

AMERICA FOR BULGARIA FOUNDATION

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

December 31, 2014



AMERICA FOR BULGARIA
FOUNDATION

Фондация Америка за България

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 consolidated financial statements and related financial information contained in this Annual Report. The consolidated 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 consolidated financial statements as of, and for the year ending December 31, 2014 and 2013 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, 2014 and 2013, the Foundation's internal control environment has provided reasonable assurance as to the integrity and reliability of the financial statements and related financial information.



Valentin Braykov
Acting President



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") and its subsidiaries (together referred as "the Group"), which comprise the consolidated statement of financial position as of December 31, 2014 and 2013 and the related consolidated statement of activities and changes in net assets and its consolidated statement of cash flows for the years then ended, and the related notes to 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 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 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 Group'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 Group'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 the Group as of December 31, 2014 and 2013, 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

September 23, 2015
Sofia, Bulgaria

America for Bulgaria Foundation
Consolidated Statements of Financial Position
December 31, 2014 and 2013

<i>in USD (000)</i>	<u>31-12-14</u>	<u>31-12-13</u>
Assets		
Cash and cash equivalents	7,268	3,130
Investments, at fair value		
ETF and public mutual funds	205,046	216,506
Private mutual funds	182,859	180,942
Bonds	6,073	6,356
Partnership investments	906	909
Total Investments	<u>394,884</u>	<u>404,713</u>
Dividends receivable	129	133
Prepaid expenses and other assets	338	380
Fixed assets, net of accumulated depreciation of 338	389	383
Property, plant and equipment-assets under construction	3,480	-
Investment property under construction	5,317	1,518
Intangible assets	279	-
Total Assets	<u><u>412,084</u></u>	<u><u>410,257</u></u>
Liabilities and Net Assets		
Liabilities		
Grants payable	14,082	9,348
Accounts payable and accrued payroll	1,117	403
Loans and borrowings	3	-
Total Liabilities	<u>15,202</u>	<u>9,751</u>
Equity		
Net assets -- unrestricted	396,882	400,506
Total liabilities and unrestricted net assets	<u><u>412,084</u></u>	<u><u>410,257</u></u>

See accompanying notes to financial statements

America for Bulgaria Foundation
Consolidated Statements of Activities
December 31, 2014 and 2013

<i>in USD (000)</i>	<u>31-12-14</u>	<u>31-12-13</u>
Change in net assets:		
Contributions received	15,906	25
Reversed Grants Income	201	189
Other Income / (Loss)	5	(74)
Investment income		
Interest income	2,857	2,981
Dividend income	6,980	5,453
Net realized gain / (loss) on investments	40,766	22,140
Net unrealized gain / (loss) on investments	(33,314)	21,556
Realized exchange rate gain / (loss)	119	440
Unrealized exchange rate gain / (loss)	40	(440)
Total Investment income	<u>17,448</u>	<u>52,130</u>
Less investment management fees	<u>(955)</u>	<u>(1,019)</u>
Investment income, net	16,493	51,111
Total Income	<u>32,605</u>	<u>51,251</u>
Grant Expenses	(30,095)	(16,610)
Operating expenses	(4,762)	(4,338.00)
Depreciation and amortization	(109)	(97)
Total Expenses	<u>(34,966)</u>	<u>(21,045)</u>
Changes in net assets	(2,361)	30,206
Unrestricted net assets, beginning of the period	400,506	370,256
Cumulative translation adjustment	(1,263)	44
Unrestricted net assets, end of the period	<u><u>396,882</u></u>	<u><u>400,506</u></u>

See accompanying notes to financial statements

America for Bulgaria Foundation
Consolidated Statements of Cash Flows
December 31, 2014 and 2013

in USD (000)

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities		
Contributions received	15,906	25
Grant payments	(24,149)	(20,889)
Grant refunds	167	31
Cash paid to suppliers and employees	(4,600)	(4,611)
VAT Refund	6	-
Purchase of property plant and equipment	(112)	(379)
Sale of property plant and equipment	-	27
Net cash from operating activities	<u>(12,782)</u>	<u>(25,796)</u>
Cash Flows from Investing Activities		
Proceeds from sale of investments	93,220	134,529
Proceeds from dividends	6,983	5,701
Proceeds from interest	2,615	3,099
VAT Refund	1,147	-
Purchase of investments	(76,566)	(118,771)
Purchase of property, plant and equipment - assets under construction	(3,476)	(6)
Purchase of investment property - assets under construction	(5,180)	(1,708)
Purchase of intangible assets	(368)	-
Investment fees paid	(950)	(1,019)
Net cash from investing activities	<u>17,425</u>	<u>21,825</u>
Cash flows from Financing Activities		
Net cash from financing activities	<u>-</u>	<u>-</u>
Effect of exchange rate changes on cash		
	(505)	49
Net increase in cash	4,138	(3,922)
Cash at the beginning of year	3,130	7,052
Cash at end of year	7,268	3,130

See accompanying notes to financial statements

AMERICA FOR BULGARIA FOUNDATION

Notes to the Consolidated Financial Statements December 31, 2014 and 2013 (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, 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, 2014 and 2013 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 Consolidated Financial Statements
December 31, 2014 and 2013
(in thousands)**

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 4), at December 31, 2014 and 2013, 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.

(2) 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.

At December 31, 2014 the Foundation has two subsidiaries. Muzeiko Property 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”).

ABF Property EOOD, a for profit company registered to perform real estate transactions, and all other activities, permitted by Bulgarian laws.

AMERICA FOR BULGARIA FOUNDATION

Notes to the Consolidated Financial Statements December 31, 2014 and 2013 (in thousands)

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.

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.

AMERICA FOR BULGARIA FOUNDATION

Notes to the Consolidated Financial Statements December 31, 2014 and 2013 (in thousands)

- 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.
- 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.

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Notes to the Consolidated Financial Statements December 31, 2014 and 2013 (in thousands)

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 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.

AMERICA FOR BULGARIA FOUNDATION

**Notes to the Consolidated Financial Statements
December 31, 2014 and 2013
(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. 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.

AMERICA FOR BULGARIA FOUNDATION

**Notes to the Consolidated Financial Statements
December 31, 2014 and 2013
(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

Recent Accounting Pronouncement In May 2015, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) 2015-07, Disclosures for Investments in Certain Entities That Calculated Net Asset Value per Share (or Its Equivalent). The ASU removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the practical expedient. The ASU further removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the practical expedient. This ASU is effective for annual periods beginning after December 15, 2015. The Foundation does not expect the adoption of the ASU to have a material effect on its financial statements.

(3) Cash and Cash Equivalents and Investments

a. Cash and Cash Equivalents

As of December 31, 2014 and 2013, the Foundation’s cash and cash equivalents consisted of \$7,268 and \$3,130, respectively, comprised mainly of money market accounts that were deposited in various financial institutions in the United States and Bulgaria.

AMERICA FOR BULGARIA FOUNDATION

**Notes to the Consolidated Financial Statements
December 31, 2014 and 2013
(in thousands)**

b. Investments

Investments held at December 31, 2014 and 2013 were as follows:

	December 31, 2014				December 31, 2013			
	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
Public Mutual and Exchange Traded	205,046	-	17,239	187,807	216,506	-	50,290	166,217
Private Mutual funds	182,859	-	14,983	167,876	180,942	-	15,410	165,531
Bonds	6,073	(597)	363	6,307	6,356	165	310	5,881
Partnership Investments	906	(82)	93	895	909	31	(21)	899
	<u>\$ 394,884</u>	<u>(679)</u>	<u>32,678</u>	<u>362,885</u>	<u>404,713</u>	<u>196</u>	<u>65,989</u>	<u>338,528</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 \$159 and \$0 increased the investments and cash equivalents at December 31, 2014 and 2013, respectively, and was recorded in net realized and unrealized exchange rate loss in the Statement of Activities for each year.

Accrued interest of \$1,071 and \$787 is included in the fair value of the bonds, respectively, as of December 31, 2014 and December 31, 2013

Investment expenses for the year ended December 31, 2014 and 2013 were \$955 and \$1,019, 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.

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

AMERICA FOR BULGARIA FOUNDATION

**Notes to the Consolidated Financial Statements
December 31, 2014 and 2013
(in thousands)**

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	\$ 7,268	-	-	7,268
Public Mutual and Exchange Traded Funds	205,046	-	-	205,046
Private Mutual Funds	-	182,859	-	182,859
Bonds	6,073	-	-	6,073
Partnership Investments	-	-	906	906
	<u>\$ 218,387</u>	<u>182,859</u>	<u>906</u>	<u>402,152</u>
	54.30%	45.47%	0.23%	100%

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%

AMERICA FOR BULGARIA FOUNDATION

**Notes to the Consolidated Financial Statements
December 31, 2014 and 2013
(in thousands)**

A summary of Level 3 activity for the year ended December 31, 2014 and 2013 is as follows:

Balance, December 31, 2012	\$	<u>788</u>
Purchases		15
Sales		-
Transfers-donated securities		-
Realized gains		-
Unrealized exchange rate gain / (loss)		36
Unrealized gain / (loss) on investment		70
Balance, December 31, 2013	\$	<u><u>909</u></u>
Purchases		1
Interest received		6
Sales		(11)
Transfers-donated securities		
Realized gains		-
Unrealized exchange rate gain / (loss)		(112)
Unrealized gain / (loss) on investment		113
Balance, December 31, 2014	\$	<u><u>906</u></u>

In 2014 and 2013 there were no reclassifications between the different levels of investments.

d. Concentration of risk

The Foundation has invested \$137,698 or 33.3% of its assets in two investment funds with a single investment manager, and \$43,969 or 10.7% in two investment funds with another manager. This represents an insignificant holding compared to the investment managers' and the funds' asset size. All four funds are Level 1 and highly liquid.

The Foundation has invested \$57,633 or 14.0% 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.

AMERICA FOR BULGARIA FOUNDATION

**Notes to the Consolidated Financial Statements
December 31, 2014 and 2013
(in thousands)**

(4) Fixed Assets

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

	2014	2013
Leasehold improvements	\$ 101	87
Furniture and fixtures	149	139
Hardware, software and telecommunications	284	224
Vehicles	193	157
Assets under construction	727	613
Less accumulated depreciation	(338)	(230)
	\$ 389	383

(5) Property, plant and equipment under construction

A summary of assets under construction activity for the year ended December 31, 2014 and 2013 is as follows:

		Assets under construction
Cost	\$	-
Balance, October 14, 2013		-
Purchases		5
Balance, December 31, 2013	\$	5
Purchases		3,362
Reclassification from investment property		113
Balance, December 31, 2014	\$	3,480
Depreciation and impairment losses		-
Balance, October 14, 2013		-
Balance, December 31, 2013	\$	-
Depreciation for the year		-
Balance, December 31, 2014	\$	-
Carrying amounts		
At October 14, 2013		-
At December 31, 2013	\$	5
At December 31, 2014	\$	3,480

AMERICA FOR BULGARIA FOUNDATION

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

At December 31, 2014, property, plant and equipment under construction consisted of the following:

Purchased exhibits and equipment	\$	32
Inscription of sign boards		32
Advance payments for manufacturing of exhibits and equipment		<u>3,416</u>
Total property, plant and equipment under construction	\$	<u><u>3,480</u></u>

(6) Investment property under construction

A summary of investment property under construction activity for the year ended December 31, 2014 is as follows:

Balance, December 31, 2013	\$	1,518
Acquisitions		4,093
Resclassification to property, plant and equipment		(113)
Unrealized exchange rate		<u>(181)</u>
Balance, December 31, 2014	\$	<u><u>5,317</u></u>

At December 31, 2014, investment property under construction comprises of:

	<u>2014</u>	<u>2013</u>
Land plot	\$ 437	496
Administrative and production building / pavilion	777	883
Construction and installation works	4,035	
Author supervision during the construction process	30	
Construction supervision	18	
Implementation of structured cabling system	9	
Fees for issuance of building permits and LEED certification	8	
Project for construction of playground in "Muzeiko"	3	
Total investment property under construction	\$ <u><u>5,317</u></u>	<u><u>1,379</u></u>

AMERICA FOR BULGARIA FOUNDATION

**Notes to the Consolidated Financial Statements
December 31, 2014 and 2013
(in thousands)**

(7) Intangible assets

A summary of intangible assets activity for the year ended December 31, 2014 and 2013 is as follows:

	Licences	Under development	Total
Cost			
Balance, October 14, 2013	\$ -	\$ -	\$ -
Additions	-	-	-
Balance, December 31, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Additions	14	266	280
Balance, December 31, 2014	<u>\$ 14</u>	<u>266</u>	<u>280</u>
Depreciation and impairment losses			
Balance, October 14, 2013	\$ -	\$ -	\$ -
Balance, December 31, 2013	-	-	-
Amortization for the year	1	-	1
Balance, December 31, 2014	<u>\$ 1</u>	<u>-</u>	<u>1</u>
Carrying amounts			
At October 14, 2013	\$ -	\$ -	\$ -
At December 31, 2013	-	-	-
At December 31, 2014	<u>\$ 13</u>	<u>266</u>	<u>279</u>

(8) Grants payable

Grants payable totaling \$14,082 and \$9,348 at December 31, 2014 and 2013, 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, based on the specific grant agreements, grants payable are expected to be paid in the following years:

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		<u>2014</u>	<u>2013</u>
2013	\$		
2014		-	8,663
2015		8,666	685
2016		3,318	-
2017		1,433	-
2018		400	-
2019		265	-
	\$	<u>14,082</u>	<u>9,348</u>

The schedule below reconciles grant activity throughout the year ended December 31, 2014:

Grants payable, 2014 beginning balance	\$	9,348
New and supplemental grants		30,095
Payments		(24,149)
Grants amendments		(63)
Realized FX on grants paid		(239)
Unrealized FX on grants		(910)
Grants payable, 2014 ending balance	\$	<u>14,082</u>

(9) 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, 2014 and 2013, grant expenses to recipient entities were recognized under the following programs:

		<u>2014</u>	<u>2013</u>
Agriculture, Forestry, and the Environment	\$	1,174	644
Arts and Culture		5,391	3,565
Civil Society and Democratic Institutions		6,161	904
Economically Disadvantaged		3,542	98
Education and Libraries		13,165	9,727
Archaeology and Heritage Tourism		662	1,672
Other			
	\$	<u>30,095</u>	<u>16,610</u>

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(10) Program and administrative expenses

Operating expenses at December 31, 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Payroll and benefits	\$ 1,835	1,714
Travel and related expenses	236	124
Occupancy and telecommunications	259	254
General and administrative	310	242
Professional fees	1,284	1,158
Directors expenses	787	807
Insurance	51	39
	<u>\$ 4,762</u>	<u>4,338</u>

(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 the Bulgarian-American Enterprise Fund, Muzeiko Foundation, and Braykov's Legal Office.

Transactions with related parties.

a. Payables and Receivables

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.

b. 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, 2014, contributed \$380,000 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.

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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.

c. Grants Paid

On September 11, 2014 America for Bulgaria Foundation has signed a grant with Muzeiko Foundation for \$2,387. During 2014 the first tranche in the amount of \$506 was paid to Muzeiko Foundation.

d. Directors

Bulgarian-American Enterprise Fund and America for Bulgaria Foundation have five Directors in common.

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

e. 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, 2014. Total legal fees paid to the Braykov’s Legal Office in 2014 and 2013 amount to \$10 and \$26, respectively.

f. Subsequent events with related parties

On January 06, 2015 the Foundation received \$4,500 in cash as per Grant Agreement between BAEF and the ABF.

In January of 2015 the Foundation received in two transfers 1,120,700 shares of ERG-3 Capital-3 ADSIP, valued at \$6,200 mil as per Grant Agreement between BAEF and the ABF.

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On January 16, 2015 the Foundation donated 84,000 shares of ERG-3 Capital-3 ADSIP, valued at \$543, to the American University in Bulgaria.

(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 are presented below:

	<u>2014</u>	<u>2013</u>
Bonds in EUR	6,073	6,356
Partnership Investments in EUR	905	909

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.

(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, 2014 is \$39,704. As of December 31, 2014 conditional grant liabilities are expected to be paid in the following years:

2015	\$	17,632
2016		12,757
2017-2018		<u>9,315</u>
		<u><u>39,704</u></u>

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In addition, the Foundation has a commitment of \$97 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 \$50 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 \$299 through 2018. Variances due to exchange rate fluctuations are possible.

Rent expense is recognized on a straight line basis and it totaled \$158 and \$188 in 2014 and 2013, 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 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 September 23, 2015, which is the date the financial statements were available to be issued.

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