

BULGARIAN
AMERICAN
ENTERPRISE
FUND

M E N T S

1995
ANNUAL
REPORT

The Bulgarian-American Enterprise Fund ("BAEF" or the "Fund") is a private U.S. corporation established to promote the development of free enterprise and entrepreneurship in Bulgaria. The Fund was established by the U.S. Congress through the Support for East European Democracy (SEED) Act, which authorizes the U.S. government to disburse up to \$55 million to the BAEF for investment in the private sector of Bulgaria. The BAEF also may raise additional amounts from the U.S. private sector and foundations.

Based in Sofia, Bulgaria and Chicago, Illinois, U.S.A., the BAEF received its initial funding January 14, 1992. Under the direction of a volunteer board of directors and a small professional staff, the Fund makes equity investments in and loans principally to private businesses in Bulgaria, considering proposals and originating activities that help develop Bulgaria's private sector.

The Fund's activities include:

- Starting new businesses and encouraging entrepreneurship in Bulgaria
- Establishing joint ventures
- Promoting Bulgaria's investment opportunities to U.S. and other Western investors
- Providing management and industry assistance to Bulgarian businesses
- Assisting in the privatization of state enterprises
- Broadening the understanding of private enterprise among managers, government, and the Bulgarian public.

As we turn toward 1996, the BAEF will continue its efforts to support the growth of the private sector in Bulgaria. In pursuit of this goal, we expect to complete 200 or more new investments and to more than double our actual disbursements.

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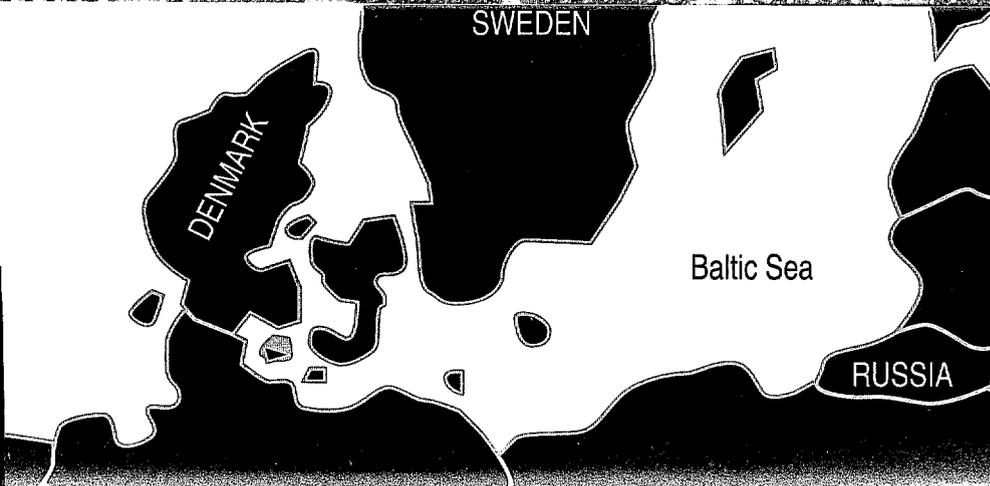
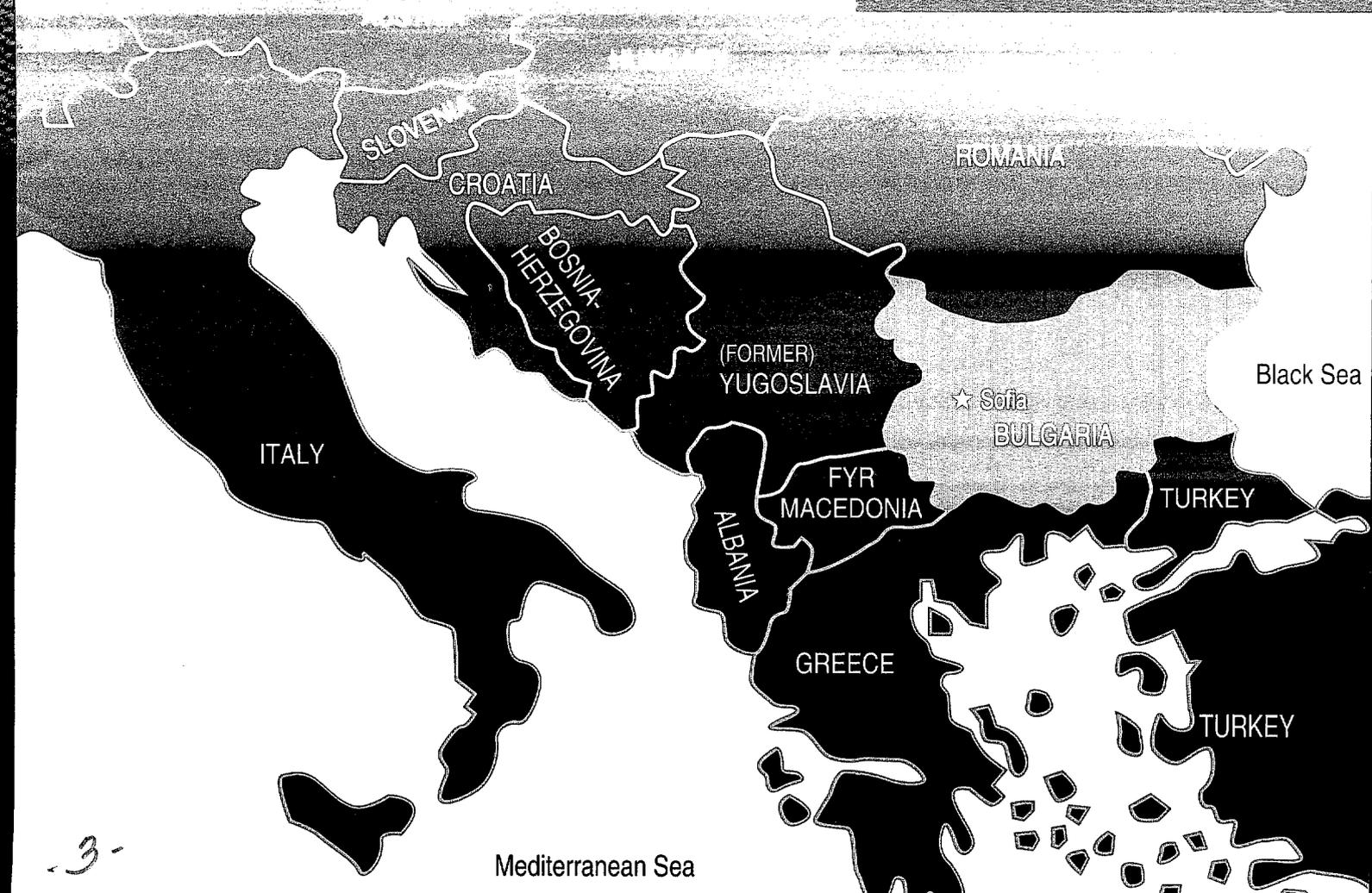


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JANUARY 10, 1996

*F*ive hundred investments in privately owned Bulgarian businesses in 130 cities, towns and villages throughout Bulgaria. Nearly 300 of these were in 1995. Our 500th investment approval coincides with the distribution of this document, and the achievement of this milestone highlights our Annual Report for the fourth year of operations covering the fiscal year ending September 30, 1995.

The mission of the Fund is to support the development of the private sector by investing in private Bulgarian companies. This seemingly straightforward task is much more complicated than it sounds. First, Bulgaria suffers from a severe shortage of investment capital, particularly for small and medium-sized private enterprises which is where the Fund concentrates its efforts. In so doing, the Fund must invest in businesses that have no lengthy track record of success. It is also under pressure to invest its funds as quickly as possible. Finally, there is the expectation that the Fund be profitable and eventually become self-sustaining. These objectives are often in conflict.

Despite this difficult mission, however, the Fund has been increasingly successful over the past 18 months. Four years ago, when the Fund was founded, the environment could have been characterized at best as Mission Impossible. Fortunately, despite discouraging and sometimes outright antagonistic public policy, Bulgarian entrepreneurial initiative and resourcefulness have prevailed. Small businesses have emerged and grown so rapidly that the private sector now accounts for nearly one-half of the country's economy.

Our activity has accelerated in concert with this rapid growth since small businesses have become the Fund's primary targets. In turn, our loans and equity encourage new entrants as well as expansions of existing businesses – a virtuous circle of American enterprise fund capital and Bulgarian entrepreneurship.

Each year the Fund increases its capabilities. Today, we are significantly more competent at making investment judgments in an expanding universe of opportunities. The Fund is also better known and has a larger range of contacts in industry, government, and Bulgarian

society at large. Most important, however, is the continued development of our Bulgarian staff, who are assuming ever-increasing responsibility for important parts of our program.

In both reviewing our progress and anticipating our future efforts, we would like to express our appreciation to our volunteer Board of Directors. Their dedication and accessibility in support of our activities have been immensely valuable in helping us fulfill the Fund's ambitious goals.

We continue to be optimistic about the prospects for the Fund and for a free and democratic Bulgaria as it evolves toward a modern market economy. We look forward to working cooperatively with all parties who are similarly dedicated.

Sincerely,



Stephen W. Fillo
Chairman of the Board



Frank L. Bauer
President & Chief Executive Officer

-  Nachala Loan
-  Entrepreneur Award
-  Kompas Program
-  Large Investment
-  Hotel Loan Program
-  Dairy Lending Program



Six years after the bloodless revolution of November 10, 1989, Bulgaria is a study in contrasts. The private sector is approaching 50 percent of the economy, yet there has been virtually no privatization. Wisps of opportunity abound, but despite numerous pronouncements of interest, an already low level of foreign investment fell dramatically in 1995. New banks open just as the Bulgarian National Bank reports record losses for existing banks, both state and private. While new, often flashy prosperity is obvious and everywhere, patience is wearing thin after a tough six-year decline. Overall, the popular perception is that Bulgaria continues to languish and that the investment climate is problematic. It has clearly not yet received the enthusiastic attention enjoyed by its Northern peers.

This ambiguous setting obscures the increasingly positive outlook for Bulgaria that the Fund began to report one year ago. Close observers now agree that the economy has come to life. Equally important, the government appears willing to deal with some of the thornier problems of restructuring. Name investors are taking a serious look, though as yet with limited results.

But if the country is poised for rebound, why does it have such a laggard reputation? How can we be certain that Bulgaria is at an inflection point where the future is ready to escape the past? And if it is real, what has happened to finally ignite the turnaround? To answer, we must look at the unique circumstances in which the Bulgarian restructuring has taken place.

BULGARIA TURNING AROUND

Five years ago, Bulgaria basked in the limelight as Eastern Europe's best-kept secret. Exciting opportunities shouted out and flocks of potential investors descended. Then reality sank in as economic restructuring became gridlocked, causing foreign investors to look elsewhere. Now foreign investment in northern tier countries is easily ten times that of investment in Bulgaria. Why did this happen?

In retrospect, we can see that Bulgaria was very different from the more developed economies of Poland, Hungary, and the Czech Republic. There was little tradition of private enterprise – only about five

The BAEF has 37% of its portfolio invested in the agricultural and agribusiness sector.



percent of businesses were in private hands. The economy was dominated by large, state-owned enterprises, and agriculture was collectivized. Moreover, Bulgaria's major export markets, the former Soviet and COMECON countries, including Yugoslavia, were in collapse. All these factors added up to an economy that was a worsening disaster.

In addition, Bulgaria is not one of the Central European countries with a long, pre-1945 history of integration with Western Europe. Rather, it is a Balkan country which, after 500 years under the Ottoman yoke, enjoyed a brief 65 years of quasi-democracy and then was known for its Eastward-looking nature and close ties to the former Soviet Union. Culturally and institutionally, Bulgaria was not quite as ready for the market economy as some of its northern neighbors.

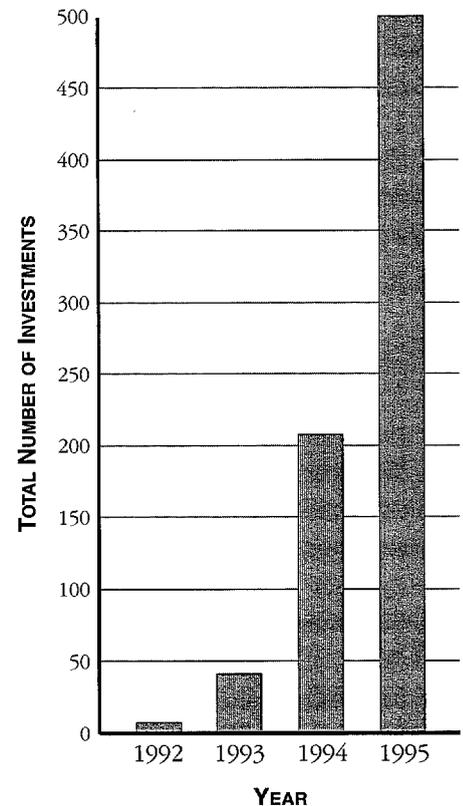
Today, there is a new Bulgaria which promises to capture that earlier, elusive potential. Clearly, the single most positive note is that the economy is on the upswing, a fact that even shows up in the predictably lagging official numbers. Inflation is down, interest rates have dropped dramatically, and employment is growing. Real growth was achieved in 1995 and is also expected in 1996.

These developments are welcome after six years of decline, regardless of how much should be attributed to the inevitable bounce after so great a fall. Equally welcome, however, is the evidence that after years of political gridlock, Bulgarian public policy has some direction. The Socialist government, which took office in January 1995, is preparing to deliver

on its promises, in particular the difficult actions in privatization that have so far been avoided. A major component of the new government's agenda, scheduled for kick-off in the next few months, will be a mass privatization program employing vouchers and investment funds. Some 1200 firms are designated for privatization over 18 months. Once the state is out of the business of owning commercial enterprises, perhaps privatization of the state banking sector can begin.

In summary, official data and (more convincingly) anecdotal evidence show that the long, precipitate six-year slide has stopped. In the past, similar optimism was often disappointed. This time it is different and there are real opportunities in production and services for Bulgarian and foreign investors, including the Fund. Much of this opportunity is being driven by the bottom-up growth of the small and medium-sized enterprise sector on which the Fund is focused. We are happy to have played a role in the Bulgarian private sector's renaissance and will continue our work, adapting to the environment as it evolves.

BAEF INVESTMENT ACTIVITY



CONTINUED EMPHASIS ON FOUNDATION BUILDING

Our Fund aims to help promote a Bulgarian market economy through investment and technical assistance activities. In 1993 we reoriented our programs to reflect what Bulgaria's particular circumstances actually needed, and thus began focusing on lending to small and medium-sized enterprises, where some common theme of geography, sector, or delivery system permits efficient and credit-worthy investment. This focus has fit well with the "bottom-up" creation of the Bulgarian private sector, and with the increasing emergence of medium-sized firms with the track record and experience to warrant greater funding. We believe that the growth of the Bulgarian private sector will result in a continuing escalation in the size of our investment portfolio and our technical assistance programs. Over the past two years, our experiences have verified the wisdom of refocusing toward smaller enterprises, and our investments have demonstrated the potential for growth and variety that we continue to anticipate.

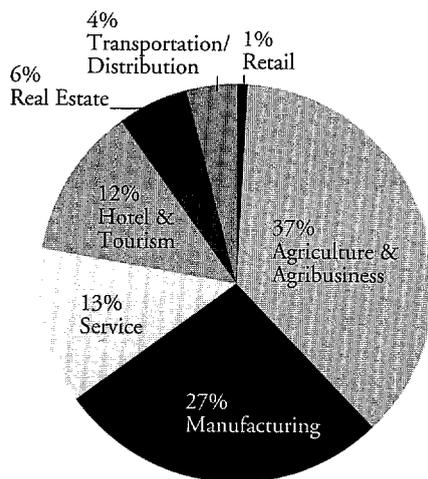
MICRO-LENDING

The Nachala, or "Beginnings," micro-lending program recently opened its fourth lending office in Bulgaria. Loans of up to \$25,000 and averaging about \$6,000 each are made to small enterprises, most of which are start-ups. Examples of typical Nachala loans include a \$12,000 loan to an agronomist to lease farm land to grow quality potatoes, a \$6,000 loan to a food wholesaler to purchase a second van, and a \$2,000 loan to a ski school and ski rental shop for refurbishment and inventory. Nachala made its first two loans in July of 1993 and has since approved nearly 400 loans in more than 100 cities. BAEF has allocated \$2.25 million to fund Nachala loans.

KOMPASS PROGRAM

This program provides capital to existing businesses and encourages the development of Bulgaria's capital markets by improving the capabilities of local banks. Working with ShoreBank of Chicago, BAEF provides training and other technical assistance in credit evaluation and loan processing to four Bulgarian banks. These banks serve as the vehicle for BAEF's small business lending in the \$25,000 to \$250,000 range and, through their locations

SECTOR INVESTMENT AS A
PERCENT OF TOTAL DOLLARS



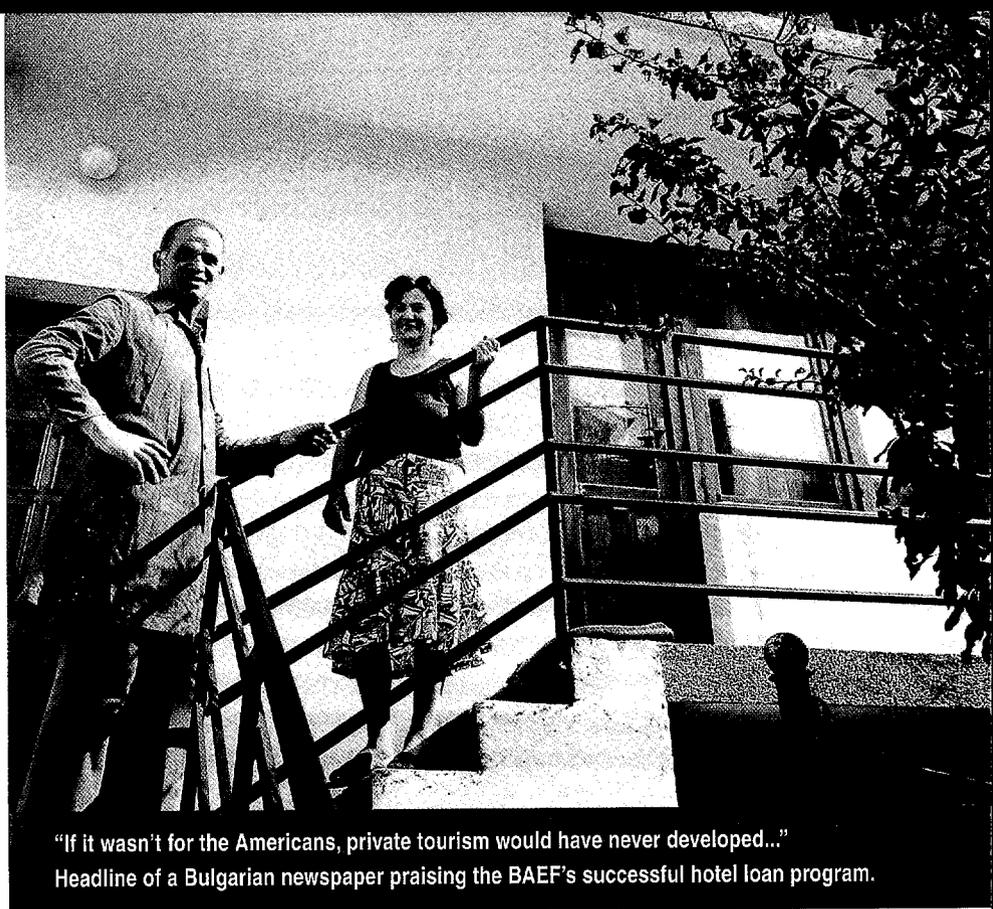
around the country, ensure broad geographic coverage. Two recent Kompas borrowers include a dry cleaning shop for the purchase of better-quality equipment and an international trucking company for the purchase of an additional truck. At the end of the calendar year, 41 Kompas loans had been approved for a total of \$2,545,000. The BAEF initially earmarked \$5 million to the Kompas program and will provide additional funding as warranted.

FAMILY AND SMALL-BUSINESS HOTELS

With Bulgaria's skiing, beaches, and historic sites, the country has been a traditional tourist attraction for East and West Europeans. BAEF identified a unique opportunity to help private landowners convert their properties into small-business and "bed-and-breakfast" style hotels. Already, BAEF has approved 33 loans totaling \$1.1 million to finance development in seven tourism and business centers.

DAIRY PROGRAM

The Fund is currently providing a \$400,000 line of credit to make loans to dairy farmers. The American cooperative Land O' Lakes assists in identifying qualified farmers to participate in the program. So far, nine loans have been approved for a total of just under \$200,000.



"If it wasn't for the Americans, private tourism would have never developed..."
Headline of a Bulgarian newspaper praising the BAEF's successful hotel loan program.

LARGER INVESTMENTS

Notwithstanding the difficulties of making direct investments in the Bulgarian private sector, the BAEF has completed or is negotiating a number of larger deals.

Representative examples include:

- a \$1,000,000 loan to a real estate development company to construct sixteen residential townhouses
- a \$500,000 loan and a \$145,000 loan to two poultry producers for the improvement and expansion of current technology
- a \$500,000 loan to a clothing manufacturing company for the purchase of additional equipment and working capital
- a \$710,000 equity investment in the construction of an eight-story apartment building
- a \$700,000 loan for the purchase of the upcoming season's grapes, a \$221,000 loan for packaging equipment, and a \$150,000 loan for cheese processing and cold storage equipment to a winery cooperative
- an \$85,000 loan to a wood floor manufacturer to privatize its buildings

*T*he Fund has a broad mandate to promote the development of the private sector and market economy in Bulgaria. Its Board has chosen an operational strategy to implement its mission that focuses on small enterprises, but is also attentive to larger venture-capital projects, particularly in joint ventures that have a Western partner. The Board anticipates that this strategy will benefit the market economy in Bulgaria and at the same time provide sufficient profitability for the Fund to be self-sustaining.

As a private corporation, the BAEF makes its investments and credit decisions independently in accordance with guidelines set forth by the Board of Directors. Exhibit I highlights some of the general guidelines we employ. However, it must be recognized that each investment is analyzed and carefully considered and that commitments are made only in writing.

Potential investors should consider the following if they intend to look to the Fund for financing:

1 BULGARIAN PRIVATE INVESTORS

Bulgarian entrepreneurs are the primary target for investment. We currently focus principally on small business and are interested in supporting individuals who are personally active in their businesses. In that spirit, we anticipate that applicants will have direct experience in the activity that they are promoting.

2 BULGARIAN STATE COMPANIES

We continue to look for a few exemplars with whom to undertake joint ventures or other investments that lead to privatization. We have already made contact with a number of firms and subsidiary organizations and would like to expand this base of potential investment partners.

Kyustendil cherry orchard: Bulgaria is largely an agricultural country, offering many opportunities for investment.



3 NON-BULGARIAN INVESTORS

We are very interested in working with foreign investors, particularly American companies, when such relationships would be in the best interest of developing Bulgaria's private sector. The Fund is skeptical about working with "deal makers" and other fee-oriented organizations that seek substantial equity for putting a deal together. In contrast, we are very interested in working with operating companies that can provide the market access and technical and managerial skills that are particularly needed in Bulgaria today.

The Fund encourages prospective investors to contact us for clarification of or elaboration on our lending guidelines.

EXHIBIT I

GENERAL GUIDELINES FOR INVESTMENT

The Bulgarian-American Enterprise Fund provides financing principally to small and medium-sized private businesses in Bulgaria able to demonstrate their commercial viability. General factors that are considered when reviewing business opportunities include:

- The ability of the investment to be quickly implemented and to have an economic impact in Bulgaria
- The proven competence of the management team and its willingness to share in the risk
- The viability of the business plan, including evidence of market demand
- The prospect of favorable earnings
- The company's competitive position domestically and the percentage of export sales
- The ability of the venture to bring hard currency into Bulgaria
- The impact on employment in Bulgaria
- The amounts and sources of debt and equity being proposed.

Opportunities in Bulgaria seem to be more real today than at any time in the past. Particularly relevant is the upcoming wave of mass privatization that will essentially complete the transformation of post-communist Bulgaria.

Unfortunately, U.S. interest and investment in Bulgaria remains rather limited. Because of Bulgaria's isolation from the West under Soviet communism, and because there are few visible Bulgarian communities in the U.S., America is still largely unfamiliar with the country. Three years of political gridlock did nothing to convince skeptics of investment possibilities, and as a result, the U.S. business community is no better informed about Bulgaria than the public at large. Major U.S. companies still favor the larger and better-known countries to the north, and smaller companies are often intimidated by the prospect of operating in such a far-away and unknown location. Many simply do not know where to start.

The BAEF has sought to address this lack of interest and awareness through its continuing outreach program. Members of the Board of Directors have been particularly aggressive in spreading the message of the opportunities in Bulgaria to their colleagues in American and foreign corporations. Such outreach involves undertaking speaking engagements and hosting meetings between U.S. executives and Bulgarian officials and business people.

In support of this outreach program, we want to convey that Bulgaria offers great opportunity for U.S. investors of all sorts. This is particularly so for many non-global U.S. businesses, because Bulgaria is a manageable place in which to invest and there is less competition. Interested companies should contact the Fund, as we can be helpful in identifying opportunities, finding joint-venture prospects, and in general sizing up what makes sense. In many situations the Fund can also provide a significant amount of the required capital.

In addition, the BAEF has assisted in the establishment of the American Chamber of Commerce in Bulgaria. Approximately 100 American firms are now operating there, and the BAEF is serving as a resource to new arrivals as they seek to understand the Bulgarian marketplace and investment opportunities.

In summary, there has been no better time to take a look at investing in Bulgaria. The Bulgarian private sector is coming into its own and prospects for privatization have finally arrived. As other markets in the region become saturated, Bulgaria – at the crossroads of Europe, Central Asia, and the Middle East – continues to represent one of the best opportunities for American investment.

Along with BAEF's effort to reach all levels of the Bulgarian economy, the Fund's technical assistance program leverages the work of others and serves as a continuing catalyst supporting Bulgaria's transition to a market economy. For example, working with the United States Peace Corps and other USAID-funded initiatives of the University of Delaware and the American University in Blagoevgrad, the BAEF sponsored and organized the third annual "Young Entrepreneur Award," stimulating the development of hundreds of business ideas and plans by Bulgarians 18 to 29 years of age. Similarly building at the most basic level – the next generation of entrepreneurs – the Fund has attracted Outward Bound to Bulgaria to introduce leadership, teamwork, and self-reliance programs that can form the foundation for entrepreneurial development and growth. Finally, the Fund was instrumental in founding the Bulgarian International Business Association to provide a forum through which Bulgarian businesses and international companies can discuss issues of importance and speak with a unified voice on economic policy matters.

Wood parquet flooring: 27% of BAEF's portfolio is in manufacturing.



*T*he Fund's focus on small and medium-sized businesses has had far-reaching impact during the past year funding approximately 300 businesses and creating more than 2,300 jobs. The primary factors driving the Fund's investment decisions are the experience and motivation of the prospective management team, evidence of a tangible market for the goods or services being provided, and the willingness of the business partner to share in the financial risk of the enterprise.

Designing and negotiating deals in Bulgaria can be difficult and time consuming. Our experience has proven that translating these investments and loans into contractual commitments and actual disbursements always takes more time than we originally anticipate. Listed below are some of the projects that the BAEF approved or finalized in 1995:

**EXAMPLES OF PROJECTS
APPROVED AND/OR FUNDED
IN 1995:**

NACHALA

\$2,250,000 Debt

"Nachala" is the Bulgarian word for "Beginnings". During FY 1995, the BAEF committed an additional \$750,000 to this micro-loan program bringing the total loan funds available to \$2.25 million. Opportunity International, a not-for-profit organization with a twenty-year history of successful loan management, provides the technical assistance to this program. Loans range from \$1,000 to \$25,000. At the end of calendar year 1995, Nachala had loaned or committed funds to nearly 400 small businesses such as a printer, a copy shop, a food wholesaler, a realtor, bakeries, and computer consultants.

KOMPASS PROGRAM

\$5,000,000 Debt

BAEF has established a small and medium-sized loan program in cooperation with Chicago-based ShoreBank Corporation and four Bulgarian banks. The banks' branch network makes broad geographic coverage possible. Loans to Bulgarian businesses range from \$25,000 to \$250,000, currently averaging \$60,000. At the end of calendar year 1995, Kompass had loaned or committed funds to 41 businesses including a toy manufacturer, a construction company, a winery, a fence manufacturer, and international transport companies.

HOTEL LOAN PROGRAM

\$1,100,000 Debt & Revenue Sharing

The BAEF has experienced significant growth in this program targeted to family-run and small-business hotels. The Fund now has investments in 33 hotels in Bansko, the Black Sea coast, Sofia, and the Smolyan region.

DAIRY LENDING PROGRAM

\$200,000 Debt

The BAEF Board approved a \$400,000 line of credit to make loans to dairy farmers. At calendar year end, loans had been issued to nine dairy farmers that work in cooperation with Land O' Lakes.

LARGE INVESTMENTS

Arman Tex \$500,000 Debt

A loan to a garment manufacturer for the purchase of equipment and working capital. The majority of the garments are exported to the West.

Sofia Apartments \$710,000 Equity

An equity investment to complete an eight-story apartment building.

Varna Townhouses \$1,000,000 Debt

A loan to a private real estate development company to build sixteen townhouses.

Gold Parkett \$85,000 Debt

A second loan to a wood parquet flooring manufacturer in the Varbitsa region to privatize its buildings. The initial loan, which has been fully repaid, was for \$93,000 for working capital.

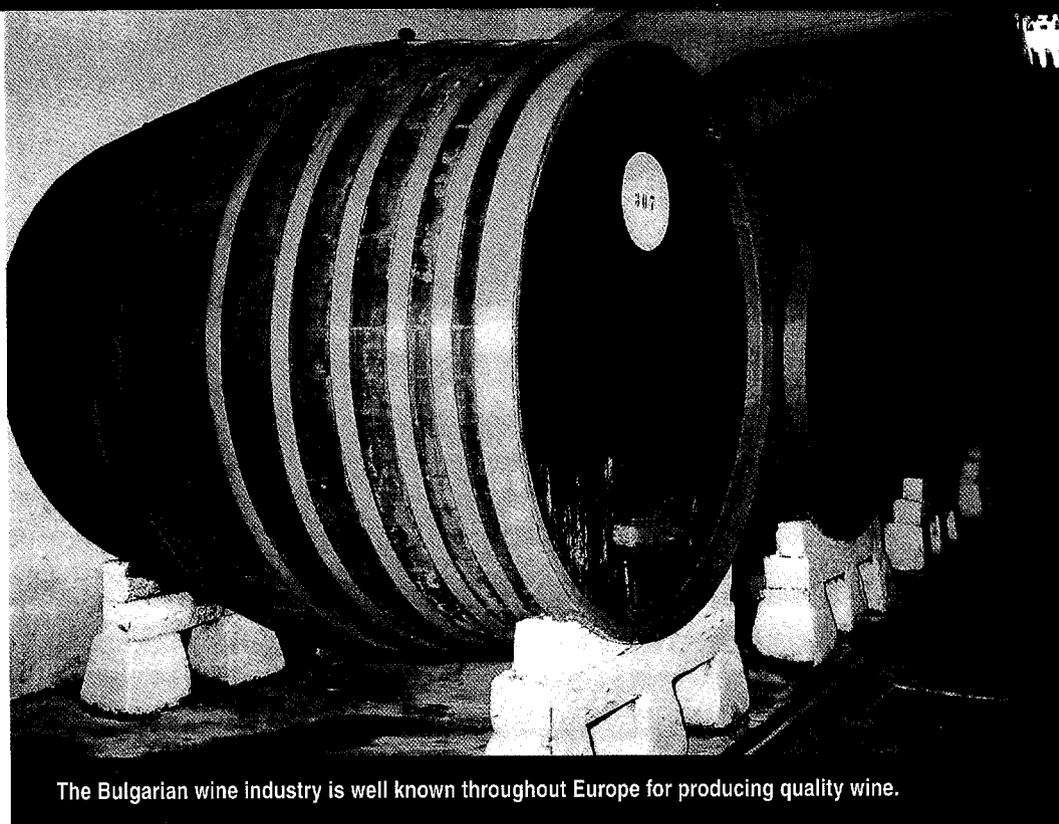
Subindol Winery \$1,100,000 Debt

The BAEF Board has approved three additional loans to this cooperative to be used to purchase grapes, packaging equipment, and cheese processing equipment.

\$5,600,000 Debt

A vineyard development loan of \$5.6 million has been planned for disbursement over six years.

Management continues to seek out new investments and is nearing the final stages of discussions with a dairy facility, a real estate development company, and a medical facility for a total approximate investment of \$3.3 million.



The Bulgarian wine industry is well known throughout Europe for producing quality wine.

TECHNICAL ASSISTANCE PROVIDED:

In addition to the \$50 million the BAEF has to invest in projects, \$5 million has been allocated for technical assistance and training. The Fund uses these monies in support of the businesses it finances. As of September 30, \$1.3 million has been allocated or pledged to technical assistance.

TO THE BOARD OF DIRECTORS OF THE BULGARIAN-AMERICAN ENTERPRISE FUND:

We have audited the accompanying Statement of Financial Position of the BULGARIAN-AMERICAN ENTERPRISE FUND (a Delaware corporation, organized not-for-profit) as of September 30, 1995, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Bulgarian-American Enterprise Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and generally accepted government auditing standards. 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bulgarian-American Enterprise Fund at September 30, 1995, and results of its activities and its cash flows for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 2 to the financial statements, the financial statements include investments valued at \$4,619,208, whose values have been estimated by management and adopted by the Board of Directors in the absence of readily ascertainable market values. We have reviewed the procedures used by management in arriving at its estimate of value of such investments and have inspected the 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.

Arthur Andersen LLP

Chicago, Illinois
November 22, 1995

**STATEMENT OF FINANCIAL
POSITION**

AS OF SEPTEMBER 30, 1995

ASSETS

Cash and cash equivalents (Note 2 and Note 3)	\$2,945,476
Restricted cash and cash equivalents (Note 2 and Note 4)	838,335
U.S. government grant commitment \$36,400,000 (Note 1 and Note 2)	-
Investments at fair value, net of \$428,535 reserve (Note 1, Note 2 and Note 4)	4,619,208
Prepaid expenses and other assets	200,955
Fixed assets, net (Note 5)	<u>309,596</u>
Total assets	<u>\$8,913,570</u>

LIABILITIES AND NET ASSETS

Accounts payable and accrued expenses	\$277,340
Deferred U.S. government grant revenue (Note 2)	<u>1,125,290</u>
Total liabilities	1,402,630
Net assets	<u>7,510,940</u>
Total liabilities and net assets	<u>\$8,913,570</u>

The accompanying notes to the financial statements are an integral part of this statement.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 1995

INVESTMENT REVENUE	\$551,384
EXPENSES:	
Employee compensation and benefits	\$1,106,624
Technical assistance (Note 2)	871,410
Program development (Note 2)	144,750
Investment Costs (Note 2)	75,769
Professional fees	204,461
Occupancy and telecommunications	162,489
Depreciation and amortization (Note 2)	92,549
General and administrative	<u>336,700</u>
Total Expenses	(2,994,752)
Realized and unrealized depreciation on investments	(510,127)
U.S. Government grant revenue	5,542,942
Technical assistance grant revenue	<u>871,410</u>
INCREASE IN NET ASSETS	3,460,857
NET ASSETS AT BEGINNING OF YEAR	<u>4,050,083</u>
NET ASSETS AT END OF YEAR	<u>\$7,510,940</u>

The accompanying notes to the financial statements are an integral part of this statement.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 1995

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$3,460,857
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Technical assistance included in investing activities	871,410
Realized and unrealized depreciation on investments	510,127
Recovery of depreciated investment	49,784
Loss on disposition of fixed assets	2,119
Depreciation and amortization	92,549
Changes in operating assets and liabilities:	
Increase in prepaid expenses and other assets	(25,500)
Increase in accounts payable and accrued expenses	61,330
Decrease in deferred U.S. Government grant revenue	<u>(656,352)</u>
Net Cash Provided by Operating Activities	<u>4,366,324</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investments and loans	(4,447,466)
Technical assistance	(871,410)
Purchases of fixed assets	(51,836)
Cash received on loan repayments	<u>896,352</u>
Net Cash Used in Investing Activities	(4,474,360)
Net decrease in cash and cash equivalents	(108,036)
Cash and Cash Equivalents at Beginning of Period	<u>3,891,847</u>
Cash and Cash Equivalents at End of Period	<u>\$3,783,811</u>
Unrestricted Ending Cash Balance	<u>\$2,945,476</u>
Restricted Ending Cash Balance	<u>\$838,335</u>

The accompanying notes to the financial statements are an integral part of this statement.

SEPTEMBER 30, 1995

1 ORGANIZATION OF FUND

The Bulgarian-American Enterprise Fund (the "Fund") is a not-for-profit corporation established pursuant to the Support for East European Democracy Act of 1989 (the "SEED Act") for the primary purpose of promoting the development of the Bulgarian private sector and policies and practices conducive to such development. The United States Congress has authorized appropriations of \$50 million which has been granted to the Fund by the Agency for International Development ("AID") for program purposes and administrative expenditures (the "Grant"). AID has granted the Fund up to an additional \$5 million for technical assistance. As of September 30, 1995, AID has made \$19.7 million available and disbursed \$18.6 million of the Grant to the Fund. The Fund anticipates that the remaining \$35.3 million of the Grant will be made available on an as-required basis. Grants received from AID are conditioned upon the Fund's compliance with the requirements of the Grant agreement with AID and 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 investment and program income for program purposes.

The Fund is engaged in a broad private investment program in Bulgaria which, through equity investments, loans, grants, technical assistance and other measures, emphasizes a commitment to small-to-medium sized businesses. The Fund provides technical assistance to businesses in the Bulgarian private sector, including those in which the Fund has invested. Through its direct role in investments in the Bulgarian 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. In the normal course of business, entities in which the Fund invests may enter into business transactions with each other.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and 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.

Restricted Cash and Cash Equivalents

Restricted cash consists of cash and cash equivalents to be used solely for specific Board approved investment programs. See Note 4.

Investment Valuation

The Fund's investments, as set forth in Note 4, 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 development 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 Fund has an unconditional letter of credit which supports the carrying value of one of its investments as of September 30, 1995.

Revenue Recognition

Grants are recognized as revenue when funds are invested or expended consistent with the purposes of the Fund set forth in the SEED Act. Amounts received but not earned are reported as deferred U.S. Government grant revenue.

Program Development

Program development expenses consist of direct costs of investment activities, consisting of consulting, marketing, legal and travel expenses, and include investment expenses not reimbursed for transactions that did not close.

Administered Small Loan Program

Small loan programs administered by outside agents are funded upon approval of the Board.

Depreciation and Amortization

Computer equipment, furniture and equipment, and automobiles are depreciated on a straight-line basis over their estimated useful lives. Leasehold improvements are amortized on a straight-line basis over the lesser of their useful lives or the term of the lease.

Translation of Foreign Currency

The Fund's functional currency is the U.S. dollar.

Generally, the Fund's operating transactions are initiated in U.S. dollars and exchanged for Bulgarian leva when needed. At September 30, 1995, the Fund's assets and liabilities were principally denominated in U.S. dollars at the year-end exchange rate. Revenues and expenses transacted in Bulgarian leva are translated into U.S. dollars at historical rates.

Donated Services

Members of the Board donate significant amounts of their time to the Fund's programs and receive no compensation or fees for serving as directors. 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.

Technical Assistance

The Fund generally disburses funds for Technical Assistance grants as expenses for the project are incurred. Funds earmarked to approved grants but not yet disbursed amounted to approximately \$3.7 million at September 30, 1995.

Investment Costs

Investment costs are directly related to the ongoing operational expenses associated with a Board approved investment.

Contingencies

The Fund is subject, from time to time, to administrative and legal proceedings incidental to its business. It is management's opinion that the resolution of these legal proceedings is not expected to have a material effect on the Fund's financial statements.

3 CASH AND CASH EQUIVALENTS

At September 30, 1995, the Fund's cash was deposited in two financial institutions. Approximately \$2.8 million is deposited in one United States financial institution (principally a money market fund) and approximately \$122,200 is deposited in various Bulgarian commercial banks primarily denominated in U.S. dollars.

4 INVESTMENTS AND RESTRICTED CASH

The following summarizes the dollar equivalent of investments of the Fund and related restricted cash by program as of September 30, 1995.

<i>Investment</i>	<i>Description</i>	<i>Type</i>	<i>Investments at Carrying Value</i>	<i>Restricted Cash</i>	<i>Total</i>	<i>% Owned</i>
ArmanTex	Textile manufacturer	Loan	\$500,000	\$--	\$500,000	
Daniella	Garment manufacturer	Loan	177,235	--	177,235	
Nachala	Small Loan Program	Loan	1,423,630	371,715	1,795,345	
Award Program	Small Loan Program	Loan	238	--	238	
Black Sea	Small Hotel Program	Loan	267,159	--	267,159	
Smolyan	Small Hotel Program	Loan	82,613	--	82,613	
Sun International	Hotel Loan	Loan	37,154	--	37,154	
Bansko Hotels	Small Hotel Program	Loan	185,750	--	185,750	
Various	Dairy Lending Program	Loan	152,950	--	152,950	
Bulgarian- American Foods	Cherry Processing	Loan	50,000	--	50,000	
Bulgarian- American Foods	Cherry Processing	Equity	350,000	--	350,000	50%
Kompass Program	Small Loan Program	Loan	1,014,769	466,620	1,481,389	
Simeonovo	Housing Development	Equity	80,000	--	80,000	51%
Simeonovo	Housing Development	Loan	300,000	--	300,000	
Gold Parkett	Wood processing	Loan	23,250	--	23,250	
Magre	Food distributor	Loan	81,995	--	81,995	
Suhindol	Winery cooperative	Loan	<u>321,000</u>	<u>--</u>	<u>321,000</u>	
SUBTOTAL			5,047,743	838,335	5,886,078	
LESS RESERVE FOR LOSSES ON INVESTMENT			<u>(428,535)</u>	<u>-----</u>	<u>(428,535)</u>	
INVESTMENTS AT FAIR VALUE AND RESTRICTED CASH			<u>\$4,619,208</u>	<u>\$838,335</u>	<u>\$5,457,543</u>	

5 FIXED ASSETS

At September 30, 1995, fixed assets consisted of:

Computer equipment	\$222,374
Furniture and equipment	154,947
Automobiles	75,059
Truck held for investment	60,514
Leasehold improvements	<u>45,451</u>
Total cost	\$558,345
Accumulated depreciation and amortization	<u>(248,749)</u>
	<u>\$309,596</u>

6 COMMITMENTS

Investments

As of September 30, 1995, the Board had approved investments totaling \$1.9 million which were subject to the completion of negotiations and the signing of documents.

These commitments are as follows:

	(in millions)
Poultry Producer	\$0.5
Sofia Apartments	\$0.7
Winery Cooperative	<u>\$0.7</u>
	<u>\$1.9</u>

Leases

The Fund is committed to make minimum annual rental payments under operating leases for office space. Lease commitments for the fiscal years subsequent to September 1995, are approximately \$17,800 in 1996, \$17,800 in 1997, and \$14,800 in 1998. Leases expiring as of September 30, 1995 are currently under negotiation.

7 TAX STATUS

United States

The Fund is exempt from 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.

Bulgaria

The Fund's Bulgarian office (the "Bulgarian Office") is registered in Bulgaria as a technical information office of the Fund. As such, the Bulgarian Office does not conduct trade in Bulgaria and is not subject to Bulgarian income and other corporate taxes.

8 ADOPTION OF ACCOUNTING STANDARD

The Financial Accounting Standards Board has issued Statements of Financial Accounting Standard No. 117, "Financial Statements of Not-For-Profit Organizations" ("SFAS 117"). Under SFAS 117, the Fund's financial statements are required to provide a statement of financial position, a statement of activities and a statement of cash flows, among other things. The Fund will fully adopt SFAS 117 for its fiscal year ending September 30, 1996. The implementation of these standards is not expected to have a significant effect on the financial statements.

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