

**AMERICA FOR BULGARIA FOUNDATION**

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

**December 31, 2016**

**American  
optimism  
meets  
Bulgarian  
potential**



**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, 2016 and 2015, the Foundation's internal control environment has provided reasonable assurance as to the integrity and reliability of the financial statements and related financial information.

A blue ink signature of Nancy L. Schiller, written in a cursive style.

Nancy L. Schiller  
President & Chief Executive Officer

A blue ink signature of Bojana Kourteva, written in a cursive style.

Bojana Kourteva  
Chief Financial Officer

## INDEPENDENT AUDITORS' REPORT

### To the Board of Directors of America for Bulgaria Foundation

We have audited the accompanying standalone financial statements of the America for Bulgaria Foundation (the "Foundation"), which comprise the standalone statement of financial position as of December 31, 2016 and 2015 and the related standalone statement of activities and its standalone statement of cash flows for the years then ended, and the related notes to the financial statements.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these standalone financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these standalone financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the standalone financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the standalone financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the standalone financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the standalone financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the standalone financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the standalone financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2016 and 2015, and the results of its operations 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

May 31, 2017  
Sofia, Bulgaria

**America for Bulgaria Foundation**  
**Standalone Statement of Financial Position**  
**December 31, 2016 and 2015**

<i>in USD (000)</i>	<i>Note</i>	<u>2016</u>	<u>2015</u>
<b>Assets</b>			
Cash and cash equivalents	4a	6,779	2,556
Investments, at fair value			
ETF and public mutual funds		227,060	203,413
Private mutual funds		138,682	159,150
Equity investments		3,632	2,712
Bonds		5,985	5,819
Partnership investments	4b,c	545	811
Total Investments	4b	<u>375,904</u>	<u>371,905</u>
Dividends and interest receivable	4b	625	138
Prepaid expenses and other assets		128	132
Fixed assets, net of accumulated depreciation of 467 and 364	5	218	317
Intangible assets	6	122	50
Investment in subsidiaries	11	17,495	16,665
Total Assets		<u>401,271</u>	<u>391,763</u>
<b>Liabilities and Net Assets</b>			
<b>Liabilities</b>			
Grants payable	7	10,084	9,116
Accounts payable and accrued payroll		122	318
Total Liabilities		<u>10,206</u>	<u>9,434</u>
Net assets - unrestricted		391,065	382,329
Total liabilities and unrestricted net assets		<u>401,271</u>	<u>391,763</u>

See accompanying notes to standalone financial statements

**America for Bulgaria Foundation**  
**Standalone Statement of Activities**  
**December 31, 2016 and 2015**

<i>in USD (000)</i>	<i>Note</i>	<u>2016</u>	<u>2015</u>
Change in net assets:			
Contributions received		25	10,711
Reversed Grants Income		903	1,566
Other Income / (Loss)		1	56
Investment income			
Interest income		1,966	2,507
Dividend income		6,045	5,698
Net realized gain / (loss) on investments	<i>4b</i>	(5,108)	(199)
Net unrealized gain / (loss) on investments	<i>4b</i>	27,044	(19,468)
Realized exchange rate gain / (loss)	<i>4b</i>	(63)	489
Unrealized exchange rate gain / (loss)	<i>4b</i>	15	(664)
Total Investment income/ (loss)		29,899	(11,637)
Less investment management fees	<i>4b</i>	(769)	(951)
Investment income / (loss), net		29,130	(12,588)
Total Income / (Loss)		<u>30,059</u>	<u>(255)</u>
Grant Expenses	<i>8</i>	(16,947)	(11,595)
Program related and donation expenses	<i>9</i>	(529)	(996)
Management and general expenses	<i>10</i>	(3,739)	(2,896)
Depreciation and amortization		(108)	(107)
Total Expenses		<u>(21,323)</u>	<u>(15,594)</u>
Changes in net assets		8,736	(15,849)
Unrestricted net assets, beginning of the period		382,329	398,178
Unrestricted net assets, end of the period		<u>391,065</u>	<u>382,329</u>

See accompanying notes to standalone financial statements

**America for Bulgaria Foundation**  
**Standalone Statement of Cash Flows**  
**Year ended December 31, 2016 and 2015**

<i>in USD (000)</i>	<u>2016</u>	<u>2015</u>
<b>Cash Flows from Operating Activities</b>		
Contributions received	25	4,525
Grant payments	(15,653)	(14,141)
Grant refunds	856	159
Cash paid to suppliers and employees	(4,382)	(3,624)
Net cash used in operating activities	<u>(19,154)</u>	<u>(13,081)</u>
<b>Cash Flows from Investing Activities</b>		
Proceeds from sale of investments	29,137	47,261
Proceeds from dividends	5,558	5,712
Proceeds from interest	1,632	2,172
Proceeds from sale of fixed assets	1	30
Purchase of fixed assets	(6)	(77)
Purchase of intangible assets	(76)	(46)
Purchase of investments	(11,178)	(39,038)
Investments in subsidiaries	(830)	(5,196)
Investment fees paid	(855)	(961)
Net cash from investing activities	<u>23,383</u>	<u>9,857</u>
<b>Cash flows from Financing Activities</b>		
Net cash from financing activities	<u>-</u>	<u>-</u>
<b>Effect of exchange rate changes on cash</b>	(6)	(52)
Net increase / (decrease) in cash	4,223	(3,276)
Cash at the beginning of year	2,556	5,832
Cash at end of year	6,779	2,556

See accompanying notes to standalone financial statements

# AMERICA FOR BULGARIA FOUNDATION

Notes to the Standalone Financial Statements  
December 31, 2016 and 2015  
(in thousands)

## (1) Nature of Operations

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

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

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

The Foundation represents the generous face of the American people and embodies the highest standards of US ethical conduct, transparency and core values. The Foundation concentrates its efforts in six main program areas: (i) Arts and Culture; (ii) Private Sector Development; (iii) Civil Society and Democratic Institutions; (iv) Economically Disadvantaged; (v) Education; 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, 2016 and 2015 of the Branch are included in the financial statements of the Foundation. The Branch prepares financial information for statutory purposes only and does not have separate audited financial statements.



## AMERICA FOR BULGARIA FOUNDATION

### Notes to the Standalone Financial Statements December 31, 2016 and 2015 (in thousands)

#### **(2) Basis of Presentation**

In accordance with accounting principles generally accepted in the United States of America for not-for-profit organizations, the Foundation is required to classify information regarding its financial position and activities into certain classes of net assets. Pursuant to the Grant Agreement (defined in Note 12(a)), at December 31, 2016 and 2015, the entire balance of net assets was classified as unrestricted. Unrestricted net assets are those net assets that are not restricted by donor imposed stipulations.

#### **(3) Summary of Significant Accounting Policies**

##### *a. Basis of Accounting*

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

##### *b. Basis of Presentation*

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

##### *c. Investments*

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

## AMERICA FOR BULGARIA FOUNDATION

### Notes to the Standalone Financial Statements December 31, 2016 and 2015 (in thousands)

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

#### *d. Fair Value*

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

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

- Level 1 Valuation based on unadjusted quoted prices in active markets for identical assets or liabilities that a reporting entity has the ability to access at the measurement date, and where transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 Valuation based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets, or liabilities in markets that are not active, that is markets in which there are few transactions, prices are not current, or prices vary substantially over time.

## AMERICA FOR BULGARIA FOUNDATION

### Notes to the Standalone Financial Statements December 31, 2016 and 2015 (in thousands)

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

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

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

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

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

## AMERICA FOR BULGARIA FOUNDATION

### Notes to the Standalone Financial Statements December 31, 2016 and 2015 (in thousands)

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; or the instrument is issued and guaranteed by an entity that is traded on an active market.

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

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

#### *e. Grant Expenditures*

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

#### *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.

**AMERICA FOR BULGARIA FOUNDATION**

**Notes to the Standalone Financial Statements  
December 31, 2016 and 2015  
(in thousands)**

***g. Interest and Dividend Income***

Interest and dividend income is recorded when earned.

***h. Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***i. Translation of Foreign Currency***

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

***j. Grant Revenue Recognition***

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

***k. Investment Expenses***

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

***l. Depreciation and Amortization***

Property and equipment are recorded at cost and depreciated on a straight-line basis over the estimated useful lives of the respective assets or amortized over the terms of the respective leases, as follows:

## AMERICA FOR BULGARIA FOUNDATION

### Notes to the Standalone Financial Statements December 31, 2016 and 2015 (in thousands)

Computers and software	3 years
Office equipment	3 years
Office furniture	5 years
Vehicles	5 years
Leasehold improvements	over the lesser of their useful lives or the term of lease

Intangible assets are measured at acquisition cost less accumulated amortization and any accumulated impairment losses. Amortization is calculated to write off the cost of intangible assets less estimated residual values using the straight-line method over their estimated useful lives, as follows:

Website Development Costs	3 years
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The Foundation annually reviews the property and equipment records as well as intangible assets for impairment of value and records any adjustments necessary to reflect material impacts in value.

#### *m. Recent Accounting Pronouncements*

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

**AMERICA FOR BULGARIA FOUNDATION**

**Notes to the Standalone Financial Statements  
December 31, 2016 and 2015  
(in thousands)**

On February 25, 2016, the FASB issued a new standard, *Leases* (ASC 842). Lessees will need to recognize almost all leases on their balance sheet as a right-of-use asset and a lease liability. It will be critical to identify leases embedded in a contract to avoid misstating the lessee's balance sheet. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright lines. Lessor accounting is similar to the current model, but updated to align with certain changes to the lessee model and the new revenue recognition standard. Existing sale-leaseback guidance, including guidance for real estate, is replaced with a new model applicable to both lessees and lessors. The Foundation does not expect the adoption of ASC 842 to have a material effect on its financial statements.

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

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*. This ASU revises the current net asset classification requirements and information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. This ASU is effective for fiscal years beginning after December 15, 2017 and early adoption is permitted. Management is evaluating the effect of adopting this new accounting standard on its financial statements.

In January 2017, the FASB issued ASU 2017-02, *Not-for-Profit Entities: Consolidation*. This ASU clarifies when a not-for-profit entity, that is a general or a limited partner, should consolidate a for-profit limited partnership or similar entity. This ASU is effective for fiscal years beginning after December 15, 2016 and early adoption is permitted. Management is evaluating the effect of adopting this new accounting standard on its financial statements.

**AMERICA FOR BULGARIA FOUNDATION**

**Notes to the Standalone Financial Statements  
December 31, 2016 and 2015  
(in thousands)**

**(4) Cash and Cash Equivalents and Investments**

*a. Cash and Cash Equivalents*

As of December 31, 2016 and 2015, the Foundation's cash and cash equivalents consisted of \$6,779 and \$2,556, respectively, comprised mainly of money market and checking accounts that were deposited in various financial institutions in the United States and Bulgaria.

*b. Investments*

Investments activity for the year ended December 31, 2016 and 2015 were as follows:

	December 31, 2016				December 31, 2015			
	Fair value	Unrealized Gain / (Loss) on Foreign Exchange	Unrealized Gain / (Loss) on Investment	Cost	Fair value	Unrealized Gain / (Loss) on Foreign Exchange	Unrealized Gain / (Loss) on Investment	Cost
ETF and public mutual funds	227,060	-	26,613	200,447	203,413	-	9,593	193,820
Private mutual funds	138,682	-	14,517	124,165	159,150	-	5,610	153,540
Equity investments	3,632	(488)	(1,594)	5,714	2,712	(394)	(2,609)	5,715
Bonds	5,985	(1,427)	437	6,975	5,819	(1,224)	403	6,640
Partnership Investments	545	(193)	279	459	811	(175)	210	776
	<u>\$ 375,904</u>	<u>(2,108)</u>	<u>40,252</u>	<u>337,760</u>	<u>371,905</u>	<u>(1,793)</u>	<u>13,207</u>	<u>360,491</u>

Net realized gain/(loss) on investments for the year ended December 31, 2016 and 2015 are presented in the table below:

	2016	2015
ETF and public mutual funds	\$ (9)	(906)
Private mutual funds	(5,099)	707
	<u>\$ (5,108)</u>	<u>(199)</u>



**AMERICA FOR BULGARIA FOUNDATION**

**Notes to the Standalone Financial Statements  
December 31, 2016 and 2015  
(in thousands)**

Net unrealized gain/(loss) on investments for the year ended December 31, 2016 and 2015 are presented in the table below:

	<u>2016</u>	<u>2015</u>
ETF and public mutual funds	\$ 17,020	(7,645)
Private mutual funds	8,906	(9,372)
Equity investments	1,014	(2,609)
Bonds	35	40
Partnership Investments	69	118
	<u>\$ 27,044</u>	<u>(19,468)</u>

Investments and cash equivalents, held in different currencies are reported at the year-end exchange rates. As a result, a translation adjustment of approximately \$(48) and \$(175) decreased the investments and cash equivalents at December 31, 2016 and 2015, respectively, and was recorded in net realized and unrealized exchange rate loss in the Statement of Activities for each year.

Accrued interest of \$1,569 and \$1,291 is included in the fair value of the bonds, respectively, as of December 31, 2016 and December 31, 2015.

Dividends and interest receivable of \$625 and \$138 at December 31, 2016 and 2015, respectively, represent dividends and interest income earned but not received.

Investment expenses for the year ended December 31, 2016 and 2015 were \$769 and \$951, respectively.

*c. Fair Value of Financial Instruments*

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

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

**AMERICA FOR BULGARIA FOUNDATION**

**Notes to the Standalone Financial Statements  
December 31, 2016 and 2015  
(in thousands)**

At December 31, 2016

	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total</b>
Cash and cash equivalents	\$ 6,779	-	-	6,779
ETF and public mutual funds	227,060	-	-	227,060
Private mutual funds	-	138,682	-	138,682
Equity investments	3,632	-	-	3,632
Bonds	5,985	-	-	5,985
Partnership Investments	-	-	545	545
	<u>\$ 243,456</u>	<u>138,682</u>	<u>545</u>	<u>382,683</u>
	63.62%	36.24%	0.14%	100%

At December 31, 2015

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

**AMERICA FOR BULGARIA FOUNDATION**

**Notes to the Standalone Financial Statements  
December 31, 2016 and 2015  
(in thousands)**

A summary of Level 3 activity for the year ended December 31, 2016 and 2015 was as follows:

<b>Balance, December 31, 2014</b>	\$	905
Purchases		6
Sales		(125)
Unrealized exchange rate gain / (loss)		(93)
Unrealized gain / (loss) on investment		118
<b>Balance, December 31, 2015</b>	<b>\$</b>	<u>811</u>
Purchases		-
Sales		(317)
Unrealized exchange rate gain / (loss)		(18)
Unrealized gain / (loss) on investment		69
<b>Balance, December 31, 2016</b>	<b>\$</b>	<u>545</u>

In 2016 and 2015 there were no reclassifications between the different levels of investments.

***d. Concentration of risk***

The Foundation has invested \$144,500 or 36.0% of its assets in two investment funds with a single investment manager, and \$34,891 or 8.7% in three investment funds with another manager. This represents an insignificant holding compared to the investment managers' and the funds' asset size. All five funds are Level 1 and highly liquid.

The Foundation'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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**(5) Fixed Assets**

At December 31, 2016 and 2015, net fixed assets consisted of the following:

	<u>2016</u>	<u>2015</u>
Leasehold improvements	\$ 104	103
Furniture and fixtures	144	144
Hardware, software and telecommunications	255	252
Vehicles	<u>182</u>	<u>182</u>
	685	681
Less accumulated depreciation	<u>(467)</u>	<u>(364)</u>
	\$ <u><u>218</u></u>	\$ <u><u>317</u></u>

**(6) Intangible Assets**

At December 31, 2016 and 2015, intangible assets consisted of the following:

	<u>2016</u>	<u>2015</u>
Website development costs	\$ 37	-
Work in progress - Internal-use software	<u>85</u>	<u>50</u>
	122	50
Less accumulated amortization	<u>-</u>	<u>-</u>
	\$ <u><u>122</u></u>	\$ <u><u>50</u></u>

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**(7) Grants payable**

Grants payable totaling \$10,084 and \$9,116 at December 31, 2016 and 2015, 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, 2016 and 2015, respectively based on the specific grant agreements, grants payable are expected to be paid in the following years:

		<u>2016</u>	<u>2015</u>
2016	\$	-	7,435
2017		7,861	1,645
2018		1,901	36
2019		322	-
	\$	<u>10,084</u>	<u>9,116</u>

The schedule below reconciles grant activity throughout the year ended December 31, 2016:

Grants payable, 2016 beginning balance	\$	9,116
New and supplemental grants		16,947
Grant payments, net		(15,656)
Grant amendments		(45)
Realized FX on grants paid		52
Unrealized FX on grants		(330)
Grants payable, 2016 ending balance	\$	<u>10,084</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, 2016 and 2015, grant expenses to recipient entities were recognized under the following programs:

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	<u>2016</u>	<u>2015</u>
Arts and Culture	\$ 1,798	406
Private Sector Development	609	1,076
Civil Society and Democratic Institutions	4,678	2,278
Economically Disadvantaged	2,323	2,132
Education	7,286	5,698
Cultural Heritage and Tourism	253	5
	\$ <u>16,947</u>	<u>11,595</u>

**(9) Program related and donation expenses**

Program related and donation expenses at December 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Direct Programmatic Support	\$ 430	494
Charitable Donations	99	502
	\$ <u>529</u>	<u>996</u>

**(10) Management and general expenses**

Management and general expenses at December 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Payroll and benefits	\$ 1,817	1,138
Travel and related expenses	125	127
Occupancy and telecommunications	202	173
General and administrative	130	194
Professional fees	598	448
Directors expenses	793	762
Insurance	74	54
	\$ <u>3,739</u>	<u>2,896</u>

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#### (11) Investment in subsidiaries

At December 31, 2016 and 2015, the Foundation has two subsidiaries Muzeiko EOOD and ABF Property EOOD.

Muzeiko EOOD, a for-profit company primarily involved in the performance of activities, related to the construction and the management of a children center named “Muzeiko - the Children’s museum of Sofia” (“Muzeiko”). As at December 31, 2016 and 2015, respectively the investment of the Foundation in Muzeiko was \$17,494 and \$16,664. During 2016 and 2015 respectively, capital contributions at the amount of \$830 and \$5,196 were distributed to Muzeiko.

ABF Property EOOD, a for-profit company registered to perform real estate transactions, and all other activities, permitted by Bulgarian laws. As at both December 31, 2016 and 2015, respectively the investment of the Foundation in ABF Property EOOD was \$1.

#### (12) Related Party Transactions

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

Transactions with related parties:

##### *a. Grants Received*

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

As of September 30, 2015, the Fund was dissolved and, accordingly, there are likely to be no more material contributions by the Fund to the Foundation. There are no transactions between the Foundation and the Fund in 2016.

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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.

#### *b. Grants Paid*

At December 31, 2015 the America for Bulgaria Foundation has a liability in the amount of \$200 payable to Muzeiko Foundation under grant agreement signed on February 24, 2015. During 2016 this amount was paid. There are no outstanding grant liabilities payable to Muzeiko Foundation as at December 31, 2016.

#### *c. Payables and Receivables*

At December 31, 2016 and 2015, respectively the America for Bulgaria Foundation has a liability in the amount of \$0 and \$200 payable to Muzeiko Foundation under grant agreement signed on February 24, 2015.

At December 31, 2016 and 2015, respectively the America for Bulgaria Foundation has no amounts payable to any other related party.

At December 31, 2016 and 2015, respectively the America for Bulgaria Foundation has no receivables from any related parties.

#### *d. Directors*

Until September 30, 2015, when the Bulgarian-American Enterprise Fund dissolved and its board disbanded, the Fund and the America for Bulgaria Foundation had five directors in common. As of September 30, 2015, the current President of the Foundation was appointed to act as the authorized representative of the Fund during its liquidation period. The President of the Foundation served in this role throughout 2016 and will continue to do so until final liquidation.

Members of the Board of Muzeiko Foundation are part of America for Bulgaria Foundation's management in 2016 and 2015.



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#### *e. Investments*

On January 19, 2015 the Foundation, as successor of the Fund's assets, subject to the Fund's principles and policies, received a contribution from the Fund of 1,037 shares representing a 49.4% ownership in ERG Capital 3 – ADSIP whereas the control of ERG Capital 3 – ADSIP remained in BAEF (and ABF has no control in ERG Capital 3 – ADSIP). The shares are valued at \$3,632 and \$2,712 as of December 31, 2016 and 2015, respectively. In addition, the Foundation is an owner of a bond issued by the ERG Capital 3 – ADSIP valued at \$3,046 and \$3,146 with accrued interest receivable in the amount of \$1,554 and \$1,275 as of December 31, 2016 and 2015, respectively.

#### *f. Legal fees*

Braykov's Legal Office provides legal advice to the Foundation. Valentin Braykov, owner of the Braykov's Legal Office, was the Foundation's Acting President from September 2014 through December 31, 2015. Total legal fees paid to the Braykov's Legal Office in 2016 and 2015 amount to \$1 and \$2, respectively.

#### *g. Subsequent events with related parties*

Through April 30, 2017 the Foundation has not entered into any transactions with related parties.

### **(13) 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 2016 and 2015, respectively are presented below:

	<u>2016</u>	<u>2015</u>
Equity investments in EUR	3,632	2,712
Bonds in EUR	5,985	5,819
Partnership Investments in EUR	545	811

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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.

**(14) 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, 2016 is \$31,222. As of December 31, 2016 conditional grant liabilities are expected to be paid in the following years:

2017		
2018	\$	12,476
2019		9,276
2020		5,584
		<u>3,886</u>
	\$	<u><u>31,222</u></u>

In addition, the Foundation has a commitment of \$79 for one of its private partnership investments.

*b. Lease Commitments*

In May 2013, the Foundation entered into a lease agreement for office space for the Bulgarian branch expiring in June 2018. Future annual rental payments are approximately \$119 through 2018. Variances due to exchange rate fluctuations are possible.

Rent expense is recognized on a straight line basis and it totaled \$154 and \$147 in 2016 and 2015, respectively.

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**(15) 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.

**(16) Subsequent Events**

The Foundation evaluated subsequent events through April 30, 2017, 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.