# The German Marshall Fund of the United States – A Memorial to the Marshall Plan and Subsidiaries

Consolidated Financial Report
May 31, 2018

**Contents**

**Independent Auditor's Report**

To the Board of Trustees
The German Marshall Fund of the United States –
A Memorial to the Marshall Plan and Subsidiaries

**Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of The German Marshall Fund of the United States – A Memorial to the Marshall Plan and Subsidiaries (GMF), which comprise the consolidated balance sheet as of May 31, 2018, the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the consolidated financial statements).

**Management's Responsibility for the Consolidated 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of 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 from 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 financial position of GMF as of May 31, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

**Report on Summarized Comparative Information**
We have previously audited GMF's 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 11, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2017, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

**Other Reporting Required by *Government Auditing Standards***
In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2018, on our consideration of GMF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of GMF's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering GMF's internal control over financial reporting and compliance.

RSM US LLP

Washington, D.C.
October 10, 2018

**The German Marshall Fund of the United States –**
**A Memorial to the Marshall Plan and Subsidiaries**

**Consolidated Balance Sheet**
**May 31, 2018**
**(With Comparative Totals for 2017)**

| | **2018** | 2017 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents: | | |
| Unrestricted | **$ 15,599,411** | $ 13,690,513 |
| Restricted | **177,136** | 411,961 |
| Grants receivable | **9,391,111** | 6,222,625 |
| Investments (Notes 2 and 8) | **141,308,752** | 141,202,224 |
| Property and equipment, net (Note 3) | **18,958,938** | 19,691,620 |
| Other assets (Note 5) | **1,148,767** | 517,308 |
| | **$ 186,584,115** | $ 181,736,251 |
| **Liabilities and Net Assets** | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | **$ 1,793,432** | $ 1,702,239 |
| Deferred revenue | **3,255,012** | 3,510,951 |
| Grants payable | **945,054** | 1,062,749 |
| Bonds payable, net (Note 4) | **9,134,864** | 9,120,171 |
| | **15,128,362** | 15,396,110 |
| Commitments and Contingency (Notes 4, 7, 8, 9 and 10) | | |
| Net assets: | | |
| Unrestricted | **162,353,127** | 158,761,546 |
| Temporarily restricted (Note 6) | **9,102,626** | 7,578,595 |
| | **171,455,753** | 166,340,141 |
| | **$ 186,584,115** | $ 181,736,251 |

See notes to consolidated financial statements.

**The German Marshall Fund of the United States –**
**A Memorial to the Marshall Plan and Subsidiaries**

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

| | 2018 | | | |
|---|---|---|---|---|
| | **Unrestricted** | **Temporarily Restricted** | **Total** | 2017 Total |
| Support and revenue: | | | | |
| Non-federal grants and contributions | **$ 1,961,885** | **$ 15,304,886** | **$ 17,266,771** | $ 15,528,239 |
| Federal grants | **4,278,366** | **-** | **4,278,366** | 2,241,694 |
| Other | **64,929** | **-** | **64,929** | 43,070 |
| Investment income, net | **11,276,615** | **-** | **11,276,615** | 16,983,994 |
| Gains (losses) from foreign currency exchanges | **326,113** | **-** | **326,113** | (245,270) |
| Net assets released from restrictions | **13,780,855** | **(13,780,855)** | **-** | - |
| **Total support and revenue** | **31,688,763** | **1,524,031** | **33,212,794** | 34,551,727 |
| Expenses: | | | | |
| Program services: | | | | |
| Policy | **11,842,733** | **-** | **11,842,733** | 11,258,968 |
| Leadership | **2,713,823** | **-** | **2,713,823** | 2,436,136 |
| Civil society | **5,821,590** | **-** | **5,821,590** | 5,496,468 |
| Support services: | | | | |
| Management and general | **7,116,703** | **-** | **7,116,703** | 6,765,937 |
| Fundraising | **786,059** | **-** | **786,059** | 805,544 |
| **Total expenses** | **28,280,908** | **-** | **28,280,908** | 26,763,053 |
| **Change in net assets before other items** | **3,407,855** | **1,524,031** | **4,931,886** | 7,788,674 |
| Other items: | | | | |
| Interest expense | **(249,518)** | **-** | **(249,518)** | (246,507) |
| Change in swap value | **433,244** | **-** | **433,244** | 337,863 |
| **Change in net assets** | **3,591,581** | **1,524,031** | **5,115,612** | 7,880,030 |
| Net assets: | | | | |
| Beginning | **158,761,546** | **7,578,595** | **166,340,141** | 158,460,111 |
| Ending | **$ 162,353,127** | **$ 9,102,626** | **$ 171,455,753** | $ 166,340,141 |

See notes to consolidated financial statements.

**The German Marshall Fund of the United States –**
**A Memorial to the Marshall Plan and Subsidiaries**

**Consolidated Statement of Cash Flows**
**Year Ended May 31, 2018**
**(With Comparative Totals for 2017)**

| | **2018** | 2017 |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets | **$ 5,115,612** | $ 7,880,030 |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation | **775,701** | 913,491 |
| Amortization on bond issuance costs | **14,693** | 14,693 |
| Net realized and unrealized gains on investments | **(9,768,388)** | (15,713,540) |
| Unrealized gain on interest rate swap agreement | **(433,244)** | (337,863) |
| Changes in assets and liabilities: | | |
| (Increase) decrease in: | | |
| Grants receivable | **(3,168,486)** | 1,854,558 |
| Other assets | **(258,036)** | (183,192) |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | **151,014** | 162,557 |
| Deferred revenue | **(255,939)** | (1,436,482) |
| Grants payable | **(117,695)** | 208,662 |
| **Net cash used in operating activities** | **(7,944,768)** | (6,637,086) |
| Cash flows from investing activities: | | |
| Purchases of investments | **(19,141,045)** | (17,521,949) |
| Proceeds from sale of investments | **28,802,905** | 31,100,350 |
| Purchases of property and equipment | **(43,019)** | (44,334) |
| Decrease in restricted cash | **234,825** | 305,991 |
| **Net cash provided by investing activities** | **9,853,666** | 13,840,058 |
| Cash flows from financing activities: | | |
| Payment of bond principal | **-** | (74,000) |
| **Net cash used in financing activities** | **-** | (74,000) |
| **Net increase in cash and cash equivalents** | **1,908,898** | 7,128,972 |
| Cash and cash equivalents: | | |
| Beginning | **13,690,513** | 6,561,541 |
| Ending | **$ 15,599,411** | $ 13,690,513 |
| Supplemental disclosure of cash flow information: | | |
| Cash payments for interest | **$ 234,825** | $ 231,814 |

See notes to consolidated financial statements.

## Note 1. Nature of Activities and Significant Accounting Policies

**Nature of activities:** The German Marshall Fund of the United States − A Memorial to the Marshall Plan (GMF) was incorporated on March 15, 1972, under the laws of the District of Columbia. GMF is an American institution that strengthens transatlantic cooperation on regional, national and global challenges and opportunities in the spirit of the Marshall Plan via:

***Policy:*** GMF provides effective ways forward to solving today's transatlantic policy issues.

***Leadership:*** GMF offers rising and established leaders dynamic opportunities to build transatlantic bridges.

***Civil society:*** GMF supports civil society by fostering democratic initiatives, rule of law and regional cooperation.

In May 2004, GMF formed a limited liability corporation named 1700 18$^{th}$ Street LLC (LLC), which was incorporated as a wholly owned subsidiary of GMF. The purpose of LLC was to purchase a building in Washington, D.C. In June 2004, LLC purchased a building for approximately $5.9 million.

In March 2011, GMF formed a private foundation named The Transatlantic Foundation (TTF), which was incorporated in Brussels. The purpose of TTF is to receive and manage European funding through GMF's Brussels office.

A summary of GMF's significant accounting policies follows:

**Basis of accounting:** The consolidated financial statements are prepared on the accrual basis of accounting, whereby unconditional support is recognized when received, revenue is recognized when earned, and expenses are recognized when incurred.

**Principles of consolidation:** The accompanying consolidated financial statements, which include the accounts of GMF, LLC and TTF (collectively, GMF), have been consolidated in accordance with accounting principles generally accepted in the United States of America. All significant intercompany balances and transactions have been eliminated in consolidation.

**Basis of presentation:** The consolidated financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). As required by the Non-Profit Entities Topic of the FASB ASC, Presentation of Financial Statements, GMF is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Unrestricted net assets are net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted net assets result from contributions with usage limited by donor-imposed stipulations that either expire by the passage of time or which are fulfilled and removed by actions of GMF pursuant to those stipulations. Net assets may be temporarily restricted for various purposes, such as use in future periods or use for specified purposes.

Permanently restricted net assets result from contributions with usage limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by GMF's actions. GMF has no permanently restricted net assets as of May 31, 2018.

### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Cash and cash equivalents:** Cash and cash equivalents consist of cash on deposit and repurchase agreements. As of May 31, 2018, GMF maintained $320,525 in foreign bank accounts. For purposes of reporting cash flows, restricted cash and cash equivalents are excluded as they are not available for operating purposes.

**Restricted cash:** Under the terms of the Bond agreement, GMF placed bond proceeds in an account with the Bond Trustee. The account is restricted to payments of bond and swap interest. As of May 31, 2018, cash restricted for bond and swap interest amounted to $177,136. This cash is invested in money market funds and included in restricted cash in the accompanying consolidated balance sheet.

**Translation of foreign currencies:** Financial statements for foreign activities reflect assets and liabilities converted to U.S. dollar values at prevailing rates of exchange. Gains or losses from fluctuations of foreign exchange rates are reported in the accompanying consolidated statement of activities.

**Financial risk:** GMF maintains its cash in bank deposit accounts which, at times, may exceed United States federally insured limits. In addition, GMF maintains several accounts in European financial institutions. GMF has not experienced any losses in such accounts and believes it is not exposed to any significant financial risk on cash. GMF invests in professionally managed portfolios that contain common shares of publicly traded companies, mutual funds and various alternative investments. Such investments are exposed to various risks such as market and credit. Due to the level of risk associated with such investments, and the level of uncertainty related to change in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the consolidated financial statements.

**Grants receivable:** GMF receives grants from a number of organizations for various purposes. For grants that are recognized as unconditional promises to give, the receivable is recorded as support in the period during which the promise is made to GMF. For grants determined to be conditional awards or exchange transactions, recognition is made as conditions are met or revenues earned, as applicable. As of May 31, 2018, grants receivable amounted to $9,391,111, all of which are expected to be collected in fiscal year 2019.

**Investments:** Investments are carried at fair market value. Fair market value of mutual funds and publicly traded equities is determined using quoted market prices. Investment income or loss is included in the change in unrestricted net assets, unless the income is restricted by donor or law.

Investments in alternative investment partnerships are valued at fair value, based on the applicable percentage ownership of the underlying partnerships' net assets as of the measurement date, as determined by GMF. In determining fair value, GMF utilizes valuations provided by the fund manager of the underlying investment partnerships. The underlying alternative investment partnerships value securities and other financial instruments on a fair value basis of accounting. The estimated fair values of certain investments of the underlying investment partnerships, which may include private placements and other securities for which prices are not readily available, are determined by GMF of the respective other investment partnership and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. The fair value of GMF's investments in other investment partnerships generally represents the amount GMF would expect to receive if it were to liquidate its investment in the investment partnerships excluding any liquidation costs that may apply. GMF may adjust the respective manager's valuation when circumstances support such an adjustment.

## Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Derivative financial instruments and hedging activities:** GMF invests in funds that invest in various derivative instruments (e.g., options, warrants, futures, swap contracts, etc.). Derivative instruments are typically held to advance fund investment strategies, to hedge investment risk and to economically meet the objectives of the fund. Derivatives are recorded at fair value and the resulting gains and losses are reflected as a component of investment income (loss) in the consolidated statement of activities.

**Property and equipment:** Property and equipment are reported at cost net of accumulated depreciation. GMF follows the practice of capitalizing all expenditures for property and equipment in excess of $5,000. GMF currently depreciates its furniture and fixtures using the straight-line depreciation method over three to five years. Buildings are currently depreciated over a 40-year term using the straight-line method.

**Bond issuance costs:** GMF paid certain customary fees as required to secure the bonds payable used to finance construction projects. These fees had been capitalized and are being amortized over the term of the bonds using the effective interest method and are netted with bonds payable on the accompanying consolidated balance sheet. Amortization expense was $14,693 for the year ended May 31, 2018.

**Interest rate swap contract:** GMF follows the accounting standard for derivative instruments and hedging activities, related to its participation in an interest rate swap contract in relation to its bonds payable, which is considered a derivative financial instrument. This standard requires that all derivative financial instruments be recognized in the consolidated financial statements at their fair value. Changes in the fair value of derivative financial instruments are recognized each period as a component of change in net assets.

**Valuation of long-lived assets:** GMF accounts for the subsequent measurement of certain long-lived assets in accordance with subsections of the FASB ASC Topic, Property, Plant and Equipment that addresses Impairment or Disposal of Long-Lived Assets. The accounting standard requires that property, plant and equipment and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell.

**Grants payable:** GMF records grant expenses to recipients and corresponding grant payable at the time an unconditional award is committed through a fully executed grant agreement.

**Revenue recognition:** Contribution revenue is recognized at the time an unconditional promise to give is received. Unconditional contributions received are recorded as unrestricted, temporarily restricted or permanently restricted revenue, depending on the existence and/or nature of any donor restrictions. Conditional contribution revenue is not recognized until conditions have been satisfied.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

## Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Grant funds received in advance for agreements determined to be exchange transactions are reported as deferred revenue until the revenue recognition criteria has been met.

**Income taxes:** GMF is recognized as exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the Code) and is not a private foundation within the meaning of Section 509(a) of the Code. However, GMF is subject to income taxes on unrelated business income as defined by the Internal Revenue Service.

During the year ended May 31, 2018, GMF incurred no tax expense related to unrelated business income activities.

LLC is a single member limited liability company for federal income tax purposes. All tax attributes flow through to GMF under this entity form. Accordingly, no provision for income taxes has been made.

TTF is a foreign nonprofit entity incorporated under the laws of Brussels, Belgium. There was immaterial activity under TTF during the year ended May 31, 2018.

According to the accounting standard for uncertainty in income taxes, for the period from GMF's inception to May 31, 2018, no unrecognized tax provision or benefit existed. Deferred income taxes are provided using the liability method, whereby, deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards, and deferred tax liabilities are recognized for taxable temporary differences.

Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of the changes in tax laws and rates of the date of enactment.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the consolidated financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more likely than not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above would be reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheet, along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Management believes there are no positions that would result in additional tax liability.

Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the consolidated statement of activities.

GMF files income tax returns in the U.S. federal jurisdiction. As of May 31, 2018, and for the year then ended, there were no material unrecognized/derecognized tax benefits or tax penalties or interest. Generally, GMF is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2015.

## Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Use of estimates:** The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Recent accounting pronouncements:** In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606),* requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in generally accepted accounting principles in the United States of America when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. The updated standard will be effective for annual reporting periods beginning after December 15, 2018. GMF has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which requires that lessees to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases. The ASU is effective for GMF for the year beginning after December 31, 2019. The adoption of this standard is expected to result in GMF's recognizing right-of-use assets and lease liabilities for some leases currently accounted for as operating leases under legacy lease accounting guidance. Management is evaluating the impact of this standard on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance, and cash flows. The ASU will be effective for fiscal years beginning after December 15, 2017. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. Management has not evaluated the impact of this ASU on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash.* The amendments in this ASU require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The ASU will effective for fiscal years beginning after December 15, 2018. Early adopted is permitted. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. Management has not evaluated the impact of this ASU on its consolidated financial statements.

In June, 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* The purpose of the ASU is to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in the ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional.

### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

The amendments in the ASU likely will result in more grants and contracts being accounted for as either contributions or conditional contributions than observed in practice under current guidance. The amendments in the ASU should be applied on a modified prospective basis, although retrospective application is permitted. Entities should apply the amendments for transactions in which the entity serves as the resource recipient to annual periods beginning after December 15, 2018. Entities should apply the amendments for transactions in which the entity serves as the resource provider to annual periods beginning after December 15, 2019.

**Prior year information:** The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with GMF's consolidated financial statements for the year ended May 31, 2017, from which the summarized information was derived.

**Reclassifications:** Certain items in the May 31, 2017 summarized comparative financial information have been reclassified to conform to the May 31, 2018, financial statement presentation. The reclassifications had no effect on the previously reported net assets or change in net assets.

**Subsequent events:** GMF evaluated subsequent events through October 10, 2018, which is the date the consolidated financial statements were available to be issued.

### Note 2. Investments

Investments at May 31, 2018, consist of the following:

| | |
|---|---|
| Money market mutual funds | $ 376,724 |
| Mutual funds – bonds | 3,472,780 |
| Mutual funds – equities | 43,263,299 |
| Publicly traded equities | 8,940,233 |
| Alternative investments – equity funds | 4,199,743 |
| Alternative investments – hedge funds | 22,319,774 |
| Alternative investments – natural resources | 22,606,285 |
| Alternative investments – private equity | 27,743,020 |
| Alternative investments – private debt | 3,777,667 |
| Alternative investments – private real estate | 4,609,227 |
| | $ 141,308,752 |

Investment activity for the year ended May 31, 2018, consists of the following:

| | |
|---|---|
| Realized and unrealized gains on investments | $ 9,768,388 |
| Interest and dividends | 1,718,371 |
| Investment management fees | (210,144) |
| | $ 11,276,615 |

## Note 3. Property and Equipment

At May 31, 2018, property and equipment consist of the following:

| | |
|---|---|
| Building | $ 24,778,843 |
| Furniture and fixtures | 3,514,848 |
| Land | 1,237,440 |
| | 29,531,131 |
| Less accumulated depreciation | (10,572,193) |
| | $ 18,958,938 |

Depreciation expense was $775,701 or the year ended May 31, 2018.

## Note 4. Bonds Payable

In April 2016, D.C. issued its $9,400,000 Variable Rate Refunding Revenue Bonds (The German Marshall Fund of the United States Issue) Series 2016 (the Bonds) and loaned the proceeds to GMF in order to refund the Series 2011 bonds. The Bonds mature on June 1, 2046, subject to the possibility of earlier redemption, with principal repayment to start on June 1, 2026. Interest rate is 67% of the sum of London Interbank Offered Rate (LIBOR) and the spread of 1.28%, and margin rate factor (as defined in the Indenture of Trust). The interest rate terms, factoring in the impact of an interest rate swap contract (see Note 5) achieves an effective annual interest rate of 2.35%. Interest expense for the year ended May 31, 2018, was $234,825. Under the lender mode credit agreement, GMF is subject to a number of covenants including a requirement to maintain a specified liquidity ratio.

As of May 31, 2018, bonds payable consist of the following:

| | |
|---|---|
| Bonds payable | $ 9,325,867 |
| Less bond issuance costs, net of amortization | (191,003) |
| | $ 9,134,864 |

## Note 5. Interest Rate Swap Contract

GMF has an interest rate swap contract with SunTrust Bank to reduce the impact of changes in the interest rates on the Bonds. The swap contract was entered into for a 15-year period commencing in May 2016. The notional principal amount of the interest rate swap contract was $9,360,000 as of May 31, 2018. In accordance with the swap contract, GMF pays a fixed rate of interest of 1.493%, and receives a variable interest rate, which was approximately 1.28% at May 31, 2018. GMF recognized a gain of $433,244 under this interest rate swap contract for the year ended May 31, 2018. At May 31, 2018, the fair value of the swap contract was an asset of $373,423, which is classified under other assets in the consolidated balance sheet. The swap contract terminates in May 2031.

## Note 6. Temporarily Restricted Net Assets

At May 31, 2018, temporarily restricted net assets are available for the following purposes:

| | |
|---|---|
| Transatlantic policy dialogue | $ 6,074,621 |
| Democracy and civil society | 3,028,005 |
| | $ 9,102,626 |

A total of $13,780,855 was released from restrictions during the year ended May 31, 2018, as a result of satisfying donor restrictions.

## Note 7. Pension Plan

Eligible employees may contribute their own savings to GMF's defined contribution retirement program immediately upon hire. During the year ended May 31, 2018, GMF contributed an amount equal to 3% of a participant's eligible annual salary and matched participant savings up to 7% of their annual compensation. Retirement expense was approximately $360,862 for the year ended May 31, 2018. Employer matching contributions for employees hired after January 1, 2014, vest over a five-year schedule.

## Note 8. Fair Value Measurements

GMF has adopted the Fair Value Measurement Topic issued by the FASB. This Topic defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined under this Topic as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy under this Topic are described below:

**Level 1:** Adjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The type of investments included in Level 1 includes listed equities and listed derivatives. As required by this Topic, GMF does not adjust the quoted price for these investments, even in situations where GMF holds a large position and a sale could reasonably impact the quoted price.

**Level 2:** Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly; and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities and certain over-the-counter derivatives. GMF's swap agreement is valued based on quoted values stated by the bank's mark-to-market estimate using the stated fixed rate and BMA Municipal Swap Index interest ratings. The interest rate is observable at commonly quoted indexes for the full term of the instrument and is, therefore, considered Level 2 item. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.

**Level 3:** Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation. Investments that are included in this category generally include equity and debt positions in private companies and general and limited GMF interests in private investment funds, real estate funds, debt funds and distressed debt where fair value is not based on a net asset value (NAV) practical expedient.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. GMF's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment. In determining the appropriate levels, GMF performs analysis of these assets and liabilities that are subject to this Topic. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

## Note 8. Fair Value Measurements (Continued)

The following table presents the restricted cash and investments carried at fair value in the consolidated balance sheet by level within the valuation hierarchy as of May 31, 2018:

| | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Assets: | | | | |
| Restricted cash: | | | | |
| Money market mutual funds | $ 177,136 | $ 177,136 | $ - | $ - |
| | $ 177,136 | $ 177,136 | $ - | $ - |
| Other assets: | | | | |
| Interest rate swap agreement | $ 373,423 | $ - | $ 373,423 | $ - |
| | $ 373,423 | $ - | $ 373,423 | $ - |
| Investments: | | | | |
| Unrestricted cash: | | | | |
| Money market mutual funds | $ 376,724 | $ 376,724 | $ - | $ - |
| | 376,724 | 376,724 | - | - |
| Mutual funds: | | | | |
| Bond: | | | | |
| Short-term bond | 275,316 | 275,316 | - | - |
| Intermediate-term bond | 3,197,464 | 3,197,464 | - | - |
| | 3,472,780 | 3,472,780 | - | - |
| Equity: | | | | |
| Diversified emerging markets | 12,732,900 | 12,732,900 | - | - |
| Foreign small/mid value | 4,463,638 | 4,463,638 | - | - |
| Large growth | 26,066,761 | 26,066,761 | - | - |
| | 43,263,299 | 43,263,299 | - | - |
| Publicly traded equities: | | | | |
| Consumer goods | 1,348,114 | 1,348,114 | - | - |
| Financial services | 975,811 | 975,811 | - | - |
| Healthcare | 931,408 | 653,880 | - | - |
| Industrials | 1,299,541 | 1,299,541 | - | - |
| Specialist fund | 3,654,462 | 3,654,462 | - | - |
| Technology | 730,897 | 1,008,425 | - | - |
| | 8,940,233 | 8,940,233 | - | - |
| | 56,053,036 | $ 56,053,036 | $ - | $ - |
| Alternative investments valued at net asset value (or equivalent) | 85,255,716 | | | |
| Total investments: | $ 141,308,752 | | | |

### Note 8. Fair Value Measurements (Continued)

NAV is defined as the value of a mutual (or similar) fund that is reached by deducting the fund's liabilities from the market value of all of its assets and then dividing by the number of issued shares (or units of ownership). Depending on the type of fund and the nature of its assets, a variety of valuation techniques can be used to arrive at the market value of its assets and liabilities.

| Alternative Investments | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|---|---|---|---|---|
| Equities (a): | | | | |
| International equity | $ 4,199,743 | $ - | Monthly | 30 days |
| | 4,199,743 | - | | |
| Hedge funds (b): | | | | |
| Absolute return | 55,486 | - | Annually | 65 days |
| Commodity trading advisor | 6,085,768 | - | Monthly | 2 days |
| Diversified | 4,045 | - | Quarterly | 45 days |
| Managed futures | 6,186,089 | - | Monthly | 3 days |
| Multi-strategy | 9,988,386 | - | Quarterly | 60-65 days |
| | 22,319,774 | - | | |
| Natural resources (c): | | | | |
| Master limited partnership | 7,478,844 | - | Monthly | 30 days |
| Diversified | 5,504,404 | 150,347 | Not applicable | Not applicable |
| Energy | 9,623,037 | 213,731 | Not applicable | Not applicable |
| | 22,606,285 | 364,078 | | |
| Private equity (d): | | | | |
| Buyout/venture capital | 8,442,287 | 5,819,265 | Not applicable | Not applicable |
| Diversified | 14,165,200 | 29,494 | Not applicable | Not applicable |
| Special situations | 5,135,533 | - | Not applicable | Not applicable |
| | 27,743,020 | 5,848,759 | | |
| Private debt (e): | | | | |
| Distressed | 3,463,815 | 225,000 | Not applicable | Not applicable |
| Mezzanine | 313,852 | 237,500 | Not applicable | Not applicable |
| | 3,777,667 | 462,500 | | |
| Private real estate (f) | 4,609,227 | 964,366 | Not applicable | Not applicable |
| | $ 85,255,716 | $ 7,639,703 | | |

## Note 8. Fair Value Measurements (Continued)

Alternative investments are less liquid than the other investments. The following table sets forth additional disclosures of GMF's investments whose fair value is estimated using NAV per share (or its equivalent) at May 31, 2018.

(a) *Equities:* This category includes investments in funds that invest in domestic and international equities.

(b) *Hedge funds:* This category includes investments in hedge funds that invest both long and short in various domestic and international common stocks. Management of the various funds have the ability to shift from value to growth strategies, from small to large capitalization stocks, and from a net short position to a net long position. The fair value of the investments in this category has been estimated using the NAV per share of the investments.

(c) *Natural resources:* This category includes investments in natural resources such as timber, oil or natural gas are done through limited partnerships. Investments held in closed-end funds cannot be redeemed at the investor's discretion.

(d) *Private equity funds:* This category includes several private equity funds. These investments can never be redeemed with the funds. Instead, the nature of the investments in this category is that distributions are received through the liquidation of the underlying assets of the funds. As of May 31, 2018, it was probable that the investments in this category would be liquidated at an amount different from the NAV of the GMF's ownership interest in partners' capital. Therefore, the fair value of the investments in this category has been estimated using recent observable transaction information received from potential buyers of the investments. It is estimated that the underlying assets of the funds will be liquidated over five to eight years.

(e) *Private debt*: This category includes several private equity funds focusing on private debt. The investment strategies of these funds focus on debt securities of companies undergoing financial distress, operating difficulties and significant restructuring and on acquiring eligible assets, which include certain commercial mortgage-backed securities and non-agency residential mortgage-backed securities, under the Public-Private Investment Partnership, which seeks to unlock frozen credit markets and expand lending activity.

(f) *Private real estate:* This category includes investments primarily in the purchase, improvement and/or rental of property, and indirect investments made through an entity that invests in property, such as a real estate investment trust (REIT). Real estate has a relatively new correlation with the behavior of the stock market and is often viewed as a hedge against inflation.

## Note 9. Contingency

GMF participates in a number of federally-assisted grant programs, which are subject to financial and compliance audits by federal agencies or their representatives. As such, there exists a contingent liability for potential questioned costs that may result from such audits. Management does not anticipate any significant adjustments as a result of such audits.

## Note 10. Operating Leases

GMF leases office space in several of its international locations with lease terms expiring over various dates through May 2024.

Total future minimum lease payments under these leases are as follows:

| | |
|---|---|
| Years ending May 31: | |
| 2019 | $ 570,939 |
| 2020 | 316,134 |
| 2021 | 316,134 |
| 2022 | 252,741 |
| 2023 | 231,610 |
| Thereafter | 231,610 |
| | $ 1,919,168 |

Rent expense for the year ending May 31, 2018, was $733,813.