

AMERICA FOR BULGARIA FOUNDATION

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

December 31, 2013



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, 2013 and 2012 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, 2013 and 2012, the Foundation's internal control environment has provided reasonable assurance as to the integrity and reliability of the financial statements and related financial information.



Patrick Bracken
President & Chief Executive Officer



Bojana Kourteva
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of America for Bulgaria Foundation

We have audited the accompanying consolidated financial statements of the America for Bulgaria Foundation (the "Foundation"), which comprise the consolidated statements of financial position as of December 31, 2013 and 2012 and the related consolidated statements of activities and changes in net assets and its 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 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 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 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 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 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 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 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 the Foundation as of December 31, 2013 and 2012, 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 12, 2014
Sofia, Bulgaria

America for Bulgaria Foundation
Consolidated Statements of Financial Position
December 31, 2013 and 2012

in USD (000)

	31-12-13	31-12-12
Assets		
Cash and cash equivalents	3,130	7,052
Investments, at fair value		
Term deposits	-	8,166
ETF and public mutual funds	216,506	182,645
Private mutual funds	180,942	101,206
Bonds	6,356	83,847
Partnership investments	909	788
Total Investments	404,713	376,652
Dividends receivable	133	382
Prepaid expenses and other assets	380	56
Fixed assets, net of accumulated depreciation of 230	383	208
Investment property	1,518	-
Total Assets	410,257	384,350
Liabilities and Net Assets		
Liabilities		
Grants payable	9,348	13,526
Accounts payable and accrued payroll	403	568
Total Liabilities	9,751	14,094
Net assets - unrestricted	397,730	370,256
Total liabilities and unrestricted net assets	407,481	384,350

See accompanying notes to financial statements

America for Bulgaria Foundation
Consolidated Statements of Activities
December 31, 2013 and 2012

<i>in USD (000)</i>	<u>31-12-13</u>	<u>31-12-12</u>
Change in net assets:		
Contributions received	25	25
Reversed Grants Income	189	168
Other Income / (Loss)	(74)	-
Investment income		
Interest income	2,981	4,898
Dividend income	5,453	5,239
Net realized gain / (loss) on investments	22,140	(2,552)
Net unrealized gain / (loss) on investments	21,556	36,840
Realized exchange rate gain / (loss)	440	(2,868)
Unrealized exchange rate gain / (loss)	(440)	114
Total Investment income	<u>52,130</u>	<u>41,671</u>
Less investment management fees	<u>(1,019)</u>	<u>(1,757)</u>
Investment income, net	51,111	39,914
Total Income	<u>51,251</u>	<u>40,107</u>
Grant Expenses	(16,610)	(23,713)
Operating expenses	(4,338)	(3,575)
Depreciation and amortization	(97)	(107)
Total Expenses	<u>(21,045)</u>	<u>(27,395)</u>
Changes in net assets	30,206	12,712
Unrestricted net assets, beginning of the period	370,256	357,544
Cumulative translation adjustment	44	-
Unrestricted net assets, end of the period	<u>400,506</u>	<u>370,256</u>

See accompanying notes to financial statements

America for Bulgaria Foundation
Consolidated Statements of Cash Flows
Year ended December 31, 2013 and 2012

<i>in USD (000)</i>	2013	2012
Cash flows from operating activities		
Increase / (Decrease) in unrestricted net assets	\$ 30,206	12,712
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation expense	97	107
Gain on sale of fixed assets	(9)	-
Loss on retired fixed assets	88	-
Unrealized loss (gain) on investment	(21,556)	(36,742)
Realized loss (gain) on investment	(22,140)	2,552
Unrealized loss (gain) on currency exchange	251	(355)
Realized loss (gain) on currency exchange	(516)	3,021
(Increase) in dividends receivable	249	(228)
(Increase) in prepaid expenses and other assets	(318)	-
Decrease / (increase) in accrued interest	141	(618)
Increase in grants payable	(4,179)	1,188
Increase in accounts payable and accrued payroll	(165)	343
Net cash used in operating activities	(17,851)	(18,020)
Cash flow from investing activities		
Purchase of investments	(118,771)	(164,085)
Investment property	(1,498)	-
Proceeds from investments	134,529	182,680
Purchase of fixed assets	(379)	(20)
Sale of fixed assets	27	-
Net cash provided by investing activities	13,908	18,575
Net increase in cash and cash equivalents	(3,943)	555
Effect of exchange rate changes on cash	21	-
Cash and cash equivalents beginning of the year	7,052	6,497
Cash and cash equivalents end of the year	3,130	7,052
Supplemental data		
Non-cash investing activities		
Contribution received of bonds		
Contribution received of term deposits		
Contribution received of private equity shares		

See accompanying notes to financial statements.

AMERICA FOR BULGARIA FOUNDATION

Notes to the Consolidated Financial Statements December 31, 2013 and 2012 (in thousands)

(1) Nature of Operations

The America for Bulgaria Foundation (the “Foundation”) 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 and the Environment (iii) Civil Society and Democratic Institutions; (iv) Economically Disadvantaged; (v) Education and Libraries; and (vi) Cultural Heritage and 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, 2013 and 2012 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.

(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

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Notes to the Consolidated Financial Statements December 31, 2013 and 2012 (in thousands)

financial position and activities into certain classes of net assets. Pursuant to the Grant Agreement (defined in Note 4), at December 31, 2013 and 2012, 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 consolidated financial statements comprise the financial statements of the America for Bulgaria Foundation and its subsidiaries as at December 31 each year.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the ABF obtains control, and continue to be consolidated until the date that such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intra-group balances, income and expenses and unrealized gains and losses resulting from intra-group transactions are eliminated in full.

The only subsidiary at December 31, 2013 is Muzeiko Property EOOD, a for profit company. Muzeiko Property EOOD is 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").

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

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Notes to the Consolidated Financial Statements
December 31, 2013 and 2012
(in thousands)

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.

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

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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.

- 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 – 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

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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 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. In addition, the issuing entities prepare financial statements in accordance with US GAAP and are making interest payments according to the instruments' original terms.

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. Grants 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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(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. The functional currency of Muzeiko is the Bulgarian Lev. For purposes of consolidation Muzeiko's financial statements are translated into U.S. dollars by using period-end, period average, and historical exchange rates for assets and liabilities, expenses and equity accounts, respectively. The resulting translation gain or loss for Muzeiko is reflected in the consolidated statement of operations and changes 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.

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Notes to the Consolidated Financial Statements December 31, 2013 and 2012 (in thousands)

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.

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 records any adjustments necessary to reflect material impacts in value.

m. Recent Accounting Pronouncements

In April 2013, the FASB issued ASU 2013-06 *Not-for-Profit Entities (Topic 958): Services Received from Personnel of an Affiliate*. The ASU requires a recipient not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services (compensation and payroll-related fringe benefits). However, if measuring a service received from personnel of an affiliate at cost will significantly overstate or understate the value of the service received, the recipient not-for-profit entity may elect to recognize that service received at either (1) the cost recognized by the affiliate for the personnel providing that services or (2) the fair value of that service. ASU 2013-06 is effective for the Foundation beginning June 15, 2014 and will be applied on a prospective basis.

(4) Bulgarian-American Enterprise Fund Grant

Pursuant to an agreement signed in 2007 between the Fund and the USAID in 2008, the Fund returned to the U.S. Treasury \$27.5 million of the original USAID grant out of the Fund's assets

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Notes to the Consolidated Financial Statements December 31, 2013 and 2012 (in thousands)

and, as of December 31, 2013, contributed \$364,000 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, and the remainder in cash.

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.

The Fund and the Foundation have five Directors in common.

(5) Cash and Cash Equivalents and Investments

a. Cash and Cash Equivalents

As of December 31, 2013 and 2012, the Foundation's cash and cash equivalents consisted of \$3,100 and \$7,100, respectively, comprised mainly of money market accounts that were deposited in various financial institutions in the United States and Bulgaria.

b. Investments

Investments held at December 31, 2013 and 2012 were as follows:

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**Notes to the Consolidated Financial Statements
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	December 31, 2013				December 31, 2012			
	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
Term Deposits	\$	-	-	-	8,166	291	-	7,875
Public Mutual and Exchange Traded	216,506	-	50,290	166,217	182,645	-	33,962	148,683
Private Mutual funds	180,942	-	15,410	165,531	101,206	-	12,709	88,497
Bonds	6,356	165	310	5,881	83,847	(253)	(2,118)	86,218
Partnership Investments	909	31	(21)	899	788	(5)	(91)	884
	<u>\$ 404,713</u>	<u>196</u>	<u>65,989</u>	<u>338,528</u>	<u>376,652</u>	<u>33</u>	<u>44,462</u>	<u>332,157</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 \$ 100 and (\$2,900) increased / (decreased) the investments and cash equivalents at December 31, 2013 and 2012, respectively, and was recorded in net realized and unrealized exchange rate loss in the Statement of Activities for each year.

Accrued interest of \$787 is included in the fair value of the bonds as of December 31, 2013. Accrued interest of \$207 and \$720 is included in the fair value of the term deposits and bonds, respectively, as of December 31, 2012.

Investment expenses for the year ended December 31, 2013 and 2012 were \$1,019 and \$1,757, respectively.

c. Fair Value of Financial Instruments

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

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**Notes to the Consolidated Financial Statements
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(in thousands)**

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

At December 31, 2013

	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	\$ 3,130	-	-	3,130
Public Mutual and Exchange Traded Funds	216,506	-	-	216,506
Private Mutual Funds	-	180,942	-	180,942
Bonds	6,356	-	-	6,356
Partnership Investments	-	-	909	909
	<u>\$ 225,992</u>	<u>180,942</u>	<u>909</u>	<u>407,843</u>
	55.41%	44.37%	0.22%	100%

At December 31, 2012

	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	\$ 7,052	-	-	7,052
Term Deposits	8,166	-	-	8,166
Public Mutual and Exchange Traded Funds	182,645	-	-	182,645
Private Mutual Funds	-	101,206	-	101,206
Bonds	9,803	74,044	-	83,847
Partnership Investments	-	-	788	788
	<u>\$ 207,666</u>	<u>175,250</u>	<u>788</u>	<u>383,704</u>
	54.12%	45.67%	0.21%	100%

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**Notes to the Consolidated Financial Statements
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(in thousands)**

A summary of Level 3 activity for the year ended December 31, 2013 and 2012 is as follows:

Balance, December 31, 2011	\$	<u>876</u>
Purchases		46
Sales		-
Transfers-donated securities		-
Realized gains		-
Unrealized exchange rate gain / (loss)		19
Unrealized gain / (loss) on investment		<u>(153)</u>
Balance, December 31, 2012	\$	<u><u>788</u></u>
Purchases		15
Sales		-
Transfers-donated securities		-
Realized gains		-
Unrealized exchange rate gain / (loss)		36
Unrealized gain / (loss) on investment		<u>70</u>
Balance, December 31, 2013	\$	<u><u>909</u></u>

In 2013 and 2012 there were no reclassifications between the different levels of investments.

d. Concentration of risk

The Foundation has invested \$75,700 or 18.5% of its assets in two investment funds with a single investment manager. This represents an insignificant holding compared to the investment manager's and the funds' asset size. Both funds are Level 1 and highly liquid.

The Foundation has invested \$72,700 or 17.7% of its assets in one investment fund. This represents an insignificant holding compared to the investment fund's asset size. The fund is Level 1 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 Consolidated Financial Statements
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(in thousands)**

(6) Fixed Assets

At December 31, 2013, net fixed assets consisted of the following:

	<u>2013</u>	<u>2012</u>
Leasehold improvements	\$ 87	253
Furniture and fixtures	139	112
Hardware, software and telecommunications	224	179
Vehicles	157	61
Assets under construction	<u>6</u>	<u>-</u>
	613	605
Less accumulated depreciation	<u>(230)</u>	<u>(397)</u>
	<u>\$ 383</u>	<u>208</u>

(7) Grants payable

Grants payable totaling \$9,348 at December 31, 2013, 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, based on the specific grant agreements, grants payable are expected to be paid in the following years:

	<u>2013</u>	<u>2012</u>
2013	\$	11,710
2014	8,663	1,736
2015	685	80
	<u>\$ 9,348</u>	<u>13,526</u>

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(in thousands)**

The schedule below reconciles grant activity throughout the year ended December 31, 2013:

Grants payable, 2013 beginning balance	\$ 13,526
New and supplemental grants	16,610
Payments	(20,847)
Grants amendments	(189)
Realized FX on grants paid	22
Unrealized FX on grants	226
	<hr/>
Grants payable, 2013 ending balance	<u>9,348</u>

(8) 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, 2013 and 2012, grant expenses to recipient entities were recognized under the following programs:

	<u>2013</u>	<u>2012</u>
Agriculture, Forestry, and the Environment	\$ 644	1,491
Arts and Culture	3,565	3,282
Civil Society and Democratic Institutions	904	3,477
Economically Disadvantaged	98	2,363
Education and Libraries	9,727	10,558
Archaeology and Heritage Tourism	1,672	2,073
Other	469	
	<u>\$ 16,610</u>	<u>23,713</u>

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(9) Program and administrative expenses

Operating expenses at December 31, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Payroll and benefits	\$ 1,714	1,644
Travel and related expenses	124	136
Occupancy and telecommunications	254	203
General and administrative	242	217
Professional fees	1,158	439
Directors expenses	807	874
Insurance	39	62
	<u>\$ 4,338</u>	<u>3,575</u>

(10) 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 the Bulgarian-American Enterprise Fund.

There were no related party payables and receivables at December 31, 2013 and 2012.

(11) 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 are presented below:

	<u>2013</u>	<u>2012</u>
Term deposits in AUD	\$ -	8,166
Bonds in EUR	6,356	25,276
Partnership Investments in EUR	909	788

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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.

(12) 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, 2013 is \$59,431. As of December 31, 2013 conditional grant liabilities are expected to be paid in the following years:

2014	\$	21,845
2015		14,947
2016-2018		22,639
		<u>59,431</u>

In addition, the Foundation has a commitment of \$126 for one of its private partnership investments.

b. Lease Commitments

In November 2013, the Foundation entered into a lease agreement for office space expiring December 2016. Future annual rental payments under this agreement are approximately \$21 through expiration. Variances due to exchange rate fluctuations are possible.

In May 2013, the Foundation entered into a lease agreement for office space for the Bulgarian branch expiring in June of 2018. Future annual rental payments are approximately \$480 through 2018. Variances due to exchange rate fluctuations are possible.

In November 2010, the Foundation entered into a lease agreement for the US office space expiring in April of 2014. Future annual rental payments are approximately \$13.2 in 2014.

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Rent expense is recognized on a straight line basis and it totaled \$188 and \$136 in 2013 and 2012, respectively.

(13) 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 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.

(14) Subsequent Events

The Foundation evaluated subsequent events through August 20, 2014, which is the date the financial statements were available to be issued.

On March 14, 2014 ABF Property EOOD was established and will be consolidated in 2014 financial statements. The main activities of the ABF Property EOOD will be to hold real estate used in the Foundation’s activities.

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