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CZECH & SLOVAK
AMERICAN

Enterprise Fund

1992 Annual Report

PURPOSE AND DESCRIPTION

The Czech and Slovak American Enterprise Fund (the "Fund" or "CSAEF") was established by the U.S. government in March, 1991 to foster the development of small and medium-sized private enterprises in the Czech and Slovak Federal Republic ("CSFR") which have the likelihood of becoming commercially viable in a free-market environment. Formed pursuant to the Support for East European Democracy Act of 1989 (the "SEED Act"), the Fund is similar to three other American Enterprise Funds presently operating in Bulgaria, Hungary and Poland.

U.S. taxpayers have provided the money for the Fund through appropriations by the U.S. Congress. The Fund is privately managed by a Board of Directors (the "Board") consisting of U.S. and Czech and Slovak private citizens. The offices of the Fund are located in Prague, Bratislava, and Washington, DC.

The CSAEF receives its funds from the U.S. Agency for International Development ("AID"), and has been authorized to commit \$27 million through September 30, 1992. Additional funds are to be received during fiscal year 1993. Subject to further appropriations, the total grant to the Fund from AID will be at least \$60 million plus \$5 million for Technical Cooperation.

The Fund invests in Czech and Slovak enterprises through loans and the provision of equity capital. Technical Cooperation grants are also available. The Fund charges interest and fees and takes collateral on loans. For equity investments, the Fund takes an ownership interest related to the amount invested, and does not typically seek to retain a majority voting position. Joint investment with U.S. direct investors and other foreign investment is encouraged. All revenues after operating expenses are retained to further the ongoing activity of the Fund.

SECOND ANNUAL REPORT

**FOR THE YEAR OCTOBER 1, 1991
TO SEPTEMBER 30, 1992**

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LETTER FROM THE BOARD OF DIRECTORS

This first full year of operations of the Czech & Slovak American Enterprise Fund was one of expanding investment activities as our organization and the entrepreneurs in the CSFR responded to the promise of the new market oriented environment.

Selected from among the thousands of general inquires and detailed applications received these past twelve months were thirty-nine transactions which received at least preliminary Board approval. Twenty-nine of these investments became funded commitments through September 30, 1992 and \$7 million was disbursed by the end of our fiscal year.

In keeping with the CSAEF's mandate to foster small and medium sized enterprises that have the likelihood of becoming commercially viable in a free market environment, these approved investments are concentrated in businesses of fewer than 30 workers where investments average under \$350,000. Equity represented 23% of the total board authorizations.

The Board considers its responsibility of fostering entrepreneurship as prompting investment at a stage earlier than is normally available from regular sources of finance. On the other hand, businesses must be potentially profitable: that is, there must be evidence of "commercial viability". The risks inherent in making these choices are well recognized in the legislative history of the Enterprise Funds.

The Board is encouraged by the development of entrepreneurship which it has witnessed in the CSFR. The basic skills of the people and their initiative are well manifested in the extensive economic growth throughout the economy.

New businesses have faced special challenges in the CSFR. The well managed but strict macroeconomic policy, which has reduced inflation from around 58% in 1991 to presently under 10% per annum, accentuated the problems of adjustment for new businesses. Lost export markets in Eastern Europe have reduced the Gross Domestic

Product significantly while requiring the redirection of exports. Price levels have been seeking new equilibrium from those which prevailed in the past. Business people have had to reorient their past experience to the realities of a demand driven environment.

The CSAEF is very encouraged by the adaptability which the economy of the CSFR has displayed. In addition, we are heartened by the adjustment enterprises themselves are making and we are confident that it will continue. This progress fully justifies not only the foreign investment that has taken place already, but additional investment—both direct and portfolio—as the economic development we are seeing continues to grow.

Businesses served by the Enterprise Fund involve markets not normally available to the U.S. export market. Moreover, CSAEF investments which have involved U.S. investors have had, if anything, a positive impact on U.S. employment.

The announcement by both the Czech Republic and the Slovak Republic of their intention to dissolve the Federated Republic on January 1, 1993 was accompanied by reassuring plans for a customs union and a currency arrangement designed to continue their uninterrupted economic growth. Undeterred by the announcement, the CSAEF is continuing a "business as usual" policy and believes there is ample opportunity ahead to adjust to the political developments described.

Following election by the Board of Directors as the CSAEF's first President, Stephen L. Wald assumed office in April 1992. Mr. Wald had previously served with distinction in the investment management field on Wall Street. In order to make way for Mr. Wald's leadership, the Chairman correspondingly reduced his role as executive officer with day-to-day involvement in the activities of the Fund.

In December 1991, Messrs. Jan Tauber of Prague and Milan Tomasovic of Bratislava were elected to our Board. Their active participation has contributed significantly to the success of our process.

In the period ahead the opportunities in the Republics will reward the Czech and the Slovak people in terms of their welfare, their pocketbooks, and their spirit. These Republics, with their increased productivity, will reward the investor seeking a fair return as well.

CSAEF Directors

John R. Petty

Charles A. Vanik

David O. Maxwell

Milan Ondrus

Julia M. Walsh

Jan Tauber

Milan Tomašovič

PRESIDENT'S REPORT

I am pleased to present the President's Report of the CSAEF. This year ending September 30, 1992, was the Fund's first full year of operations.

Investments - Loans, Equity and People

The Fund provides capital through loans and equity participation to new, existing, and restructured private enterprises and joint ventures throughout the Czech and Slovak Federal Republic. The CSAEF functions as a venture capital investor, providing both equity and debt capital. This activity is enhanced primarily by the necessary ongoing role of advisor.

The purpose of the Fund is to foster entrepreneurship, and five priorities guide the Fund's investment decisions:

- Enhance and upgrade the level of employment in the CSFR
- Promote exports
- Contribute to environmental betterment
- Encourage and develop energy efficiency
- Assist in agricultural sector investments, including food processing

The Fund seeks and encourages strategic and financial joint venture partners, principally from the U.S. Such relationships attempt to create a multiplier effect on the Fund's resources as well as assist in the management and nurturing of the Fund's investments.

The Fund uses underwriting criteria and valuation methodologies similar to those used in the U.S., and expects to get its loans repaid and to obtain a fair rate of return on its equity investments. Income from loans and dividends or gains on equity investments support the Fund's overhead expense, and any profit will be used to expand the Fund's investment base in the CSFR. It is hoped that the profitability the Fund achieves over time will give private U.S. investors further evidence of the value of investing in the CSFR.

The Fund's goal, however, is more than to make a profit. A critical priority is fostering entrepreneurship in the CSFR. The CSAEF's professional staff, augmented with outside experts, works to nurture the companies in which the CSAEF lends and invests. Technical Cooperation grants are available, on a highly selective basis, for this purpose (as well as for providing general training and education for the CSFR entrepreneurial community). Balancing the goals of profitability and helping CSFR entrepreneurs is a primary constant concern of the Fund's staff and directors.

The Fund invests where others may fear to tread...today. The infrastructure available to an investor in a developed market does not yet exist in the CSFR.

For example:

There are no public equity markets. While banks do lend to the private sector, the transition from a state-owned to a private-sector banking system is still in process.

Applicants generally have little or no knowledge of the common elements of commerce and finance which are normally used as a basis for discussion and negotiation between entrepreneurs and financing sources.

Accounting methodology has yet to be fully adjusted to Western standards. Utilizing financial data in a manner helpful to running an enterprise in a market environment is a management skill now under development.

There is little public data with which to analyze a product's potential market.

Legal documentation of a transaction is required in an environment with little such tradition which is now in the midst of changing its commercial code. The only thing known about the tax laws and regulations is that they will be changed and there are simply more questions than answers.

As a result, much effort is required to understand a proposition and help shape a possible investment for the Fund. At the same time, we see positive movement towards building the infrastructure needed to attract private investment. The legal and accounting framework is slowly coming into place. More important, the entrepreneurial spirit is high among Czechs and Slovaks and, as free-market methods and concepts are grasped, the free-market concepts and methods are employed.

Given these realities, the Fund, in some ways, plays an advance role for private investment. It is willing to spend the time and money necessary to analyze and develop small-business investment opportunities. It works closely with the entrepreneurs to help get the businesses going. As the market develops in the CSFR, it is expected that the CSAEF will pave the way for other foreign investors.

Numbers cannot tell the whole story. As President, I have been impressed by the energy of Czech and Slovak entrepreneurs building the businesses that are the future of the country. Two illustrations are representative:

Leader Gasket: A small American concern in Louisiana that manufactures a highly machined product wanted to develop a low cost production site, both to expand its U.S. sales and break into the European market. It found, through us, a modern plant in an area of high unemployment in Slovakia that had previously made a product for the Soviet military. The Americans provided some technology and, more importantly, sent a senior manager to live in this small town in Slovakia three hours from Bratislava. This was a win-win for everyone. The U.S. company expanded production with no cutback on its U.S. operation and the potential for related U.S. exports was created. The Slovak town not only saved a plant and the jobs that go with it, but additionally it has seen two other businesses developed there to support the joint venture.

Alp: Two Czech mountaineers began making backpacks and rucksacks in 1988 in a back room in their home after hours. With a loan from the CSAEF, they have been able to expand their business and now cannot meet demand for their products. They have obtained an American MBA through the MBA Enterprise Corps (a recipient of a CSAEF Technical Cooperation grant) who lives with the business, providing day-to-day assistance on business matters.

Technical Cooperation

The SEED Act specifically supports Technical Cooperation as part of the Fund's program. Technical Cooperation assists in the development of a viable enterprise and helps generate a financial return for the Fund. While this assistance is in the form of a grant, it frequently allows for some financial return to the Fund.

In essence, the Fund's Technical Cooperation program is oriented to two areas:

(a) bringing industry experts to the companies in which the Fund lends and invests, to

help realize the potential of these fledgling businesses; and (b) bringing more general training and expertise to the CSFR entrepreneurial community.

The Fund intends to significantly expand its Technical Cooperation program during fiscal 1993. However, Technical Cooperation will always be a relatively small part of the Fund's program (\$5 million of the expected \$65 million in expected AID funding).

Leveraging Our Resources

1. Equity Participations

Through involving local investment banks in equity investments, fewer of the Fund's resources are involved and additional parties are brought into this investment process.

The Fund welcomes portfolio and other foreign direct investors' equity participation. We anticipate 1993 will provide opportunities in this regard and efforts are underway to bring this about.

2. Loan Participation

Similarly, local banks frequently participate in transactions originated by the Fund. This is an ongoing activity.

3. Joint small business lending program

Subsequent to September 30, 1992, the Fund reached tentative agreement with two banks, one in each Republic, for a joint-lending program, with details still being negotiated. It is expected that in each instance, the bank and the Fund will share equally in loans of up to \$100,000 to local entrepreneurs, particularly those who may not be able to get loans at present due to lack of substantial outside resources and collateral. The loans will ordinarily be collateralized to the extent possible and charged market rates of interest.

Development of such a program has been a top priority of the Fund. As discussed at length in last year's annual report, finding a cost-effective mechanism to get capital to smaller companies is a difficult challenge. By using the existing branch network of local banks, the CSAEF hopes to reach the small-business entrepreneur in a cost-effective manner. The CSAEF also receives a partner with which to share the risk *pari passu*. Training is provided to the lending officers in this program.

Our training program is also directed to the CSFR small business community and it is designed to assist in business planning and in achieving better access to the financial marketplace. The Fund has earmarked \$8 million towards this program (\$5 million for the Czech Republic, \$3 million for Slovakia) plus up to an additional \$500,000 in Technical Cooperation funds for training both the bankers and applicants/entrepreneurs. We expect to launch the program early in the first quarter of calendar 1993.

Staff

Fund professional staff is composed of experienced, trained individuals, American, Czech and Slovak — all of whom have had hands-on business, banking, or securities experience. All of the Fund staff is ultimately responsible for the success of the Fund's investment program, and I would like to thank them for their efforts, long hours, and good nature.

Stephen L. Wald
President, CSAEF

THE YEAR IN REVIEW

In its first full year of operation, the Fund made considerable progress in terms of quantity of investment proposals received and reviewed, investments approved, and funds distributed. As of December 10, 1992, the Board had authorized management to commit a total of \$27 million in programs in three broad categories: Loans & Investments (\$18 million), Technical Cooperation (\$1 million), and Joint-Lending (\$8 million, as discussed above).

Loans and Investments

As of December 10, 1992, 39 investments totalling \$18 million had been authorized by the Board. Disbursements to September 30, 1992, were \$7 million for 29 transactions.

As indicated in the 1991 Annual Report, the Fund participated actively in the bidding process associated with large scale privatization. A small volume materialized and \$11 million of authorizations involved in privatization were cancelled. The CSAEF has not found the privatization process an efficient vehicle for its particular financing, and concentrates instead on companies in formation or which are already private.

Geographic Diversification

Nineteen approved investments totalling \$8.6 million are located in the Czech Republic, with the remaining 20 approved investments totalling \$9.5 million located in the Slovak Republic. These investments are located widely throughout each Republic, with only a few located in Prague and Bratislava. Particular emphasis has been given to companies located in areas of high unemployment.

Note that the description of the portfolio given here is based upon the assumption that all 39 transactions presently approved close and are fully funded (to a total of \$18 million, assuming an exchange rate of 28 Korunas to \$1). There is no assurance that the Fund will close and fund all 10 remaining transactions in as much as each is subject to final review and negotiation. However, a profile of these companies provides an overall picture of the nature of the Fund's investment program.

Industry

The Fund has also diversified by industry, as shown below:

	Number of Investments	Amount (\$000,000)	Percent of Investment
Manufacturing	14	\$ 7.8	43 %
Food Related	19	9.1	50 %
Energy Related	5	0.9	5 %
Services	1	0.3	2 %
TOTAL	39	\$ 18.1	100 %

Manufacturing includes a wide range of companies, such as metal products (gaskets, gasoline cans), plastics and fire extinguishers. Food Related includes introduction of new cattle breeds to both republics as well as bakeries and other food processors. Energy related includes several low-head hydro power transactions, where entrepreneurs are rebuilding sites that were operating before they were nationalized and destroyed by the Communists.

Size

In fulfilling its mandate to meet the needs of small and medium sized businesses, the expected employment-base for Fund investments is as follows:

	Number of Investments	Amount (\$000,000)	Percent of Investment
Less than 30 Employees	28	\$ 8.9	49 %
30-99 Employees	8	4.3	24 %
100 and More Employees	3	4.9	27 %
TOTAL	39	\$ 18.1	100 %

Type

The CSAEF has focused its investment activity on start-up or recently established enterprises. The large scale privatization process of former state-owned companies normally involves more than 500-1000 employees. Moreover, involvement in the privatization process has not proven the most effective form of CSAEF participation.

Types of investment include:

	Number of Investments	Amount (\$000,000)	Percent of Investment
Startup	22	\$ 9.1	51 %
Expansion	10	1.8	10 %
Privatization	2	3.9	21 %
Joint Venture	5	3.3	18 %
TOTAL	39	\$ 18.1	100 %

Technical Cooperation

The Fund's \$1,193,000 in approved Technical Cooperation is divided as shown below. Some of these programs are at an early stage of development:

\$500,000	Training for both the lenders and entrepreneurs in the Small-Business Lending Program.
\$300,000	MBA Enterprise Corps, to support the work of an organization that trains graduates of 20 top U.S. Business Schools to live in Central and Eastern Europe while working for companies there (and receive local salary and benefits). The CSAEF is a beneficiary of the Corps, with four Corps members, two working in the Prague office and two in the Bratislava office for fiscal year 1993. During fiscal year 1992 two Corps members made significant contributions when they worked in the Prague Office.
\$115,000	To develop a waste-management program for a town in Slovakia. A portion of the total cost of the study will be shared with the U.S. Trade and Development Agency.
\$100,000	To develop a program to train Czech and Slovak accountants on Western accounting practices.
\$ 85,000	Central Europe Entrepreneurship Center, to support two small-business advisory centers (Prague and Bratislava).
\$ 70,000	To develop model loan (and related) documentation for small business transactions, in conjunction with the Czech Bar Association. Such standard documentation can help reduce transaction costs associated with small-business lending.
\$ 19,000	Feasibility studies associated with two investment proposals.
\$ 4,000	East European Foundation for Entrepreneurship Research, to expose to Western business practice 25 Faculty from 15 East European countries.
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\$1,193,000	TOTAL

**CZECH AND SLOVAK AMERICAN ENTERPRISE FUND
CONSOLIDATED FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT ACCOUNTANTS**

**FOR THE YEAR ENDED SEPTEMBER 30, 1992 AND
FOR THE PERIOD MARCH 6, 1991 (DATE OF INCORPORATION)
TO SEPTEMBER 30, 1991**

REPORT OF INDEPENDENT ACCOUNTANTS

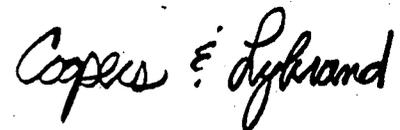
To the Board of Directors
Czech and Slovak American Enterprise Fund

We have audited the accompanying consolidated balance sheets of the Czech and Slovak American Enterprise Fund and subsidiary (the "Fund") as of September 30, 1992 and 1991, and the related consolidated statements of revenues, expenses and changes in fund balance, and cash flows for the year ended September 30, 1992 and for the period from March 6, 1991 (date of incorporation) to September 30, 1991. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of investments owned as of September 30, 1992, by correspondence with the investees. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Czech and Slovak American Enterprise Fund and subsidiary as of September 30, 1992 and 1991, and the consolidated results of their operations, changes in fund balance, and their cash flows for the year ended September 30, 1992 and for the period March 6, 1991 (date of incorporation) to September 30, 1991 in conformity with generally accepted accounting principles.

As explained in Note 2, the consolidated financial statements include investments valued at \$6,938,636 (73% of total assets), whose values have been estimated by the Board of Directors in the absence of readily ascertainable market values. We have reviewed the procedures used by the Board of Directors in arriving at its estimate of value of such investments and have inspected underlying documentation, and, in the circumstances, we believe the procedures are reasonable and the documentation appropriate. However, because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.



Washington, D.C.
December 11, 1992

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CZECH AND SLOVAK AMERICAN ENTERPRISE FUND
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 1992 AND 1991

ASSETS	1992	1991
Investments at fair value, net of \$200,000 reserve	\$6,938,636	—
Cash and cash equivalents	1,833,192	\$4,355,777
Restricted cash	310,000	—
Accrued interest receivable	105,144	—
Prepaid expenses and other assets	81,636	21,787
Fixed assets, net	<u>229,788</u>	<u>224,212</u>
Total assets	<u>\$9,498,396</u>	<u>\$4,601,776</u>

LIABILITIES AND FUND BALANCE

Liabilities:

Accounts payable and accrued expenses	\$187,816	\$ 35,261
Deferred origination fees	98,933	—
Deferred grant revenue	<u>1,545,589</u>	<u>4,240,000</u>
Total liabilities	<u>1,832,338</u>	<u>4,275,261</u>

Fund balance:

Cumulative translation adjustment	323,120	—
Fund balance	<u>7,342,938</u>	<u>326,515</u>
Total fund balance	<u>7,666,058</u>	<u>326,515</u>

Total liabilities and fund balance	<u>\$9,498,396</u>	<u>\$4,601,776</u>
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The accompanying notes are an integral part of these financial statements.

**CZECH AND SLOVAK AMERICAN ENTERPRISE FUND
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED SEPTEMBER 30, 1992 AND
FOR THE PERIOD MARCH 6, 1991 (DATE OF INCORPORATION)
TO SEPTEMBER 30, 1991**

	Year Ended September 30, 1992			Period March 6, 1991 (date of incorporation) through September 30, 1991
	Loan Investment Program	Technical Cooperation Program	Total	
INVESTMENT INCOME				
Investment interest and fees	\$193,375	\$ —	\$ 193,375	—
Investment interest on bank deposits	111,699	—	111,699	\$ 110,027
Investment income	305,074	—	305,074	110,027
Provision for losses on investments	(200,000)	—	(200,000)	—
Net investment income	105,074	—	105,074	110,027
EXPENSES				
Employee compensation & benefits	933,084	—	933,084	281,856
Program development	166,663	—	166,663	96,266
Legal and professional fees	242,943	—	242,943	62,483
Depreciation and amortization	67,046	—	67,046	12,754
Occupancy	140,320	—	140,320	51,338
Other operating expenses	187,872	—	187,872	38,815
Total expenses	1,737,928	—	1,737,928	543,512
Technical cooperation grants	—	185,134	185,134	—
U.S. Federal grant revenue	8,649,277	185,134	8,834,411	760,000
Excess of revenues over expenses	7,016,423	—	7,016,423	326,515
Fund balance, beginning of period	326,515	—	326,515	—
Fund balance, end of period	\$7,342,938	\$ —	\$7,342,938	\$ 326,515

The accompanying notes are an integral part of these financial statements.

CZECH AND SLOVAK AMERICAN ENTERPRISE FUND
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 1992 AND
FOR THE PERIOD MARCH 6, 1991 (DATE OF INCORPORATION)
TO SEPTEMBER 30, 1991

	Year Ended September 30, 1992	Period March 6, 1991 (date of incorporation) through September 30, 1991
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenues over expenses	\$7,016,423	\$ 326,515
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Technical assistance included in investing activities	185,134	—
Increase in reserve for loss on investment portfolio	200,000	—
Depreciation and amortization	67,046	12,754
Changes in operating assets & liabilities:		
Increase in restricted cash	(310,000)	—
Increase in accrued interest receivable	(105,144)	—
Increase in prepaid expenses and other assets	(59,849)	(21,787)
Increase in accounts payable and accrued expenses	152,555	35,261
Increase in deferred origination fees	98,933	—
(Decrease) increase in deferred grant revenue	(2,694,411)	4,240,000
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,550,687	4,592,743
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments and loans	(6,898,821)	—
Technical assistance	(185,134)	—
Purchases of fixed assets	(72,622)	(236,966)
Cash received on loan repayments	83,305	—
NET CASH USED IN INVESTING ACTIVITIES	(7,073,272)	(236,966)
Net (decrease) increase in cash and cash equivalents	(2,522,585)	4,355,777
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	4,355,777	0
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$1,833,192	\$4,355,777

The accompanying notes are an integral part of these financial statements.

**CZECH AND SLOVAK AMERICAN ENTERPRISE FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1992**

1. ORGANIZATION OF FUND

The Czech and Slovak American Enterprise Fund and Subsidiary (the "Fund") is a not-for-profit corporation formed pursuant to the Support for East European Democracy Act of 1989 (the "SEED Act") for the primary purpose of promoting the development of the Czech and Slovak Federal Republic (the "CSFR") private sector and policies and practices conducive to such development. It is similar to funds now operating in Poland, Hungary, and Bulgaria. As part of the SEED Act, the United States Congress authorized appropriations of \$360 million over a three year period to be granted to Enterprise Funds by the United States Agency for International Development ("AID") to be used for program purposes and administrative expenditures of the Enterprise Funds. Grants received from AID are conditional on the Fund's compliance with the requirements of the SEED Act, which imposes certain U.S. policy objectives and reporting obligations. Under the terms of the grant agreement with AID, the Fund may hold funds in interest bearing accounts and may retain interest, investment income and investment profits for program purposes. At September 30, 1992, the Fund has \$27 million available under letters of credit from AID.

On October 22, 1991 the Fund was granted incorporation of a wholly-owned subsidiary in the CSFR, the CSAEF Enterprise Finance, spol. s r.o. (the "Subsidiary"). It is capitalized at 300,000 Kcs (approximately \$10,000 at the exchange rate on the day of incorporation), and is consolidated at September 30, 1992.

The Fund is engaged in a broad private investment program in the CSFR which, through equity investments, loans, grants, technical cooperation and other measures, emphasizes a commitment to small-to-medium sized businesses. The Fund provides technical cooperation to businesses in the CSFR private sector, including those in which the Fund has invested, and to the CSFR government to assist it in developing the private sector and a market economy in the CSFR. Through its direct role in investments in the CSFR private sector, the Fund seeks to generate profits that will further support its activities and attract investments by others. As part of its investment operations, the Fund may obtain representation on management and supervisory boards of investee companies. Entities in which the Fund invests may enter into business transactions with each other in the normal course of business.

**CZECH AND SLOVAK AMERICAN ENTERPRISE FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1992**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are as follows:

Basis of Presentation

The consolidated financial statements include the financial position and the results of operations of the Subsidiary. Intercompany accounts and transactions are eliminated in consolidation.

Investment Valuation

The Fund's investments, as set forth in footnote 3, are not readily marketable and are not listed on an exchange or quoted in an open market. These investments are stated at fair value as determined by management. In determining fair value, management considers relevant qualitative and quantitative information available. In general, the Fund's policy is to carry investments at cost except where a change in the investee company's circumstances warrants a lower or higher valuation. The values assigned to investments are based on available information and do not necessarily represent amounts that might ultimately be realized, since such amounts depend on future developments inherent in long-term investments. Investment valuation is recommended by management and adopted by the Board of Directors (the "Board") annually, and more often if deemed necessary by management or the Board.

The reserve for losses on investments is maintained at a level to allow for the diminution of value of the investment portfolio. This determination is made after evaluating the portfolio, current economic conditions, information about specific investment situations, including its payment history, collateral value, cash flows, earnings, and other factors considered relevant by management. These factors are subject to change over time and are reviewed periodically. As adjustments become necessary, they are reported in the period in which they become known. There is no precedent for valuing such investments in the CSFR. Therefore, there is little experience upon which to base the estimate of risk and amount of possible losses. There have been no specific charge offs of any investment.

**CZECH AND SLOVAK AMERICAN ENTERPRISE FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1992**

- Cash equivalents** For purposes of the statement of cash flows, the Fund considers all highly liquid financial instruments purchased with a maturity of three months or less to be cash equivalents. Cash held in banking accounts in excess of FDIC insurance limits is collateralized by US Government and Agency securities.
- Fixed assets** Fixed assets and leasehold improvements are stated at cost net of accumulated depreciation and amortization. Computer hardware/software, furniture and equipment are depreciated on a straight-line basis over their estimated useful lives, principally five years. Leasehold improvements are amortized on a straight-line basis over the lesser of their useful lives or the term of the lease.
- Revenue recognition** Grants from AID are recognized as revenue when funds are invested or expended consistently with the purpose of the Fund set forth in the SEED Act. Amounts received but not yet recognized as revenue are reported as Deferred Grant Revenue. Loan fees charged to borrowers are recognized as an adjustment of yield over the life of the loan.
- Translation of foreign currency** The Subsidiary uses the local currency as the functional currency and translates all assets and liabilities at year end exchange rates, and income and expense accounts at average exchange rates. Resulting net exchange gains or losses are accumulated in a separate section of fund balance titled "Cumulative Translation Adjustment". Gains and losses resulting from investment transactions of the Fund denominated in currencies other than the U.S. dollar are included in investment income as they occur, and were not material for either period presented.

**CZECH AND SLOVAK AMERICAN ENTERPRISE FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1992**

- Program development:** Expenses directly attributable to the Fund's operating activities, such as consulting and travel, are recorded as program development expenses. Included herein are directors' travel expenses of \$48,855 and Federal Republic directors' fees of \$10,000 for the year ended September 30, 1992.
- Donated services** Members of the Fund's Board of Directors donate significant amounts of their time to the Fund's program. No amounts have been reflected in the accompanying financial statements for such donated services inasmuch as no objective basis is available to measure the value of such services.
- Related party** The Fund shares the cost of certain operating expenditures in Washington, D.C. with the Hungarian-American Enterprise Fund. The shared operating costs include occupancy (\$142,000 and \$142,000) and employees (\$156,000 and \$141,000) who served both Funds for the year ended September 30, 1992 and the period March 6, 1991 (date of incorporation) through September 30, 1991, respectively. These operating costs are currently allocated equally between the two Funds.

**CZECH AND SLOVAK AMERICAN ENTERPRISE FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1992**

3. INVESTMENTS

The following summarizes the dollar equivalent value of investments of the Fund as of September 30, 1992:

Investment	Description	Carrying Value	Type	% Owned	Republic
AGMANAGEMENT, INC.	Cattle Breeding, j.v.	\$109,688	Loan		Czech
AGMANAGEMENT, INC.	Cattle Breeding, j.v.	109,688	Loan		Slovak
ALP - MARTIN MANUS	Backpacks	75,556	Loan		Czech
AMERIBIF, SPOL. S.R.O.	Biofermentation, j.v.	90,858	Loan		Czech
		15,792	Equity	33%	
BRYNDZIAREN- P. MAKOVICKY	Cheese manufacturer	6,045	Loan		Slovak
BSK A.S.	Cement roof tile	302,229	Loan		
		377,786	Equity	49%	Slovak
CHIRANA A.S.	Dental instruments	377,786	Loan		Czech
DEDINSKY	Bee products	96,336	Loan		Slovak
DEKOPLAST, SPOL. S.R.O.	Plastics molder	260,673	Loan		Slovak
		103,891	Equity	31%	
EMU	Low-head hydro	24,574	Loan		Czech
HANZL, SPOL. S.R.O.	Bakery	85,959	Loan		
		1,116	Equity	30%	Czech
HELAS, SPOL. S.R.O.	Hospital supply	151,115	Loan		Slovak
HELI, SPOL. S.R.O.	Helicopter patrolling	337,799	Loan		Czech
ISTROCERA, SPOL. S.R.O.	Beeswax processor	199,773	Loan		
		6,649	Equity	31%	Slovak

CZECH AND SLOVAK AMERICAN ENTERPRISE FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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JAMI - JAROMIR MISAR	Small Agri. Eqpmnt.	41,556	Loan		Czech
KOVOPODNIKATEL TOPIC	Metal products	270,495	Loan		Czech
KRIZ, SPOL. S R.O.	Embroidery machinery	202,692	Loan		Czech
LEADER GASKET OF SLOVAKIA, SPOL. S R.O.	Gasket manufacturer, j.v.	318,154 400,000	Loan Equity	33.3%	Slovak
MARBROT BAKERY		63,018	Loan		Czech
MATUSKA, SPOL. S R.O.	Wooden pallets	151,114 377,786	Loan Equity	40%	Slovak
MYKOINTEGRA A.S.	Biofermentation	79,335	Loan		Czech
PEKLTON, SPOL. S R.O.	Bakery	303,740	Loan		Czech
PENTA, SPOL. S R.O.	Motorcycle manufacturer	302,244 453,328	Loan Equity	32%	Slovak
PESKO, SPOL. S R.O.	Bakery	83,113 18,889	Loan Equity	31%	Slovak
PODOLAK, SPOL. S R.O.	Bakery	178,088 58,179	Loan Equity	31%	Slovak
PYROKONTROL, SPOL. S R.O.	Fire extinguishers, j.v.	385,467 359,946	Loan Equity	18%	Slovak
ROTOR	Low-head hydro	310,956	Loan		Slovak
SVANDA, SPOL. S R.O.	Bakery	1,133	Equity	30%	Czech
VYSKOCIL	Low-head hydro	46,090	Loan		Czech
Subtotal		\$7,138,636			
Less reserve for losses on investments		(200,000)			
Net investment balance		<u>\$6,938,636</u>			

**CZECH AND SLOVAK AMERICAN ENTERPRISE FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1992**

4. COMMITMENTS

Investments

In addition to the investments included in the consolidated schedule of investments at September 30, 1992, the Board has authorized management to commit to investments and technical cooperation of \$5.4 million that were subject to fully funding existing investments. The Board has also authorized management to commit up to an additional \$17.4 million to investments and technical cooperation which are subject to the completion of investment negotiations and the signing of closing documents, to the satisfaction of all parties.

**Letter of Credit and
other Guarantees**

The Fund has \$310,000 in an irrevocable letter of credit (the "Letter") outstanding at September 30, 1992 which guarantees payment for equipment to be shipped to a portfolio company. This Letter is fully collateralized by restricted cash held in escrow in the same amount which will be used to pay the letter of credit if exercised before January 31, 1993, the expiration of the Letter.

The Fund has guaranteed a lease obligation through December 31, 1996 on behalf of one of its investees in the cumulative amount of \$560,000 based on September 30, 1992 exchange rates.

Leases

The Fund is obligated under noncancelable operating leases for its Washington, Prague and Bratislava offices. Lease terms are five, two and two years respectively and each began in fiscal year 1991. The Prague lease is payable in German Deutsche marks and the Bratislava lease is payable in US dollars. Future minimum payments under noncancelable leases are as follows:

Fiscal Year	(\$US)
1993	\$122,270
1994	70,914
1995	70,914
1996	<u>47,272</u>
Total	<u>\$311,370</u>

The leases are subject to annual escalation based on increases to the consumer price index.

**CZECH AND SLOVAK AMERICAN ENTERPRISE FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1992**

5. FIXED ASSETS

At September 30, 1992 and 1991, fixed assets consist of:

	1992	1991
Computer hardware/software	\$157,817	\$116,529
Furniture and equipment	125,342	112,714
Leasehold improvements	8,353	7,723
	291,512	236,966
Less: accumulated depreciation and amortization	(61,722)	(12,754)
	\$229,788	\$224,212

6. TAX STATUS

United States

The Fund is exempt from federal income tax under Internal Revenue Code section 501(c)(3) and from District of Columbia franchise and income taxes.

**Czech and Slovak
Federal Republic**

The Fund is exempt from income and wage taxes in the CSFR, retroactively from the date of incorporation until December 31, 1992. The Fund expects to retain the exemption under the new Czech and Slovak Republic tax laws which are scheduled to take effect January 1, 1993.

7. CONCENTRATION OF CREDIT RISK

By statute, all of the Fund's investments are in business activities conducted in the CSFR. As such, these investments are subject to the political and economic uncertainties associated with doing business in the CSFR at this time.

8. SUBSEQUENT EVENTS

Effective January 1, 1993, the CSFR will split to become the Czech Republic and the Slovak Republic. Management does not believe this separation will have a material impact on the financial position or results of operations of the Fund.

BOARD OF DIRECTORS

John R. Petty, *Chairman*
retired Chairman and CEO of the Marine Midland Bank

Charles A. Vanik, *Vice Chairman*
former member of Congress
Attorney with the law firm of Squire, Sanders and Dempsey

David O. Maxwell,
former Chairman and CEO of
Federal National Mortgage Association

Milan Ondrus,
International Business Advisor

Julia M. Walsh,
Managing Director of Tucker/Anthony, Inc.

Mr. Jan Tauber,
former advisor to the Federal Minister of Finance

Mr. Milan Tomašovič

WASHINGTON, D.C.

1620 Eye Street, N.W., Suite 703 Washington, DC 20006
Tel: 202/467-5480 Fax: 202/467-5466

Richard Dine, *Senior Investment Officer*
Katarina Dubielova, *Investment Analyst*

Alexandra Ossipoff, *Director of Operations*
Bradley T. Miller, *Chief Financial Officer*
Barbara Mahiques, *Administrative Assistant*
Radmila Bartos, *Secretary*

PRAGUE

Blanická ul. 28 120 00 Praha 2
Tel: 011-42-2-254-130 Fax: 011-42-2-207-118
42-2-252-714
42-2-254-665

Stephen L. Wald, *President*
Michelle L. Ott, *Senior Investment Officer*
Jane A. Hoffman, *Investment Officer*
David M. Kratochvil, *Investment Officer*
George W. Richards IV, *Investment Officer*
Andrej Stybnar, *Technical Advisory Consultant*
Renata Denková, *Assistant to Investment Staff*

Caitlin C. Donahoe, *Administrative Assistant*
Theresa D. Haas, *Financial Officer*
Marie Nováková, *Secretary*

BRATISLAVA

Radlinského 27 QUATTRO - P.O. Box 66/1
810-05 Bratislava 15

Tel. 011-42-7-32-65-44
42-7-36-15-80
FAX 011-42-7-36-25-30

Leighton Q. J. Klevana, *Director*
Douglas Swaim, *Senior Investment Officer*
M. Caroline Carmichael, *Investment Officer*
Monika Kubicová, *Investment Associate*
Katarina Kucerová, *Investment Analyst*
Simon Stark, *Investment Officer*

Mária Bergerová, *Counsel*
Iveta Griacová, *Assistant to the Director*
Eva Hricovská, *Accountant*