

AMERICA FOR BULGARIA FOUNDATION

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2008



AMERICA FOR BULGARIA
F O U N D A T I O N
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 financial statements and related financial information contained in this Annual Report. The financial statements were prepared in accordance with generally accepted accounting principles 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 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 have been audited by Deloitte Audit Ltd. which confirms that its audits were conducted in accordance with generally accepted auditing standards and include such audit procedures as it considers necessary to express the opinion in its report that follows. Deloitte Audit Ltd. 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, 2008, the Foundation's internal control environment has provided reasonable assurance as to the integrity and reliability of the financial statements and related financial information.

Frank L. Bauer
President & Chief Executive Officer

Bojana Kourteva
Chief Financial Officer

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of America for Bulgaria Foundation

We have audited the accompanying annual statement of financial position of the America for Bulgaria Foundation (the "Foundation") as of December 31, 2008 and the related annual statement of activities and changes in net assets and its cash flows for the year then ended, prepared in accordance with generally accepted accounting principles in the United States of America. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with a generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the annual financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the annual financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2008, and the annual results of its activities, and changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles in the United States of America.

Emphasis of matter

Without qualifying our opinion, we draw attention to the following:

As disclosed in note 10.b to the accompanying financial statements, the Foundation is exposed to market price risks related to its investments. This risk has increased recently as a result of the global financial crisis that affected Bulgaria at the end of 2008 and the beginning of 2009. The crisis has a material effect on the global and the Bulgarian financial markets, respectively on the prices of investments and causes material uncertainty regarding the accounting estimates related to the valuation of investments. The valuation of investments in the current market conditions, and the risks of continued market deterioration and narrow liquidity may produce results that differ significantly from the values that would have been used had an active market for investments existed, and these differences could be material.

Deloitte Audit
Deloitte Audit OOD

May 25, 2009
Sofia, Bulgaria

AMERICA FOR BULGARIA FOUNDATION
Statement of Financial Position as of December 31, 2008

in thousands

Assets

Cash and cash equivalents (Note 5)	\$	50,911
Investments, at fair value		
Term deposits (Note 5)		35,245
Equity investments (Note 5)		4,247
Total investments		<u>39,492</u>
Prepaid expenses and other assets		
Prepaid expenses		22
Advances to suppliers (Note 6)		73
Accrued interest		506
Total Assets		<u><u>91,004</u></u>

Liabilities and Net Assets

Liabilities

Accounts payable (Note 9)		<u>17</u>
Total liabilities		<u>17</u>
Net assets -- unrestricted		90,987
Total liabilities and unrestricted net assets		<u><u>91,004</u></u>

See accompanying notes to financial statements.

AMERICA FOR BULGARIA FOUNDATION
Statement of Activities for the Year Ended December 31, 2008

in thousands

Change in net assets:	
Revenues and gains:	
Contributions received (Note 4)	\$ 109,911
Investment income	
Interest income	572
Net unrealized loss on investments (Note 5)	(20,346)
Exchange rate gain	1,043
Investment income, net	<u>(18,731)</u>
Total income	<u>91,180</u>
Expenses	
Grants	(179)
Program and administrative expenses (Note 8)	(14)
Total Expenses	<u>(193)</u>
Changes in net assets	90,987
Unrestricted net assets, beginning of the year	-
Unrestricted net assets, end of the year	<u><u>90,987</u></u>

See accompanying notes to financial statements.

AMERICA FOR BULGARIA FOUNDATION
Statement of Cash Flows for the Year Ended December 31, 2008

in thousands

Cash flows from operating activities	
Increase in unrestricted net assets	\$ 90,987
Adjustments to reconcile increase in net assets to net cash used in operating activities:	
Net unrealized loss on investments	20,346
Exchange rate gain on investments	(1,043)
Increase in prepaid expenses	(22)
Increase in interest receivable	(506)
Increase in current liabilities	17
Other	3
Net cash provided by operating activities	<u>109,782</u>
Cash flows from investing activities:	
Cost of investments purchased, BACB Shares	(24,593)
BACB Deposits	(34,205)
Cost of fixed assets not in use at December 31, 2008	(73)
Net cash used in investing activities	<u>(58,871)</u>
Net increase in cash and cash equivalents	<u>50,911</u>
Cash and cash equivalents, beginning of year	-
Cash and cash equivalents, end of year	<u>50,911</u>

See accompanying notes to financial statements.

AMERICA FOR BULGARIA FOUNDATION

Notes to the Financial Statements
Year Ended December 31, 2008

(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 by promoting private sector development through, among other things, entrepreneurship, education, leadership development, support for non-governmental organizations and key competitive business sectors, and private sector philanthropy and volunteerism in Bulgaria. The Foundation has received the first transfer from the Fund on August 08, 2008.

The Foundation concentrates its efforts in six main program areas: (i) Archeology/Preservation of Historical Sites; (ii) Arts and Culture; (iii) Economically Disadvantaged; (iv) Civil Society and Democratic Institutions; (v) Education/Libraries; and (vi) Agricultural Productivity. The Foundation works with various non-governmental 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 whose purpose is to represent the Foundation in Bulgaria and to engage in activities to promote the Foundation.

(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 4), at December 31, 2008, 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.

AMERICA FOR BULGARIA FOUNDATION

Notes to the Financial Statements
Year Ended December 31, 2008

b. 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. Unrealized gains or losses on investments resulting from market fluctuations are recorded in the statement of activities in the period that such fluctuations occur. 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.

c. 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 contingencies. 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. Grants payable that are expected to be paid in future years are recorded at the present value of expected future payments.

d. Cash and Cash Equivalents

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

e. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

f. 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 historical rates. Investments and cash equivalents were denominated in U.S. dollars at the year-end exchange rate.

AMERICA FOR BULGARIA FOUNDATION

Notes to the Financial Statements
Year Ended December 31, 2008

g. Grant Revenue Recognition

Contributions received 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 received are measured at their 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.

h. Recent Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standard No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 redefines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Foundation has adopted SFAS No. 157 for 2008. See the impact of SFAS No. 157 in Note 5.

FSP FAS 117-1 "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds", is issued August 2008, and effective for fiscal years ending after December 15, 2008. Early application is permitted provided that annual financial statements for that fiscal year have not been previously issued. The guidance is intended to improve the quality and consistency of financial reporting of endowments held by not-for-profit organizations. The adoption had no impact on the financial statements for 2008.

(4) Bulgarian-American Enterprise Fund Grant

Pursuant to an agreement signed in 2007 between the Fund and the USAID, the Fund has returned \$27.5 million of the Fund's liquidation proceeds to the U.S. Treasury and has contributed \$110 million to the Foundation through December 31, 2008. Subsequent to December 31, 2008, the Fund contributed \$204 million to the Foundation, bringing the total amount contributed to \$313 million.

AMERICA FOR BULGARIA FOUNDATION

Notes to the Financial Statements
Year Ended December 31, 2008

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 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 activities.

According to 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 Endowment 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 exist, as described in Section 801 of the SEED Act.

(5) Cash and Cash Equivalents and Investments

a. Cash and Cash Equivalents

As of December 31, 2008, the Foundation's cash and cash equivalents consisted of \$51 million, comprised mainly of money market accounts that were deposited in various financial institutions in the United States and Europe.

b. Investments

Investments held at December 31, 2008, were as follows:

in thousands

	<u>Fair Value</u>	<u>Cost</u>	<u>% Fair Value</u>
Term deposits	\$ 35,245	\$ 34,205	89.25
Equity investments	4,247	24,593	10.75
	<u>39,492</u>	<u>58,788</u>	<u>100.00</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 \$1 million increased investments and cash equivalents at December 31, 2008, recorded in net realized and unrealized loss on investments in the statement of activities.

AMERICA FOR BULGARIA FOUNDATION

Notes to the Financial Statements
Year Ended December 31, 2008

The base of measurement of term deposits and equity investments is quoted prices in active market (Level 1).

(6) Advances to suppliers

As of December 31, 2008, advances to suppliers represent advances for leasehold improvements at the amount of \$73 thousands.

(7) Tax Status

a. United States

The Foundation is exempt from U.S. Federal income taxes under Section 501(c)(3) of 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.

(8) Program and administrative expenses

Program and administrative expenses at December 31, 2008 were as follows:

in thousands

Rent	\$	7
Professional Fees		7
		<u>14</u>

AMERICA FOR BULGARIA FOUNDATION

Notes to the Financial Statements
Year Ended December 31, 2008

(9) 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

At August 15, 2008 the Foundation agreed to purchase from the Fund 491,003 shares which represent 3.9% of the share capital of BACB at BGN 67 /\$50/ per share. The transaction with the Fund closed on September 01, 2008.

Related party payables at December 31, 2008 were as follows:

in thousands

Bulgarian American Enterprise Fund	\$ 17
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(10) 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, 2008 are presented below:

in thousands

	Currency		
Term deposits	EUR	\$	35,245
Equity investments	BGN		4,247

b. Price Risk

The Foundation is exposed to market price risks related to its investments. This risk has increased recently as a result of the global financial crisis that affected Bulgaria at the end of 2008 and the beginning of 2009. The crisis has a material effect on the global and the Bulgarian financial markets, respectively on the valuation of investments and causes material uncertainty regarding the accounting estimates. The valuation of investments in the current market conditions, and the risks of continued significant market deterioration and narrow liquidity may produce results that differ significantly from the values that would have been used had an active market for the investments existed, and these differences could be material.