



BALTIC-AMERICAN
ENTERPRISE FUND

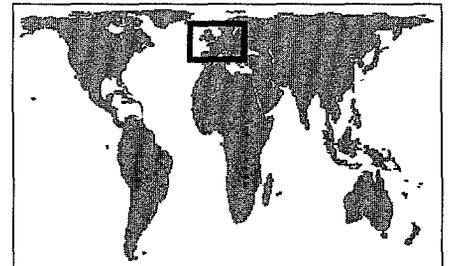
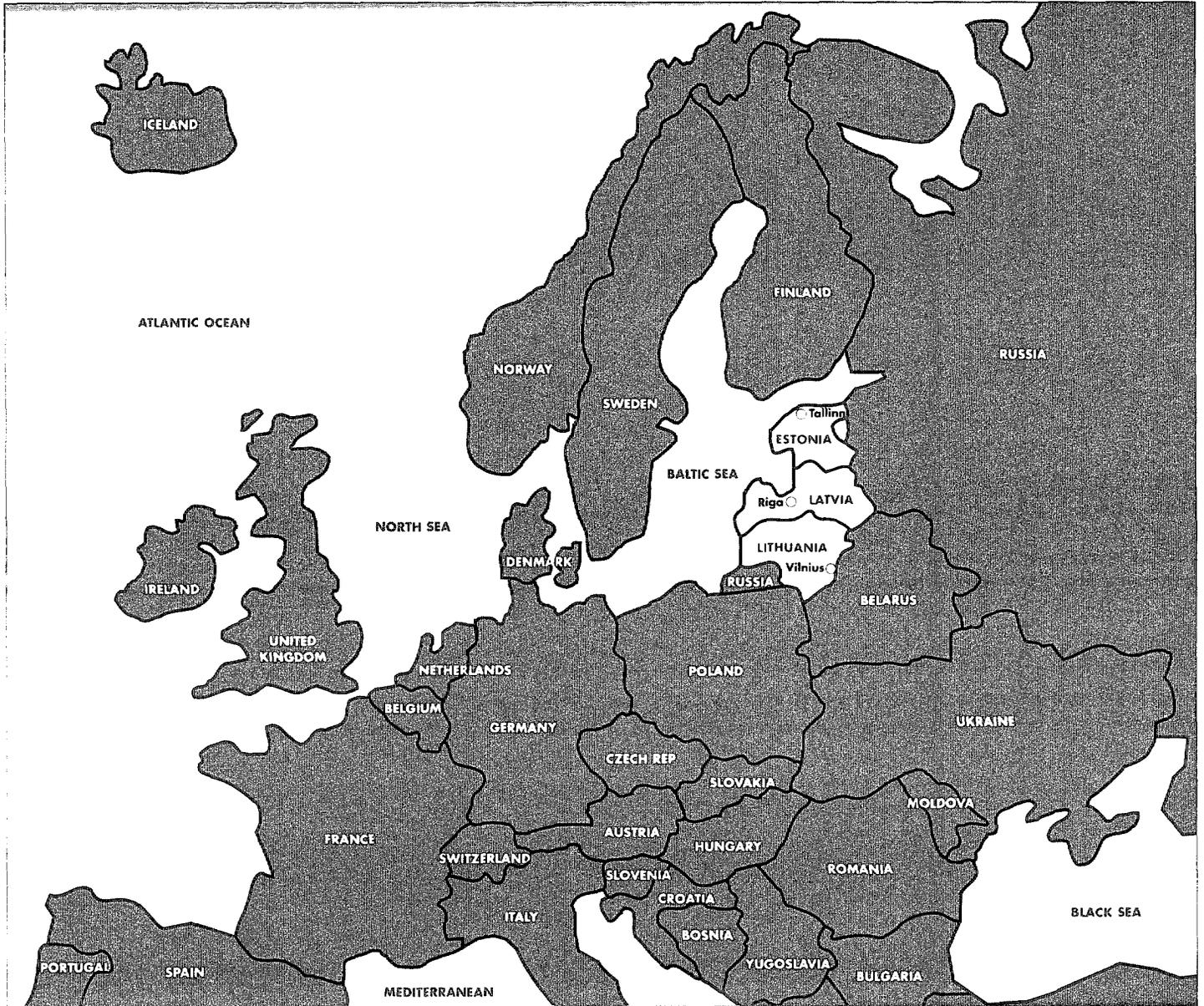


TABLE OF CONTENTS

Mission and Organization of the Fund	1
Company Information	2
Board of Directors	2
Administration	2
The Chair's Statement	3
A Review of Major Developments	5
Directors' Report	6
Report of Independent Accountants	7
Balance Sheet	8
Statement of Revenues, Expenses, and Changes in Fund Balance	9
Statement of Cash Flows	10
Notes to the Financial Statements	11



Mission and Organization of the Fund

The mission of the Baltic-American Enterprise Fund is to participate in the strengthening of democracy and the promotion of private sector businesses through the provision of cost-effective enterprise development assistance, on behalf of the United States Government. Through the infusion of new capital resources, the Fund assists in the development of the small and medium-size private enterprise sectors of Estonia, Latvia, and Lithuania utilizing a variety of investment vehicles in support of these and other such activities as are authorized by the Board of Directors and are in conformity with the Support for East European Democracy Act of 1989 (the SEED Act).

ORGANIZATION

The Baltic-American Enterprise Fund is a private sector not-for-profit corporation funded by United States Government public sector money through the Agency for International Development. Its sole purpose is to support the development of small and medium-size private enterprises in the Baltic Republics.

The Fund is managed by an independent Board of Directors appointed by the President of the United States. The Board serves without pay.

Recognizing that the Baltic Republics comprise three separate, sovereign, and ethnographically distinct countries, the Fund operates Representative Offices in the capital cities of each of its host countries. Each Representative Office is responsible for originating, analyzing, and recommending business transactions and for administering the Fund's portfolio in country. All transactions are denominated in U.S. dollars, approved or disapproved, and domiciled at the Fund's Head Office in Washington, D.C.

.....
**...the Fund assists in
the development of the
small and medium-size
private enterprise sectors
of Estonia, Latvia, and
Lithuania...**
.....

Company Information

DIRECTORS AND ADMINISTRATION

Board of Directors

Chair

The Honorable Rozanne L. Ridgway

Co-Chair

Atlantic Council of the
United States

Vice Chair

Mr. Daniel Rose

*President and Chief Executive
Officer*

Rose Associates, Inc.

Mr. Brewster P. Campbell, Jr.

(ex-officio)

*President and Chief
Executive Officer*

Baltic-American Enterprise Fund

Mr. Kim G. Davis

Private Investor

Mr. Paul H. Elicker

Privatization Consultant

CEO (Ret.), SCM Corporation

Mr. Hughlyn F. Fierce

Senior Vice President (Ret.)

Chase Manhattan Bank

Mr. Juris Padegs

Managing Director and

General Counsel

Scudder, Stevens & Clark

Officers

Mr. Brewster P. Campbell, Jr.

President and Chief Executive

Officer

Mrs. Claudia Knox

Administrative Manager and

Secretary of the Corporation

Mr. Alan Griffin

Chief Financial Officer and

Treasurer of the Corporation

Country Representatives

Ms. Pamela Green, Estonia

Mr. Robert Stark, Latvia

Mr. Michael Diedring, Lithuania

Executive Committee

The Honorable Rozanne L. Ridgway,

Chair

Mr. Daniel Rose

Mr. Brewster P. Campbell, Jr.

(ex-officio)

Audit Committee

Mr. Paul Elicker, *Chair*

Mr. Hughlyn F. Fierce

Mr. Juris Padegs

Independent Accountants

Coopers & Lybrand L.L.P.

Legal Advisors

Ortman, Love, & Huckabay

Weil, Gotshal & Manges

Bankers

First National Citibank

Hansabank



*Mr. Daniel Rose, Vice Chair, and
Mr. Brewster P. Campbell, Jr., President
and Chief Executive Officer, conferring
in Riga, Latvia.*



*Office opening in Vilnius, Lithuania. From left to right: Mr. Daniel Rose,
Vice Chair; Mr. Brewster P. Campbell, Jr., President and Chief Executive Officer,
Mr. Juris Padegs, Mr. Kim G. Davis, Mr. Paul H. Elicker, Mr. Hughlyn F. Fierce,
and Mrs. Claudia Knox, Secretary of the Corporation and Administrative
Manager.*

The Chair's Statement

The Baltic-American Enterprise Fund was established July 6, 1994, when its Board of Directors was announced by President Clinton during an official visit to Riga, Latvia. Shortly thereafter, the Board of Directors incorporated the Fund in Delaware and agreed to the Fund's terms of reference with the U.S. Department of State's Coordinator of U.S. Assistance to Central and Eastern Europe and USAID's Bureau for Europe and the New Independent States. The Fund participates in the strengthening of democracy by providing new capital resources to the small and



*The Honorable
Rozanne L.
Ridgway, Chair*

medium-size private enterprise sectors of Estonia, Latvia, and Lithuania. It operates as an independent and autonomous organization with authority to manage its operations in a

manner appropriate to its program in the Baltic Republics. The Fund is capitalized at \$50 million, of which \$15.525 million had been obligated for the Fund as of September 30, 1995.

In December 1994, the Board of Directors selected Brewster P. Campbell to head the Fund, and in January, 1995, the doors of the Fund's Washington, D.C. Head Office opened for business. Mr. Campbell brought fresh ideas to the Enterprise Fund concept and these have given the Baltic-American Enterprise Fund its

distinctive structure and innovative program.

The requirement to operate programs in three separate countries, together with the size of the Fund's capital resources, mandated a very sharply defined program. Although the Fund is permitted to make equity investments and provide technical assistance, the Board of Directors has adopted a program strategy that emphasizes loans and guarantees. The program strategy fits the needs of our market place in which business loan monies, when available, are limited to short terms (six months to one year) at very high interest rates. Additionally, the owners of small and medium size enterprises in our market prefer loans to outside investments which dilute ownership control over the businesses they have fostered.

We, therefore, designed a program that provides loans for 5-7 years, often with a grace period of one year for principal repayments. Interest rates are fixed for the life of the loan and are priced several percentage points above the U.S. prime rate. Loans are denominated in U.S. dollars which is manageable for our clients as all three of our host countries have currency boards with currencies pegged to the U.S. Dollar, the Deutsche Mark or the SDR. We exercise our stewardship of the Fund's resources by adhering to clear lending guidelines and structuring transactions with strong loan covenants. It is gratifying to note that interest payments on our first loans have begun and all are current. Program concentration on

.....
**For the Fiscal Year ending
September 30, 1995, the
Fund disbursed \$763,000
comprising three loans
and one micro loan.**

**The business expansions
thus funded are projected
to create 137 new jobs,
70 in Estonia and 67 in
Lithuania.**
.....

loan products also offers the best prospect for increasing the Fund's financial resources through reflows of principal and interest payments.

Because each of the three countries in which we operate is unique, we determined to establish Representative Offices in the capital cities of each of the Baltic Republics. During the early part of 1995, we hired Country Representatives, leased and refurbished premises, and hired excellent local support staff for these offices, all of which opened for business prior to the end of the fiscal year. Located in Tallinn, Riga, and Vilnius, these offices are tasked with originating, analyzing, and recommending projects to the approving authority of the Fund, the Executive Committee. In the process, our Representative Offices provide valuable technical assistance in the development of business plans. Our Head Office disburses loans approved by the Executive Committee, maintains the loan book, and receives loan repayments. Our Representative

.....
**Prior to the end of the
calendar year 1995, loan
approvals totaled \$1,023,300
projected to create 151 jobs,
84 in Estonia and 67 in
Lithuania.**
.....

Offices maintain close contact with our clients throughout the life of the loan insuring compliance with the terms and conditions of the loan.

In order to move forward as quickly as possible on program activity while containing costs, we outsourced a number of functions, most important among these: logistical support for overseas offices and certain aspects of credit administration and training. We would like to acknowledge Metrica, Inc., of San Antonio, Texas, for providing numerous "back office" support services for our offices and international assignees, and Cornell Capital Group, Ltd. of Philadelphia, Pennsylvania, for invaluable assistance in credit training, preparation of our Standard Practices Manual, and preparation of standard credit forms.

In consultation with governmental and private sector leaders in the Baltic Republics regarding their priorities for the development of small and medium-size enterprises, the Fund adopted the following sectoral priorities common to all Republics: tourism,

light manufacturing, food processing, wood processing, transportation, and warehousing. The Fund also decided to concentrate its efforts outside the capital cities of the Republics as these seemed to be the neediest areas as well as being areas of high potential. While we are not bound by either sectoral or regional priorities, they serve as a focal point for our activities. We have also been successful in identifying opportunities to assist businesses owned by women and local minority populations.

It is my pleasure to report that the Fund made considerable progress in launching its core business during its first year of operation, and by September 30, 1995, the end of our first Fiscal Year, we had disbursed loans totaling \$763,000 and projected to create 137 new jobs, 70 in Estonia and 67 in Lithuania. Prior to the end of the calendar year we approved another \$260,000 in loans projected to create 14 additional jobs in Estonia.

The Fund's program in Latvia is on hold pending the conclusion of bilateral agreement negotiations between the Government of Latvia and the Government of the United States. Our Riga office has been actively originating and analyzing loan applications in the expectation that the bilateral agreement will shortly and favorably be completed.

In the forthcoming year, 1996, the Fund will introduce financial

products that have been designed specifically for our host countries. Of particular interest is a product that will give small and medium size business and commercial banks in the Baltic Republics access to reasonably priced post import financing through the U.S. bankers acceptance market and other money center rediscount markets. To this end, the Board of Directors approved the creation of contingent liability in an amount not to exceed twenty percent of the Fund's obligated capital. Use of the Fund's ability to extend its guarantee to selected transactions will permit the Fund to leverage its capital, provide more facilities to its customers, and increase reflows of earnings to regenerate its capital base. Customers, whether importers or their banks, will go through the same origination, analysis, and recommendation procedures the Fund applies to loans and investments.

This has been a remarkable first year for the Baltic-American Enterprise Fund, and I would like to take this opportunity to thank the members of the Board of Directors, the Management and Staff of the Fund, the U.S. Government, and the people of the United States for their full support of this achievement.



The Honorable Rozanne L. Ridgway
December 29, 1995

A Review of Major Developments

THROUGH SEPTEMBER 30, 1995

The Fiscal Year began with the search for a Chief Executive Officer to launch a brand new Enterprise Fund in high gear and closed with a Head Office and three Representative Offices all officially open and three quarters of a million dollars in business on the books. In between, the architecture for an international organization was established, made operational, and expressed in program activity. The Fund concluded the year with four loans totaling \$763,000 on the books, over 200 applications received and a pipeline of over 130 applications under consideration. The Fund's independent accountants have rendered opinions that convey the highest level of assurance they can provide on the Fund's financial statements, internal control structure, and compliance with laws and regulations.

BRIEFLY, THE BENCHMARKS ACHIEVED BETWEEN JANUARY 1, 1995 AND SEPTEMBER 30, 1995 INCLUDED:

- Hiring the Chief Executive Officer (CEO), Administrative Manager, and Chief Financial Officer (CFO)
- Opening and equipping the Head Office
- Publishing the Fund's Mission Statement, 1995 Management Plan, Organization Structure, and Employee Handbook
- Formulating the Fund's Chart of Accounts
- Establishing the Fund's 501(c)(3) status with the IRS and its tax exempt status with the District of Columbia
- Contracting for administrative support to identify, lease, equip, and staff offices in Tallinn, Riga, and Vilnius
- Contracting for expert development of the Fund's Standard Practices Manual, software, training and transaction support for Country Representative Offices
- Hiring and posting three Country Representatives, identifying premises, and staffing their offices
- Laying the groundwork for the Fund's corbank and U. S. investors' facilities
- Arranging the Board of Directors' first meeting in the Baltics
- Officially opening Representative Offices in Tallinn, Riga, and Vilnius
- Closing the Fund's first transactions

.....
...the architecture for an international organization was established, made operational, and expressed in program activity. The Fund concluded the year with...loans totaling \$763,000 on the books, over 200 applications received and a pipeline of over 130 transactions in analysis.
.....

Additionally, the Fund conducted a number of internal seminars and training sessions, hosted a student intern from Estonia in its Head Office, met frequently with business exchange program participants from the Baltics, and arranged seminars for members of an Estonian trade delegation during their stay in New York City.

Directors' Report

FOR THE YEAR ENDED SEPTEMBER 30, 1995

The Directors submit their report together with the audited financial statements for the year ended September 30, 1995 which disclose the state of affairs of the Fund. The financial statements were approved by the Board of Directors on January 17, 1996.

Principal Activities

The Corporation is engaged in economic development assistance activities to small and medium-size private enterprises in the Baltic Republics.

Directors

The Directors who held office during the year were:

The Honorable Rozanne L. Ridgway, *Chair*

Mr. Daniel Rose, *Vice Chair*

Mr. Brewster P. Campbell, Jr., (ex-officio) *President and Chief Executive Officer*

Mr. Kim G. Davis

Mr. Paul H. Elicker

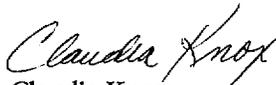
Mr. Hughlyn F. Fierce

Mr. Juris Padegs

Independent Accountants

Coopers & Lybrand L.L.P. was appointed by the Board of Directors

By order of the Board



Claudia Knox
Secretary

Report of Independent Accountants

To the Board of Directors
Baltic-American Enterprise Fund

We have audited the accompanying balance sheet of the Baltic-American Enterprise Fund (the "Fund") as of September 30, 1995, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the period from July 8, 1994 (date of incorporation), through September 30, 1995. 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 audit.

We conducted our audit 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. 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 Baltic-American Enterprise Fund as of September 30, 1995, and the results of its operations, changes in fund balances and its cash flows for the period from July 8, 1994 (date of incorporation), through September 30, 1995, in conformity with generally accepted accounting principles.

Coopers & Lybrand L.L.P.

Washington, D.C.
December 4, 1995

Balance Sheet

AS OF SEPTEMBER 30, 1995

Assets	
Cash & cash equivalents	\$ 3,231,418
Loans	763,300
Fixed assets, net	204,587
Prepaid expenses & other assets	<u>162,820</u>
Total Assets	<u>\$ 4,362,125</u>
 Liabilities and Fund Balance	
Accounts payable & accrued expenses	\$ 178,190
Deferred grant revenue	<u>3,206,762</u>
Total Liabilities	3,384,952
Fund balance	<u>977,173</u>
Total Liabilities & Fund Balance	<u>\$ 4,362,125</u>

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

Statement of Revenues, Expenses, and Changes in Fund Balance

FOR THE PERIOD JULY 8, 1994 (DATE OF INCORPORATION), THROUGH SEPTEMBER 30, 1995

Revenues

Interest on cash & cash equivalents \$ 24,450

Total Revenues 24,450

Expenses

Employee compensation & benefits 448,367

Professional services 368,157

Telecommunications & travel 176,890

Other operating expenses 139,859

Occupancy 50,652

Depreciation & amortization 33,090

Total Expenses 1,217,015

U.S. Government grant revenue 2,169,738

Excess of revenue over expenses 977,173

Fund balance, beginning of period 0

Fund balance, end of period \$ 977,173

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

Statement of Cash Flows

FOR THE PERIOD JULY 8, 1994 (DATE OF INCORPORATION), THROUGH SEPTEMBER 30, 1995

Cash Flows from Operating Activities

Excess of revenues over expenses		\$	977,173
Adjustments to reconcile excess of revenues over expenses to net cash used for operating activities:			
Depreciation & amortization	\$	29,181	
Changes in assets and liabilities:			
Deferred grant revenue		3,206,762	
Prepaid rent & other		(162,819)	
Accounts payable & accrued expenses		<u>178,190</u>	
Total adjustments			<u>3,251,314</u>
Net cash provided by operating activities			4,228,487

Cash Flows from Investing Activities

Investments in loans		(763,300)	
Purchase of fixed assets		<u>(233,769)</u>	
Net cash used in investing activities			<u>(997,069)</u>
End of Period Cash and Cash Equivalents			\$ <u>3,231,418</u>

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

Notes to Financial Statements

1. ORGANIZATION OF FUND

The Baltic-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 Estonian, Latvian and Lithuanian (the "Baltic Republics") private sectors and policies and practices conducive to such development.

The Fund makes loans to small-to-medium sized private firms in the Baltic Republics through which the Fund seeks to generate income and attract investments by others. The Board of Directors has authorized management to create contingent liabilities as guarantor for the Fund's clients up to an amount not to exceed 20% of appropriated funds. No such guarantees have been executed to date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash Equivalents

For purposes of the statement of cash flows, the Fund considers all highly liquid financial instruments purchased with an original maturity of three months or less to be cash equivalents.

Grant Funds Recognition

Grant funds received are recognized as revenue when funds are disbursed consistent with the purposes of the Fund set forth in the SEED Act. Amounts received but not disbursed are recorded as Deferred Grant Revenue.

Loans and Loan Loss Reserve

Loans are stated at the principal balance outstanding reduced by a loan loss reserve. The accrual of interest is discontinued whenever principal or interest has been in default for more than 90 consecutive days. Interest on loans is credited to revenue based on principal amounts outstanding at applicable rates. Loan fees charged to borrowers are recognized as an adjustment of yield over the life of the loan.

A general reserve is maintained at a level believed adequate by management to absorb potential losses in the loan portfolio. This determination is based on the exposure after an evaluation of the portfolio, current economic conditions, volume, growth and composition of the loan portfolio, information about specific borrower situations, including their financial position, payment history and collateral values, and other relevant factors and estimates which are subject to change over time. Estimating the risk of loss and amount of loss on any loan is determined by a credit risk rating system which is applied to each loan. Specific loan loss reserves are analyzed periodically and, as adjustments become necessary, they are reported in the periods in which they become known. The loan loss reserve is increased by provisions for loan losses charged against income and decreased by charge-offs, net of recoveries. Although a loan is charged off by management when deemed uncollectible, collection efforts continue and future recoveries may occur.

Concentration of Credit Risk

By statute, all of the Fund's loans are in business activities conducted in the Baltic Republics. As such, these loans are subject to the political and economic uncertainties associated with doing business in the Baltic Republics. Cash held by the Fund is invested in a money market fund sponsored by a major United States bank. The Fund has not experienced any losses on its invested funds.

Foreign Currency Transactions

All loan transactions of the Fund are denominated in the U.S. dollar. Substantially all other transactions executed by the Fund are also U.S. dollar denominated. Therefore, the Fund is not exposed to significant foreign currency volatility risk. Foreign currency translation or transaction gains or losses have been immaterial.

Depreciation and Amortization

Computer equipment and software, furniture and office equipment are depreciated on a straight-line basis over their estimated useful lives which range from three to five years. Leasehold improvements are amortized on a straight-line basis over the noncancelable term of the lease.

Donated Services

Members of the Board donate significant amounts of their time to the Fund's programs. No amounts have been reflected in the accompanying financial statements for such donated services.

3. COMMITMENTS

Leases

The Fund is committed to make rental payments under noncancelable operating leases for its Tallinn, Riga and Vilnius offices as well as for the residences of its Representatives in each country. The Washington office is leased from a company of which a director of the Fund is a shareholder. The lease was negotiated at arms length at the fair market value and can be terminated at any time by either party. The Tallinn office lease is payable in Estonian Kroons. Minimum annual lease commitments subsequent to September 30, 1995 are as follows:

Fiscal Year	
1996	\$145,500
1997	119,600
1998	88,700
1999	59,800
2000	29,600
Total	<u>\$443,200</u>

4. FIXED ASSETS

At September 30, 1995 fixed assets consist of:

Leasehold improvements	\$ 86,350
Computer equipment and software	61,000
Furniture	48,785
Office equipment	37,634
	<u>233,769</u>
Less: accumulated depreciation and amortization	29,182
Net Book Value	<u>\$204,587</u>

5. TAX STATUS

The Fund has received its exempt status under Internal Revenue Code section 501(c)(3) and is also exempt from District of Columbia franchise, income and sales and use taxes. The Fund maintains representational offices in the Baltic Republics and is not incorporated in its host countries. The Fund received its exempt status in Lithuania and filed for exempt status in Estonia and Latvia. The Fund expects to receive exempt status in both countries.

6. U.S. GOVERNMENT GRANTS

The Agency for International Development ("AID") has granted the Fund \$50 million for program purposes and administrative expenditures. Amounts received from AID are conditioned upon the Fund's compliance with the requirements of the AID Grant, and the SEED Act, which impose certain U.S. policy objectives and reporting obligations. Under the terms of the AID Grant, the Fund may hold funds in interest-bearing accounts and may retain investment and program income for program purposes.

As of September 30, 1995, the status of the AID Grant was as follows:

Funds received from AID	\$ 5,376,500
Remaining funds from 1995 appropriations, available under letter of credit from AID	<u>10,148,500</u>
Total funds appropriated as of September 30, 1995	15,525,000
Remaining amount to be granted by AID	<u>34,475,000</u>
Total	<u>\$50,000,000</u>

The Fund accounts for its grant activities in accordance with generally accepted accounting principles for not-for-profit organizations, which require that grant funds received be recognized in the statement of revenues, expenses and changes in fund balance when utilized for program purposes. In the accompanying statement of revenues, expenses and changes in fund balance, AID grants totaling \$2.17 million are treated in this manner, and are reported as U.S. Government grant revenue. The Fund's independent accountants have issued a report dated December 4, 1995, on their consideration of the Fund's internal control structure and its compliance with laws and regulations.

7. LOAN ANALYSIS

Industry Sector	Amount	Number of Loans	Payable in One Year	Payable in more than One Year
Tourism	\$200,000	1	\$ —	\$200,000
Transportation	13,300	1	2,160	11,140
Food Processing	550,000	2	71,650	478,350
	<u>\$763,300</u>	<u>4</u>	<u>\$73,810</u>	<u>\$689,490</u>

These loans were made on or about September 30, 1995. Interest income for the year ending September 30, 1995, has not been reflected, as such amounts are immaterial. Management has assessed the conditions described in Note 2 to evaluate the Fund's loan portfolio and has estimated that no specific reserve for loan losses is warranted at September 30, 1995.

8. RETIREMENT PLAN

The Fund has a defined contribution pension plan qualified under section 403(b) of the Internal Revenue Code. The plan covers all full time employees. The Fund matches employee contributions of up to 5% of salary and makes an annual discretionary contribution. Costs of the plan for the year ended September 30, 1995, amounted to \$30,440.