

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

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

**December 31, 2018 and 2017**

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**COHN  REZNICK**  
ACCOUNTING • TAX • ADVISORY

# Salzburg Global Seminar, Inc. and Subsidiary

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## 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, 2018 and 2017, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements. We have also audited the consolidated statement of functional expenses for the year ended December 31, 2018.

### *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 conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 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, 2018 and 2017, 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.

*Emphasis of Matter - Change in Accounting Principle*

As discussed in Note 1 to the financial statements, the Seminar adopted the Financial Accounting Standards Board's ("FASB") Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended December 31, 2018. The requirements of the ASU have been applied retrospectively to all periods presented except the consolidated statement of functional expenses and liquidity and availability of resources footnote as permitted by the standard. Note 4 includes a restatement of the beginning balance of the endowments to properly account for underwater endowment activity under ASU 2016-14. Our opinion is not modified with respect to this matter.

Report on 2017 Summarized Comparative Information

We have previously audited the Seminar's 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those consolidated audited financial statements in our report dated June 8, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

*CohnReznick LLP*

Bethesda, Maryland  
August 7, 2019

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

**Consolidated Statements of Financial Position  
December 31, 2018 and 2017**

Assets

	2018	2017
Cash and cash equivalents	\$ 741,984	\$ 1,012,945
Accounts receivable and other assets	656,206	551,896
Pledges receivable, net of discount	2,405,736	4,711,931
Investments (\$10,394,558 and \$12,510,516 pledged as collateral for loans as of December 31, 2018 and 2017, respectively)	15,640,799	18,427,307
Property and equipment, net	5,194,609	4,715,385
Total assets	\$ 24,639,334	\$ 29,419,464

Liabilities and Net Assets

<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 1,850,758	\$ 1,997,362
Line of credit	3,222,989	4,549,856
Bank overdraft facilities	6,593,009	7,272,114
Notes payable, net	5,459,124	6,422,162
Total liabilities	17,125,880	20,241,494
<b>Net assets (deficit)</b>		
Without donor restrictions	(11,999,727)	(14,384,715)
With donor restrictions	19,513,181	23,562,685
Total net assets	7,513,454	9,177,970
Total liabilities and net assets	\$ 24,639,334	\$ 29,419,464

See Notes to Consolidated Financial Statements.

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

**Consolidated Statement of Activities  
Year Ended December 31, 2018  
(With Comparative Totals for 2017)**

	Without donor restrictions	With donor restrictions	2018	2017
<b>Revenues</b>				
Individual	\$ 2,257,032	\$ 432,053	\$ 2,689,085	\$ 4,897,923
Corporate	139,778	-	139,778	-
Foundation	894,432	1,714,627	2,609,059	4,417,633
Government	46,029	-	46,029	66,277
Participant funded tuition	223,855	-	223,855	621,616
Hotel	3,585,147	-	3,585,147	3,343,650
Investment return	(347,947)	(862,967)	(1,210,914)	1,945,143
Other income	182,211	-	182,211	283,993
Net assets released from restriction and reclassification	<u>5,333,217</u>	<u>(5,333,217)</u>	<u>-</u>	<u>-</u>
<b>Total revenues</b>	<u>12,313,754</u>	<u>(4,049,504)</u>	<u>8,264,250</u>	<u>15,576,235</u>
<b>Expenses</b>				
Educational programs and projects	2,717,475	-	2,717,475	2,548,539
Hotel	4,297,763	-	4,297,763	4,202,582
Management and general	2,561,121	-	2,561,121	1,919,524
Fundraising and reporting	<u>449,965</u>	<u>-</u>	<u>449,965</u>	<u>604,866</u>
<b>Total expenses</b>	<u>10,026,324</u>	<u>-</u>	<u>10,026,324</u>	<u>9,275,511</u>
Change in net assets before other income (loss) and adjustments	<u>2,287,430</u>	<u>(4,049,504)</u>	<u>(1,762,074)</u>	<u>6,300,724</u>
<b>Other income (loss)</b>				
Net foreign currency transaction loss	(1,073,648)	-	(1,073,648)	(707,049)
Foreign currency exchange (loss) gain on loans	<u>(30,844)</u>	<u>-</u>	<u>(30,844)</u>	<u>318,625</u>
<b>Total other income (loss)</b>	<u>(1,104,492)</u>	<u>-</u>	<u>(1,104,492)</u>	<u>(388,424)</u>
Change in net assets before foreign currency translation adjustments	1,182,938	(4,049,504)	(2,866,566)	5,912,300
Foreign currency translation	<u>1,202,050</u>	<u>-</u>	<u>1,202,050</u>	<u>241,104</u>
<b>Change in net assets</b>	<u>2,384,988</u>	<u>(4,049,504)</u>	<u>(1,664,516)</u>	<u>6,153,404</u>
Net assets (deficit) at beginning	<u>(14,384,715)</u>	<u>23,562,685</u>	<u>9,177,970</u>	<u>3,024,566</u>
<b>Net assets (deficit) at end</b>	<u><u>\$ (11,999,727)</u></u>	<u><u>\$ 19,513,181</u></u>	<u><u>\$ 7,513,454</u></u>	<u><u>\$ 9,177,970</u></u>

See Notes to Consolidated Financial Statements.

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

**Consolidated Statement of Activities  
Year Ended December 31, 2017**

	Without donor restrictions	With donor restrictions	2017
Revenues			
Individual	\$ 2,203,276	\$ 2,694,647	\$ 4,897,923
Foundation	202,453	4,215,180	4,417,633
Government	66,277	-	66,277
Participant funded tuition	621,616	-	621,616
Hotel	3,343,650	-	3,343,650
Investment return	108,794	1,836,349	1,945,143
Other income	283,993	-	283,993
Net assets released from restriction and reclassification	4,020,252	(4,020,252)	-
<b>Total revenues</b>	<b>10,850,311</b>	<b>4,725,924</b>	<b>15,576,235</b>
Expenses			
Educational programs and projects	2,548,539	-	2,548,539
Hotel	4,202,582	-	4,202,582
Management and general	1,919,524	-	1,919,524
Fundraising and reporting	604,866	-	604,866
<b>Total expenses</b>	<b>9,275,511</b>	<b>-</b>	<b>9,275,511</b>
<b>Change in net assets before other income</b>	<b>1,574,800</b>	<b>4,725,924</b>	<b>6,300,724</b>
Other income (loss)			
Net foreign currency transaction loss	(707,049)	-	(707,049)
Foreign currency exchange gain on loans	318,625	-	318,625
<b>Total other income (loss)</b>	<b>(388,424)</b>	<b>-</b>	<b>(388,424)</b>
<b>Change in net assets before foreign currency translation adjustments</b>	<b>1,186,376</b>	<b>4,725,924</b>	<b>5,912,300</b>
Foreign currency translation adjustments	241,104	-	241,104
<b>Change in net assets</b>	<b>1,427,480</b>	<b>4,725,924</b>	<b>6,153,404</b>
Net assets (deficit) at beginning	(15,812,195)	18,836,761	3,024,566
<b>Net assets (deficit) at end</b>	<b>\$ (14,384,715)</b>	<b>\$ 23,562,685</b>	<b>\$ 9,177,970</b>

See Notes to Consolidated Financial Statements.

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

**Consolidated Statement of Functional Expenses**

**Year Ended December 31, 2018**

**(with Summarized Comparative Financial Information for Year Ended December 31, 2017)**

	<u>Educational programs and projects</u>	<u>Hotel</u>	<u>Management and general</u>	<u>Fundraising and reporting</u>	<u>2018</u>	<u>2017</u>
Expenses						
Wages and benefits	\$ 1,706,479	\$ 2,287,913	\$ 849,671	\$ 377,272	\$ 5,221,335	\$ 4,690,031
Hotel	-	1,123,213	-	-	1,123,213	1,092,451
Professional fees	300,877	159,568	342,046	14,247	816,738	816,929
Travel	462,587	35,227	74,967	15,656	588,437	529,240
Miscellaneous	79,769	142,414	536,371	10,324	768,878	787,840
Depreciation	-	344,777	125,463	-	470,240	415,249
Interest and bank fees	-	89,236	393,596	-	482,832	445,723
Office	167,763	64,081	164,576	32,466	428,886	388,392
Taxes	-	51,334	74,431	-	125,765	109,656
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total expenses	<u>\$ 2,717,475</u>	<u>\$ 4,297,763</u>	<u>\$ 2,561,121</u>	<u>\$ 449,965</u>	<u>\$ 10,026,324</u>	<u>\$ 9,275,511</u>

See Notes to Consolidated Financial Statements.



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

**Consolidated Statements of Cash Flows  
December 31, 2018 and 2017**

	2018	2017
Cash flows from operating activities		
Change in net assets	\$ (1,664,516)	\$ 6,153,404
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	470,240	415,249
Amortization of debt issuance costs	7,490	100
Realized and unrealized depreciation (appreciation) of investments	1,638,787	(1,343,317)
Foreign currency translation adjustments	(1,202,050)	(241,104)
Foreign currency transaction loss	1,073,648	707,049
Foreign currency loss (gain) on long-term debt	30,844	(318,625)
Forgiveness of debt	(175,000)	(730,000)
Loss on disposal	613	586
Contributions restricted for long-term investment	(428,298)	(44,263)
Interest and dividends restricted for long-term investment	(19,980)	(16,011)
Changes in cash based on change in		
Pledges receivable	2,306,195	(3,539,348)
Accounts receivable and other assets	(111,752)	114,916
Accounts payable and accrued liabilities	(71,997)	220,393
	<u>1,854,224</u>	<u>1,379,029</u>
Net cash provided by operating activities		
Cash flows from investing activities		
Purchase of investments	(2,983,093)	(1,004,502)
Proceeds from sales of investments	3,915,441	883,290
Purchase of property and equipment	(1,170,356)	(600,091)
	<u>(238,008)</u>	<u>(721,303)</u>
Net cash used in investing activities		
Cash flows from financing activities		
Contributions, interest and dividends restricted for long-term investment	448,278	60,274
Payments on line of credit	(1,326,866)	(854,471)
Change in bank overdraft facility	(381,953)	38,439
Payments on notes payable, net	(611,299)	(254,481)
	<u>(1,871,840)</u>	<u>(1,010,239)</u>
Net cash used in financing activities		
Effect of exchange rates on cash	(15,337)	106,510
	<u>(270,961)</u>	<u>(246,003)</u>
Net decrease in cash and cash equivalents		
Cash and cash equivalents at beginning	1,012,945	1,258,948
Cash and cash equivalents at end	<u>\$ 741,984</u>	<u>\$ 1,012,945</u>
Supplemental data		
Interest paid	<u>\$ 527,417</u>	<u>\$ 471,854</u>

See Notes to Consolidated Financial Statements.

## Salzburg Global Seminar, Inc. and Subsidiary

### Notes to Consolidated Financial Statements December 31, 2018 and 2017

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

##### Change in accounting principle

For the year ended December 31, 2018, the Seminar adopted FASB ASU No. 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*. This update addresses the complexity and understandability of net asset classification and provides information about liquidity and availability of resources. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted and permanently restricted net assets are now reported as net assets with donor restrictions. The ASU requires additional disclosures in the areas of liquidity and availability and requires reclassification of investment expenses which are netted in investment return to include internal investment expenses. In addition, it requires any underwater portion of the Seminar's endowment funds to be adjusted from net assets without donor restrictions to net assets with donor restrictions. Note 4 includes a restatement of the beginning balance of the endowments to properly account for underwater endowment activity under ASU 2016-14. Additionally, ASU No. 2016-14 requires a presentation of expenses on a functional basis. The changes required by the update have been applied retrospectively to all periods presented except the consolidated statement of functional expenses and liquidity and availability of resources footnote as permitted by the standard.

##### 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, revenues, expenses, gains and losses into two categories, based on the

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

### **Notes to Consolidated Financial Statements December 31, 2018 and 2017**

existence or absence of externally imposed restrictions. Accordingly, net assets of the Seminar are classified and defined as follows:

#### **Net assets without donor restrictions**

Net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors.

#### **Net assets with donor restrictions**

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

#### **Cash and cash equivalents**

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

#### **Accounts receivable and bad debts**

Trade accounts receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method. For the years ended December 31, 2018 and 2017, no bad debt was recognized.

#### **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, 2018 and 2017, 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 net assets without donor restrictions and net assets with donor restrictions, 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.

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

### **Notes to Consolidated Financial Statements December 31, 2018 and 2017**

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 and is 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 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, 2018 and 2017.

#### **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 2002 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 9).

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 revenue with donor restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 net assets with donor restrictions until the property and equipment are placed in service.

Donor restricted contributions and gifts received and expended for the restricted purpose of the contribution and gifts in the same fiscal year are recorded as without donor restrictions. Donated noncash assets are recorded at estimated fair value on the date of the gift.

Participant funded tuition is income from the seminar sessions held by the Seminar. This income is recognized when the sessions occur.

Hotel revenue includes revenue related to overnight guests and other hotel-related revenue, such as events or banquets. This revenue is recognized when the conference or event is held or a hotel guest stays at the facility and is reported as revenue without donor restrictions.

## Salzburg Global Seminar, Inc. and Subsidiary

### Notes to Consolidated Financial Statements December 31, 2018 and 2017

#### **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 financial position conversion as of December 31, 2018 and 2017 was 1.1467 and 1.19813, respectively. The weighted average rate used for conversion of the activities during 2018 and 2017 was 1.1805 and 1.13000, respectively.

#### **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, 2018 and 2017.

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 2015 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.

#### **Economic dependency**

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.

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

#### **Debt financing costs and amortization**

Debt issuance costs, net of accumulated amortization are reported as a direct deduction from the face amount of the notes payable to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense and is computed using an imputed interest rate on the related loan.

## Salzburg Global Seminar, Inc. and Subsidiary

### Notes to Consolidated Financial Statements December 31, 2018 and 2017

#### Functional allocation of expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the consolidated statement of functional expenses. Costs incurred by a program service or supporting service are charged directly to that service. Other management and general administrative expenses are allocated to the various functional categories based on the total expenses of the various departments compared to total expenses.

#### Reclassification

Certain reclassifications have been made to the 2017 amounts to conform to the 2018 presentation.

#### Note 2 - Liquidity and availability of resources

As of December 31, 2018, financial assets and liquidity resources available in one year for general expenditure, such as operating expenses, scheduled principal payments on debt, and capital construction costs not financed with debt, are as follows:

Financial assets	
Cash and cash equivalents	\$ 741,984
Accounts receivable	94,889
Pledges receivable	2,405,736
Investments	<u>15,640,799</u>
	<u>18,883,408</u>
Less those unavailable for contractual or donor-imposed restrictions:	
Endowment fund	(16,294,195)
Add back: 2019 endowment payout	950,000
Other donor restrictions	(3,218,986)
Add back: amounts available not subject to donor-specified expenditures in the following year	<u>1,060,000</u>
	<u>(17,503,181)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,380,227</u>

The Seminar maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and obligations come due. The primary sources of support are contributions and income from investing its endowment. Most of that support is required to be used in accordance with the purpose restrictions imposed by the donors. Donor-restricted support has historically funded the majority of the annual program and supporting activities, with the remainder funded by investment income without donor restrictions and fundraising efforts that are held for the purpose of supporting the Seminar's budget.

To help manage unanticipated liquidity needs, the Seminar has an established a line of credit with an available credit of \$1,100,000 as of December 31, 2018, which it could draw upon.

## Salzburg Global Seminar, Inc. and Subsidiary

### Notes to Consolidated Financial Statements December 31, 2018 and 2017

#### Note 3 - Net assets

	<u>2018</u>	<u>2017</u>
Without donor restrictions		
Without donor restrictions	\$ (18,933,096)	\$ (20,116,034)
Cumulative translation adjustments	<u>6,933,369</u>	<u>5,731,319</u>
	<u>\$ (11,999,727)</u>	<u>\$ (14,384,715)</u>

In a prior year, the Seminar received a \$10 million gift from a foundation, of which \$5 million was classified as net assets with donor restrictions and held in perpetuity and \$5 million was classified as net assets with donor restrictions. When the Seminar raises \$10 million in matching endowment gifts, the \$5 million of net assets with donor restrictions will be reclassified to net assets with donor restrictions and held in perpetuity. Matching endowment gifts also consist of the future value of unconditional and conditional gifts, including bequests and other conditional gifts. As of December 31, 2018 and 2017, the Seminar reported approximately \$5.7 million of matching endowment gifts toward the \$10 million goal.

Included in the net assets with donor restrictions 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 2018 and 2017, \$111,541 and \$123,678, respectively, of investment return was used for grant purposes and administrative expense in accordance with the Agreement.

#### Note 4 - 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 net assets with donor restrictions (a) the original value of the gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the 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 retained in perpetuity, is subject to appropriation for expenditure by the Seminar in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

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The changes in endowment net assets for the years ended December 31, 2018 and 2017 consisted of the following:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets, January 1, 2018	\$ (760,708)	\$ 17,678,864	\$ 16,918,156
Investment return	-	(862,967)	(862,967)
Contributions	-	428,298	428,298
Net assets released from restriction and reclassification	-	(950,000)	(950,000)
Changes - foreign currency translation and transactions	<u>(457,036)</u>	<u>-</u>	<u>(457,036)</u>
Change in endowment net assets	<u>(457,036)</u>	<u>(1,384,669)</u>	<u>(1,841,705)</u>
Endowment net assets, December 31, 2018	<u>\$ (1,217,744)</u>	<u>\$ 16,294,195</u>	<u>\$ 15,076,451</u>
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets, January 1, 2017	<u>\$ (2,653,565)</u>	<u>\$ 18,071,501</u>	<u>\$ 15,417,936</u>
Restatement for implementation of ASU 2016-14	1,323,249	(1,323,249)	-
Endowment net assets, January 1, 2017, as restated	<u>(1,330,316)</u>	<u>16,748,252</u>	<u>15,417,936</u>
Investment return	-	1,836,349	1,836,349
Contributions	-	44,263	44,263
Net assets released from restriction and reclassification	-	(950,000)	(950,000)
Changes - foreign currency translation and transactions	<u>569,608</u>	<u>-</u>	<u>569,608</u>
Change in endowment net assets	<u>569,608</u>	<u>930,612</u>	<u>1,500,220</u>
Endowment net assets, December 31, 2017	<u>\$ (760,708)</u>	<u>\$ 17,678,864</u>	<u>\$ 16,918,156</u>



## Salzburg Global Seminar, Inc. and Subsidiary

### Notes to Consolidated Financial Statements December 31, 2018 and 2017

#### 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. At December 31, 2018, funds with original gift values of \$3,167,111, fair values of \$2,583,721 and deficiencies of \$583,390 were reported in net assets with donor restrictions. At December 31, 2017, funds with original gift values of \$2,484,210, fair values of \$2,178,200 and deficiencies of \$306,010 were reported in net assets with donor restrictions.

#### 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.

#### 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 2018 and 2017, the difference between interest income and dividends and the total amount spent under the policy funded by endowment corpus was \$587,661 and \$509,851, respectively.

#### Note 5 - Pledges receivable

Pledges outstanding at December 31, 2018 and 2017 are summarized as follows:

	2018	2017
Unconditional promises expected to be collected in:		
Less than one year	\$ 2,098,643	\$ 2,719,862
One year to five years	318,000	2,029,148
Total gross pledges	2,416,643	4,749,010
Less: Discount to present value	(10,907)	(37,079)
Total pledges, net	\$ 2,405,736	\$ 4,711,931

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

**Notes to Consolidated Financial Statements  
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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. During 2018 and 2017, no pledge receivables were deemed uncollectable.

**Note 6 - Investments**

Investments at December 31, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Cash equivalents	\$ 246,617	\$ 361,339
Investments in the United States	10,523,764	12,555,509
Investments in Austria	4,659,266	5,303,226
Hedge funds in the United States	<u>211,152</u>	<u>207,233</u>
 Total fair value of investments	 <u>\$ 15,640,799</u>	 <u>\$ 18,427,307</u>

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

Investments in the United States include mutual funds comprised of domestic intermediate fixed income funds, as well as a blend of domestic and international stock funds which present opportunity for growth. Investments in the United States also include stocks and exchange-traded funds.

Investments in Austria include mutual funds 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. Investments in Austria also include stocks and bonds.

Hedge funds held in the United States consist of a private equity fund that invests in hedge funds.

Total investment return for the years ended December 31, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Interest income and dividends	\$ 427,873	\$ 601,826
Realized gain	233,078	102,610
Unrealized gain (loss), net	<u>(1,871,865)</u>	<u>1,240,707</u>
 Total investment return	 <u>\$ (1,210,914)</u>	 <u>\$ 1,945,143</u>

Investment fees amounted to \$42,240 and \$34,483 for the years ended December 31, 2018 and 2017, respectively. Total investment return is net of investment fees.

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

**Notes to Consolidated Financial Statements  
December 31, 2018 and 2017**

**Note 7 - Property and equipment**

Property and equipment at December 31, 2018 and 2017 consisted of the following:

	Estimated useful life in years	<u>2018</u>	<u>2017</u>
Land		\$ 159,723	\$ 166,887
Buildings			
Schloss Leopoldskron	10 - 50	3,148,011	2,263,757
Meierhof	10 - 50	8,856,427	9,250,882
Equipment	4 - 10	1,030,506	965,415
Leasehold improvements	8	<u>24,527</u>	<u>24,527</u>
		13,219,194	12,671,468
Less accumulated depreciation		<u>(8,024,585)</u>	<u>(7,956,083)</u>
Property and equipment, net		<u>\$ 5,194,609</u>	<u>\$ 4,715,385</u>

A component of the net change in fixed assets from December 31, 2018 and 2017 is the effect of foreign currency translation (see Note 1).

**Note 8 - Notes payable and line of credit**

Notes payable at December 31, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Note payable (denominated in Euros) 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, 2018 and 2017). The loan is collateralized by investments and real estate in Austria.*	\$ 3,038,182	\$ 3,294,258

Note payable (denominated in USD) to an Austrian bank with principal and interest payments through 2025. Interest is at refinancing interest rate plus 1.625% (4.0% at December 31, 2018). Interest was at refinancing interest rate plus 1.75% (2.75% at December 31, 2017). The loan is collateralized by investments and real estate in Austria.*	982,486	2,382,515
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**Salzburg Global Seminar, Inc. and Subsidiary**

**Notes to Consolidated Financial Statements  
December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Note payable (denominated in Euros) to an Austrian bank with interest payments through 2025. Interest is at a fixed rate of 2.35% as of 2018. The loan is collateralized by investments and real estate in Austria.*	1,188,932	-
Unamortized debt costs, related to note payable (denominated in USD), amortized using an imputed rate of 2.75%.	(38,721)	(46,211)
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.	-	401,600
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.	225,000	340,000
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 2020. The loans are guaranteed by another board member with no recourse to the Seminar.	<u>63,245</u>	<u>50,000</u>
	<u>\$ 5,459,124</u>	<u>\$ 6,422,162</u>

\* These loans are collateralized by mutual funds and bonds in Austria with a value of \$4,659,266 and \$5,303,226 for the years ended December 31, 2018 and 2017, respectively.

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

2019	\$ 489,670
2020	3,136,757
2021	150,000
2022	150,000
2023	150,000
Thereafter	<u>1,421,418</u>
	<u>\$ 5,497,845</u>

Subsequent to December 31, 2018, the Seminar made principal payments of \$50,000 on the notes payable to board members as of August 7, 2019.

## Salzburg Global Seminar, Inc. and Subsidiary

### Notes to Consolidated Financial Statements December 31, 2018 and 2017

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% (3.40% and 2.49% at December 31, 2018 and 2017, respectively) and is collateralized by certain underlying securities in the amount of \$5,735,292 and \$7,207,291 as of December 31, 2018 and 2017, respectively. The balance on the line of credit was \$3,222,989 and \$4,549,856 at December 31, 2018 and 2017, 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 positive Euribor plus 1.25% (1.25% and 1.25% at December 31, 2018 and 2017, respectively) with a maturity date of June 30, 2020, and another overdraft facility at positive Euribor plus 1.38% (1.38% and 1.38% at December 31, 2018 and 2017, respectively) with a maturity date of July 5, 2025. At December 31, 2018 and 2017, the overdrafts totaled \$6,593,009 and \$7,272,114, respectively. The written limits on these overdrafts at December 31, 2018 and 2017 are \$7,453,550 and \$7,787,845, respectively.

During 2017, notes payable to board members in the amounts of \$25,000, \$500,000, and \$205,000, which mature in 2017, 2018, and 2019, respectively, were forgiven and recorded in individual contributions on the consolidated statements of activities. During 2018, notes payable to board members in the amounts of \$60,000 and \$115,000, which mature in 2018 and 2019, respectively, were forgiven and recorded in individual contributions on the consolidated statements of activities.

Debt issuance costs, net of accumulated amortization totaled \$38,721 and \$46,211 at December 31, 2018 and 2017, respectively. Debt issuance costs are related to the note payable denominated in dollars and held by an Austrian bank. Debt issuance costs are being amortized at the imputed rate of 2.75%. For the years ended December 31, 2018 and 2017, there was \$7,490 and \$100, respectively, of debt issuance costs included in interest expense in the consolidated statements of activities. Included in the change in accumulated amortization is (\$1,510) and \$5,625 of foreign currency effects for the years ended December 31, 2018 and 2017, respectively.

#### Note 9 - Employee benefits

Included in wages and benefits on the consolidated statements of activities is severance pay expense (income) for Austrian employees. The related accrual is included in accounts payable and accrued liabilities in the consolidated statements of financial position.

The following is a schedule that details the activity of the Austrian employees' severance liability:

	2018	2017
Beginning severance accrual	\$ 221,774	\$ 182,401
Current year provision expense	4,243	13,786
Foreign currency effect	(9,520)	25,587
End severance accrual	<u>\$ 216,497</u>	<u>\$ 221,774</u>

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 \$81,341 and \$65,625 in 2018 and 2017, respectively, and is included in wages and benefits in the consolidated statements of activities.

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

**Notes to Consolidated Financial Statements  
December 31, 2018 and 2017**

**Note 10 - 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 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, 2018 and 2017, straight-line rent in excess of actual billings was \$4,152 and \$242, respectively, and is included in office expense. As of December 31, 2018 and 2017, the Seminar has deferred rent of \$71,335 and \$75,487, respectively, 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.

Minimum future rental payments under these leases as of December 31, 2018 are as follows:

2019	\$	140,112
2020		129,135
2021		132,083
2022		135,098
2023		138,108
Thereafter		<u>32,689</u>
	<u>\$</u>	<u>707,225</u>

Rent paid under these leases amounted to \$166,463 and \$141,882 in 2018 and 2017, respectively, and is included in office expenses in the consolidated statements of activities.

**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, 2018 and 2017 are as follows:

	2018	2017
Bond Fund of America	\$ 399,780	\$ 408,119
Income Fund of America	1,361,634	1,501,081
Euro Pacific Growth Fund	1,082,961	1,364,364
Capital Income Builder Fund	<u>6,034,595</u>	<u>7,259,474</u>
	<u>\$ 8,878,970</u>	<u>\$ 10,533,038</u>

During 2018 and 2017, the Seminar received loan financing from members of the Board of Directors (see Note 8).

## Salzburg Global Seminar, Inc. and Subsidiary

### Notes to Consolidated Financial Statements December 31, 2018 and 2017

During 2018 and 2017, members of the Board of Directors and an affiliated organization contributed to the Seminar unconditional gifts in the amount of \$2,566,097 and \$4,563,463, respectively, which are included in individual and foundation revenue in the consolidated statements of activities. During 2018 and 2017, notes payable to board members in the amounts of \$175,000 and \$730,000, respectively, were forgiven (see Note 8) and are included in these unconditional gifts. As of December 31, 2018 and 2017, pledge receivables related to these unconditional gifts were \$1,059,691 and \$2,170,581, respectively (see Note 5).

#### **Note 12 - 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 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.

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

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The following table presents the fair value of assets and liabilities measured on a recurring basis at December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Net balance</u>
Cash and cash equivalents	\$ 246,617	\$ -	\$ -	\$ 246,617
Investments in the United States	10,523,764	-	-	10,523,764
Investments in Austria	4,659,266	-	-	4,659,266
Hedge funds in the United States	-	-	211,152	211,152
Total	<u>\$ 15,429,647</u>	<u>\$ -</u>	<u>\$ 211,152</u>	<u>\$ 15,640,799</u>

The following table presents the fair value of assets measured on a recurring basis at December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Net balance</u>
Cash and cash equivalents	\$ 361,339	\$ -	\$ -	\$ 361,339
Investments in the United States	12,555,509	-	-	12,555,509
Investments in Austria	5,303,226	-	-	5,303,226
Hedge funds in the United States	-	-	207,233	207,233
Total	<u>\$ 18,220,074</u>	<u>\$ -</u>	<u>\$ 207,233</u>	<u>\$ 18,427,307</u>

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

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	\$ 207,233	\$ 193,638
Purchases	600	-
Withdrawals	-	(150)
Dividend and interest income	16,843	2,488
Unrealized gain (loss)	<u>(13,524)</u>	<u>11,257</u>
Balance at end of year	<u>\$ 211,152</u>	<u>\$ 207,233</u>

**Note 13 - 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.



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

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**Note 14 - Subsequent events**

Events that occur after the statement of financial position 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 August 7, 2019 (the date the consolidated financial statements were available to be issued) and concluded that no subsequent events have occurred (other than those that have been disclosed in Note 8) as of report date that would require recognition in the consolidated financial statements or disclosure in the notes to the consolidated financial statements.

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