
Accounts payable and accrued liabilities	\$ 1,541,853	\$ 1,909,511
Line of credit	5,616,842	4,817,226
Bank overdraft facility	6,505,112	6,752,065
Notes payable	7,879,343	8,595,774
Total liabilities	21,543,150	22,074,576
Net assets (deficit)		
Unrestricted	(16,918,293)	(16,392,639)
Temporarily restricted	4,397,721	5,398,668
Permanently restricted	14,598,977	14,992,521
Total net assets	2,078,405	3,998,550
Total liabilities and net assets	\$ 23,621,555	\$ 26,073,126

See Accompanying Notes to Consolidated Financial Statements.

Salzburg Global Seminar, Inc. and Subsidiary

**Consolidated Statements of Activities
Year Ended December 31, 2015
(with comparative totals for 2014)**

	Unrestricted	Temporarily restricted	Permanently restricted	2015	2014
Revenues					
Individual	\$ 820,690	\$ 301,931	\$ -	\$ 1,122,621	\$ 1,240,904
Corporate	33,250	500	-	33,750	136,535
Foundation	890,053	581,348	5,411	1,476,812	1,909,766
Government	78,848	71,008	-	149,856	95,652
Participant funded tuition	1,360,050	-	-	1,360,050	1,038,425
Hotel	2,592,475	-	-	2,592,475	3,013,517
Investment return	(92,674)	(329,466)	228,389	(193,751)	1,246,158
Other income	126,587	-	-	126,587	137,154
Net assets released from restriction and reclassification	1,635,747	(1,587,806)	(47,941)	-	-
Total revenues	7,445,026	(962,485)	185,859	6,668,400	8,818,111
Expenses					
Wages and benefits	4,227,102	-	-	4,227,102	4,965,117
Hotel	969,917	-	-	969,917	1,067,273
Professional fees	805,246	-	-	805,246	845,207
Travel	517,629	-	-	517,629	671,970
Miscellaneous	677,870	-	-	677,870	650,400
Depreciation	373,528	-	-	373,528	430,989
Interest and bank fees	391,142	-	-	391,142	406,190
Office	356,395	-	-	356,395	356,083
Taxes	54,574	-	-	54,574	150,744
Total expenses	8,373,403	-	-	8,373,403	9,543,973
Change in net assets before other income (loss) and adjustments	(928,377)	(962,485)	185,859	(1,705,003)	(725,862)
Other income (loss)					
Net foreign currency transaction (loss) gain	(1,658,304)	(4,803)	254,759	(1,408,348)	(588,484)
Unrealized / realized (loss) gain on hedging contracts	(241,456)	-	-	(241,456)	(260,544)
Foreign currency exchange (loss) gain on loans	(289,384)	-	-	(289,384)	(299,513)
Total other income (loss)	(2,189,144)	(4,803)	254,759	(1,939,188)	(1,148,541)
Change in net assets before foreign currency translation adjustments	(3,117,521)	(967,288)	440,618	(3,644,191)	(1,874,403)
Foreign currency translation adjustments	2,591,867	(33,659)	(834,162)	1,724,046	927,210
Change in net assets	(525,654)	(1,000,947)	(393,544)	(1,920,145)	(947,193)
Net assets at beginning of year	(16,392,639)	5,398,668	14,992,521	3,998,550	4,945,743
Net assets at end of year	\$ (16,918,293)	\$ 4,397,721	\$ 14,598,977	\$ 2,078,405	\$ 3,998,550

Salzburg Global Seminar, Inc. and Subsidiary

**Consolidated Statements of Activities
Year Ended December 31, 2014**

	Unrestricted	Temporarily restricted	Permanently restricted	2014
Revenues				
Individual	\$ 817,446	\$ 423,458	\$ -	\$ 1,240,904
Corporate	73,048	63,487	-	136,535
Foundation	1,376,731	530,056	2,979	1,909,766
Government	95,652	-	-	95,652
Participant funded tuition	1,038,325	100	-	1,038,425
Hotel	3,013,517	-	-	3,013,517
Investment return	690,524	348,002	207,632	1,246,158
Other income	137,154	-	-	137,154
Net assets released from restriction and reclassification	2,024,388	(1,491,888)	(532,500)	-
Total revenues	9,266,785	(126,785)	(321,889)	8,818,111
Expenses				
Wages and benefits	4,965,117	-	-	4,965,117
Hotel	1,067,273	-	-	1,067,273
Professional fees	845,207	-	-	845,207
Travel	671,970	-	-	671,970
Miscellaneous	650,400	-	-	650,400
Depreciation	430,989	-	-	430,989
Interest and bank fees	406,190	-	-	406,190
Office	356,083	-	-	356,083
Taxes	150,744	-	-	150,744
Total expenses	9,543,973	-	-	9,543,973
Change in net assets before other income (loss) and adjustments	(277,188)	(126,785)	(321,889)	(725,862)
Other income				
Net foreign currency transaction loss	(742,490)	(131)	154,137	(588,484)
Unrealized / realized loss on hedging contracts	(260,544)	-	-	(260,544)
Foreign currency exchange loss on loans	(299,513)	-	-	(299,513)
Total other income	(1,302,547)	(131)	154,137	(1,148,541)
Change in net assets before foreign currency translation adjustments	(1,579,735)	(126,916)	(167,752)	(1,874,403)
Foreign currency translation adjustments	1,892,037	(56,999)	(907,828)	927,210
Change in net assets	312,302	(183,915)	(1,075,580)	(947,193)
Net assets at beginning of year	(16,704,941)	5,582,583	16,068,101	4,945,743
Net assets at end of year	\$ (16,392,639)	\$ 5,398,668	\$ 14,992,521	\$ 3,998,550

See Accompanying Notes to Consolidated Financial Statements.

Salzburg Global Seminar, Inc. and Subsidiary

**Consolidated Statements of Cash Flows
Years Ended December 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Change in net assets	\$ (1,920,145)	\$ (947,193)
Adjustments to reconcile changes in net assets to net cash used in operating activities		
Depreciation	373,528	430,989
Realized and unrealized depreciation (appreciation) of investments	745,421	(568,294)
Foreign currency translation adjustments	(1,724,046)	(927,210)
Foreign currency transaction loss (gain)	1,408,348	588,484
Foreign currency loss (gain) on long-term debt	289,384	299,513
Forgiveness of debt	(105,000)	(40,000)
Loss (gain) on foreign currency hedging contracts	462,959	39,041
Fair value adjustment on foreign currency hedging contracts	(221,503)	221,503
Loss on disposal	-	938
Bad debt	7,884	8,050
Contributions restricted for long-term investment	(5,411)	(2,979)
Releases from restricted long term investment	47,941	532,500
Interest and dividends restricted for long-term investment	(228,389)	(207,632)
Changes in cash based on change in		
Pledges receivable	511,287	432,343
Accounts receivable and other assets	52,156	(361,642)
Accounts payable and accrued liabilities	(443,066)	151,095
	<u>(748,652)</u>	<u>(350,494)</u>
Net cash used in operating activities		
Cash flows from investing activities		
Purchase of investments	(434,937)	(557,802)
Proceeds from sales of investments	807,958	781,600
Purchase of property and equipment	(252,984)	(1,727,995)
	<u>120,037</u>	<u>(1,504,197)</u>
Net cash provided by (used in) investing activities		
Cash flows from financing activities		
Contributions, interest and dividends restricted for long term investment	185,859	(321,889)
Net advances on line of credit	799,616	1,344,235
Change in bank overdraft facility	458,406	(319,660)
(Payments) proceeds on notes payable, net	(233,064)	350,513
	<u>1,210,817</u>	<u>1,053,199</u>
Net cash provided by financing activities		
Effect of exchange rates on cash	<u>(75,464)</u>	<u>(62,589)</u>
Net increase (decrease) in cash and cash equivalents	506,738	(864,081)
Cash and cash equivalents at beginning of year	<u>462,564</u>	<u>1,326,645</u>
Cash and cash equivalents at end of year	<u>\$ 969,302</u>	<u>\$ 462,564</u>
Supplemental data		
Interest paid	<u>\$ 365,187</u>	<u>\$ 399,803</u>

See Accompanying Notes to Consolidated Financial Statements.

Salzburg Global Seminar, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2015 and 2014

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 that holds seminars on topics as diverse as healthcare and education, culture and economics, geopolitics and philanthropy. 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 was established as an independent Austrian association. Salzburg Global Seminar, Austria and the Seminar share some members of management and the Board of Directors.

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

Use of estimates

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

Basis of presentation

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

Unrestricted

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

Temporarily restricted

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

Permanently restricted

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

Salzburg Global Seminar, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2015 and 2014

Cash and cash equivalents

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

Accounts receivable and bad debts

Trade accounts receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method. For the years ended December 31 2015 and 2014, accounts receivable of \$0 and \$7,850, respectively, were written-off and recorded in miscellaneous expense.

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, 2015 and 2014, 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.

Investments

Investments in equity and debt securities are reported at fair value. Investment return includes interest and dividends, realized gains or losses, and changes in unrealized appreciation (depreciation), and is presented in the consolidated 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.

When major repairs and maintenance are performed, the cost is capitalized if the recognition criteria are satisfied. All other repairs and maintenance costs are charged to expense as incurred. Costs incurred for major renewals and improvements are recorded as construction in progress and are not depreciated until the constructed asset is ready for its intended use.

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.

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

Salzburg Global Seminar, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2015 and 2014

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, 2015 and 2014.

Severance pay

Under Austrian law, Austrian employees, upon retirement or certain other terminations, are entitled 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 consolidated statements of financial position (see Note 8).

For employment contracts that have been entered after January 1, 2003, the severance payment system in place does not require a provision for severance payments.

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 consolidated 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.

Participant funded tuition is recognized when the payments are received from participants in the seminar programs.

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

Foreign currency translation and transactions

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 other income (expense) as foreign currency transaction gains and losses. The functional currency of the Austrian operation is the Euro. The year-end rate used for conversion as of December 31, 2015 and 2014 was 1.0906 and 1.2147, respectively. The weighted average rate used for conversion of the activities during 2015 and 2014 was 1.1095 and 1.3285, respectively.

Foreign currency derivatives

The Seminar's foreign exchange contracts and options are reported at fair market value and are reported in accounts payable and accrued liabilities. Gains or losses in fair value on forward

Salzburg Global Seminar, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2015 and 2014

contracts are recognized in earnings and are included in unrealized / realized gain or loss on hedging contracts on the consolidated statement of operations.

Taxes

The Seminar is exempt from U.S. income taxes under Section 501(c)(3) of the Internal Revenue Code, however, income from certain activities not directly related to the Seminar's tax-exempt purpose is subject to taxation as unrelated business income. The Seminar is also subject to certain taxes in Austria and U.S. personal property tax.

The Seminar evaluates its uncertain tax positions using the provisions of authoritative guidance. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position, or for all uncertain tax positions in the aggregate, could differ from the amount recognized. The Seminar has no uncertain tax positions as of December 31, 2015 and 2014.

The Seminar's Forms 990, *Return of Organization Exempt from Income Tax*, are subject to examination by the Internal Revenue Service for a period of three years after they were filed. While no tax returns are currently being examined by the Internal Revenue Service, tax years since 2012 remain open.

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.

The Salzburg Global Seminar, Austria operates the hotel located in Salzburg, Austria. Future operations could be affected by changes in economic or other conditions in that geographical area or the demand for lodging.

Salzburg Global Seminar, Inc. and Subsidiary

**Notes to Consolidated Financial Statements
December 31, 2015 and 2014**

Note 2 - Net assets

Net assets (deficit) consist of the following:

	<u>2015</u>	<u>2014</u>
Unrestricted		
Unrestricted	\$ (20,388,551)	\$ (17,271,030)
Cumulative translation adjustments	<u>3,470,258</u>	<u>878,391</u>
	<u>\$ (16,918,293)</u>	<u>\$ (16,392,639)</u>
Temporarily restricted		
Contributions and gifts to support future sessions	\$ 2,384,875	\$ 3,352,163
Contributions to be classified to permanently restricted	2,143,194	2,143,194
Cumulative translation adjustments	<u>(130,348)</u>	<u>(96,689)</u>
	<u>\$ 4,397,721</u>	<u>\$ 5,398,668</u>
Permanently restricted		
Endowments	\$ 16,009,958	\$ 15,569,340
Cumulative translation adjustments	<u>(1,410,981)</u>	<u>(576,819)</u>
	<u>\$ 14,598,977</u>	<u>\$ 14,992,521</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 2015 and 2014, there were no pledges or cash contributions qualifying as matching endowment gifts. Matching endowment gifts also consist of the future value of unconditional and conditional gifts, including bequests and other conditional gifts totaling approximately \$72,500 and \$80,000 as of December 31, 2015 and 2014, respectively. As of December 31, 2015 and 2014, the Seminar reported approximately \$5.7 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 90% 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 2015 and 2014, \$104,269 and \$80,193, respectively, of investment return was used for grant purposes and administrative expense in accordance with the Agreement.

Salzburg Global Seminar, Inc. and Subsidiary

**Notes to Consolidated Financial Statements
December 31, 2015 and 2014**

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
December 31, 2015 and 2014**

The changes in endowment net assets for the years ending December 31, 2015 and 2014 consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets January 1, 2015	<u>\$ 545,746</u>	<u>\$ 3,302,855</u>	<u>\$ 14,992,521</u>	<u>\$ 18,841,122</u>
Investment return:				
Investment income	389,681	111,070	50,919	551,670
Net appreciation (realized and unrealized)	<u>(482,355)</u>	<u>(440,536)</u>	<u>177,470</u>	<u>(745,421)</u>
Total investment return	(92,674)	(329,466)	228,389	(193,751)
Contributions	-	-	5,411	5,411
Appropriation of endowment assets for expenditure	(24,623)	(41,892)	-	(66,515)
Net assets released from restriction and reclassification	153,457	(105,516)	(47,941)	-
Changes - foreign currency translation and transactions	<u>-</u>	<u>-</u>	<u>(579,403)</u>	<u>(579,403)</u>
Change in endowment net assets	<u>36,160</u>	<u>(476,874)</u>	<u>(393,544)</u>	<u>(834,258)</u>
Endowment net assets, December 31, 2015	<u>\$ 581,906</u>	<u>\$ 2,825,981</u>	<u>\$ 14,598,977</u>	<u>\$ 18,006,864</u>

Salzburg Global Seminar, Inc. and Subsidiary

**Notes to Consolidated Financial Statements
December 31, 2015 and 2014**

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2014	<u>\$ 314,808</u>	<u>\$ 3,055,013</u>	<u>\$ 16,068,101</u>	<u>\$ 19,437,922</u>
Investment return:				
Investment income	560,101	91,233	26,530	677,864
Net appreciation (realized and unrealized)	<u>130,423</u>	<u>256,769</u>	<u>181,102</u>	<u>568,294</u>
Total investment return	690,524	348,002	207,632	1,246,158
Contributions	-	-	2,979	2,979
Appropriation of endowment assets for expenditure	(1,074,162)	(18,084)	-	(1,092,246)
Net assets released from restriction and reclassification	614,576	(82,076)	(532,500)	-
Changes - foreign currency translation and transactions	<u>-</u>	<u>-</u>	<u>(753,691)</u>	<u>(753,691)</u>
Change in endowment net assets	<u>230,938</u>	<u>247,842</u>	<u>(1,075,580)</u>	<u>(596,800)</u>
Endowment net assets, December 31, 2014	<u><u>\$ 545,746</u></u>	<u><u>\$ 3,302,855</u></u>	<u><u>\$ 14,992,521</u></u>	<u><u>\$ 18,841,122</u></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 \$1,958,503 and \$384,019 as of December 31, 2015 and 2014, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred during the years ending December 31, 2015 and 2014.

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% annually on a rolling 12-quarter basis while assuming a minimal amount of risk. The Seminar expects its endowment funds, over time, to provide this annual rate of return. Actual returns in any given period may vary from this amount.

Salzburg Global Seminar, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2015 and 2014

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 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 a 12-quarter rolling average of endowments at fair market value, 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 2015 and 2014, the difference between interest income and dividends and the total amount spent under the policy, funded by endowment corpus was \$36,422 and \$525,000, respectively.

Note 4 - Pledges receivable

Pledges outstanding at December 31, 2015 and 2014 are summarized as follows:

	<u>2015</u>	<u>2014</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 713,130	\$ 959,662
One year to five years	58,300	384,400
	<u>771,430</u>	<u>1,344,062</u>
Total gross pledges	771,430	1,344,062
Less: Discount to present value	<u>(2,745)</u>	<u>(17,698)</u>
Total pledges, net	<u>\$ 768,685</u>	<u>\$ 1,326,364</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, 2015 and 2014, pledge receivables of \$7,884 and \$200, 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. The full amount was received during 2014.

Salzburg Global Seminar, Inc. and Subsidiary

**Notes to Consolidated Financial Statements
December 31, 2015 and 2014**

Note 5 - Investments

Investments at December 31, 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</u>
Cash equivalents	\$ 309,257	\$ 284,295
Mutual funds in the United States	12,022,991	12,479,466
Mutual funds and bonds in Austria	4,359,336	5,573,327
Hedge funds	<u>191,605</u>	<u>186,840</u>
Total fair value of investments	<u>\$ 16,883,189</u>	<u>\$ 18,523,928</u>

Cash equivalents represent money market instruments which are invested in U.S. dollars and 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.

Hedge funds consist of a private equity fund that invests in hedge funds.

Total investment return for the years ended December 31, 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</u>
Interest income and dividends	\$ 551,670	\$ 677,864
Realized gain	288,933	207,854
Unrealized (loss) gain, net	<u>(1,034,354)</u>	<u>360,440</u>
Total investment return	<u>\$ (193,751)</u>	<u>\$ 1,246,158</u>

Investment fees amounted to \$36,125 and \$26,682 for the year ended December 31, 2015 and 2014, respectively. Total investment return is net of investment fees.

Salzburg Global Seminar, Inc. and Subsidiary

**Notes to Consolidated Financial Statements
December 31, 2015 and 2014**

Note 6 - Property and equipment

Property and equipment at December 31, 2015 and 2014 consisted of the following:

	Estimated useful life in years	2015	2014
Land	-	\$ 151,909	\$ 169,195
Buildings:			
Schloss Leopoldskron	10 - 50	1,551,825	1,715,936
Meierhof	10 - 50	8,382,422	9,184,680
Equipment	4 - 10	752,472	793,961
Construction in progress	-	24,527	-
		10,863,155	11,863,772
Less: Accumulated depreciation		(6,514,541)	(6,889,469)
Property and equipment, net		\$ 4,348,614	\$ 4,974,303

A component of the net change in fixed assets from December 31, 2015 and 2014 is the effect of foreign currency translation (see Note 1). During 2009, management obtained an appraisal for the replacement value of land and the Schloss Leopoldskron in Austria. Based on this appraisal, the replacement value of land and the Schloss Leopoldskron was \$11,923,530 and \$26,980,165, respectively, after conversion to U.S. dollars at December 31, 2015.

Salzburg Global Seminar, Inc. and Subsidiary

**Notes to Consolidated Financial Statements
December 31, 2015 and 2014**

Note 7 - Notes payable and line of credit

Notes payable at December 31, 2015 and 2014 consisted of the following:

	2015	2014
Notes payable (denominated in Euros) to an Austrian bank with principal and interest payments through 2015 and 2018. Interest is at Euribor rate plus 1.00% (1.13% at December 31, 2014). The loan is collateralized by investments and real estate in Austria. The loan was refinanced in October 2014 at an Austrian bank.	\$ -	\$ 2,294,065
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 (2.58% at December 31, 2014). The loan is collateralized by investments and real estate in Austria. The loan was refinanced in October 2014 at an Austrian bank.	-	1,429,360
Note payable (denominated in USD) to an Austrian bank with principal and interest payments through 2020. Interest is at the EURIBOR rate plus 1.5% (1.5% at December 31, 2015 and 2014). The loan is collateralized by investments and real estate in Austria.	3,216,724	-
Note payable (denominated in USD) to an Austrian bank with principal and interest payments through 2025. Interest is at refinancing interest rate plus 1.75% (2.25% and 2.00% at December 31, 2015 and 2014, respectively). The loan is collateralized by investments and real estate in Austria.	2,611,019	2,715,749
Bridge loan payable to a board member with interest, accrued at a rate of 2.00% per annum. Principal and accrued interest was due at maturity in 2014. During 2014, the maturity date was extended into 2016.	500,000	500,000

Salzburg Global Seminar, Inc. and Subsidiary

**Notes to Consolidated Financial Statements
December 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Notes payable to board members with interest, accrued at a rate of 1.00% per annum. Principal and accrued interest are due at maturity in 2017. The loans are guaranteed by another board member with no recourse to the Seminar.	200,000	200,000
Notes payable to board members with interest, accrued at a rate of 1.00% per annum. Principal and accrued interest are due at maturity in 2018. The loans are guaranteed by another board member with no recourse to the Seminar.	801,600	901,600
Notes payable to board members with interest, accrued at a rate of 1.00% per annum. Principal and accrued interest are due at maturity in 2019. The loans are guaranteed by another board member with no recourse to the Seminar.	<u>550,000</u>	<u>555,000</u>
	<u>\$ 7,879,343</u>	<u>\$ 8,595,774</u>

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

2016	\$ 723,312
2017	537,564
2018	1,139,164
2019	887,564
2020	3,008,988
Thereafter	<u>1,582,751</u>
	<u>\$ 7,879,343</u>

During 2012, the Seminar entered into a securities-backed lending arrangement with a financial institution. The Seminar has available credit equal to 70 - 90% of the fair value of eligible securities held with the financial institution. Interest on the line of credit is at a rate of 30 Day LIBOR + 1.375% (1.62% and 1.90% at December 31, 2015 and 2014, respectively) and is collateralized by certain underlying securities in the amount of \$7,581,375 and \$7,829,153 as of December 31, 2015 and 2014, respectively. The balance on the line of credit was \$5,616,842 and \$4,817,226 at December 31, 2015 and 2014, respectively. The agreement has no maturity date.

The Seminar has one overdraft facility in Austria under which it pays interest at a variable rate of Euribor plus 1.25% (1.25% and 1.38% at December 31, 2015 and 2014, respectively), and another overdraft facility at Euribor plus 1.38% (1.38% and 1.50% at December 31, 2015 and 2014, respectively). At December 31, 2015 and 2014, the overdrafts totaled \$6,505,112 and \$6,752,065, respectively. The written limits on these overdrafts at December 31, 2015 and 2014 are \$7,088,900 and \$7,652,610, respectively.

During 2014, notes payable to board members in the amounts of \$25,000, \$10,000 and \$5,000 which mature in 2017, 2018, and 2019, respectively, were forgiven and recorded in individual

Salzburg Global Seminar, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2015 and 2014

contributions on the consolidated statement of activities. During 2015, notes payable to board members in the amounts of \$100,000 and \$5,000, which mature in 2018 and 2019, respectively, were forgiven and recorded in individual contributions on the consolidated statement of activities.

Note 8 - Employee benefits

Severance pay (income)/expense for Austrian employees amounted to (\$50,731) and (\$39,577) in 2015 and 2014, respectively, including (\$70,963) and (\$1,488) of foreign currency effects, respectively. The related accrual at December 31, 2015 and 2014 was \$223,028 and \$344,362, respectively, and is included in accounts payable and accrued liabilities in the consolidated statements of financial position.

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 was \$42,337 and \$55,538 in 2015 and 2014, respectively, and is included in wages and benefits in the consolidated statements of activities.

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.

On February 15, 2013, the Seminar entered into a three-year lease agreement with an educational institution for office space in Middlebury, VT. In lieu of rent, the Seminar will provide the educational institution with up to four fellowships for each lease year. During the years ended December 31, 2015 and 2014, \$14,670 and \$15,850, respectively, was included in tuition income and office expenses in the consolidated statements of activities.

On December 11, 2009, the Seminar entered into a three-year sublease agreement for an office suite in Washington, D.C. During 2012, the sublease agreement was extended to June 30, 2015. Rent is paid in monthly installments of \$6,162 and escalates each year. On June 10, 2015, the Seminar entered into a nine-year sublease agreement for an office suite in Washington, D.C. Rent is paid in monthly installments of \$8,312 and escalates each year. Base rent is recognized monthly using the straight-line method. Straight line rent in excess of actual billings is classified as deferred rent. For the years ended December 31, 2015 and 2014, straight line rent in excess of actual billings was \$53,608 and \$0, respectively, and is included in office expense. As of December 31, 2015 and 2014, the Seminar has deferred rent of \$53,608 and \$0, which is included in accounts payable and accrued liabilities.

The Seminar in Salzburg, Austria entered into various operating leases that include a fire alarm system, telephone system, servers, printers, and copiers. These agreements have lease terms beyond one year.

Salzburg Global Seminar, Inc. and Subsidiary

**Notes to Consolidated Financial Statements
December 31, 2015 and 2014**

Minimum future rental payments under these leases as of December 31, 2015 are as follows:

2016	\$	145,715
2017		141,620
2018		120,452
2019		123,235
2020		120,597
Thereafter		<u>395,483</u>
	\$	<u><u>1,047,102</u></u>

Rent paid under these leases amounted to \$79,093 and \$123,378 in 2015 and 2014, respectively, and is included in office expenses in the consolidated statements of activities.

Note 10 - Functional expenses

Operating and non-operating expenses related to providing the services of the Seminar for the years ended December 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Educational programs and projects	\$ 3,362,225	\$ 3,804,701
Hotel	3,696,327	4,446,762
Management and general	776,708	815,379
Fundraising and reporting	<u>538,143</u>	<u>477,131</u>
	<u><u>\$ 8,373,403</u></u>	<u><u>\$ 9,543,973</u></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. The market value of these mutual funds for the years ended December 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Bond Fund of America	\$ 396,176	\$ 402,095
Income Fund of America	1,279,341	1,341,198
Euro Pacific Growth Fund	1,081,404	1,103,986
Capital Income Builder Fund	4,322,510	4,611,647
New World Fund A	293,323	313,856
Washington Mutual Investors Fund	<u>2,807,654</u>	<u>2,990,984</u>
	<u><u>\$ 10,180,408</u></u>	<u><u>\$ 10,763,766</u></u>

During 2015 and 2014, the Seminar received loan financing from members of the Board (see Note 7).

Salzburg Global Seminar, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2015 and 2014

During 2015 and 2014, members of the Board of Directors and an affiliated organization contributed to the Seminar unconditional gifts in the amount of \$609,533 and \$606,269, respectively, and are included in individual and foundation revenue in the consolidated statements of activities. As December 31, 2015 and 2014, pledge receivables related to these unconditional gifts were \$223,029 and \$262,186, respectively (see Note 4).

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 U.S. dollar weakens against the Euro.

During 2014, the Seminar through its operations in Austria, entered into foreign currency forward contracts in contracted amounts of €50,000 to €100,000 for a total of €2,475,000 in forward contracts. The contracts expired in 2015 and were valued at \$221,503, which was included in accounts payable and accrued liabilities on the consolidated statement of financial position as of December 31, 2014. The related unrealized loss of \$221,503 is included in unrealized / realized (loss) gain on hedging contracts on the consolidated statement of operations. The contracts were executed during 2015 for a realized loss of \$221,503, which is included in unrealized / realized (loss) gain on hedging contracts on the consolidated statement of operations.

During 2014, the Seminar through its operations in Austria, entered into foreign currency forward contracts in contracted amounts of €25,000 to €100,000 for a total of €1,400,000 in forward contracts. The contracts were executed during the year for a realized loss of \$39,041, which is included in unrealized / realized (loss) gain on hedging contracts on the consolidated statement of operations.

During 2015, the Seminar through its operations in Austria, entered into foreign currency forward contracts in contracted amounts of €150,000 to €300,000 for a total of €2,475,000 in forward contracts. The contracts were executed during the year for a realized loss of \$462,959, which is included in unrealized / realized (loss) gain on hedging contracts on the consolidated statement of operations.

Note 13 - Fair value measurement

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

The fair values of investments are based on either quoted market prices per share, observable data such as ongoing redemption and subscription activity, or net asset values per share provided by investment managers.

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

Salzburg Global Seminar, Inc. and Subsidiary

**Notes to Consolidated Financial Statements
December 31, 2015 and 2014**

information available in the circumstances. The hierarchy is measured in three levels based on the reliability of inputs:

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

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

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

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

The following table presents the fair value of assets and liabilities measured on a recurring basis at December 31, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Net balance</u>
Cash and cash equivalents	\$ 309,257	\$ -	\$ -	\$ 309,257
Mutual funds in the United States	12,022,991	-	-	12,022,991
Mutual funds and bonds in Austria	4,359,336	-	-	4,359,336
Hedge funds	-	-	191,605	191,605
Total	<u>\$ 16,691,584</u>	<u>\$ -</u>	<u>\$ 191,605</u>	<u>\$ 16,883,189</u>

The following table presents the fair value of assets measured on a recurring basis at December 31, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Net balance</u>
Cash and cash equivalents	\$ 284,295	\$ -	\$ -	\$ 284,295
Mutual funds in the United States	12,479,466	-	-	12,479,466
Mutual funds and bonds in Austria	5,573,327	-	-	5,573,327
Foreign currency exchange forward contracts	-	(221,503)	-	(221,503)
Hedge funds	-	-	186,840	186,840
Total	<u>\$ 18,337,088</u>	<u>\$ (221,503)</u>	<u>\$ 186,840</u>	<u>\$ 18,302,425</u>

Salzburg Global Seminar, Inc. and Subsidiary

**Notes to Consolidated Financial Statements
December 31, 2015 and 2014**

The following schedule is a reconciliation of Level 3 fair value measurements:

	<u>2015</u>	<u>2014</u>
Balance at beginning of year	\$ 186,840	\$ 179,556
Purchases	-	6,024
Withdrawals	(150)	(300)
Unrealized gain (loss)	<u>4,915</u>	<u>1,560</u>
Balance at end of year	<u>\$ 191,605</u>	<u>\$ 186,840</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 management, adequate provisions have been made in the accompanying consolidated financial statements for adjustments, if any, which may result from review.

Note 15 - Subsequent events

Events that occur after the balance sheet date but before the consolidated financial statements were available to be issued must be evaluated for recognition or disclosure. Management evaluated the activity of the Seminar through June 17, 2016 (the date the consolidated financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the consolidated financial statements or disclosure in the notes to the consolidated financial statements.

COHN  REZNICK
ACCOUNTING • TAX • ADVISORY

Independent Member of Nexia International

cohnreznick.com