

AMERICA FOR BULGARIA FOUNDATION

**INDEPENDENT AUDITOR'S REPORT
AND STANDALONE FINANCIAL STATEMENTS**

December 31, 2015



MANAGEMENT'S STATEMENT OF FINANCIAL RESPONSIBILITY

The Management of the America for Bulgaria Foundation (the "Foundation" or "ABF") has responsibility for the preparation, integrity, and reliability of the financial statements and related financial information contained in this Annual Report. The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America and include necessary judgments and estimates by Management.

Management has established and is responsible for maintaining an internal control environment designed to provide reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets, and the prevention and detection of fraudulent financial reporting.

The Board of Directors, primarily through the Audit Committee, oversees the adequacy of the Foundation's control environment. The Audit Committee, whose members are neither officers nor employees of the Foundation, meets regularly with Management and the Foundation's independent auditors, who are selected by the Audit Committee.

The Foundation's financial statements as of, and for the year ending December 31, 2015 and 2014 have been audited by Deloitte Audit OOD which confirms that its audits were conducted in accordance with auditing standards generally accepted in the United States of America and include such audit procedures as it considers necessary to express the opinion in its report that follows. Deloitte Audit OOD has full and free access to the Audit Committee to discuss its audit work, the Foundation's internal controls, and financial reporting matters.

Management recognizes that there are inherent limitations in the effectiveness of any internal control environment. Management believes, however, that as of December 31, 2015 and 2014, the Foundation's internal control environment has provided reasonable assurance as to the integrity and reliability of the financial statements and related financial information.

Nancy L. Schiller
Vice-Chair and Interim President

Bojana I. Kourteva
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of America for Bulgaria Foundation

We have audited the accompanying standalone financial statements of the America for Bulgaria Foundation (the "Foundation"), which comprise the standalone statement of financial position as of December 31, 2015 and 2014 and the related standalone statement of activities and changes in net assets and its standalone statement of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these standalone 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these standalone 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 standalone financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the standalone financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the standalone financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the standalone 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 Foundation'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 standalone 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 standalone financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2015 and 2014, and the results of its activities, and changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte Audit OOD

Deloitte Audit OOD

September 7, 2016
Sofia, Bulgaria

America for Bulgaria Foundation
Standalone Statement of Financial Position
December 31, 2015 and 2014

<i>in USD (000)</i>	<u>2015</u>	<u>2014</u>
Assets		
Cash and cash equivalents	2,556	5,832
Investments, at fair value		
ETF and public mutual funds	203,413	205,046
Private mutual funds	159,150	182,859
Equity investments	2,712	-
Bonds	5,819	6,073
Partnership investments	811	905
Total Investments	<u>371,905</u>	<u>394,883</u>
Dividends receivable	138	129
Prepaid expenses and other assets	132	149
Fixed assets, net of accumulated depreciation of 364 and 337	367	382
Investment in subsidiaries	16,665	11,469
Total Assets	<u><u>391,763</u></u>	<u><u>412,844</u></u>
Liabilities and Net Assets		
Liabilities		
Grants payable	9,116	14,082
Accounts payable and accrued payroll	318	584
Total Liabilities	<u>9,434</u>	<u>14,666</u>
Net assets - unrestricted	382,329	398,178
Total liabilities and unrestricted net assets	<u><u>391,763</u></u>	<u><u>412,844</u></u>

See accompanying notes to financial statements

America for Bulgaria Foundation
Standalone Statement of Activities
December 31, 2015 and 2014

<i>in USD (000)</i>	<u>2015</u>	<u>2014</u>
Change in net assets:		
Contributions received	10,711	15,906
Reversed Grants Income	1,566	201
Other Income / (Loss)	56	5
Investment income		
Interest income	2,507	2,857
Dividend income	5,698	6,980
Net realized gain / (loss) on investments	(199)	40,766
Net unrealized gain / (loss) on investments	(19,468)	(33,314)
Realized exchange rate gain / (loss)	489	143
Unrealized exchange rate gain / (loss)	(664)	40
Total Investment income/ (loss)	(11,637)	17,472
Less investment management fees	(951)	(955)
Investment income / (loss), net	(12,588)	16,517
Total Income / (Loss)	(255)	32,629
Grant Expenses	(11,595)	(30,095)
Program related and donation expenses	(996)	(992)
Management and general expenses	(2,896)	(3,716)
Depreciation and amortization	(107)	(107)
Total Expenses	(15,594)	(34,910)
Changes in net assets	(15,849)	(2,281)
Unrestricted net assets, beginning of the period	398,178	400,459
Unrestricted net assets, end of the period	<u>382,329</u>	<u>398,178</u>

See accompanying notes to financial statements

America for Bulgaria Foundation
Standalone Statement of Cash Flows
Year ended December 31, 2015 and 2014

<i>in USD (000)</i>	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities		
Contributions received	4,525	15,906
Grant payments	(14,141)	(24,149)
Grant refunds	159	167
Cash paid to suppliers and employees	(3,637)	(4,512)
Net cash used in operating activities	<u>(13,094)</u>	<u>(12,588)</u>
Cash Flows from Investing Activities		
Proceeds from sale of investments	47,261	93,220
Proceeds from dividends	5,712	6,984
Proceeds from interest	2,172	2,616
Proceeds from sale of fixed assets	30	-
Purchase of fixed assets	(110)	(112)
Purchase of investments	(39,038)	(76,567)
Investments in subsidiaries	(5,196)	(8,692)
Investment fees paid	(961)	(950)
Net cash from investing activities	<u>9,870</u>	<u>16,499</u>
Cash flows from Financing Activities		
Net cash from financing activities	<u>-</u>	<u>-</u>
Effect of exchange rate changes on cash	(52)	(97)
Net increase / (decrease) in cash	(3,276)	3,814
Cash at the beginning of year	5,832	2,018
Cash at end of year	2,556	5,832

See accompanying notes to financial statements

AMERICA FOR BULGARIA FOUNDATION

Notes to the Standalone Financial Statements December 31, 2015 and 2014 (in thousands)

(1) Nature of Operations

The America for Bulgaria Foundation (the “Foundation”, “ABF”) is a U.S. not-for-profit incorporated on December 18, 2006 pursuant to an agreement between the Bulgarian-American Enterprise Fund (the “Fund”) and the United States of America acting through the U.S. Agency for International Development (“USAID”). The Foundation was created to advance the purposes of Section 201(a) of the Support for East European Democracy Act of 1989 (“SEED Act”) and to build upon the programs established by the Fund. The Foundation received its first donation, in the form of a transfer of assets, from the Fund on August 08, 2008.

The America for Bulgaria Foundation assists in strengthening a vibrant market economy and the institutions of democratic society in Bulgaria, helping the country to realize its full potential as a successful, modern European nation.

The America for Bulgaria Foundation seeks to enhance the longstanding legacy of goodwill and friendship between the American and Bulgarian people and through many of its programs, to promote the US – Bulgaria people-to-people contacts and exchange of ideas and resources.

The Foundation represents the generous face of the American people and embodies the highest standards of US ethical conduct, transparency and core values. The Foundation concentrates its efforts in six main program areas: (i) Arts and Culture; (ii) Agriculture, Forestry and the Environment; (iii) Civil Society and Democratic Institutions; (iv) Economically Disadvantaged; (v) Education and Libraries; and (vi) Archeology and Heritage Tourism. The Foundation works with various organizations in Bulgaria and the U.S. in conducting its activities and executing the objectives of each individual grant.

Through its registration at the Ministry of Justice of Bulgaria, the Foundation has opened a Branch in Bulgaria (the “Branch”) whose purpose is to represent the Foundation in Bulgaria and to engage in activities to promote the Foundation’s purposes. The financial position as of and results of operations for the years ended December 31, 2015 and 2014 of the Branch are included in the financial statements of the Foundation. The Branch prepares financial information for statutory purposes only and does not have separate audited financial statements.

AMERICA FOR BULGARIA FOUNDATION

Notes to the Standalone Financial Statements December 31, 2015 and 2014 (in thousands)

(2) Basis of Presentation

In accordance with accounting principles generally accepted in the United States of America for not-for-profit organizations, the Foundation is required to classify information regarding its financial position and activities into certain classes of net assets. Pursuant to the Grant Agreement (defined in Note 11(a)), at December 31, 2015 and 2014, the entire balance of net assets was classified as unrestricted. Unrestricted net assets are those net assets that are not restricted by donor imposed stipulations.

(3) Summary of Significant Accounting Policies

a. Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with US GAAP.

b. Basis of Presentation

The accompanying financial statements have been prepared on a standalone basis as at December 31 each year.

c. Investments

Investments in equity securities with readily determinable fair values and all debt securities are stated at fair value. Fair value is determined based on quoted market prices and/or other inputs permitted by ASC Topic 820, as described in "Fair Value" below. Unrealized gains or losses on investments resulting from market fluctuations are recorded in the Statement of Activities in the period that such fluctuations occur as well as the reversal of unrealized gains or losses at the time an investment is realized. Realized and unrealized gains or losses on investments are determined by comparison of specific costs of acquisition to proceeds at the time of disposal, or market values at the last day of the fiscal year, respectively, and include the effects of currency translation with respect to transactions and holdings of foreign securities.

AMERICA FOR BULGARIA FOUNDATION

Notes to the Standalone Financial Statements

December 31, 2015 and 2014

(in thousands)

Investment sales and purchases are recorded on a trade-date basis, which results in both investment receivables and payables on unsettled investment trades. Dividend income is recorded based upon an ex-dividend date, and interest income is recorded as earned on an accrual basis.

d. Fair Value

Effective January 1, 2008 the Foundation adopted Accounting Standards Codification, ASC Topic 820, *Fair Value Measurement and Disclosures* ("ASC 820"). ASC 820 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. The Foundation utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. The Foundation's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value of assets and liabilities and their placement within the fair value hierarchy levels.

ASC 820 also established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value, maximizes the use of observable inputs, and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are as follows:

- Level 1 Valuation based on unadjusted quoted prices in active markets for identical assets or liabilities that a reporting entity has the ability to access at the measurement date, and where transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

- Level 2 Valuation based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets, or liabilities in markets that are not active, that is markets in which there are few transactions, prices are not current, or prices vary substantially over time.

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December 31, 2015 and 2014

(in thousands)

Level 3 Valuation based on inputs that are unobservable for an asset or liability and should be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. This input, therefore, reflects the entity's assumptions about what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The inputs used into the determination of fair value require significant judgment. Due to the inherent uncertainty of these estimates, these values may differ materially from the values that would have been used had an active market for these assets and liabilities existed.

Inputs are used in applying the various valuation techniques and refer to the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, liquidity statistics and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Foundation considers observable data to be market data which is readily available and reliable and provided by independent sources. The categorization of a financial instrument within the hierarchy is therefore based upon the pricing transparency of the instrument and does not necessarily correspond to the Foundation's perceived risk of that instrument.

Cash, Money Market Funds and Term Deposits – These assets are held either as cash, money market funds, or bank term deposits, which are public investment vehicles, valued using \$1 per unit for the net asset value and are classified within Level 1 of the valuation hierarchy.

Public Mutual and Exchange Traded Funds (“ETF”) – These assets are public investment vehicles valued using the net asset value (“NAV”) provided by the administrator of the fund. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. The NAV for public mutual funds and exchange traded funds is a quoted price in an active market and classified within Level 1 of the valuation hierarchy.

Private Mutual Funds – These assets are private investment vehicles valued using the NAV provided by the administrator of the fund. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. The NAV for private mutual funds is classified within Level 2 of the valuation

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Notes to the Standalone Financial Statements December 31, 2015 and 2014 (in thousands)

hierarchy because the NAV's unit price is quoted on a private market that is not active; however, the unit price is based on underlying investments which are traded on an active market. In addition, financial statements for each of the funds are prepared in accordance with US GAAP, their portfolio is accounted at fair value, the NAV is recalculated monthly and redemptions occur at NAV by contract.

Equity Investments – Equity securities are valued based upon the closing price as quoted on major exchanges. Common and Preferred Stocks and Fixed Income Securities are classified within Level 1 of the valuation hierarchy.

Bonds – These assets are a mix of private and public fixed income investment vehicles valued using the latest trading value of the obligations, if such exists, or prices for similar assets quoted on active markets, if not. This price is classified within Level 1 and Level 2 of the valuation hierarchy because either the instrument has a unit price that is quoted on an active public market or on a private market; however the instruments are issued and guaranteed by entities that are traded on an active market.

Partnership Investments – These assets are private investment vehicles valued using the financial information of the partnership and our ownership interest. These assets are classified within Level 3 of the valuation hierarchy as there is not observable data on which to base the valuation.

Other assets and Liabilities – Due to the short-term nature of cash equivalents, receivables, prepaid expenses and other assets, grants payable, accounts payable and accrued payroll, their fair value approximates carrying value.

e. Grant Expenditures

Grant expenditures are recognized in the period the grant agreement is signed by the Foundation and the grantee, provided the grant is not subject to future conditions. Conditional grants are recognized as grant expense and as a grant payable in the period in which the grantee meets the terms of the conditions. If payments of the unconditional promise to give are to be made to a recipient over several periods and the recipient is subject only to routine performance requirements, a liability and an expense for the entire amount payable is recognized.

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Notes to the Standalone Financial Statements
December 31, 2015 and 2014
(in thousands)

f. Cash and Cash Equivalents

Cash and cash equivalents consist of cash of US and foreign currencies, money market funds, and highly liquid investments with original maturities of three months or less at the date of acquisition.

g. Interest and Dividend Income

Interest and dividend income is recorded when earned.

h. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

i. Translation of Foreign Currency

The Foundation's functional currency is the U.S. dollar. Revenues and expenses transacted in other currencies are translated into U.S. dollars at rates in effect at the dates of such transactions. Investments and cash equivalents in foreign currencies were translated to U.S. dollars at the year-end exchange rate. The functional currency of the Branch is the Bulgarian Lev. Remeasurement and translation adjustments are reflected in the Statement of Activities.

j. Grant Revenue Recognition

Contributions, including unconditional promises to give, are recognized as revenues in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Contributions of assets other than cash are measured at their estimated fair values. Unconditional promises to give are recognized as revenue in the period when the promise was made and received. Conditional promises to give, which depend on the occurrence of a specified future and uncertain event to bind the promisor, are recognized when the conditions on which they depend are substantially met, that is, when the conditional promise becomes unconditional.

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Notes to the Standalone Financial Statements

December 31, 2015 and 2014

(in thousands)

k. Investment Expenses

Investment expenses include fees for bank trustees, investment managers and custodians.

l. Depreciation and Amortization

Computer hardware, software, telecommunications equipment, furniture, fixtures, and automobiles are depreciated on a straight-line basis over their estimated useful lives, ranging from three to ten years. Leasehold improvements are amortized on a straight-line basis over the lesser of their useful lives or the term of lease. The Foundation annually reviews the property and equipment records for impairment of value and record any adjustments necessary to reflect material impacts in value.

m. Recent Accounting Pronouncements

In August 2015, the Financial Accounting Standards Board (FASB) issued guidance to defer the effective date of the new accounting guidance related to revenue recognition by one year to December 15, 2017 for annual reporting periods beginning after that date and permitted early adoption of the standard, but not before fiscal years beginning after the original effective date of December 15, 2016. This new accounting standard will replace all current U.S. GAAP guidance on this topic and eliminate all industry-specific guidance. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. This guidance will be effective beginning January 1, 2018 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Foundation does not expect the adoption of the new standard to have a material effect on its financial statements.

On February 25, 2016, the FASB issued a new standard, *Leases* (ASC 842). Lessees will need to recognize almost all leases on their balance sheet as a right-of-use asset and a lease liability. It will be critical to identify leases embedded in a contract to avoid misstating the lessee's balance sheet. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright lines. Lessor accounting is similar to the current model, but updated to align with certain changes to the lessee

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Notes to the Standalone Financial Statements December 31, 2015 and 2014 (in thousands)

model and the new revenue recognition standard. Existing sale-leaseback guidance, including guidance for real estate, is replaced with a new model applicable to both lessees and lessors. The Foundation does not expect the adoption of ASC 842 to have a material effect on its financial statements.

On March 15, 2016, the FASB issued Accounting Standards Update (ASU) 2016-07. ASU 2016-07 amends the requirements in Topic 323, *Investments – Equity Method and Joint Venture* for accounting for an investment that becomes qualified for the equity method of accounting. It goes into effect for periods beginning after December 15, 2016. This pronouncement requires that the cost of acquiring an additional interest in the entity, if any, that resulted in the investment qualifying for the equity method be added to the carrying value of the investment. The equity method will then be applied from that point forward without any retroactive application or adjustment. The Foundation does not expect the adoption of this ASU to have a material effect on its financial statements.

n. Reclassifications

Certain reclassifications have been made to prior year numbers to ensure 2014 conforms to the presentation of 2015 financial information. The reclassification had no impact on the Statements of Financial Position, Statements of Activities and Statements of Cash Flows for the year December 31, 2014.

(4) Cash and Cash Equivalents and Investments

a. Cash and Cash Equivalents

As of December 31, 2015 and 2014, the Foundation's cash and cash equivalents consisted of \$2,556 and \$5,832, respectively, comprised mainly of money market and checking accounts that were deposited in various financial institutions in the United States and Bulgaria.

AMERICA FOR BULGARIA FOUNDATION

**Notes to the Standalone Financial Statements
December 31, 2015 and 2014
(in thousands)**

b. Investments

Investments activity for the year ended December 31, 2015 and 2014 were as follows:

	December 31, 2015				December 31, 2014			
	Fair value	Unrealized Gain / (Loss) on Foreign Exchange	Unrealized Gain / (Loss) on Investment	Cost	Fair value	Unrealized Gain / (Loss) on Foreign Exchange	Unrealized Gain / (Loss) on Investment	Cost
ETF and public mutual funds	203,413	-	9,593	193,820	205,046	-	17,239	187,807
Private mutual funds	159,150	-	5,610	153,540	182,859	-	14,983	167,876
Equity investments	2,712	(394)	(2,609)	5,715	-	-	-	-
Bonds	5,819	(1,224)	403	6,640	6,073	(597)	363	6,307
Partnership Investments	811	(175)	210	776	905	(82)	93	894
	<u>\$ 371,905</u>	<u>(1,793)</u>	<u>13,207</u>	<u>360,491</u>	<u>394,883</u>	<u>(679)</u>	<u>32,678</u>	<u>362,884</u>

Investments and cash equivalents, held in different currencies are reported at the year-end exchange rate. As a result, a translation adjustment of approximately \$(175) and \$183 (decreased) / increased the investments and cash equivalents at December 31, 2015 and 2014, respectively, and was recorded in net realized and unrealized exchange rate (loss) / gain in the Statement of Activities for each year.

Accrued interest of \$1,291 and \$1,071 is included in the fair value of the bonds, respectively, as of December 31, 2015 and December 31, 2014.

Investment expenses for the year ended December 31, 2015 and 2014 were \$951 and \$955, respectively.

c. Fair Value of Financial Instruments

See "Fair Value" in Note 3(d), above, for discussions of the methodologies and assumptions used to determine the fair value of the Foundation's financial instruments.

Below are the Foundation's financial instruments carried at fair value on a recurring basis by ASC 820 hierarchy levels described in Note 3(d):

AMERICA FOR BULGARIA FOUNDATION

**Notes to the Standalone Financial Statements
December 31, 2015 and 2014
(in thousands)**

At December 31, 2015

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash and cash equivalents	\$ 2,556	-	-	2,556
ETF and public mutual funds	203,413	-	-	203,413
Private mutual funds	-	159,150	-	159,150
Equity investments	2,712	-	-	2,712
Bonds	5,819	-	-	5,819
Partnership Investments	-	-	811	811
	<u>\$ 214,500</u>	<u>159,150</u>	<u>811</u>	<u>374,461</u>
	57.28%	42.50%	0.22%	100%

At December 31, 2014

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash and cash equivalents	\$ 5,832	-	-	5,832
ETF and public mutual funds	205,046	-	-	205,046
Private mutual funds	-	182,859	-	182,859
Equity investments	-	-	-	-
Bonds	6,073	-	-	6,073
Partnership Investments	-	-	905	905
	<u>\$ 216,951</u>	<u>182,859</u>	<u>905</u>	<u>400,715</u>
	54.14%	45.63%	0.23%	100%

AMERICA FOR BULGARIA FOUNDATION

**Notes to the Standalone Financial Statements
December 31, 2015 and 2014
(in thousands)**

A summary of Level 3 activity for the year ended December 31, 2015 and 2014 was as follows:

Balance, December 31, 2013	\$	909
Purchases		15
Sales		(20)
Unrealized exchange rate gain / (loss)		(112)
Unrealized gain / (loss) on investment		113
Balance, December 31, 2014	\$	<u>905</u>
Purchases		6
Sales		(125)
Unrealized exchange rate gain / (loss)		(93)
Unrealized gain / (loss) on investment		118
Balance, December 31, 2015	\$	<u>811</u>

In 2015 and 2014 there were no reclassifications between the different levels of investments.

d. Concentration of risk

The Foundation has invested \$126,507 or 32.3% of its assets in two investment funds with a single investment manager, and \$34,087 or 8.7% in three investment funds with another manager. This represents an insignificant holding compared to the investment managers' and the funds' asset size. All five funds are Level 1 and highly liquid.

The Foundation has invested \$39,705 or 10.1% of its assets in one investment fund. This represents an insignificant holding compared to the investment fund's asset size. The fund is Level 2 and highly liquid.

The Foundation's investment portfolio is reviewed at least quarterly by the Investment Committee of the Board of Directors of the Foundation. During this review the concentration of risk as well as the performance of all investments is assessed. All new investments of the Foundation are pre-approved by the Investment Committee. In addition, the Foundation uses external investment managers and advisors to manage the risk of the portfolio.

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**Notes to the Standalone Financial Statements
December 31, 2015 and 2014
(in thousands)**

(5) Fixed Assets

At December 31, 2015 and 2014, net fixed assets consisted of the following:

	<u>2015</u>	<u>2014</u>
Leasehold improvements	\$ 103	101
Furniture and fixtures	144	143
Hardware, software and telecommunications	252	282
Vehicles	182	193
Work in progress - Software	50	-
	<u>731</u>	<u>719</u>
Less accumulated depreciation	(364)	(337)
	\$ <u><u>367</u></u>	<u><u>382</u></u>

(6) Grants payable

Grants payable totaling \$9,116 and \$14,082 at December 31, 2015 and 2014, respectively consisted of approved grant commitments for unconditional grants or conditional grants for which the grantee has met the conditions of the grant.

As of December 31, 2015 and 2014, respectively based on the specific grant agreements, grants payable are expected to be paid in the following years:

	<u>2015</u>	<u>2014</u>
2015	\$ -	8,666
2016	7,435	3,318
2017	1,645	1,433
2018	36	400
2019	-	265
	\$ <u><u>9,116</u></u>	<u><u>14,082</u></u>

AMERICA FOR BULGARIA FOUNDATION

**Notes to the Standalone Financial Statements
December 31, 2015 and 2014
(in thousands)**

The schedule below reconciles grant activity throughout the year ended December 31, 2015:

Grants payable, 2015 beginning balance	\$	14,082
New and supplemental grants		11,595
Grant payments		(14,141)
Grant amendments		(1,407)
Realized FX on grants paid		(564)
Unrealized FX on grants		(449)
Grants payable, 2015 ending balance	\$	<u><u>9,116</u></u>

(7) Grant Expenses

The Foundation makes grants in its main six program areas, described in Note 1 “Nature of Operations.” For the years ended December 31, 2015 and 2014, grant expenses to recipient entities were recognized under the following programs:

	<u>2015</u>	<u>2014</u>
Arts and Culture	\$ 406	3,004
Agriculture, Forestry and the Environment	1,076	1,174
Civil Society and Democratic Institutions	2,278	6,161
Economically Disadvantaged	2,132	3,542
Education and Libraries	5,698	15,552
Archaeology and Heritage Tourism	5	662
	\$ <u><u>11,595</u></u>	<u><u>30,095</u></u>

(8) Program related and donation expenses

Program related and donation expenses at December 31, 2015 and 2014 were as follows:

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		<u>2015</u>	<u>2014</u>
Direct Programmatic Support	\$	494	828
Charitable Donations		502	164
	\$	<u>996</u>	<u>992</u>

On January 16, 2015 the Foundation donated 84,000 shares of ERG-3 Capital-3 ADSIP, valued at \$462, to the American University in Bulgaria for the establishment of a “Joseph Borgatti” Scholarships. Due to the nature of the donation contract this item is included as a charitable donation and not a grant.

(9) Management and general expenses

Management and general expenses at December 31, 2015 and 2014 were as follows:

		<u>2015</u>	<u>2014</u>
Payroll and benefits	\$	1,138	1,835
Travel and related expenses		127	208
Occupancy and telecommunications		173	229
General and administrative		194	92
Professional fees		448	519
Directors expenses		762	787
Insurance		54	46
	\$	<u>2,896</u>	<u>3,716</u>

(10) Investment in subsidiaries

At December 31, 2015 and 2014, the Foundation has two subsidiaries Muzeiko EOOD and ABF Property EOOD.

Muzeiko EOOD, a for profit company primarily involved in the performance of activities, related to the construction and the management of a children center named “Muzeiko - the Children’s museum of Sofia” (“Muzeiko”). As at December 31, 2015 and 2014, respectively the investment of the Foundation in Muzeiko was \$16,664 and \$11,468. During 2015 and 2014 respectively, capital contributions at the amount of \$5,196 and \$8,692 were distributed to Muzeiko.

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ABF Property EOOD, a for profit company registered to perform real estate transactions, and all other activities, permitted by Bulgarian laws. As at both December 31, 2015 and 2014, respectively the investment of the Foundation in ABF Property EOOD was \$1.

(11) Related Party Transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Foundation considers as a related party Bulgarian-American Enterprise Fund (the Fund), Muzeiko EOOD, ABF Property EOOD, Muzeiko Foundation, ERG Captial 3 – ADSIP and Braykov’s Legal Office.

Transactions with related parties:

a. Grants Received

Pursuant to an agreement signed in 2007 between the Fund and the USAID in 2008, the Fund returned to the U.S. Treasury \$27,500 of the original USAID grant out of the Fund’s assets and, as of December 31, 2015, contributed \$390,000 to the Foundation. Of the total amount contributed by the Fund, \$15,500 was in the form of bonds, \$175,100 in term deposits, \$600 in partnership investments, \$6,200 in equity investments, and the remainder in cash.

As of September 30, 2015 the Fund was dissolved and, accordingly, there are likely to be no more material contributions by the Fund to the Foundation.

According to the terms of the grant agreement between the Fund and the Foundation (the “Grant Agreement”), the Foundation shall be operated as a perpetual endowment and the Foundation Board shall invest the Foundation’s assets in financial instruments and securities in a manner consistent with its fiduciary duties and with the Foundation’s financial needs to carry out its planned program of grant-making activities.

Under the terms of the Grant Agreement, the Fund has the right to terminate the agreement, suspend payment or transfer of all or any portion of the Fund proceeds and to require repayment or transfer of all or any portion of the amount paid or transferred to the Foundation, together with any interest thereon, if the Foundation fails to comply with the terms and conditions of the Grant Agreement, becomes insolvent, changes its structure or if foreign policy grounds to do so exist, as described in Section 801 of the SEED Act.

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b. Grants Paid

On February 24, 2015 America for Bulgaria Foundation has signed a grant agreement with Muzeiko Foundation for \$500. During 2015 the first tranche in the amount of \$300 was paid to Muzeiko Foundation.

As at December 31, 2014 the America for Bulgaria Foundation has a liability in the amount of \$1,764 payable to Muzeiko Foundation under grant agreement signed on September 11, 2014. During 2015 the second tranche in the amount \$329 was paid. The remaining amount of \$1,435 will not be utilized by Muzeiko Foundation and the grant agreement was terminated in October 2015. The remaining amount of \$1,435 will be distributed as a capital contribution to Muzeiko EOOD if a need arises in the future.

c. Payables and Receivables

As at December 31, 2015 and 2014, respectively the America for Bulgaria Foundation has a liability in the amount of \$200 and \$1,764 payable to Muzeiko Foundation under grant agreements signed on February 24, 2015 and September 11, 2014, respectively.

d. Directors

Until September 30, 2015, when Bulgarian-American Enterprise Fund dissolved and its board disbanded, the Fund and the America for Bulgaria Foundation had five directors in common. As of September 30, 2015, a director of the Foundation was appointed to act as the authorized representative of the Fund during its liquidation period.

Members of the Board of Muzeiko Foundation are part of America for Bulgaria Foundation's management.

e. Investments

On January 19, 2015 the Foundation, as successor of the Fund's assets, subject to the Fund's principles and policies, received a contribution from the Fund of 1,037 shares representing a 49.4% ownership in ERG Capital 3 – ADSIP whereas the control of ERG Capital 3 – ADSIP remained in BAEF (and ABF has no control in ERG Capital 3 – ADSIP). The shares are valued at \$2,712 as of December 31, 2015. In addition, the Foundation is an owner of a bond issued by the ERG Capital 3 – ADSIP valued at \$3,146 as of December 31, 2015.

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f. Legal fees

Braykov's Legal Office provides legal advice to the Foundation. Valentin Braykov, owner of the Braykov's Legal Office, is the Foundation's Acting President as of December 31, 2015 and 2014, respectively. Total legal fees paid to the Braykov's Legal Office in 2015 and 2014 amount to \$2 and \$10, respectively.

g. Subsequent events with related parties

Subsequent to 31 December 2015 through August 26, 2016 the Foundation made a capital contribution to Muzeiko EOOD at the total amount of \$510.

(12) Market risk

a. Currency Risk

The Foundation is exposed to the effect of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The investments held by the Foundation denominated in foreign currency at December 31 2015 and 2014, respectively are presented below:

	<u>2015</u>	<u>2014</u>
Equity investments in EUR	2,712	-
Bonds in EUR	5,819	6,073
Partnership Investments in EUR	811	905

b. Price Risk

The Foundation is exposed to market price risks related to its investments. As a result of the global financial crisis the financial markets, remain volatile, which may lead to change in the valuation of investments and causes uncertainty regarding the accounting estimates in future periods.

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(13) Commitments and contingencies

a. Grants

The Foundation has signed certain conditional grant agreements, or conditionally approved grants, for which the grantee has not met the grant conditions and the amount of the grant has not been included in grant expense. The amount of such grants at December 31, 2015 is \$29,210. As of December 31, 2015 conditional grant liabilities are expected to be paid in the following years:

2016	\$	12,926
2017		10,978
2018		5,149
2019		157
	\$	<u>29,210</u>

In addition, the Foundation has a commitment of \$81 for one of its private partnership investments.

b. Lease Commitments

In November 2015 the lease agreement for office space signed in November 2013 and expiring December 2016 was terminated.

In May 2013, the Foundation entered into a lease agreement for office space for the Bulgarian branch expiring in June 2018. Future annual rental payments are approximately \$208 through 2018. Variances due to exchange rate fluctuations are possible.

Rent expense is recognized on a straight line basis and it totaled \$147 and \$158 in 2015 and 2014, respectively.

(14) Tax Status

a. United States

The Foundation is exempt from U.S. Federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code ("the Code") and has been classified as an organization that is not a

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private foundation as defined in Section 509(a)(1) of the Code. In addition, the Foundation is exempt from payments of state and local income taxes.

b. Bulgaria

Pursuant to a bilateral agreement between the Government of the United States of America and the Government of the Republic of Bulgaria regarding cooperation to facilitate the provision of assistance, the Foundation is exempt from taxation on income received in connection with implementation of the U.S. assistance programs.

(15) Subsequent Events

The Foundation evaluated subsequent events through August 26, 2016, which is the date the financial statements were available to be issued.

In February 2016 one of the investments of the Foundation in a private mutual fund was sold, realizing a loss of \$5,134.

No other subsequent events were identified that required adjustment to or disclosure within the financial statements.