

**AMERICA FOR BULGARIA FOUNDATION**

FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2010



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, 2010 and 2009, 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 statements of financial position of the America for Bulgaria Foundation (the "Foundation") as of December 31, 2010 and 2009 and the related annual statements of activities and changes in net assets and its cash flows for the years 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 audits.

We conducted our audit in accordance with the 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 consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual financial statements, 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, 2010 and 2009, and the annual results of its activities, and changes in its net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles in the United States of America.

*Deloitte Audit*

Deloitte Audit OOD

May 25, 2011  
Sofia, Bulgaria

**America for Bulgaria Foundation**  
**Statement of Financial Position**  
**December 31, 2010 and 2009**

*in thousands*

	<u>2010</u>	<u>2009</u>
<b>Assets</b>	<b>\$</b>	
Cash and cash equivalents	26,666	52,221
Investments, at fair value		
Term deposits	27,261	101,384
ETF and public mutual funds	143,924	79,954
Private mutual funds	161,981	93,081
Equity investments	3,391	6,182
Bonds	24,738	27,175
Partnership Investments	846	-
Total Investments	<u>362,141</u>	<u>307,776</u>
Grants receivable	-	4,000
Dividends receivable	119	130
Prepaid expenses and other assets	52	26
Fixed Assets, net of accumulated depreciation of 165	415	483
Total Assets	<u><u>389,393</u></u>	<u><u>364,636</u></u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Grants payable	10,932	4,485
Accounts payable and accrued payroll	189	122
Total liabilities	<u>11,121</u>	<u>4,607</u>
Net assets -- unrestricted	378,272	360,029
Total liabilities and unrestricted net assets	<u><u>389,393</u></u>	<u><u>364,636</u></u>

See accompanying notes to financial statements.

**America for Bulgaria Foundation**  
**Statement of Activities**  
**Years ended December 31, 2010 and 2009**

*in thousands*

	2010	2009
Change in net assets	\$	
Contributions received	17,002	235,935
Investment income		
Interest income	3,077	4,996
Dividend income	6,211	3,322
Net unrealized gain / (loss) on investments	22,507	16,255
Realized exchange rate gain / (loss)	( 8,398)	10,085
Unrealized exchange rate gain / (loss)	( 1,470)	9,413
Total Investment income	21,927	44,071
Less investment management fees	( 524)	( 449)
Investment income, net	21,403	43,622
Total income	38,405	279,557
Grant Expenses	( 17,326)	( 8,502)
Operating expenses	( 2,717)	( 1,967)
Depreciation and amortization	( 119)	( 46)
Total Expenses	( 20,162)	( 10,515)
Changes in net assets	18,243	269,042
Unrestricted net assets, beginning of the period	360,029	90,987
Unrestricted net assets, end of the period	378,272	360,029

See accompanying notes to financial statements.

**America for Bulgaria Foundation**  
**Statements of Cash Flows**  
**Year ended December 31, 2010 and 2009**

*in thousands*

	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities</b>		
Increase in unrestricted net assets	\$ 18,243	269,042
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation expense	119	46
Unrealized loss (gain) on investment	(22,507)	(16,229)
Realized loss (gain) on investment	-	(26)
Unrealized loss (gain) on currency exchange	1,486	(9,413)
Realized loss (gain) on currency exchange	8,233	(10,085)
Contributions restricted for long-term investment	-	(190,609)
Decrease in grants receivable	4,000	(4,000)
Decrease in dividends receivable	11	(130)
(Increase) in prepaid expenses and other assets	(26)	(4)
Decrease / (increase) in accrued interest	1,681	(1,540)
Increase in grants payable	6,447	4,485
Increase in accounts payable and accrued payroll	67	105
Net cash provided by operating activities	17,754	41,642
<b>Cash flow from investing activities</b>		
Purchase of investments	(134,451)	(169,841)
Proceeds from investments	91,192	129,965
Purchase of fixed assets	(51)	(456)
Net cash used in investing activities	(43,310)	(40,332)
<b>Net increase in cash and cash equivalents</b>	<b>(25,555)</b>	<b>1,310</b>
Cash and cash equivalents beginning of the year	52,221	50,911
Cash and cash equivalents end of the year	26,666	52,221
<b>Supplemental data</b>		
Non-cash investing activities		
Contribution received of bonds	-	15,520
Contribution received of term deposits	-	175,088
Contribution received of private equity shares	596	-

See accompanying notes to financial statements.

## AMERICA FOR BULGARIA FOUNDATION

### Notes to the Financial Statements December 31, 2010 and 2009 (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 has received the first transfer from the Fund on August 08, 2008.

The America for Bulgaria Foundation (ABF) assists in the development and growth of a vibrant private sector in Bulgaria, helping the country to realize its full potential as a successful, modern European nation. To accomplish this, the Foundation supports entrepreneurship and leadership in relevant areas of interest and other activities as needed to enhance private sector development. The America for Bulgaria Foundation embodies the highest standards of ethical conduct to enhance the longstanding legacy of goodwill and friendship between the American and Bulgarian people.

The Foundation concentrates its efforts in six main program areas: (i) Arts and Culture; (ii) Agriculture and Environment (iii) Civil Society and Democratic Institutions; (iv) Economically Disadvantaged; (v) Education and Libraries; and (vi) 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 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, 2010 and 2009 of the Branch are included in the statements of the Foundation. The Branch prepares financial information for statutory purposes only and does not have separate audited financial statements.

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

In accordance with accounting principles generally accepted in the United States of America for not-for-profit organizations, the Foundation is required to classify information regarding its financial position and activities into certain classes of net assets. Pursuant to the Grant Agreement (defined in Note 4), at December 31, 2010 and 2009, 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.

## AMERICA FOR BULGARIA FOUNDATION

### Notes to the Financial Statements December 31, 2010 and 2009 (in thousands)

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

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

The accompanying financial statements have been prepared on the accrual basis of accounting.

##### *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 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. 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. 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:



## AMERICA FOR BULGARIA FOUNDATION

### Notes to the Financial Statements December 31, 2010 and 2009 (in thousands)

- Level 1 Valuation based on 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.
- 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.

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.

## AMERICA FOR BULGARIA FOUNDATION

### Notes to the Financial Statements December 31, 2010 and 2009 (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.

#### *d. 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. 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 Financial Statements December 31, 2010 and 2009 (in thousands)

#### *e. 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.

#### *f. Interest and Dividend Income*

Interest and dividend income is recorded when earned.

#### *g. Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

#### *h. 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. The functional currency of the Foundation's branch in Bulgaria is the Bulgarian Lev. Remeasurement and translation adjustments are reflected in the Statement of Activities.

#### *i. 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.

#### *j. Investment Expenses*

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

AMERICA FOR BULGARIA FOUNDATION

Notes to the Financial Statements  
December 31, 2010 and 2009  
(in thousands)

*k. 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.

*l. Reclassifications*

Certain 2009 amounts have been reclassified to conform to the 2010 financial statement presentation.

*m. Recent Accounting Pronouncements*

In January 2010 the FASB issued Financial Accounting Standard No 2010-06 - *Topic 820 - Fair Value Measurements and Disclosures*, effective for financial statements issued for interim and annual periods ending after December 15, 2009.

This Update provides amendments to Subtopic 820-10 that require new disclosures as follows: A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. 2. In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number).

This Update provides amendments to Subtopic 820-10 that clarify existing disclosures as follows: 1. A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities. 2. A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3.

In February 2010, the FASB issued ASU 2010-09, Amendments to Certain Recognition and Disclosure Requirements, ("ASU 2010-09"). ASU 2010-09 amends the existing guidance to address certain implementation issues related to an entity's requirement to perform procedures

## AMERICA FOR BULGARIA FOUNDATION

### Notes to the Financial Statements December 31, 2010 and 2009 (in thousands)

and disclose subsequent events. The adoption of ASU 2010-9 on December 31, 2010 did not have a material impact on the financial statements.

#### **(4) Bulgarian-American Enterprise Fund Grant**

Pursuant to an agreement signed in 2007 between the Fund and the USAID, the Fund has returned to the U.S. Treasury \$27.5 million of the original USAID grant out of the Fund's assets and, as of December 31, 2010, has contributed \$363 million to the Foundation. Of the total amount contributed by the Fund, \$15.5 million is in the form of bonds, \$175.1 million in term deposits, \$0.6 million in partnership investments, and the remainder in cash.

According to the terms of the grant agreement between the Fund and the Foundation (the "Grant Agreement"), the Foundation shall be operated as a perpetual endowment and the Foundation Board shall invest in 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 grand-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.

#### **(5) Cash and Cash Equivalents and Investments**

##### *a. Cash and Cash Equivalents*

As of December 31, 2010 and 2009, the Foundation's cash and cash equivalents consisted of \$27 million and \$52 million, respectively, comprised mainly of money market accounts that were deposited in various financial institutions in the United States, Europe, and Australia.

##### *b. Investments*

Investments held at December 31, 2010 and 2009 were as follows:

**AMERICA FOR BULGARIA FOUNDATION**

**Notes to the Financial Statements  
December 31, 2010 and 2009  
(in thousands)**

	December 31, 2010				December 31, 2009			
	Fair value	Unrealized Gain/(Loss) on Foreign Exchange	Unrealized Gain/(Loss) on Investment	Cost	Fair value	Unrealized Gain/(Loss) on Foreign Exchange	Unrealized Gain/(Loss) on Investment	Cost
Term deposits	\$ 27,261	465	285	26,511	101,384	8,137	3,784	89,463
Public Mutual and Exchange Traded	143,924		19,812	124,112	79,954		10,373	69,581
Private Mutual funds	161,981		21,455	140,526	93,081		6,581	86,500
Equity investments	3,391		(21,202)	24,593	6,182		(18,411)	24,593
Bonds	24,738	261	(1,663)	26,140	27,175	2,294	88	24,793
Partnership Investments	846	11	113	722	-			-
<b>\$</b>	<b>362,141</b>	<b>737</b>	<b>18,800</b>	<b>342,604</b>	<b>307,776</b>	<b>10,431</b>	<b>2,415</b>	<b>294,930</b>

Investments and cash equivalents, held in different currencies are reported at the year-end exchange rate. As a result, a translation adjustment of approximately (\$10) million and \$19 million increased / (decreased) the investments and cash equivalents at December 31, 2010 and 2009, respectively, and was recorded in net realized and unrealized exchange rate gain / (loss) in the statement of activities for each year.

Accrued interest of \$277 and \$105 is included in the fair value of the term deposits and bonds, respectively as of December 31, 2010. Accrued interest of \$1,958 and \$88 is included in the fair value of the term deposits and bonds as of December 31, 2009.

Investment expenses for the year ended December 31, 2010 and 2009 were \$524 and \$449, 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 Financial Statements  
December 31, 2010 and 2009  
(in thousands)**

					<b>At December 31, 2010</b>			
					<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash and Cash Equivalents	\$	26,666	-	-	26,666			
Term Deposits		27,261	-	-	27,261			
Public Mutual and Exchange Traded Funds		143,924	-	-	143,924			
Private Mutual Funds		-	161,981	-	161,981			
Equity investments		3,391	-	-	3,391			
Bonds		10,570	14,168	-	24,738			
Partnership Investments		-	-	846	846			
	\$	<u>211,812</u>	<u>176,149</u>	<u>846</u>	<u>388,807</u>			
		54.48%	45.30%	0.22%	100%			

  

					<b>At December 31, 2009</b>			
					<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash and Cash Equivalents	\$	52,221	-	-	52,221			
Term Deposits		101,384	-	-	101,384			
Public Mutual and Exchange Traded Funds		79,954	-	-	79,954			
Private Mutual Funds		-	93,081	-	93,081			
Equity investments		6,182	-	-	6,182			
Bonds		-	27,175	-	27,175			
	\$	<u>239,741</u>	<u>120,256</u>	<u>-</u>	<u>359,997</u>			
		66.60%	33.40%	-	100%			

A summary of Level 3 activity for the year ended December 31, 2010 is as follows:

<b>Balance, December 31, 2009</b>	\$	-
Purchases		127
Sales		-
Transfers-donated securities		596
Realized gains		-
Unrealized gains		123
<b>Balance, December 31, 2010</b>	\$	<u>846</u>

As a result of differing market conditions in 2010 and 2009, a number of the bonds classified as Level 2 in 2009, were reclassified as Level 1 in 2010 as there was observable price information for them in an active market. The reconciliation of this activity is as follows:

**AMERICA FOR BULGARIA FOUNDATION**

**Notes to the Financial Statements  
December 31, 2010 and 2009  
(in thousands)**

<b>Level 2 Beginning Balance December 31, 2010</b>	\$	27,175
Purchases		2
Sales		-
Transfer to Level 1		(9,850)
Unrealized losses		(1,906)
Unrealized FX losses		(1,253)
<b>Level 2 Ending Balance December 31, 2010</b>	\$	<u>14,168</u>

In 2009 there were no reclassifications between the different levels of investments.

*d. Concentration of risk*

The Foundation has \$33.8 million or 9% of its cash and investments portfolio invested in Bulgaria. Majority of this balance represents bonds issued by, and shares of the Bulgarian American Credit Bank (BACB). As a result, the Foundation is exposed to the risk of continuing negative developments in the real estate sector in Bulgaria upon which the BACB's business model is built.

The Foundation is a holder of 8 million shares of TIFF Multi Asset Fund with a value of \$124.1 million. This investment represents 32% of the cash and investment portfolio.

In addition, the Foundation holds cash and term deposits in Australia totaling \$11.5 million or 3% of the cash and investment portfolio. These deposits are guaranteed up to AUD 3 million by the Australian Government under the Financial System Legislation Amendment (Financial Claims Scheme and other Measures) Act 2008, Banking Act 1959 – Declaration of Covered Financial Products and Banking Amendment Regulation 2008 (No.1).

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 Financial Statements  
December 31, 2010 and 2009  
(in thousands)**

**(6) Fixed Assets**

At December 31, 2010, net fixed assets consisted of the following:

	<u>2010</u>	<u>2009</u>
Leasehold improvements	\$ 252	251
Furniture and fixtures	111	110
Hardware, software and telecommunications	156	138
Vehicles	<u>61</u>	<u>30</u>
	580	529
Less accumulated depreciation	<u>(165)</u>	<u>(46)</u>
	\$ <u>415</u>	<u>483</u>

**(7) Grants payable**

Grants payable totaling \$10,932 at December 31, 2010, 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 grants payable are expected to be paid in the following years:

	<u>2010</u>	<u>2009</u>
2010	\$ -	3,008
2011	7,277	1,297
2012	2,890	180
2013	<u>765</u>	<u>-</u>
	\$ <u>10,932</u>	<u>4,485</u>

**AMERICA FOR BULGARIA FOUNDATION**

**Notes to the Financial Statements  
December 31, 2010 and 2009  
(in thousands)**

**(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, 2010 and 2009, grant expenses to recipient entities were recognized under the following programs:

	<u>2010</u>	<u>2009</u>
Agriculture and the Environment	\$ 478	407
Arts and Culture	1,511	890
Civil Society and Democratic Institutions	3,466	576
Economically Disadvantaged	5,668	1,023
Education and Libraries	5,153	5,024
Heritage Tourism	922	567
Other	128	15
	<u>\$ 17,326</u>	<u>8,502</u>

**(9) Program and administrative expenses**

Operating expenses at December 31, 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
Payroll and benefits	\$ 1,202	843
Travel and related expenses	97	120
Occupancy and telecommunications	156	132
General and administrative	177	163
Professional fees	306	242
Directors expenses	743	447
Insurance	36	20
	<u>\$ 2,717</u>	<u>1,967</u>

## AMERICA FOR BULGARIA FOUNDATION

### Notes to the Financial Statements December 31, 2010 and 2009 (in thousands)

#### (10) Related Party Transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Foundation considers as a related party the Bulgarian-American Enterprise Fund.

There were no related party payables at December 31, 2010 and 2009.

Related party receivables relate to grants that have been committed to the Foundation by the Fund, but not received as of the end of the year. At December 31, 2010 and 2009 related party receivables were as follows:

		<u>2010</u>	<u>2009</u>
Bulgarian American Enterprise Fund	\$	-	4,000

#### (11) Market risk

##### *a. Currency Risk*

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

The investments held by the Foundation denominated in foreign currency at December 31, 2010 and 2009 are presented below:

		<u>2010</u>	<u>2009</u>
Term deposits in EUR	\$	-	101,208
Term deposits in AUD		11,448	1,767
Equity Investments in BGN		3,391	6,180
Bonds in EUR		24,738	27,087
Partnership Investments in EUR		846	-

##### *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 changes in the valuation of investments and causes uncertainty regarding the accounting estimates in future periods.

AMERICA FOR BULGARIA FOUNDATION

Notes to the Financial Statements  
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(12) Commitments and contingencies

a. Grants

The Foundation has signed certain conditional grant agreements, or conditionally approved grants, for which the grantee has not met the grant conditions and the amount of the grant has not been included in grant expense. The amount of such grants at December 31, 2010 is \$14,517. As of December 31, 2010 contingent grant liabilities are expected to be paid in the following years:

2011	\$	6,991
2012		4,708
2013		1,508
2014		1,310
		<u>14,517</u>

In addition, the Foundation has a commitment of \$301 for one of its private partnership investments.

b. Lease Commitments

In October 2008, the Foundation entered into a lease agreement for office Space for the Bulgarian branch expiring in December of 2013. Future annual rental payments are approximately \$88 in 2011 through 2013. Variances due to exchange rate fluctuations are possible.

In November 2010, the Foundation entered into a lease agreement for the US office Space expiring in April of 2014. Future annual payments are as follows:

2011	\$	10
2012		17
2013		17
2014		7
	\$	<u>51</u>

Rent expense is recognized on a straight line basis and it totaled \$89 and \$86 in 2010 and 2009, respectively.

**AMERICA FOR BULGARIA FOUNDATION**

**Notes to the Financial Statements  
December 31, 2010 and 2009  
(in thousands)**

**(13) 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.

**(14) Subsequent Events**

The Foundation evaluated subsequent events through April 15, 2011, 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.